Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

2395823919

ACCOUNTING **7707/21**

Paper 2 Structured Written Paper **May/June 2023**

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 Shvan maintains a petty cash book using the imprest system. The imprest amount, which is $200, is restored every Wednesday.

All payments of less than $75 are made from petty cash. All cash receipts of less than $75 are paid into petty cash.

On 1 March 2023 Shvan had $61 in his petty cash box. He provided the following information for the first week in March 2023.

March	1	Restored petty cash imprest from the business bank account
	2	Paid $55 to Giles, a trade payable
	3	Paid taxi fare, $21
	6	Paid $18 for notepads and pens
	6	Received cash, $25, from Mitchell, a trade receivable
	7	Paid $30 for office cleaning

REQUIRED

(a) Prepare Shvan's petty cash book for the first week of March 2023, on the page opposite. Balance the petty cash book at 7 March 2023 and bring down the balance at 8 March 2023.

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Shvan
Petty Cash Book

Total received $	*Date*	*Details*	*Total paid* $	*Office expenses* $	*Travel* $	*Ledger accounts* $
.....	.....	.....	.....	.....	.....	.....
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[10]

Shvan makes payments to Giles from his bank account as well as by cash. He provided the following information.

March 1 Owed Giles, $165, from February

13 Paid Giles the amount outstanding on his account, by cheque

22 Purchased goods on credit from Giles, list price $150, subject to a trade discount of 4%

(b) Prepare the account for Giles as it would appear in the books of Shvan. Balance the account at 31 March 2023 and bring down the balance at 1 April 2023.

Shvan
Giles account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
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[4]

Shvan is considering whether to stop keeping cash at his business premises. He would require all customers to transfer payment directly into his bank account and he would make all business payments from his bank account.

REQUIRED

(c) **(i)** State **one** way Shvan could pay his suppliers, from his bank account, other than by cheque.

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..... [1]

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(ii) Advise Shvan whether he should stop using cash. Justify your answer by providing **two** advantages and **two** disadvantages of stopping using cash.

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..... [5]

[Total: 20]

2 Stalla is a sole trader who sells on credit. She maintains a provision for doubtful debts at 4% of trade receivables.

Stalla's trade receivables were:

	$
At 31 December 2021	75 000
At 31 December 2022	77 000

REQUIRED

(a) (i) Prepare Stalla's provision for doubtful debts account for the year ended 31 December 2022. Balance the account at 31 December 2022 and bring down the balance at 1 January 2023.

Stalla
Provision for doubtful debts account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
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[3]

(ii) State **two** reasons why Stalla maintains a provision for doubtful debts.

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2 .....

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[2]

Stalla charges depreciation at 25% per annum, using the reducing balance method. She charges a full year's depreciation in the year a vehicle is purchased and none in the year it is sold.

On 31 December 2022, Stalla sold a vehicle for $9500. The vehicle had cost $16 000 on 1 September 2020.

REQUIRED

(b) Calculate the gain or loss on disposal of the vehicle.

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..... [4]

The balances on Stalla's ledger accounts at 1 January 2022 included the following.

	$
Motor vehicles	48 000
Provision for depreciation on motor vehicles	21 000

(c) (i) Prepare Stalla's motor vehicles account for the year ended 31 December 2022. Balance the account at 31 December 2022 and bring down the balance at 1 January 2023.

Stalla
Motor vehicles account

Date	Details	$	Date	Details	$
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[2]

(ii) Prepare Stalla's provision for depreciation on motor vehicles account for the year ended 31 December 2022. Balance the account at 31 December 2022 and bring down the balance at 1 January 2023.

Stalla
Provision for depreciation on motor vehicles account

Date	Details	$	Date	Details	$
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[5]

Stalla had an extension to her retail premises built during 2023. The extension will be used as an office.

REQUIRED

(d) Place a tick (✓) in the correct box below to indicate whether each cost is capital expenditure or revenue expenditure.

	Capital expenditure	Revenue expenditure
Legal fees for obtaining permission to build the extension		
Building costs for the extension		
Insurance for the office		
Painting the office extension		
Office calendar for 2023		
Purchase of office equipment		
Installation of office equipment		
Stationery for office		

[4]

[Total: 20]

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3 Eshe is a trader. She has prepared a trial balance at 31 March 2023. The totals did not agree and the difference was placed in a suspense account.

Eshe later discovered the errors shown in the following table.

REQUIRED

(a) Complete the table to show the entries required to correct each error. The first one has been completed as an example.

Error	Entries required to correct the error			
	Debit		Credit	
	Account	$	Account	$
A payment for rent, $300, had been debited to the insurance account.	*Rent paid*	*300*	*Insurance*	*300*
Credit sales to Raymond of $105 had been debited to the sales account and credited to Raymond's account.	.....	.....	.....	.....
	.....	.....	.....	.....
Eshe's total drawings from the bank for her own use, $9500, had been debited to the cash account.	.....	.....	.....	.....
	.....	.....	.....	.....
A purchases invoice from Danika for $137 had been recorded in her account and in the purchases journal as $173.	.....	.....	.....	.....
	.....	.....	.....	.....
Returns inwards, $44, had not been recorded in the returns inwards account.	.....	.....	.....	.....
	.....	.....	.....	.....
The motor expenses account had been overcast by $100.	.....	.....	.....	.....
	.....	.....	.....	.....

[10]

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(b) Prepare the suspense account. Include the balancing figure as the original difference on the trial balance.

Eshe
Suspense account

Date	Details	$	Date	Details	$
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[3]

Eshe's capital at 1 April 2022 was $31 000. Her draft profit for the year ended 31 March 2023 **before** correction of the errors was $15 600.

REQUIRED

(c) Calculate Eshe's capital at 31 March 2023 **after** the errors have been corrected.

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..... [7]

[Total: 20]

4 Salman owns a footwear factory. He sells to all of the three local shoe shops.
Salman prepares his financial statements to 30 April each year.

At 30 April 2023, Salman's ledger account balances included the following.

	$
Inventory at 1 May 2022	
Raw materials	8 190
Work in progress	15 200
Finished goods	23 860
Purchases of raw materials	78 420
Purchases of finished goods	90 144
Wages	
Factory supervisor	27 500
Factory operatives	52 396
Rates and insurance	17 528
Factory electricity	11 442
General factory expenses	8 244
Factory equipment – at cost	90 000
Factory equipment – provision for depreciation	43 920
Balance at bank	31 000 debit

Additional information

1 Inventory at 30 April 2023

Raw material	8 000
Work in progress	16 100
Finished goods	24 590

2 Salman applies a mark-up of 50% to his cost of sales.

3 Rates and insurance are to be apportioned three quarters to the factory and one quarter to the office.

4 At 30 April 2023, factory electricity of $1048 was unpaid.

5 Factory equipment is depreciated at 20% per annum using the reducing balance method.

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REQUIRED

(a) Prepare Salman's manufacturing account for the year ended 30 April 2023.

Salman
Manufacturing Account for the year ended 30 April 2023

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[10]

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[Turn over

(b) Prepare the trading section of Salman's income statement for the year ended 30 April 2023.

Salman
Income Statement (trading section) for the year ended 30 April 2023

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[5]

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Salman is considering converting some of his office space into additional factory capacity.

(c) Advise Salman whether he should convert some of his premises from office use to factory use. Justify your answer by providing arguments for and against this conversion of office space into additional factory capacity.

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[Total: 20]

5 Q Limited prepares its financial statements to 31 March each year.
The company's retained earnings at 1 April 2022 were $16 250.

During the year ended 31 March 2023, the company made a profit of $43 500 (after charging all expenses and interest). The total dividends of $39 000 for the year were paid by 31 March 2023.

The following balances were extracted from the company's ledger accounts after the income statement had been prepared.

	$	
Fittings and equipment at cost	150 000	
Provision for depreciation of fittings and equipment	40 650	
Motor vehicles at cost	72 000	
Provision for depreciation of motor vehicles	31 125	
Inventory	51 790	
Balance at bank	1 076	debit
Trade receivables	19 700	
Provision for doubtful debts	591	
Trade payables	31 450	
5% Debentures (repayable 2029)	40 000	
Bank loan (repayable 2027)	10 000	
Ordinary share capital	120 000	

REQUIRED

(a) Calculate the retained earnings of Q Limited at 31 March 2023.

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..... [3]

(b) Prepare the statement of financial position for Q Limited at 31 March 2023.

Q Limited
Statement of Financial Position at 31 March 2023

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[8]

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[Turn over

(c) Calculate the liquid (acid test) ratio to two decimal places.

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..... [2]

The directors (who are also the shareholders) would like to expand the company and wish to borrow $50 000 to fund the expansion. They are considering whether to issue further ordinary shares or to request another long-term bank loan.

REQUIRED

(d) (i) Suggest **two** reasons why although the company has made a profit, there is little cash available in the bank account to fund the expansion.

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2 .....

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[2]

(ii) Advise the directors whether they should fund the expansion by issuing ordinary shares or requesting a bank loan. Justify your answer.

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[Total: 20]

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