Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

5310620969

ACCOUNTING **7707/23**

Paper 2 Structured Written Paper **October/November 2020**

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. Blank pages are indicated.

DC (PQ) 207255

1 Sariah owns a business selling ladies' clothing. She maintains a system of double entry bookkeeping.

The following occurred during September 2020.

1 Purchased a motor vehicle on credit from Sharpe Motors $6350.

2 Ruhee, a credit customer, was declared bankrupt owing Sariah $1200. The debt is to be written off.

REQUIRED

(a) Prepare journal entries to record the above transactions. Narratives are **not** required.

Sariah
Journal

Details	Debit $	Credit $
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....	....	....
....	....	....
....	....	....
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[4]

Sariah is preparing her financial statements for the year ended 30 September 2020. She provides the following information for fixtures and fittings.

2019		$
October 1	Fixtures and fittings at cost	28600
	Provision for depreciation of fixtures and fittings	6185
2020		
January 31	Sold fixtures and received a cheque	1150
	The fixtures had been purchased on 1 February 2018 for $1500	
March 31	Purchased new fixtures paying by cheque	3500

Sariah's policy is to provide depreciation on fixtures and fittings at 10% per annum using the reducing balance method. A full year's depreciation is charged in the year of purchase but none in the year of disposal.

REQUIRED

(b) Prepare the following accounts for the year ended 30 September 2020. Close the accounts by balancing or by making an appropriate year end transfer.

Sariah
Fixtures and fittings account

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

Provision for depreciation of fixtures and fittings account

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

Disposal account

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

[11]

Sariah is considering forming a partnership with her friend Emy who runs a similar business.

REQUIRED

(c) Advise Sariah whether or not she should form a partnership with Emy. Justify your answer with **two** advantages and **two** disadvantages of forming a partnership with Emy.

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.... [5]

[Total: 20]

PLEASE TURN OVER

2 Eniola compared her bank statement for July 2020 with the bank columns of her cash book. She provided the following information.

	$
Overdrawn balance shown in the cash book at 31 July 2020	3420
Direct debit payment dated 25 July 2020, had not yet been entered in the cash book	350
A cheque received from a customer on 12 July 2020 was dishonoured. This dishonoured cheque had not yet been recorded in the cash book	665
Bank charges on the bank statement had not yet been entered in the cash book	45
Unpresented cheques at 31 July 2020	1290
Uncredited deposits at 31 July 2020	410

REQUIRED

(a) Calculate the corrected balance of the bank columns in the cash book at 31 July 2020.

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.... [4]

(b) Prepare a bank reconciliation statement at 31 July 2020. Clearly identify the bank statement balance at that date.

Eniola
Bank Reconciliation Statement at 31 July 2020

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.... [4]

Eniola is concerned that her bank balance has decreased significantly during the last year. She is considering how to improve her liquidity.

REQUIRED

(c) Suggest **one** effect of **each** of the following proposals.

(i) Hire new non-current assets instead of purchasing them.

....

.... [1]

(ii) Delay paying credit suppliers.

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.... [1]

Eniola's financial year end is 31 July 2020. She provided the following information about the rent and rates of her business.

On 1 August 2019, she owed two months' rent totalling $900. On the same date, rates of $260 were prepaid up to 30 September 2019.

During the year ended 31 July 2020 the following payments were made by credit transfer.

2019		$
August 1	Seven months' rent	3150
October 1	Twelve months' rates	1860
2020		
March 1	Six months' rent	2700

REQUIRED

(d) Prepare the rent and rates account for the year ended 31 July 2020. Balance the account and bring down the balances on 1 August 2020.

Eniola
Rent and rates account

Date	Details	$	Date	Details	$
2019			*2019*		
Aug 1	*Balance (rates) b/d*	*260*	*Aug 1*	*Balance (rent) b/d*	*900*
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
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[6]

(e) Identify the sections of the statement of financial position at 31 July 2020 in which **each** of the balances on the rent and rates account would appear.

Rent ....

Rates ....
[2]

(f) **(i)** Name **one** accounting principle Eniola would apply when recording the rent and rates in her financial statements.

.... [1]

(ii) State how Eniola would apply the accounting principle named in **(f)(i)**.

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.... [1]

[Total: 20]

PLEASE TURN OVER

3 Haziq has not maintained full accounting records for his business.

Haziq provided the following information for the year ended 31 July 2020.

	At 1 August 2019	**At 31 July 2020**
	$	$
Bank loan	6000	4500
Inventory	8400	?
Non-current assets at net book value	35580	32450
Rent prepaid	240	–
Trade payables	6280	7460
Wages accrued	–	610

Summary of bank account for the year ended 31 July 2020

Date	Details		$	Date	Details		$
2020				2019			
July 31	Sales receipts		166000	Aug 1	Balance	b/d	2150
	Balance	c/d	6600	2020			
				July 31	Payments to credit suppliers		96220
					Bank loan repayments		1500
					Bank loan interest		300
					Rent		2640
					Wages		41400
					General expenses		10890
					Drawings		17500
			172600				172600

Additional information

1 The gross margin was 40%.

2 All sales were for cash and all cash received was banked.

REQUIRED

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

Haziq
Income Statement for the year ended 31 July 2020

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[15]

(b) Advise Haziq whether or not he should maintain a double entry bookkeeping system for his business. Justify your answer with **two** advantages and **two** disadvantages.

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.... [5]

[Total: 20]

PLEASE TURN OVER

4 The directors of DW Limited provided the following information at 30 September 2020.

	$
6% debentures (2028)	18000
Bank overdraft	6450
Dividend paid	2000
General reserve at 1 October 2019	6500
Inventory at 30 September 2020	26300
Issued share capital at 1 October 2019	200000
Non-current assets at 30 September 2020	
Cost	462000
Provision for depreciation	106000
Other payables	2200
Other receivables	1600
Provision for doubtful debts at 1 October 2019	625
Retained earnings	73475
Trade payables	8250
Trade receivables	14500

Additional information

A draft income statement for the year ended 30 September 2020 was prepared showing a profit of $84900.

The following errors were later discovered.

1 Inventory of $26300 included items valued at cost $5200 that needed repair. After repairs costing $600, the items could be sold for $5000.

2 Operating expenses included insurance of $400 that was prepaid at 30 September 2020.

3 The provision for doubtful debts should have been adjusted so that it equals 5% of trade receivables.

The directors decided to transfer $5000 to general reserve.

There was no change to the issued share capital during the year ended 30 September 2020.

REQUIRED

(a) Calculate the correct value of inventory at 30 September 2020.

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.... [2]

(b) Calculate the revised profit for the year ended 30 September 2020 after adjusting for errors 1–3.

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.... [4]

(c) Prepare the statement of changes in equity for the year ended 30 September 2020.

DW Limited
Statement of Changes in Equity for the year ended 30 September 2020

Details	Share capital $	General reserve $	Retained earnings $	Total $
On 1 October 2019	....	....	....	....
....	....	....	....	....
....	....	....	....	....
....				
On 30 September 2020	....	....	....	....

[5]

(d) Prepare the statement of financial position at 30 September 2020.

DW Limited
Statement of Financial Position at 30 September 2020

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

[Total: 20]

PLEASE TURN OVER

5 Nazim owns a wholesale business and has prepared draft financial statements for the year ended 30 June 2020, his first year of trading.

After the preparation of these financial statements, some errors were discovered.

REQUIRED

(a) Complete the table to indicate the **effect of each error** on the profit for the year and on working capital at 30 June 2020.

Write 'understated', 'overstated' or 'no effect'.

The first one has been completed as an example.

Error	Effect on profit for the year	Effect on working capital
Repairs to office equipment had been entered in the office equipment account.	*Overstated*	*No effect*
No adjustment had been made for insurance prepaid.		
An irrecoverable debt had not been written off.		
No record had been made of additional capital introduced in cash.		
Closing inventory had been overstated.		

[8]

After correcting the errors, Nazim compared his results with those of his brother Aziz, who has a similar business.

	Nazim	Aziz
Current ratio	1.71:1	2.12:1
Liquid (acid test) ratio	0.77:1	1.28:1
Return on capital employed	13.65%	15.25%

REQUIRED

(b) Suggest **two** reasons for the differences in **each** ratio.

(i) Current ratio

1 ....

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2 ....

....

[2]

(ii) Liquid (acid test) ratio

1 ....

....

2 ....

.... [2]

(iii) Return on capital employed (ROCE)

1 ....

....

2 ....

.... [2]

Nazim discovered that his rate of inventory turnover (times) was also lower than that of Aziz.

REQUIRED

(c) Suggest **one** reason for this difference.

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.... [1]

Nazim is concerned about the length of time his credit customers are taking to pay their accounts. He is considering operating a strict credit control policy requiring customers to pay within 30 days.

REQUIRED

(d) Advise Nazim whether or not he should introduce this strict credit control policy. Justify your answer by providing **two** advantages and **two** disadvantages.

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[Total: 20]