



CANDIDATE
NAME

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CENTRE
NUMBER

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CANDIDATE
NUMBER

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7707/23

October/November 2021

1 hour 45 minutes

You must answer on the question paper.

No additional materials are needed.

- 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.

- 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.

- 1 Shiv is a trader. His financial year ends on 31 August. He does not maintain a full set of accounting records but was able to provide the following information for the year ended 31 August 2021.

Total revenue \$320 000
Mark-up 25%

Bank account summary for the year ended 31 August 2021

	\$		\$
Balance b/d	49 000	Expenses	34 000
Cash sales	3 700	Drawings	4 200
Receipts from trade receivables	312 400	Payments to trade payables	257 700
		Equipment	16 000
		Balance c/d	53 200
	<u>365 100</u>		<u>365 100</u>

Assets and liabilities

	1 September 2020	31 August 2021
	\$	\$
Inventory at cost	23 500	?
Trade receivables	22 000	25 900
Expenses owing	—	400
Trade payables	32 600	29 600
Equipment at net book value	—	12 800
Premises at cost	90 000	90 000

Shiv had withdrawn \$900 for a family holiday during the year. He had included this in the expenses.

On 31 August 2021 Shiv decided to create a provision for doubtful debts of 3% of trade receivables.

REQUIRED

- (a) Calculate the purchases for the year ended 31 August 2021.

.....

.....

.....

.....

.....

.....

..... [3]

- (b)** Prepare the income statement for the year ended 31 August 2021. The inventory on 31 August 2021 should be clearly shown within the statement.

Shiv
Income Statement for the year ended 31 August 2021

[illegible]

[11]

- (c) Name the accounting principle Shiv should apply when recording the \$900 he had used for a family holiday.

..... [1]

Shiv has always valued his inventory at cost price. He is considering valuing the inventory on 31 August 2021 at selling price as he believes it would result in a higher profit for the year.

REQUIRED

(d) Discuss the implications of Shiv valuing the inventory on 31 August 2021 at selling price.

[5]

[Total: 20]

PLEASE TURN OVER

- 2 Jas owns a printing business and has recently incurred various expenditures relating to her premises.

REQUIRED

- (a) Complete the table by inserting a tick (✓) to show how **each** item of expenditure should be classified. The first one has been completed as an example.

	Capital expenditure	Revenue expenditure
Building new extension to warehouse	✓	
Rates on new extension		
Carriage costs for roof tiles for new extension		
Legal costs for new extension		
Repairs to office roof		

[4]

Jas's business is expanding rapidly and she needs more warehousing space.

Jas can rent an additional warehouse. The rent for the first six months would be \$40 000.

Alternatively, Jas can purchase a warehouse for \$900 000. She can obtain a long-term loan of \$700 000.

REQUIRED

(b) Advise Jas whether she should rent or purchase a warehouse. Justify your answer.

[5]

An extract from Jas's statement of financial position at 31 December 2019 showed the following:

	Cost	Accumulated depreciation	Net book value
	\$	\$	\$
Fixtures	115 000	77 625	37 375

During the year ended 31 December 2020 the following transactions took place.

On 1 January 2020 fixtures, \$30 000, were purchased by cheque.

On 30 June 2020 fixtures were sold for \$6000, which was received by cheque. These fixtures had originally been purchased on 1 January 2018 for \$20 000.

Jas depreciates fixtures on a straight-line basis. She assumes fixtures will have a useful life of four years, at which time the residual value will be 10% of original cost. Depreciation is charged for each part of the year for which the fixtures are owned.

REQUIRED

- (c) Prepare the following accounts for the year ended 31 December 2020. Balance **each** account and bring down the balance on 1 January 2021.

Jas Fixtures account

Date 2020	Details	\$	Date	Details	\$
Jan 1	Balance b/d	115 000			
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					

Provision for depreciation of fixtures account

Date	Details	\$	Date	Details	\$
.....			2020 Jan 1	Balance b/d	77 625
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					
.....					

[8]

(d) Prepare the fixtures disposal account for the year ended 31 December 2020.

Jas
Fixtures disposal account

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

[3]

Workings:

[Total: 20]

[Turn over]

- 3 Anil is a trader. The totals of the trial balance he prepared on 31 December 2020 did not agree. The debits exceeded the credits by \$5140.

The following errors were later discovered.

- 1 The sales account had been undercast by \$7100.
- 2 Sales returns of \$520 had been posted as a credit to the purchases account. The correct entry had been made in the customer's account.
- 3 Bank charges of \$320 had been correctly entered in the cash book, but had not been entered in the bank charges account.
- 4 A cheque refund of \$600 for insurance overpaid had been entered on the wrong side of the bank account and no entry had been made in the insurance account.

REQUIRED

(a) Prepare journal entries to correct errors 1 to 4. Narratives are **not** required.

Anil
Journal

[illegible]

[12]

(b) Complete the suspense account.

Anil
Suspense account

Date	Details	\$	Date	Details	\$
.....				<i>Difference on trial balance</i>	<i>5140</i>
.....					
.....					
.....					
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.....					
.....					
.....					
.....					

[6]

(c) Name **two** types of error **not** disclosed by a trial balance.

1

2

[2]

[Total: 20]

PLEASE TURN OVER

- 4 Karishma runs her own business. The balances in her books on 1 October 2020 included the following.

	\$
Insurance account	1700 prepaid
Electricity account	1800 owing

During the financial year ended 30 September 2021 Karishma made the following payments by cheque.

Insurance payments

	\$
7 February 2021	3400
13 August 2021	3500

Electricity payments

	\$
14 October 2020	1800
24 January 2021	1800
26 May 2021	1800

A refund of \$300 for insurance overpaid was received by bank transfer on 28 February 2021. The insurance paid on 13 August 2021 covered a period of five months to 31 December 2021.

At 30 September 2021, an amount of \$2000 was owing for electricity.

REQUIRED

- (a) Prepare the following accounts for the year ended 30 September 2021. Balance the accounts and bring down the balances on 1 October 2021.

Karishma
Insurance account

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

Electricity account

Date	Details	\$	Date	Details	\$
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[10]

On 1 October 2020 Karishma decided to rent out part of her premises to Noor at an annual rent of \$1965.

During the financial year ended 30 September 2021 Noor made the following payments to Karishma by cheque.

	\$
1 October 2020	800
2 March 2021	825
8 August 2021	850

The amount received on 8 August 2021 included rent of \$510 covering the period 1 October 2021 to 31 December 2021.

REQUIRED

- (c) Prepare the rent receivable account for the year ended 30 September 2021. Balance the account and bring down the balance on 1 October 2021.

Karishma Rent receivable account

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

[4]

- (d) Identify the section of the statement of financial position at 30 September 2021 in which the balance on the rent receivable account would appear.

..... [1]

[Total: 20]

- 5 The financial year of VL Sports Club ends on 31 December. The treasurer provided the following information about receipts and payments for the year ended 31 December 2020.

Receipts	\$
Subscriptions	19 200
Competition receipts	7 300
Dinner dance ticket sales	6 500

Payments	\$
Competition prizes	4 100
Dinner dance costs	6 200
Equipment	12 000
General expenses	11 500

The treasurer also provided the following information.

	1 January 2020	31 December 2020
	\$	\$
Equipment at net book value	23 000	30 000
General expenses owing	400	500
Subscriptions in arrears	700	300
Subscriptions in advance	1 100	900

Of the subscriptions in arrears on 1 January 2020 an amount of \$80 had not been paid by 31 December 2020 and is to be written off as irrecoverable.

REQUIRED

- (a) Prepare the subscriptions account for the year ended 31 December 2020. Balance the account and bring down the balances on 1 January 2021.

VL Sports Club Subscriptions account

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

[8]

REQUIRED

- (b)** Prepare the income and expenditure account for VL Sports Club for the year ended 31 December 2020.

VL Sports Club
Income and Expenditure Account for the year ended 31 December 2020

[illegible]

[9]

The treasurer of VL Sports Club wants to encourage more members to pay their subscriptions in advance by offering a 10% reduction in annual subscription fees.

- (c) Advise the treasurer whether or not VL Sports Club should offer this reduction in annual subscription fees to members who pay in advance. Justify your answer with **one** advantage and **one** disadvantage.

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..... [3]

[Total: 20]

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