Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

8435083702

ACCOUNTING **7707/24**

Paper 2 Structured Written Paper **May/June 2021**

1 hour 45 minutes

You must answer on the question paper.

No additional materials are needed.

INSTRUCTIONS

- Answer **all** questions.
- Use a black or dark blue pen. You may use an HB pencil for any diagrams or graphs.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

INFORMATION

- The total mark for this paper is 100.
- The number of marks for each question or part question is shown in brackets [ ].
- Where you are asked to complete a layout, you may not need all the lines for your answer.

This document has **20** pages. Any blank pages are indicated.

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1 The following information has been extracted from the books of Sinita for the month of August 2020.

	$
Sales ledger credit balances on 1 August 2020	105
Sales ledger debit balances on 1 August 2020	38 440
Cash sales	2 380
Cheque received from credit customer dishonoured by the bank	88
Contra to purchases ledger	315
Discounts allowed	692
Discounts received	411
Interest charged to customers on overdue balances	125
Irrecoverable debts written off	460
Receipts from credit customers	30 121
Returns from credit customers	763
Returns to credit suppliers	559
Sales journal total	26 845
Sales ledger credit balances on 1 September 2020	148
Sales ledger debit balances on 1 September 2020	?

REQUIRED

(a) Prepare the sales ledger control account for the month of August 2020. Balance the account and bring down the balances on 1 September 2020.

Sinita
Sales ledger control account

Date	Details	$	Date	Details	$
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[10]

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(b) State **one** purpose of preparing a sales ledger control account.

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..... [1]

Sinita prepares bank reconciliation statements every three months.

She provided the following information at 31 August 2020.

	$
Debit balance in cash book at 31 August 2020	6416
Uncredited deposits	2460
Unpresented cheques	9825
Direct debit paid in error by the bank	250

REQUIRED

(c) Prepare a bank reconciliation statement at 31 August 2020, showing the balance on the bank statement on that date.

Sinita
Bank Reconciliation Statement at 31 August 2020

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(d) Advise Sinita whether or not she should prepare bank reconciliation statements monthly rather than every three months. Justify your answer with **two** advantages and **two** disadvantages.

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..... [5]

[Total: 20]

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[Turn over

2 Huan is a sole trader. She maintains a full set of accounting records including a three column cash book.

On 1 September 2020 Huan had the following balances in her cash book.

	$
Cash	80
Bank overdraft	630

The following transactions took place during the first week of September 2020.

September 2 Paid $35 motor repairs in cash
3 Cash sales, $458
4 Paid all cash into the bank except $50
5 Received a cheque, $1280, from Alisha, a credit customer
5 Paid a cheque to Lucia to settle an outstanding invoice from April 2020 of $840, less a cash discount of 2½%
6 A cheque received, $200, from Cao in August 2020 was dishonoured by the bank

(a) Complete Huan's cash book on the opposite page. Balance the cash book and bring down the balances on 8 September 2020.

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Huan
Cash book

Date	Details	Discount allowed $	Cash $	Bank $	Date	Details	Discount received $	Cash $	Bank $
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[11]

Huan returned damaged goods to Lucia, a credit supplier.

REQUIRED

(b) Name the business document Huan issued.

..... [1]

On 1 October 2020 Huan had a positive bank balance but was concerned about the business's liquidity. Huan believes her working capital can be improved. She is considering five courses of action.

REQUIRED

(c) State whether **each** of the following courses of action would increase, decrease, or have no effect on Huan's working capital. Give a reason for your answer in each case.

The first one has been completed as an example.

	Effect on working capital	Reason
Introduce additional capital into the business bank account	*Increase*	*Bank increases so current assets increase.* *No change to current liabilities.*
Sell surplus non-current assets		
Obtain a short-term bank loan		
Reduce credit sales and increase cash sales by the same amount		
Create a provision for doubtful debts		

[8]

[Total: 20]

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3 Naomi opened a manufacturing business on 1 October 2019.

She provided the following information.

On 1 October 2019	$
Cost of factory machinery	80 000
Cost of office equipment	12 500
Cost of loose tools	800

During the year ended 30 September 2020	$
Revenue	184 200
Purchase of raw materials	42 100
Purchase of finished goods	16 800
Wages and salaries	
Factory workers	46 220
Factory supervisor	15 940
Office staff	31 680
General expenses	
Factory	8 620
Office	1 890
Rent and rates	8 400
Royalties	3 900

At 30 September 2020	$
Inventory	
Raw materials	11 200
Work in progress	1 680
Finished goods	4 500
Loose tools at valuation	670
Trade receivables	14 900
Rent and rates prepaid	600
Wages and salaries accrued	
Factory workers	480
Office staff	320

The following information is also available.

1 No additional non-current assets were purchased during the year.

2 Factory machinery is to be depreciated at 15% on cost.

3 Office equipment is to be depreciated at 10% on cost.

4 Loose tools are to be revalued at the end of each financial year.

5 Rent and rates are to be allocated two-thirds to the factory and one-third to the office.

6 Irrecoverable debts of $400 are to be written off.

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REQUIRED

(a) Prepare the manufacturing account for the year ended 30 September 2020.

Naomi
Manufacturing Account for the year ended 30 September 2020

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[14]

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[Turn over

Naomi knows that the factory machinery is old and is considering replacing it with more efficient machinery. The old machinery would be sold at book value. The new machinery would cost $100 000.

Naomi wishes to know how the purchase of the new machinery would affect the profit for the year.

REQUIRED

(b) Complete the table to indicate the effect on the profit for the year of **each** of the following.

The first one has been completed as an example.

	Increase profit for the year $	Decrease profit for the year $	Total change in profit for the year $
Annual wages of factory workers would decrease by $3000	*3000*		
Machinery repairs, $1100, included in factory general expenses would decrease by 60%			
Cost of raw materials used would decrease by 10%			
The total cost of the new machinery would be financed by a loan on which annual interest of 4% would be charged			
The new machinery would be depreciated in equal instalments over 8 years			
Total change in profit			

[6]

[Total: 20]

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4 Aaron and Sami are in partnership sharing profits and losses equally.

The following information is available for the year ended 31 August 2020.

	$
10% bank loan at 1 September 2019	9 000
Administrative expenses	61 040
Bank interest paid	675
Bank overdraft	1 220
Carriage inwards	1 240
Fixtures and fittings	
Cost	86 600
Provision for depreciation at 1 September 2019	51 200
Inventory at 1 September 2019	36 500
Loan from Aaron	2 000
Purchases	129 270
Rent payable	23 680
Returns inwards	2 100
Revenue	240 560

Additional information

1 Inventory at 31 August 2020 was valued at $42 750.

2 Rent payable included $8880 for the six months ending 31 December 2020.

3 No repayments have been made on the bank loan in the year ended 31 August 2020.

4 Three months' interest on the bank loan was accrued at 31 August 2020.

5 Fixtures and fittings are to be depreciated at 10% per annum using the reducing balance method.

6 Interest is payable on any loan from a partner at 5% per annum.

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REQUIRED

(a) Prepare the income statement for the year ended 31 August 2020.

Aaron and Sami
Income Statement for the year ended 31 August 2020

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[13]

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[Turn over

Sami has suggested purchasing goods from cheaper suppliers.

REQUIRED

(b) State **two** ways in which purchasing goods from cheaper suppliers may affect the business.

1 .....

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2 .....

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[2]

Aaron is considering investing additional capital into the business to repay the bank loan.

REQUIRED

(c) Advise Aaron whether or not he should invest additional capital to repay the bank loan. Justify your answer by providing **two** advantages and **two** disadvantages of Aaron introducing additional capital to repay the bank loan.

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[Total: 20]

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5 The directors of P Limited provided the following information at 1 September 2019.

	$
Issued share capital (ordinary shares of $1 each)	120 000
General reserve	8 000
Retained earnings	12 000

During the year ended 31 August 2020:

$3000 was transferred to the general reserve.
An interim dividend of 5% was paid.

The profit for the year ended 31 August 2020 was $12 600.

REQUIRED

(a) (i) Calculate the balance of retained earnings at 31 August 2020.

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..... [3]

(ii) Prepare an extract from the statement of financial position at 31 August 2020 to show the total equity.

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..... [2]

(b) State **one** difference between share capital and loan capital.

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..... [2]

(c) State **one** difference between preference shares and ordinary shares.

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..... [2]

The directors of P Limited decided to raise $50 000 from an issue of 5% debentures.

REQUIRED

(d) State **two** ways in which this may affect the ordinary shareholders.

1 .....

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2 .....

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[2]

The directors of P Limited are concerned about the trade receivables turnover (days) and the rate of inventory turnover (times).

REQUIRED

(e) Suggest **two** ways in which the trade receivables turnover (days) may be improved.

1 .....

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2 .....

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[2]

(f) Suggest **two** ways in which the rate of inventory turnover (times) may be improved.

1 .....

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2 .....

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[2]

One of P Limited's credit suppliers has offered a cash discount of 5% for immediate payment on delivery. Normal credit terms for the industry are 30 days.

REQUIRED

(g) Advise the directors of P Limited whether or not they should accept this offer. Justify your answer by providing **two** advantages and **two** disadvantages of accepting this offer.

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[Total: 20]

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