

Cambridge O Level

CANDIDATE NAME						
CENTRE NUMBER			CANDIDA NUMBER			

ACCOUNTING 7707/02

Paper 2 Structured Written Paper

For examination from 2020

SPECIMEN PAPER

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 answers.

This document has 20 pages. Blank pages are indicated.

© UCLES 2017 [Turn over

1 Shahid is a trader. He maintains a full set of accounting records including a three-column cash book.

On 1 August 2017 Shahid had the following balances in his cash book.

\$
Cash 50
Bank overdraft 7150

Shahid's transactions for August 2017 included the following.

- August 9 A cheque received in July for \$362 from EN Supplies was dishonoured by the bank
 - 18 Paid \$54 by cheque for fuel of private motor vehicle
 - 24 Received a cheque from Mariam to settle her debt of \$520, less 21/2% cash discount
 - 27 Paid \$400 by cheque. This included \$365 for new office equipment and the balance was for repairs to existing office equipment.
 - 30 Cash sales, \$3224
 - 31 Paid all the remaining cash into the bank except \$100

REQUIRED

(a) Complete Shahid's cash book on the page opposite.

Balance the cash book and bring down the balances on 1 September 2017.

[1]

Shahid Cash Book

Date	Details	Discount allowed \$	Cash \$	Bank \$	Date	Details	Discount received \$	Cash \$	Bank \$
					:				
					:				
					:				
					:				

The following incomplete statement of account was available on 31 August 2017.

		STATEMENT OF AC Shahid 44 Narrow Lane, A						
Mariam The Avenu Weston	The Avenue							
Date	Reference	Debit \$	Credit \$	Balance \$				
2017 Aug 1 9 13 24	Balance due Goods Returns Payment Discount	340	24 507 13	520 860 ? ? ?				

REQUIRED

(b) State the business document and the book of prime entry Shahid would use to record the following transactions which appear on the statement of account.

Transa	action	Document	Book of prime entry
August 9	Goods		
13	Returns		

[4]

(c) Prepare the account of Shahid as it would appear in the ledger of Mariam.

Balance the account and bring down the balance on 1 September 2017.

Mariam Shahid account

Date	Details	\$ Date	Details	\$

[5]

[Total: 20]

2 Yasmin opened a garment factory on 1 May 2016.

She provided the following information.

On 1 May 2016	\$
Cost of factory machinery	35000
Cost of office furniture and equipment	8500
Cost of tools	1000
For the year ended 30 April 2017	
Revenue	113640
Purchases of raw materials	30 100
Purchases of finished goods	15700
Wages and salaries	
Factory operatives	31500
Factory supervisors	11860
Office and sales staff	32200
General expenses	
Factory	3240
Office	1950
Rates	
Factory	4500
Office	1500
At 30 April 2017	
Inventory	
Raw materials	3 1 5 0
Work in progress	2820
Finished goods	6800
Value of tools	830
Wages accrued	000
Factory operatives	800
Office and sales staff	950

Additional information

- 1 No additional non-current assets were purchased during the year.
- 2 The factory machinery is to be depreciated at 20% per annum on cost.
- 3 The office furniture and equipment is to be depreciated at 15% per annum on cost.
- 4 The tools are to be revalued at the end of each financial year.

REQUIRED

(a) Prepare the manufacturing account for the year ended 30 April 2017.

Yasmin Manufacturing Account for the year ended 30 April 2017

\$	\$
i .	

Yasmin is hoping to decrease her cost of production in the future. She thinks that if she spends a further \$25000 on factory machinery she will be able to reduce the costs of direct labour by one third.

REQUIRED

(b)		Advise Yasmin whether or not she should buy the extra factory machinery. Justify your answer with two advantages and two disadvantages of your advice.					
		[5]					
(c)	(i)	Calculate the cost of sales for the year ended 30 April 2017.					
		[3]					
	(ii)	Calculate the gross profit for the year ended 30 April 2017.					
		[1]					

	[Total: 20]
	[1]
(d)	Suggest one way in which Yasmin could increase the percentage of gross profit to revenue.

3 Amla is a trader. Her financial year ends on 31 December.

Amla maintains one combined account for rates and insurance.

On 1 January 2016 three months' rates, \$480, was outstanding and four months' insurance, totalling \$700, was prepaid.

During the year ended 31 December 2016 the following payments were made by cheque.

\$
Rates 16 months to 31 January 2017 2560
Insurance 12 months to 30 April 2017 2400

REQUIRED

(a) Prepare the rates and insurance account in the ledger of Amla for the year ended 31 December 2016. Balance the account and bring down the balances on 1 January 2017.

Amla Rates and insurance account

Date	Details	\$ Date	Details	\$

balance on the rates and insurance account would appear.	
Give a reason for your answer.	
Section of statement of financial position	
Reason	
	[2]

(b) Identify the section of the statement of financial position at 31 December 2016 in which the

On 1 October 2016 Amla decided to sublet part of her premises at an annual rent of \$4800. On that date she received a cheque for two months' rent.

REQUIRED

(c) Prepare the rent receivable account in the ledger of Amla for the year ended 31 December 2016. Balance the account and bring down the balance on 1 January 2017.

Amla
Rent receivable account

Date	Details	\$ Date	Details	\$

[4]

(d)	Identify the section of the statement of financial position at 31 December 2016 in which the balance on the rent receivable account would appear.
	Give a reason for your answer.
	Section of statement of financial position
	Reason
	[2]
Am	a has been given the opportunity to pay her rates monthly by direct debit.
RE	QUIRED
(e)	Advise Amla whether or not she should start paying her rates in this way. Support your answer with one advantage and one disadvantage.
	[3]

[Total: 20]

4 Wasim is a trader. His financial year ends on 31 March.

The totals of his trial balance on 31 March 2017 did not agree. The difference was a shortage on the debit side of \$495. This was entered in a suspense account.

The following errors were later discovered.

- 1 The total of a page of the purchases account, \$3842, had been carried forward as \$3824.
- 2 A cheque received from DEC Limited, \$150, had been credited to the account of DDE Limited.
- 3 The balance of the petty cash book, \$100, had been omitted from the trial balance.
- 4 Repairs to a motor vehicle, \$283, had been debited to the motor vehicles account.
- 5 Purchase of fixtures, \$2000, on credit from OS Supplies had been debited to OS Supplies and credited to fixtures account.
- The total of the discount allowed column in the cash book, \$250, had been credited to the discount received account in the ledger.
- 7 The total of the analysis column for stationery in the petty cash book, \$67, had not been transferred to the stationery account in the ledger.

REQUIRED

(a) Prepare the suspense account. Start with the balance arising from the difference on the trial balance. The account should be balanced or totalled as necessary.

Wasim Suspense account

Date	Details	\$ Date	Details	\$

(b) Prepare journal entries to correct **two** of the errors which do **not** require correcting by means of the suspense account. Narratives **are** required.

Wasim Journal

Error number	Details	Debit \$	Credit \$
			[6]
Idontify the - t-	vpe of error made in Error 2 .		

(c) Identify the type of error made in Error 2.

Wasim prepared draft financial statements for the year.

REQUIRED

(d) Complete the following table by placing a tick (✓) in the correct column to indicate whether the profit for the year would be affected by each of the errors. Ignore depreciation of non-current assets.

The first one has been completed as an example.

error number	affects the profit for the year	does not affect the profit for the year
1	✓	
2		
3		
4		
5		
6		
7		

[6]

[Total: 20]

- **5** K Limited provided the following information.
 - 1 Its issued ordinary share capital consists of 180 000 ordinary shares of \$0.50 each.
 - 2 On 1 October 2016:

\$
General reserve 4000
Retained earnings 5500

3 The profit for the year ended 30 September 2017 was \$9000. \$2000 of this was transferred to the general reserve. An interim dividend of \$4500 was paid during the year. No dividends were proposed at the end of the year.

REQUIRED

(a) Prepare the statement of changes in equity for the year ended 30 September 2017.

K Limited Statement of Changes in Equity for the year ended 30 September 2017

Details	Share capital \$	General reserve \$	Retained earnings	Total \$
On 1 October 2016				
On 30 September 2017				

[5]

K Limited provided the following information at 30 September 2017.

	\$
Non-current assets at book value	102200
Bank overdraft	6 1 0 0
Inventory	5 100
Trade receivables	8 500
Trade payables	4300
Other payables	1400

REQUIRED

(b) Complete the following table.

current ratio	
workings	answer to two decimal places

liquid (acid test) ratio	
workings	answer to two decimal places

return on capital employ	ved (ROCE)
workings	answer to two decimal places

The directors of K Limited wish to improve the liquidity and profitability of the business. The finance director has suggested that the business should reduce the amount of inventory by 50%.

REQUIRED

(c)	Advise the directors whether or not they should reduce the amount of inventory. Justify your answer.
	[5]
	mited allows its credit customers a period of 60 days to pay their accounts. For the year ended September 2017 the trade receivables turnover was 69 days.
RE	QUIRED
(d)	State whether K Limited would be satisfied with the trade receivables turnover.
	[1]

K Limited is allowed 30 days in which to pay its accounts to its credit suppliers. For the year ended 30 September 2017 its trade payables turnover was 52 days.

REQUIRED

(e)	Discuss how the trade payables turnover of 52 days may affect K Limited.
	[3]
	[Total: 20]

BLANK PAGE

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.

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