Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER				

5349764589

ACCOUNTING **7707/23**

Paper 2 Structured Written Paper **October/November 2022**

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 Anika owns property which she rents out to university students. She has made a consistent profit for each year she has been in business. Her trial balance at 31 August 2022 was as follows.

	Debit $	Credit $
Capital		400 000
Rent receivable		162 000
General expenses	26 500	
Bank	39 400	
Rates	38 200	
Insurance	12 400	
Repairs	32 000	
Drawings	18 500	
Non-current assets at cost		
Premises	418 000	
Fittings	90 000	
Provision for depreciation of non-current assets		
Premises		42 000
Fittings		71 000
	675 000	675 000

Additional information

1 At 31 August 2022, rent received of $8100 has been paid in advance.

2 At 31 August 2022, general expenses of $1300 have been paid in advance and rates of $3400 were owing.

3 The insurance includes $1800 paid for the 15 month period ending 30 November 2022.

4 Expenditure of $9000 for new fittings has been recorded in repairs.

5 Depreciation is to be provided as follows:

Premises	by equal instalments on cost each year over a 50 year period
Fittings	20% per annum by the reducing balance method

A full year's depreciation is charged on fittings during the year of purchase.

REQUIRED

(a) Prepare the income statement of Anika for the year ended 31 August 2022.

Anika
Income Statement for the year ended 31 August 2022

	$	$
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Workings:

[9]

(b) Prepare the capital account for the year ended 31 August 2022 showing the balance brought down at 1 September 2022.

Anika
Capital account

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

Anika plans to buy more property to rent out. She will need additional capital for this. She has savings earning 3% per annum which she could use for the additional capital. Alternatively, she could invite Janos, a builder, to provide the capital and join her to form a partnership.

REQUIRED

(c) Advise Anika on her plans and whether she should provide her own additional capital or form a partnership with Janos. Justify your answer.

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..... [5]

(d) Explain to Anika the difference between capital expenditure and revenue expenditure. Why is this difference between the two important when preparing the financial statements?

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..... [3]

[Total: 20]

2 Rasheed started a business on 1 October 2021. He maintains a petty cash book in the business. A monthly imprest of $100 is restored on the first day of each month.

REQUIRED

(a) State **two** advantages of maintaining a petty cash book.

1 .....

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2 .....

..... [2]

Rasheed's transactions for the month of September 2022 were as follows.

		$
September 2	Paid taxi fare	12
7	Paid purchases ledger account of Crystal	16
13	Bought postage stamps	10
18	Paid purchases ledger account of Kalpa	15
25	Paid bus fare	5
29	Paid cleaner	28

REQUIRED

(b) Complete Rasheed's petty cash book for the month of September 2022 on the next page.

Balance the petty cash book and bring down the balance on 1 October 2022. Clearly show the amount required to restore the imprest.

[8]

Rasheed – Petty Cash Book

Total Received $	Date 2022	Details	Total paid $	Travel $	Postage $	Cleaning $	Ledger accounts $
100	September 1	Cash	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....
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[Turn over

(c) Record the entries which would be made in the following accounts in September 2022. It is **not** necessary to total or balance the accounts.

Rasheed
Postage account

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

Purchases ledger
Crystal account

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

[2]

At the end of his first year in business Rasheed had a closing inventory of $8600.

REQUIRED

(d) Prepare the inventory account at 30 September 2022. Balance the account and bring down the balance on 1 October 2022.

Rasheed
Inventory account

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

[2]

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(e) At the end of his first year in business Rasheed would like to compare his financial performance with other businesses. Explain to Rasheed **three** problems of inter-firm comparison.

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[6]

[Total: 20]

3 The following balances have been taken from the accounts of RB, a trader.

	1 April 2021	31 March 2022
	$	$
Insurance	2500 prepaid	850 prepaid
Commission receivable	700 owing	630 owing

The following transactions relate to the year ended 31 March 2022. All receipts and payments were through the bank account.

	$
Insurance paid	15 300
Insurance refund	600
Commission receivable	7 200

REQUIRED

(a) Prepare the following ledger accounts for the year ended 31 March 2022. Balance the accounts and bring down the balances on 1 April 2022.

RB
Insurance account

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

Commission receivable account

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

[8]

(b) Prepare the entries for insurance and commission receivable in RB's statement of financial position at 31 March 2022.

RB
Extract from statement of financial position at 31 March 2022

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..... [2]

(c) Explain why the matching principle is important in the preparation of RB's income statement.

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..... [3]

RB has arranged with his suppliers to receive a 25% trade discount off list price and a 2% cash discount. The cash discount is only for payments made within 10 days.

On 5 March 2022 RB received an invoice from JP for the supply of goods with a list price of $3000. The invoice was paid on 13 March 2022.

REQUIRED

(d) Calculate each of the following:

(i) the trade discount

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..... [1]

(ii) the cash discount

.....

..... [1]

(iii) the amount paid to the supplier JP

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..... [1]

(e) Complete the table below indicating with a tick (✓) the effect of **each** type of discount on gross profit and profit for the year.

Discount allowed

	increase	decrease	no effect
gross profit			
profit for the year			

Discount received

	increase	decrease	no effect
gross profit			
profit for the year			

[4]

[Total: 20]

4 The following information is taken from the statement of financial position of C Limited at 1 September 2021.

	$
5% Debentures (2024)	60 000
Equity	
Ordinary share capital ($0.50)	240 000
General reserve	36 000
Retained earnings	22 000

During the year ended 31 August 2022:

A final dividend payment of $12 000 was made for the year ended 31 August 2021.

An interim dividend payment of $0.02 per share was made for the year ended 31 August 2022.

A transfer of $11 000 was made to general reserve.

At 31 August 2022 the company proposed a final dividend of $10 000 for the year ended 31 August 2022.

The revenue for the year ended 31 August 2022 was $310 000 and the profit (before debenture interest) was $23 000.

REQUIRED

(a) Prepare the statement for the changes in equity for the year ended 31 August 2022.

C Limited
Statement of Changes in Equity for the year ended 31 August 2022

Details	Share capital $	General reserve $	Retained earnings $	Total $
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
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[7]

(b) Calculate to **two** decimal places the return on capital employed for the year ended 31 August 2022. (Use closing capital employed).

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..... [4]

(c) **(i)** Calculate to **two** decimal places the profit margin for the year.

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.....[2]

(ii) Suggest **two** ways in which the profit margin could be improved.

1 .....

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2 .....

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[2]

C Limited plans to buy additional premises. Two options are being considered to raise the finance required.

Option 1
Issue 6% debentures to raise $65 000

Option 2
Issue additional ordinary shares to raise $65 000

REQUIRED

(d) Evaluate the **two** options and advise the company on which **one** they should choose. Justify your answer.

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..... [5]

[Total: 20]

5 NT started in business on 1 September 2020. All sales are on credit and payment is required from customers within 25 days.

On 5 May 2021, LW a trade receivable was declared bankrupt and a debt of $600 was written off as irrecoverable at that date.

REQUIRED

(a) Prepare a journal entry to write off the amount owed by LW. A narrative **is** required.

NT
General Journal

Date	Details	Debit $	Credit $
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

[3]

In addition to the irrecoverable debt of LW, other irrecoverable debts of $4100 were written off during the year ended 31 August 2021. Trade receivables at 31 August 2021 were $91 500 and NT decided to create a provision for doubtful debts of 5% of trade receivables.

REQUIRED

(b) Prepare an extract from the expenses section of NT's income statement for the year ended 31 August 2021.

NT
Extract from income statement for the year ended 31 August 2021

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..... [2]

(c) Prepare an extract from the assets section of NT's statement of financial position at 31 August 2021.

NT
Extract from statement of financial position at 31 August 2021

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During the financial year ended 31 August 2022, PB a trade receivable who owed $7000 had been declared bankrupt. On 17 July 2022, NT received payment of $2500 by cheque in final settlement of the debt. The remainder of the debt was written off as irrecoverable.

Other irrecoverable debts of $8400 were written off at 31 August 2022. The remaining trade receivables at 31 August 2022 were $110 000 and NT decided to maintain the provision for doubtful debts at 5% of trade receivables.

REQUIRED

(d) Prepare the following ledger accounts for the year ended 31 August 2022. Bring down the balance on 1 September 2022, where appropriate.

NT ledger accounts

PB account

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

Irrecoverable debts account

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

Provision for doubtful debts account

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

[8]

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NT is concerned at the increase in irrecoverable debts during the second year of business. To reduce irrecoverable debts, he is planning to introduce one of the two following options.

Option 1: To charge interest on all debts not paid within his standard terms of payment of 25 days.

Option 2: To stop supplies to all customers who do not pay within his standard terms of payment of 25 days.

(e) Advise NT on which option he should introduce. Justify your answer.

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[Total: 20]

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