Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

1298439108

ACCOUNTING **7707/23**

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 **24** pages. Any blank pages are indicated.

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1 Shakir started trading in the year ended 31 August 2023 but did not keep proper books of account. His assets and liabilities at 1 September 2023 are as follows.

	$
Motor vehicle	9500
Inventory	1240
Cash at bank	1682
Trade payables:	
Latif	200
Harrison	237

REQUIRED

(a) (i) Prepare the journal for Shakir's opening entries at 1 September 2023. A narrative is **not** required.

Shakir
Journal

Date	Details	Debit $	Credit $
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
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[3]

(ii) State **two** advantages of maintaining double entry records.

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[2]

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During September 2023, the following transactions took place.

Sept 2	Paid rent, $420, by credit transfer
4	Withdrew cash, $350, from the bank for business use
7	Paid Latif, $194, by telephone transfer, in full settlement of the amount owing at 1 September 2023
10	Sold goods on credit, $195, to Sydney
12	Paid $161, cash, for wages
17	Cash sales, $290, were paid directly into the bank account
28	Received a cheque, $100, from Sydney
29	Paid $95 to Harrison, by electronic transfer, having deducted $5 cash discount from the amount due

REQUIRED

(b) Prepare Shakir's cash book on the page opposite.

Balance the cash book and bring down the balances at 1 October 2023. [11]

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Shakir
Cash Book

Date	Details	Discount allowed	Cash	Bank	Date	Details	Discount received	Cash	Bank
2023		$	$	$	2023		$	$	$
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
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[Turn over

Shakir received a bank statement dated 30 September 2023. The bank statement showed that Shakir had $763 in the bank account. On comparing the bank statement to his cash book, Shakir noted the following.

Bank charges, $35, were charged by the bank in September.
Cash Sales, $175, had been paid for by credit transfer but not recorded in the cash book.
The cheque received from Sydney had not yet been cleared by the bank.
The cash sales, $290, had been omitted from the bank statement in error.

REQUIRED

(c) Calculate the corrected bank balance.

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..... [4]

[Total: 20]

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2 Hilary owns a manufacturing business. She has provided the following information.

	$
Inventory at 1 August 2022	
Raw materials	9 100
Work in progress	21 357
Finished goods	24 235
For the year ended 31 July 2023	
Revenue	457 250
Purchases of raw materials	110 000
Purchases returns of raw materials	2 200
Purchases of finished goods	23 500
Purchases returns of finished goods	4 700
Wages of factory operatives	91 665
Wages of factory supervisor	29 000
Wages of office supervisor	28 000
Heat, light and power	11 600
Rates and insurance	8 250
Factory repairs and renewals	5 125
Factory equipment – at cost	124 000
Factory equipment – provision for depreciation	35 500

Additional information

1 Inventory at 31 July 2023

Raw material	9 980
Work in progress	22 446
Finished goods	25 110

2 Heat, light and power is to be apportioned 4/5 to the factory and 1/5 to the office.

3 Rates and insurance is to be apportioned 3/5 to the factory and 2/5 to the office. Insurance of $4440 has been paid for the year to 31 December 2023.

4 At 31 July 2023, a factory repair, $644, was unpaid and no adjustment had been made.

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

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REQUIRED

(a) Prepare Hilary's manufacturing account for the year ended 31 July 2023.

Hilary
Manufacturing Account for the year ended 31 July 2023

	$	$
.....	.....	.....
.....	.....	.....
.....	.....	.....
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.....	.....	.....
.....	.....	.....

[11]

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[Turn over

(b) Calculate Hilary's gross profit for the year ended 31 July 2023.

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..... [4]

Hilary is considering stopping buying any finished goods for resale and instead increasing the production at her factory.

REQUIRED

(c) Advise Hilary whether she should sell only production from her own factory and increase the amount produced. Justify your answer by providing arguments for and against selling only production from her own factory and increasing the amount produced.

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..... [5]

[Total: 20]

3 Logan is a trader who sells goods on credit. His year end is 30 September. Logan has provided the following information.

	$
At 1 October 2022	
Inventory	8400
Trade receivables	7500
Other receivables (rent prepaid)	820
For the year ended 30 September 2023	
Rent charge for the year	4940
Bank payments for rent 1 December 2022	2460
1 June 2023	2490
At 30 September 2023	
Inventory	8675
Trade receivables	8700
Other receivables	?
Irrecoverable debts to be written off	325

The provision for doubtful debts is to be maintained at 4% of trade receivables.

REQUIRED

(a) Prepare the inventory account for the year ended 30 September 2023.

Logan
Inventory account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[3]

(b) Prepare the provision for doubtful debts account for the year ended 30 September 2023. Balance the account at 30 September 2023 and bring down the balance at 1 October 2023.

Logan
Provision for doubtful debts account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[4]

(c) Prepare the rent payable account for the year ended 30 September 2023. Balance the account at 30 September 2023 and bring down the balance at 1 October 2023.

Logan
Rent payable account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[6]

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(d) State how:

(i) the prudence principle is applied to the valuation of Logan's inventory

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..... [1]

(ii) the matching principle is applied when the rent payable account is prepared

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..... [1]

Logan is considering buying business premises instead of renting. He would request a long-term bank loan to finance the purchase of the premises.

REQUIRED

(e) Advise Logan whether he should purchase business premises using a long-term bank loan. Justify your answer with advantages and disadvantages of purchasing business premises using a long-term bank loan.

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..... [5]

[Total: 20]

4 Asia is a trader. She prepared her trial balance at 31 August 2023. The credit side totalled $273 more than the debit side. Asia placed the difference in a suspense account.

Asia later discovered the following errors.

1 A credit purchase, $112, from Jacques, had been entered twice in the purchases journal.

2 The wages account had been overcast by $300.

3 Cash received, $75, from Savanah, a trade receivable, had only been entered in the cash book.

4 The total of the sales returns journal for August 2023 of $198, had been credited to both the sales returns account and the purchases returns account.

5 A payment to Sophie, $93, had been recorded as $39 in Sophie's account.

REQUIRED

(a) Prepare the journal entries to correct errors 1–5. Narratives are **not** required.

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Asia
Journal

Error number	Details	Debit $	Credit $
.....	.....	.....	.....
.....	.....	.....	.....
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.....	.....	.....	.....
.....	.....	.....	.....
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[11]

(b) Prepare the suspense account, including the original difference on the trial balance.

Asia
Suspense account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[5]

REQUIRED

(c) Complete the following table by placing a tick (✓) to show the effect of each error. The first one has been completed as an example.

Error number	Error	Gross profit		Profit for the year		No effect
		+	–	+	–	
1	A credit purchase, $112, from Jacques, had been debited twice to the purchases account.		✓		✓	
2	The wages account had been overcast by $300.					
3	Cash received, $75 from Savanah, a trade receivable, had only been entered in the cash book.					
4	The total of the sales returns journal for August 2023, $198, had been credited to both the sales returns account and the purchases returns account.					
5	A payment to Sophie, $93, had been recorded as $39 in Sophie's account.					

[4]

[Total: 20]

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5 B Limited provides cleaning services to client offices and factories. The clients provide their own cleaning materials. The trial balance of B Limited at 30 June 2023 was as follows.

B Limited
Trial Balance at 30 June 2023

	Debit $	Credit $
Revenue		135 040
Wages and salaries	72 000	
Motor expenses	9 820	
Insurance	11 040	
General expenses	12 780	
Motor vehicles at cost	42 000	
Provision for depreciation of motor vehicles		16 500
Equipment at cost	5 000	
Provision for depreciation of equipment		2 000
Trade receivables	1 640	
Bank	19 950	
Ordinary share capital		10 000
General reserve		2 000
Retained earnings		13 490
Dividend paid on ordinary shares	4 800	
	179 030	179 030

Additional information

1 Revenue of $9240 was received in advance.

2 The insurance charge for the 12 months to 31 December 2022 was $7200 and for the 12 months to 31 December 2023 it is $7440. On 1 January 2023 insurance was paid in full for the 12 months to 31 December 2023.

3 Accrued general expenses at 30 June 2023 were $186.

4 Depreciation is to be charged on motor vehicles at 25% per annum using the reducing balance method.

5 Depreciation on equipment is to be charged at 20% per annum using the straight line method.

6 No dividends were outstanding at 30 June 2023.

7 $1000 is to be transferred to the general reserve at 30 June 2023.

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REQUIRED

(a) Prepare the income statement for B Limited for the year ended 30 June 2023.

B Limited
Income Statement for the year ended 30 June 2023

	$	$
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[6]

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[Turn over

(b) Prepare the statement of changes in equity for B Limited for the year ended 30 June 2023.

B Limited
Statement of Changes in Equity for the year ended 30 June 2023

Details	Ordinary Share capital $	General reserve $	Retained earnings $	Total $
On 1 July 2022	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
On 30 June 2023	.....	.....	.....	.....

[5]

(c) Explain why:

(i) B Limited has no inventory

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..... [2]

(ii) B Limited does **not** require a provision for doubtful debts

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..... [2]

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The directors of B Limited are also the shareholders. They plan to expand the company. They are considering whether to issue debentures or ordinary shares.

REQUIRED

(d) Advise the directors whether they should issue debentures or ordinary shares. Justify your answer.

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..... [5]

[Total: 20]

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