



CANDIDATE  
NAME

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CENTRE  
NUMBER

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CANDIDATE  
NUMBER

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## 7707/23

October/November 2023

**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 **24** pages. Any blank pages are indicated.

- 1 Shakir started trading in the year ended 31 August 2023 but did not keep proper books of account. His assets and liabilities at 1 September 2023 are as follows.

|                 |       |
|-----------------|-------|
|                 | \$    |
| Motor vehicle   | 9 500 |
| Inventory       | 1 240 |
| Cash at bank    | 1 682 |
| Trade payables: |       |
| Latif           | 200   |
| Harrison        | 237   |

### REQUIRED

- (a) (i) Prepare the journal for Shakir's opening entries at 1 September 2023. A narrative is **not** required.

#### Shakir Journal

| Date  | Details | Debit<br>\$ | Credit<br>\$ |
|-------|---------|-------------|--------------|
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |

[3]

- (ii) State **two** advantages of maintaining double entry records.

- 1 .....
- .....
- 2 .....
- .....

[2]

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During September 2023, the following transactions took place.

- Sept 2      Paid rent, \$420, by credit transfer
- 4            Withdrew cash, \$350, from the bank for business use
- 7            Paid Latif, \$194, by telephone transfer, in full settlement of the amount owing at 1 September 2023
- 10           Sold goods on credit, \$195, to Sydney
- 12           Paid \$161, cash, for wages
- 17           Cash sales, \$290, were paid directly into the bank account
- 28           Received a cheque, \$100, from Sydney
- 29           Paid \$95 to Harrison, by electronic transfer, having deducted \$5 cash discount from the amount due

**REQUIRED**

- (b)** Prepare Shakir's cash book on the page opposite.

Balance the cash book and bring down the balances at 1 October 2023.

[11]

[illegible]

Shakir received a bank statement dated 30 September 2023. The bank statement showed that Shakir had \$763 in the bank account. On comparing the bank statement to his cash book, Shakir noted the following.

Bank charges, \$35, were charged by the bank in September.

Cash Sales, \$175, had been paid for by credit transfer but not recorded in the cash book.

The cheque received from Sydney had not yet been cleared by the bank.

The cash sales, \$290, had been omitted from the bank statement in error.

### REQUIRED

(c) Calculate the corrected bank balance.

.....

.....

.....

.....

.....

..... [4]

[Total: 20]

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- 2 Hilary owns a manufacturing business. She has provided the following information.

|                                                | \$      |
|------------------------------------------------|---------|
| Inventory at 1 August 2022                     |         |
| Raw materials                                  | 9 100   |
| Work in progress                               | 21 357  |
| Finished goods                                 | 24 235  |
| For the year ended 31 July 2023                |         |
| Revenue                                        | 457 250 |
| Purchases of raw materials                     | 110 000 |
| Purchases returns of raw materials             | 2 200   |
| Purchases of finished goods                    | 23 500  |
| Purchases returns of finished goods            | 4 700   |
| Wages of factory operatives                    | 91 665  |
| Wages of factory supervisor                    | 29 000  |
| Wages of office supervisor                     | 28 000  |
| Heat, light and power                          | 11 600  |
| Rates and insurance                            | 8 250   |
| Factory repairs and renewals                   | 5 125   |
| Factory equipment – at cost                    | 124 000 |
| Factory equipment – provision for depreciation | 35 500  |

Additional information

- 1 Inventory at 31 July 2023

|                  |        |
|------------------|--------|
| Raw material     | 9 980  |
| Work in progress | 22 446 |
| Finished goods   | 25 110 |

- 2 Heat, light and power is to be apportioned  $\frac{4}{5}$  to the factory and  $\frac{1}{5}$  to the office.
- 3 Rates and insurance is to be apportioned  $\frac{3}{5}$  to the factory and  $\frac{2}{5}$  to the office. Insurance of \$4440 has been paid for the year to 31 December 2023.
- 4 At 31 July 2023, a factory repair, \$644, was unpaid and no adjustment had been made.
- 5 Factory equipment is depreciated at 25% per annum using the reducing balance method.

## REQUIRED

- (a)** Prepare Hilary's manufacturing account for the year ended 31 July 2023.

Hilary  
Manufacturing Account for the year ended 31 July 2023

[illegible]

[11]

Hilary is considering stopping buying any finished goods for resale and instead increasing the production at her factory.

(c) Advise Hilary whether she should sell only production from her own factory and increase the amount produced. Justify your answer by providing arguments for and against selling only production from her own factory and increasing the amount produced.

[Total: 20]

- 3 Logan is a trader who sells goods on credit. His year end is 30 September. Logan has provided the following information.

|                                        |       |
|----------------------------------------|-------|
|                                        | \$    |
| At 1 October 2022                      |       |
| Inventory                              | 8 400 |
| Trade receivables                      | 7 500 |
| Other receivables (rent prepaid)       | 820   |
| For the year ended 30 September 2023   |       |
| Rent charge for the year               | 4 940 |
| Bank payments for rent 1 December 2022 | 2 460 |
| 1 June 2023                            | 2 490 |
| At 30 September 2023                   |       |
| Inventory                              | 8 675 |
| Trade receivables                      | 8 700 |
| Other receivables                      | ?     |
| Irrecoverable debts to be written off  | 325   |

The provision for doubtful debts is to be maintained at 4% of trade receivables.

## REQUIRED

- (a)** Prepare the inventory account for the year ended 30 September 2023.

Logan  
Inventory account

| Date  | Details | \$    | Date  | Details | \$    |
|-------|---------|-------|-------|---------|-------|
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |

[3]

- (b) Prepare the provision for doubtful debts account for the year ended 30 September 2023. Balance the account at 30 September 2023 and bring down the balance at 1 October 2023.

Logan  
Provision for doubtful debts account

| Date  | Details | \$    | Date  | Details | \$    |
|-------|---------|-------|-------|---------|-------|
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |
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| ..... | .....   | ..... | ..... | .....   | ..... |

[4]

- (c) Prepare the rent payable account for the year ended 30 September 2023. Balance the account at 30 September 2023 and bring down the balance at 1 October 2023.

Logan  
Rent payable account

| Date  | Details | \$    | Date  | Details | \$    |
|-------|---------|-------|-------|---------|-------|
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |

[6]

(d) State how:

(i) the prudence principle is applied to the valuation of Logan's inventory

..... [1]

(ii) the matching principle is applied when the rent payable account is prepared

..... [1]

Logan is considering buying business premises instead of renting. He would request a long-term bank loan to finance the purchase of the premises.

## REQUIRED

(e) Advise Logan whether he should purchase business premises using a long-term bank loan. Justify your answer with advantages and disadvantages of purchasing business premises using a long-term bank loan.

[5]

[Total: 20]

- 4 Asia is a trader. She prepared her trial balance at 31 August 2023. The credit side totalled \$273 more than the debit side. Asia placed the difference in a suspense account.

Asia later discovered the following errors.

- 1 A credit purchase, \$112, from Jacques, had been entered twice in the purchases journal.
- 2 The wages account had been overcast by \$300.
- 3 Cash received, \$75, from Savannah, a trade receivable, had only been entered in the cash book.
- 4 The total of the sales returns journal for August 2023 of \$198, had been credited to both the sales returns account and the purchases returns account.
- 5 A payment to Sophie, \$93, had been recorded as \$39 in Sophie's account.

### REQUIRED

- (a) Prepare the journal entries to correct errors 1–5. Narratives are **not** required.

Asia  
Journal[illegible]

[11]

- (b) Prepare the suspense account, including the original difference on the trial balance.

Asia  
Suspense account

| Date  | Details | \$    | Date  | Details | \$    |
|-------|---------|-------|-------|---------|-------|
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |
| ..... | .....   | ..... | ..... | .....   | ..... |

[5]

**REQUIRED**

- (c) Complete the following table by placing a tick (✓) to show the effect of each error. The first one has been completed as an example.

| Error number | Error                                                                                                                                                 | Gross profit |   | Profit for the year |   | No effect |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|---|---------------------|---|-----------|
|              |                                                                                                                                                       | +            | – | +                   | – |           |
| 1            | A credit purchase, \$112, from Jacques, had been debited twice to the purchases account.                                                              |              | ✓ |                     | ✓ |           |
| 2            | The wages account had been overcast by \$300.                                                                                                         |              |   |                     |   |           |
| 3            | Cash received, \$75 from Savannah, a trade receivable, had only been entered in the cash book.                                                        |              |   |                     |   |           |
| 4            | The total of the sales returns journal for August 2023, \$198, had been credited to both the sales returns account and the purchases returns account. |              |   |                     |   |           |
| 5            | A payment to Sophie, \$93, had been recorded as \$39 in Sophie's account.                                                                             |              |   |                     |   |           |

[4]

[Total: 20]

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- 5 B Limited provides cleaning services to client offices and factories. The clients provide their own cleaning materials. The trial balance of B Limited at 30 June 2023 was as follows.

B Limited  
Trial Balance at 30 June 2023

|                                              | Debit<br>\$    | Credit<br>\$   |
|----------------------------------------------|----------------|----------------|
| Revenue                                      |                | 135 040        |
| Wages and salaries                           | 72 000         |                |
| Motor expenses                               | 9 820          |                |
| Insurance                                    | 11 040         |                |
| General expenses                             | 12 780         |                |
| Motor vehicles at cost                       | 42 000         |                |
| Provision for depreciation of motor vehicles |                | 16 500         |
| Equipment at cost                            | 5 000          |                |
| Provision for depreciation of equipment      |                | 2 000          |
| Trade receivables                            | 1 640          |                |
| Bank                                         | 19 950         |                |
| Ordinary share capital                       |                | 10 000         |
| General reserve                              |                | 2 000          |
| Retained earnings                            |                | 13 490         |
| Dividend paid on ordinary shares             | 4 800          |                |
|                                              | <u>179 030</u> | <u>179 030</u> |

Additional information

- 1 Revenue of \$9240 was received in advance.
- 2 The insurance charge for the 12 months to 31 December 2022 was \$7200 and for the 12 months to 31 December 2023 it is \$7440. On 1 January 2023 insurance was paid in full for the 12 months to 31 December 2023.
- 3 Accrued general expenses at 30 June 2023 were \$186.
- 4 Depreciation is to be charged on motor vehicles at 25% per annum using the reducing balance method.
- 5 Depreciation on equipment is to be charged at 20% per annum using the straight line method.
- 6 No dividends were outstanding at 30 June 2023.
- 7 \$1000 is to be transferred to the general reserve at 30 June 2023.



- (b) Prepare the statement of changes in equity for B Limited for the year ended 30 June 2023.

B Limited  
Statement of Changes in Equity for the year ended 30 June 2023

| Details         | Ordinary<br>Share<br>capital<br>\$ | General<br>reserve<br>\$ | Retained<br>earnings<br>\$ | Total<br>\$ |
|-----------------|------------------------------------|--------------------------|----------------------------|-------------|
| On 1 July 2022  | .....                              | .....                    | .....                      | .....       |
| .....           | .....                              | .....                    | .....                      | .....       |
| .....           | .....                              | .....                    | .....                      | .....       |
| .....           | .....                              | .....                    | .....                      | .....       |
| On 30 June 2023 | .....                              | .....                    | .....                      | .....       |
|                 |                                    |                          |                            |             |

[5]

- (c) Explain why:

- (i) B Limited has no inventory

.....  
 ..... [2]

- (ii) B Limited does **not** require a provision for doubtful debts

.....  
 ..... [2]

The directors of B Limited are also the shareholders. They plan to expand the company. They are considering whether to issue debentures or ordinary shares.

## REQUIRED

- (d)** Advise the directors whether they should issue debentures or ordinary shares. Justify your answer.

..... [5]

[Total: 20]

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