Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER				

4719841975

ACCOUNTING **7707/21**

Paper 2 Structured Written Paper **May/June 2024**

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.

DC (JP) 341611
© UCLES 2024

1 Addo is a trader who only sells on credit.

His trade receivables at 1 April 2024 were as follows:

	$
Nuru	920
Mahia	1145
Ava	1378
Rachel	215
	3658

During April 2024, the following transactions took place:

April	2	Sold goods to Ava, list price $150, less 6% trade discount
	9	Received telephone transfer from Ava, $689
	12	Sold goods to Nuru, $165
	13	Received cheque, $627, from Mahia, in full settlement of an invoice for $660
	19	Received $760 from Nuru by electronic transfer. Nuru had deducted 5% cash discount
	20	Nuru returned goods $30
	21	Sold goods to Mahia, list price $480, trade discount 5%, cash discount 5% if invoice paid within 30 days
	30	Rachel has become bankrupt and Addo decides to write off the amount owing from her, as irrecoverable

REQUIRED

(a) Prepare the sales journal for April 2024.
Total the sales journal and indicate the ledger account to which the total would be posted.

Addo
Sales journal

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

[3]

© UCLES 2024

(b) Prepare the journal entry to write off the amount owing by Rachel. A narrative **is** required.

Addo
Journal

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

[3]

(c) Calculate:

(i) the total amount of money which Addo received from trade receivables during April 2024.

.....

.....

.....

..... [1]

(ii) the total amount of cash discount which Addo allowed in April 2024.

.....

.....

.....

..... [2]

(d) Prepare Addo's sales ledger control account for April 2024.

Addo
Sales ledger control account

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

[6]

Addo is considering changing his credit terms. He would introduce more credit checks on new customers and would increase cash discount to 7½% for payment within 30 days.

REQUIRED

(e) Advise Addo whether or not he should make these changes to his credit terms. Justify your answer by providing **two** advantages and **two** disadvantages of changing his credit terms.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

[Total: 20]

BLANK PAGE

2 Paul is a trader. He maintains a three-column cash book. Paul has prepared draft financial statements for the year ended 31 March 2024.

Paul later discovered the following five errors in his accounting records for the year ended 31 March 2024.

1 A purchase invoice, $140, had been debited to the account for office equipment.

2 Cash discount received, $18, had been recorded in the bank payments column of the cash book.

3 Carriage inwards, $82, had been credited to the carriage outwards account.

4 A payment for insurance, $375, had been debited to the bank account and credited to the insurance account.

5 The bank receipts column of the cash book for February 2024 had been undercast by $90.

REQUIRED

(a) Prepare the journal entries required to correct these five errors. Narratives are **not** required.

Paul
Journal

Error number	Details	Debit $	Credit $
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

[11]

(b) Calculate the corrected bank balance at 31 March 2024.

	$
Original cash at bank balance per draft financial statements	*3290*
Bank balance **after** correcting errors	

[4]

(c) Calculate the corrected profit for the year ended 31 March 2024.

	$
Original profit for the year per draft financial statements	*9268*
Profit for the year **after** correcting errors	

[5]

[Total: 20]

BLANK PAGE

3 Zahra and Panya are the shareholders and directors of Q Limited. The company directors of Q Limited have provided the following trial balance.

Q Limited
Trial Balance at 31 January 2024

	Debit	Credit
	$	$
Revenue		78 000
Purchases	38 200	
Rent and insurance	10 600	
Directors' salaries	19 000	
General expenses	3 420	
Advertising	5 400	
Dividends paid	2 500	
Fittings at cost	18 000	
Provision for depreciation of fittings		5 400
Inventory at 1 February 2023	2 950	
Cash at bank	915	
Trade payables		2 288
Ordinary share capital		13 000
Retained earnings		2 297
	100 985	100 985

Additional information

1 Inventory at 31 January 2024 was valued at $4720.

2 Depreciation on fittings is to be charged at 10% per annum using the straight-line method.

3 Payment for advertising, $75, is outstanding at 31 January 2024.

4 No dividends were outstanding at 31 January 2024.

REQUIRED

(a) Prepare the income statement for Q Limited for the year ended 31 January 2024.

Q Limited
Income statement for the year ended 31 January 2024

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

[6]

(b) Calculate the retained earnings at 31 January 2024.

.....

.....

.....

.....

..... [3]

(c) Prepare the statement of financial position for Q Limited at 31 January 2024.

Q Limited
Statement of financial position at 31 January 2024

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

[6]

© UCLES 2024

Zahra and Panya would like to expand the company and increase sales. In order to do this they are considering increasing the amount spent on advertising by 100%.

(d) Advise Zahra and Panya whether or not they should go ahead with the 100% increase in the amount spent on advertising. Justify your answer by providing **two** points in favour and **two** points against this increase.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

[Total: 20]

4 Ahmed owns a trading business. He prepares his financial statements to 31 December each year. Ahmed had some unused office space and he decided to use some of this to store inventory and to rent the rest to Bilal.

On 1 January 2023 Bilal started renting the office space from Ahmed. The annual rental charge is $4800. During 2023 Bilal paid the following amounts of rent into Ahmed's bank account.

	$
1 April	3600
30 September	2400

REQUIRED

(a) Prepare Ahmed's rent receivable account for the year ended 31 December 2023. Balance the account and bring down the balance at 1 January 2024.

Ahmed
Rent receivable account

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

[3]

Ahmed sold old office equipment for $1350 on 3 January 2023, on credit to Rahat. The equipment had been purchased for $3200 on 1 January 2021. Ahmed charges depreciation at 25% per annum using the reducing balance method. He does not charge depreciation in the year of disposal.

REQUIRED

(b) Prepare the disposal of office equipment account.

Ahmed
Disposal of office equipment account

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

[5]

(c) Complete the table by placing a tick (✓) to indicate whether each amount of spending on the new inventory storage space is capital expenditure or revenue expenditure.

	$	Capital expenditure	Revenue expenditure
Painting the walls of the storage area	600		
Shelving for the storage area	2115		
Installation of the shelving	460		
Light fittings for storage area	620		
Light bulbs for storage area	105		

[3]

Ahmed's ledger accounts at 31 December 2023 include the following balances.

	$
Inventory at 1 January 2023	9000
Receivables	6180
Cash	175
Payables	5500
Bank overdraft	640

Ahmed's inventory at 31 December 2023 was valued at $12 130. His purchases for the year ended 31 December 2023 were $97 000.

REQUIRED

(d) Complete the following table.

ratio	working	answer (to 2 decimal places)
Rate of inventory turnover (times)		
Current ratio		
Liquid (acid test) ratio		

[7]

Ahmed's rate of inventory turnover for 2023 was lower than for 2022.

REQUIRED

(e) Suggest **two** problems which may be caused by Ahmed's lower rate of inventory turnover.

1 .....

.....

2 .....

.....
[2]

[Total: 20]

BLANK PAGE

5 Stella started in business as a retailer on 1 April 2023. She sells one type of good only. She has not kept a full set of accounting records but has provided the following information.

1 Half of Stella's purchases were on cash terms and half on credit terms. During the year ended 31 March 2024, Stella paid $34 250 to credit suppliers. On 31 March 2024, she owed $2960 to credit suppliers.

2 Unlike her competitors, Stella made all of her sales for cash. Stella's mark-up was 32%.

3 The following amounts were paid for expenses during the year to 31 March 2024.

	$
Rent and insurance	6750
Wages	8300
Other expenses	1815

4 At 31 March 2024, $300 was unpaid for wages and $500 was paid in advance for rent.

5 Insurance is $2400 per annum. On 1 April 2023, Stella paid $3000 for insurance for the following 15 months.

6 Other expenses included $120 paid for vases and flowers. One third of these were for Stella's own home. Stella treats business costs of under $150 as revenue expenditure.

7 Inventory was valued at $6420 at 31 March 2024.

REQUIRED

(a) Calculate total purchases for the year ended 31 March 2024.

.....

.....

.....

..... [3]

(b) Prepare Stella's income statement for the year ended 31 March 2024.

Stella
Income Statement for the year ended 31 March 2024

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

[8]

Stella's sales revenue was the same each month for the year to 31 March 2024. She is now considering selling on credit terms as well as for cash.

REQUIRED

(c) Advise Stella whether or not to start selling on credit terms. Justify your answer by providing points for and against starting selling on credit.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

(d) State:

(i) the accounting principle which Stella is following when she treats payments for small items which may last longer than one year, as revenue expenditure.

.....

..... [1]

(ii) one advantage of following the principle in **5(d)(i)**.

.....

..... [1]

(e) State **two** advantages of maintaining a full set of double entry accounting records.

.....

.....

.....

..... [2]

[Total: 20]

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

Cambridge Assessment International Education is part of Cambridge Assessment. Cambridge Assessment is the brand name of the University of Cambridge Local Examinations Syndicate (UCLES), which is a department of the University of Cambridge.

© UCLES 2024