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Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME

CENTRE NUMBER | | | | | |

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9722071928

ACCOUNTING **7707/22**

Paper 2 Structured Written Paper **October/November 2020**

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. Blank pages are indicated.

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1 Dev owns a business selling furniture.

The following transactions took place during August 2020.

Transaction	Date	Details	$
1	August 9	Sold goods on credit to Petra	675
2	14	Petra returned damaged goods to Dev	120
3	23	Banked cash sales	412
4	29	Petra settled her outstanding balance at 1 August by credit transfer after taking a cash discount of 5%	

On 1 August 2020, the balance on credit customer Petra's sales ledger account was $940 debit.

REQUIRED

(a) Complete the table to name **each** business document **and** book of prime entry for the following transactions in Dev's accounting records.

Transaction	Business document	Book of prime entry
2		
3		
4		

[6]

(b) Prepare the account of Petra for August 2020 as it would appear in Dev's sales ledger.

Balance the account and bring down the balance on 1 September 2020.

Dev
Petra account

Date 2020	Details	$	Date 2020	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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[6]

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(c) Identify the section of Dev's statement of financial position at 31 August 2020 in which the balance on Petra's account would appear.

..... [1]

Dev allows his credit customers a cash discount of 5% for prompt payment. He is considering reducing this to 2%.

REQUIRED

(d) State **one** advantage and **one** disadvantage to Dev of this proposal.

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..... [2]

Dev is considering turning his business into a limited company.

REQUIRED

(e) Advise Dev whether or not he should form a limited company. Justify your answer with **two** advantages and **two** disadvantages of forming a limited company.

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..... [5]

[Total: 20]

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2 BH Sports Club provides sporting facilities and a café for the use of its members and guests.

The club's financial year ends on 31 July. The following information is available.

Assets and liabilities

	At 1 August 2019	At 31 July 2020
	$	$
Bank	840	1270
Café inventory	520	770
Sports hall at book value	17 000	16 560
Insurance prepaid – sports hall and sports equipment	400	440
Sports equipment at book value	3900	?
Subscriptions in arrears	360	720
Subscriptions received in advance	–	120
Wages accrued – café staff	60	80

Receipts and Payments Account for the year ended 31 July 2020

Details		$	Details		$
Balance	b/d	840	Purchases of café supplies		8 190
Subscriptions received		9 960	Wages – café staff		2 750
Café takings		13 520	Wages – sports staff		5 220
			Insurance – sports hall and sports equipment		1 430
			Sports equipment		2 100
			Sports hall expenses		3 360
			Balance	c/d	1 270
		24 320			24 320

Additional information

Sports equipment is depreciated at 10% per annum using the reducing balance method.

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REQUIRED

(a) Prepare the subscriptions account for the year ended 31 July 2020. Balance the account and bring down the balances on 1 August 2020.

BH Sports Club
Subscriptions account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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[6]

(b) Calculate the café profit for the year ended 31 July 2020.

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(c) Prepare the income and expenditure account for the year ended 31 July 2020.

BH Sports Club
Income and Expenditure Account for the year ended 31 July 2020

	$	$
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[7]

(d) **(i)** State what the balance on BH Sports Club's accumulated fund represents.

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..... [1]

(ii) State the effect that the surplus or deficit on BH Sports Club's income and expenditure account for the year ended 31 July 2020 will have on the accumulated fund.

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..... [2]

[Total: 20]

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3 JP Limited's financial year ended on 30 September 2020.

The following balances were available at that date.

	$
7% debentures (2026)	20 000
Administrative expenses	44 000
Carriage inwards	1 500
Distribution costs	38 000
Debenture interest paid	700
Inventory at 1 October 2019	66 000
Non-current assets at book value at 1 October 2019	610 000
Provision for doubtful debts	1 000
Purchases	263 000
Revenue	529 500
Trade receivables	80 500

Additional information

1 Inventory at 30 September 2020 was valued at $59 000.

2 Interest on the 7% debentures (2026) had been paid up to 31 March 2020.

3 Administrative expenses included rates of $1200 for the six months ending 31 March 2021.

4 Distribution costs of $800 were outstanding at 30 September 2020.

5 Non-current assets should be depreciated by 10% per annum using the reducing balance method.

6 Irrecoverable debts of $500 are to be written off.

7 The directors wish to maintain the provision for doubtful debts at 2% of trade receivables.

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REQUIRED

(a) Calculate the cost of sales for the year ended 30 September 2020.

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..... [2]

(b) Calculate the increase or decrease in the provision for doubtful debts at 30 September 2020.

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..... [2]

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(c) Prepare the income statement for the year ended 30 September 2020.

JP Limited
Income Statement for the year ended 30 September 2020

	$	$
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[12]

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(d) Complete the table by placing a tick (✓) in the correct column to indicate the effect on the equity of JP Limited of **each** of the following.

The first one has been completed as an example.

	Increase	Decrease	No effect
Issue additional debentures			✓
Issue additional ordinary shares			
Payment of ordinary share dividend			
Proposal of ordinary share dividend			
Transfer from retained earnings to general reserve			

[4]

[Total: 20]

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4 Carlos owns a business selling computer equipment.

He provided the following information for the year ended 31 July 2020.

	$
Sales	240 000
Cost of sales	169 000
Operating expenses	55 000
Drawings	18 000
Capital employed	62 000

REQUIRED

(a) Calculate the profit for the year ended 31 July 2020.

Workings	Profit for the year ended	
	31 July 2020	31 July 2019
		$11 550

[1]

(b) Calculate the following ratios correct to **two** decimal places.

Profit margin

Workings	Year ended	
	31 July 2020	31 July 2019
		8.56%

Gross margin

Workings	Year ended	
	31 July 2020	31 July 2019
		34.26%

Return on capital employed (ROCE)

Workings	Year ended	
	31 July 2020	31 July 2019
		32.08%

[6]

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(c) Comment on the performance of Carlos's business over the two years (2019 and 2020).

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Carlos is concerned that the business bank balance has shown a large decrease. He is considering either investing more cash from his private funds or obtaining a two-year bank loan.

REQUIRED

(d) Advise Carlos which option he should select. Justify your answer by providing **one** advantage and **one** disadvantage of **each** option.

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..... [5]

(e) State the name of **one** party, other than himself and his employees, who would be interested in Carlos's financial statements. State **one** reason for their interest.

Interested party	The interest they would have

[2]

[Total: 20]

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5 Razia's financial year ends on 30 September.

The totals of the trial balance on 30 September 2020 did not agree. The totals were debit $10 450 and credit $10 250. A suspense account was opened.

The following errors were later discovered.

1 The total of the sales returns journal had been overcast by $300.

2 Cash sales, $820, had not been recorded in the books of account.

3 A purchase invoice, $190, had been credited to the account of P Hill instead of D Hill.

4 A cheque payment, $240, for motor repairs had been correctly entered in the cash book but had been posted to the debit of motor repairs account as $420.

5 Rent received, $310, had been debited to the rent payable account.

6 Staff wages, $250, had been posted to Razia's drawings account.

7 A cheque paid, $900, to Kamil, a credit supplier, had been entered correctly in the cash book but had not been posted to Kamil's account.

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.

Razia
Suspense account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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[6]

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(b) Identify the types of error made in **Error 2** and **Error 4**.

Error	Type of error
2	
4	

[2]

(c) Complete the table by placing a tick (✓) in the correct column to indicate the effect on the profit for the year of **correcting each error**.

Error number	Increase profit	Decrease profit	No effect on profit
1			
2			
3			
4			
5			
6			
7			

[7]

Razia is considering whether or not to sell on cash terms only.

REQUIRED

(d) Advise Razia whether or not she should sell on cash terms only. Justify your answer with **two** advantages and **two** disadvantages of selling on cash terms only.

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[Total: 20]

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