Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

3678246845

ACCOUNTING **7707/22**

Paper 2 Structured Written Paper **October/November 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 Seok buys and sells goods on credit. He has three credit customers and allows one of them, Naomi, trade discount of 10%. All customers pay Seok by bank transfer.

The following balances were extracted from Seok's sales ledger at 1 August 2023.

	$
Naomi	450
Siena	155
Bwana	386
	991

The following transactions took place in August 2023.

Aug 3 Sold goods on credit, to Naomi, list price $410

5 Sold goods on credit, $89, to Bwana

10 Naomi returned goods, list price $20

11 Naomi paid $423 in full settlement of the amount she owed at 1 August

19 Sold goods on credit, $180, to Bwana

22 Sold goods on credit, to Naomi, list price $230

27 Bwana returned goods, $19

29 Bwana paid $400

REQUIRED

(a) Prepare the sales journal for August 2023.
Total the journal and indicate the ledger account where the total would be posted.

Seok
Sales journal

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

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(b) Prepare the sales returns journal for August 2023.
Total the journal and indicate the ledger account where the total would be posted.

Seok
Sales returns journal

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

(c) Prepare the account for Naomi for August 2023 as it would appear in the books of Seok.
Balance the account and bring down the balance at 1 September 2023.

Seok
Naomi account

Date	Details	$	Date	Details	$
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[6]

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[Turn over

On 31 August Seok decided to write off the amount owing by Siena as an irrecoverable debt.

REQUIRED

(d) Prepare Seok's sales ledger control account for August 2023. Balance the account and bring down the balance at 1 September 2023.

Seok
Sales ledger control account

Date	Details	$	Date	Details	$
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[7]

[Total: 20]

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2 Sara owns a clothing factory. She sells the clothing to a small number of local shops. She allows 30 days credit.

At 30 September 2023, Sara's ledger account balances included the following.

	$
Inventory at 1 October 2022	
Raw materials	4 875
Work in progress	8 125
Finished goods	12 890
Purchases of raw materials	56 400
Wages	
Machine operators	43 300
Factory supervisor	25 000
Delivery vehicle driver	14 250
Rates and insurance	29 600
General factory expenses	9 650
Factory machinery – at cost	80 000
Factory machinery – provision for depreciation	35 000
Trade receivables	27 000
Cash at bank	1 050

Additional information

1. Inventory at 30 September 2023

Raw material	5 110
Work in progress	7 365
Finished goods	13 725

2. At 30 September 2023 general factory expenses of $335 were unpaid.

3. Insurance of $8000 had been paid for the year July 2023 to June 2024.

4. Rates and insurance are to be apportioned equally between the factory and the office.

5. Factory machinery is depreciated at 25% per annum using the reducing balance method.

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REQUIRED

(a) Prepare Sara's manufacturing account for the year ended 30 September 2023.

Sara
Manufacturing Account for the year ended 30 September 2023

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[11]

(b) Prepare the current assets section of Sara's statement of financial position at 30 September 2023.

Sara
Statement of financial position (current assets section) at 30 September 2023

	$	$
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[3]

Sara's factory supervisor is very efficient at running the factory.

REQUIRED

(c) State which accounting principle Sara is complying with by **not** recording any value for this efficiency in her financial statements.

..... [1]

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Sara has now been asked to supply a local drama school with theatrical costumes. The drama school would place an order with Sara each month and would require 60 days credit.

REQUIRED

(d) Advise Sara whether she should start supplying the drama school with costumes. Justify your answer by providing advantages **and** disadvantages of supplying the costumes.

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..... [5]

[Total: 20]

3 Lionel started trading on 1 July 2022. He paid $15 000 of his own personal money into the business bank account. He did not keep full accounting records but has supplied the following information at 30 June 2023.

1. Cash sales of $90 000 were made and paid into the bank. No other money was received. Lionel marks up his goods by 50%.

2. Payments from the bank:

	$
Purchase of motor vehicle (van)	8 000
Payments to credit suppliers	55 000
Wages	8 060
General expenses	1 140
Rent and insurance	5 585
Motor expenses	4 992
Cash drawn from bank	14 600

3. Purchases returns amounted to $3000.

4. Inventory at 30 June 2023 was valued at $4175.

5. One third of the motor expenses paid were for Lionel's private car.

6. A full year's depreciation at 25% is to be charged on the van using the reducing balance method.

7. Lionel withdrew $1000 each month from the business cash, for personal use. The remaining cash drawn from the bank was used to pay wages.

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REQUIRED

(a) Prepare Lionel's income statement for the year ended 30 June 2023.

Lionel
Income Statement for the year ended 30 June 2023

	$	$
.....	.....	.....
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[9]

(b) Prepare Lionel's capital account for the year ended 30 June 2023. Balance the account and bring down the balance at 1 July 2023.

Lionel
Capital account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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[5]

(c) State **one** reason why Lionel should keep double-entry bookkeeping records.

..... [1]

Lionel currently makes cash sales only. He would like to start selling on credit and is considering whether to offer a 10% trade discount to regular customers or a 3% discount for payment within 21 days.

REQUIRED

(d) Advise Lionel whether he should offer the 10% trade discount **or** the 3% cash discount. Justify your answer.

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..... [5]

[Total: 20]

4 Rachel is a trader.
The totals of Rachel's trial balance prepared on 30 September 2023 did not agree and the difference was placed in a suspense account.

Rachel later discovered the errors shown in the following table.

REQUIRED

(a) Complete the following 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, $350, had been debited to the wages account.	*Rent payable*	*350*	*Wages*	*350*
The sales journal for September had been overcast by $90.	.....	.....	.....	.....
	.....	.....	.....	.....
Sales returns, $110, had been recorded as purchases returns.	.....	.....	.....	.....
	.....	.....	.....	.....
	.....	.....	.....	.....
	.....	.....	.....	.....
A payment for office expenses, $18, had been recorded in the office expenses account as $81.	.....	.....	.....	.....
	.....	.....	.....	.....
A petty cash book payment, $29, to Cole, a supplier, had been recorded in the column for motor expenses.	.....	.....	.....	.....
	.....	.....	.....	.....

[9]

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

Rachel
Suspense account

Date	Details	$	Date	Details	$
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.....	.....	.....	.....	.....	.....
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[5]

Rachel's draft profit before the errors were discovered was $18 243.

REQUIRED

(c) Calculate Rachel's profit for the year ended 30 September 2023 **after** the errors in the table have been corrected.

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..... [5]

(d) State why financial statements may still be reliable even if errors are present.

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..... [1]

[Total: 20]

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5 Nala is a retailer who sells toys and games. All sales are on a cash basis and all purchases are on credit.

She has provided the following information.

	$
At 31 August 2023:	
Inventory	6 265
Cash at bank	992
Trade payables	4 880
Capital	125 000
For the year to 31 August 2023:	
Revenue	98 420
Purchases	78 130
Expenses	11 325

Inventory at 1 September 2022 was valued at $6175.

REQUIRED

(a) Complete the following table.

Ratio	Working	Answer (to 2 decimal places)
Gross margin		
Profit margin		
Return on capital employed (ROCE)		
Rate of inventory turnover (times)		
Liquid (acid test) ratio		

[11]

Nala increased her advertising expenses over the year to 31 August 2023 and sells at a lower price than her nearest competitor. This has resulted in Nala selling her inventory faster than her nearest competitor. Nala and her nearest competitor buy inventory at the same prices. Nala is pleased with her results.

REQUIRED

(b) Explain why Nala should **not** be entirely pleased with her results.

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..... [3]

Nala is planning to expand her business and to take out a bank loan to finance the expansion. The loan would be repayable after five years.

REQUIRED

(c) Advise Nala whether she should obtain a bank loan to expand the business. Justify your answer by providing **two** points for and **two** points against obtaining the bank loan to expand the business.

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..... [5]

(d) State why Nala's bank manager would be interested in her financial statements if she requests the loan.

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[Total: 20]

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