Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

3080993948

ACCOUNTING **7707/21**

Paper 2 Structured Written Paper **May/June 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 **24** pages. Blank pages are indicated.

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1 The ZED Sports Club has a shop which sells sportswear. The following details relate to the shop for the year ended 29 February 2020.

	$
Opening inventory	900
Closing inventory	970
Purchases	7600
Mark-up	40%

REQUIRED

(a) Calculate the shop sales for year ended 29 February 2020.

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..... [4]

All the shop sales and purchases are for cash. All the club's receipts are paid into the bank and all payments are made by cheque. On 1 March 2019 the club's bank balance was overdrawn by $845.

In addition to the shop sales and purchases, the following receipts and payments were made during the year ended 29 February 2020.

	$
Subscriptions received	11 400
Competition fees received	915
Payments for competition prizes	390
Purchases of fittings	4 000
Rent and insurance	4 575
Wages of shop assistant	2 000

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REQUIRED

(b) Prepare the receipts and payments account for the ZED Sports Club for the year ended 29 February 2020. Balance the account and bring down the balance on 1 March 2020.

ZED Sports Club
Receipts and Payments Account for the year ended 29 February 2020

Date	Details	$	Date	Details	$
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[8]

The club's bank statement at 29 February 2020 showed a positive balance of $7162.

On comparing the bank statement with the cash book, the treasurer found:

1 Competition fees, $260, had not been recorded by the bank.

2 A cheque paid for $25 for competition prizes had been charged twice by the bank.

3 The payment for fittings, $4000, was made on 27 February 2020, and had not been recorded on the bank statement.

REQUIRED

(c) Prepare the bank reconciliation statement for ZED Sports Club at 29 February 2020.

ZED Sports Club
Bank Reconciliation Statement at 29 February 2020

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..... [5]

(d) State **three** differences between a receipts and payments account and an income and expenditure account.

	Receipts and payments account	Income and expenditure account
1		
2		
3		

[3]

[Total: 20]

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PLEASE TURN OVER

2 Ame provided the following balances from his books at 31 March 2020.

	$
Capital	10 369
Drawings	4 000
Equipment at cost	15 500
Provision for depreciation of equipment	3 100
Inventory at 1 April 2019	1 765
Trade receivables	1 290
Bank overdraft	475
Trade payables	1 600
Sales	31 250
Purchases	18 330
Purchases returns	910
Carriage inwards	640
Discount received	815
Commission receivable	1 500
Rent and insurance	5 700
Office expenses	2 425

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REQUIRED

(a) Prepare Ame's trial balance at 31 March 2020.

Show the difference in the trial balance totals as a suspense account balance.

Ame
Trial Balance at 31 March 2020

	Debit $	Credit $
Capital	.....	.....
Drawings	.....	.....
Equipment at cost	.....	.....
Provision for depreciation of equipment	.....	.....
Inventory at 1 April 2019	.....	.....
Trade receivables	.....	.....
Bank overdraft	.....	.....
Trade payables	.....	.....
Sales	.....	.....
Purchases	.....	.....
Purchases returns	.....	.....
Carriage inwards	.....	.....
Discount received	.....	.....
Commission receivable	.....	.....
Rent and insurance	.....	.....
Office expenses	.....	.....
Suspense	.....	.....
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[6]

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[Turn over

Ame later discovered several errors had been made in the accounting records.

REQUIRED

(b) Complete the table to show the entries required to **correct each** error.
The first one has been completed as an example.

Error	Entries required to correct the error			
	Debit		Credit	
	Account	$	Account	$
No entry had been made for cash sales, $60.	*Cash*	*60*	*Sales*	*60*
Office expenses, $240, had been credited to the wages account. No debit entry had been made.	…….. ……	……. …….	…… ……..	…….. ……
The purchases journal total for March 2020 was $2165. This amount was incorrectly recorded in the purchases account as $2651.	…… ……	……. …….	…….. ……..	……. …….
An insurance payment, $375, had been correctly recorded in the cash book but no other entry had been made.	…… ……	……. …….	…….. ……..	……. …….
The purchase of equipment, $800, was correctly recorded in the cash book but debited to the office expenses account.	…… ……	……. …….	…….. ……..	……. …….

[9]

(c) Prepare the suspense account. Start with the difference on the trial balance prepared in Part **(a)**. Balance or total the account as necessary.

Ame
Suspense account

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[5]

[Total 20]

3 Chippo owns a manufacturing business which produces product S. She provided the following information for the year ended 30 April 2020.

		$
Revenue		254 000
Purchases of raw materials		46 500
Purchases of finished goods		59 000
Wages of factory operatives		38 250
Royalties paid to the inventor of product S		7 690
Factory general expenses		4 500
Factory fuel and power		5 325
Rent and insurance		28 000
Factory machinery at cost		60 000
Provision for depreciation of factory machinery		21 600
Inventory at 1 May 2019:	raw materials	3 120
	work in progress	5 400
	finished goods	8 220

Additional information

1 Factory machinery is depreciated at 20% per annum using the reducing balance method.

2 Rent and insurance is to be split equally between the factory and the office.

3 The annual salary of the factory supervisor is $28 500.

4 Closing inventory at 30 April 2020 was:

	$
Raw materials	3000
Work in progress	5590
Finished goods	7885

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REQUIRED

(a) Prepare Chippo's manufacturing account for the year ended 30 April 2020.

Chippo
Manufacturing Account for the year ended 30 April 2020

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[10]

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[Turn over

(b) Prepare Chippo's income statement (trading account section) for the year ended 30 April 2020.

Chippo
Income Statement (Trading Account section) for the year ended 30 April 2020

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[4]

(c) Complete the table by placing a tick (✓) in the correct column, to indicate whether **each** of the following actions would increase or decrease Chippo's gross margin.

Action	Increase gross margin	Decrease gross margin
Increase wages of factory supervisor		
Reduce trade discount allowed to customers		

[2]

Chippo is considering converting her sole trader business into a limited company because she thinks that this will make it easier for her to obtain finance for future expansion.

REQUIRED

(d) Advise Chippo whether or not she should convert her business to a limited company, in order to obtain finance. Justify your answer by providing advantages and disadvantages.

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..... [4]

[Total: 20]

4 Rani is a trader. Her financial year ends on 31 March.

She provided the following information about her three types of inventory at 31 March 2020.

Inventory item	Number of units	Cost per unit	Selling price per unit	Selling expenses per unit
		$	$	$
A	110	17	20	2
B	85	18	19	1
C	90	15	16	2

REQUIRED

(a) Calculate the total value of Rani's inventory at 31 March 2020.

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..... [4]

Rani later discovered that she had an amount of inventory of item D at 31 March 2020. This inventory originally cost $1660. She considered this inventory to be obsolete.

REQUIRED

(b) Explain to Rani how the value of the inventory of item D affected the profit for the year ended 31 March 2020.

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..... [2]

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(c) Advise Rani whether or not she should stop purchasing item D to avoid having obsolete inventory in the future. Justify your answer by providing advantages and disadvantages.

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..... [5]

Rani earns advertising income by placing advertising boards in her shop window. The following details relate to her advertising income.

On 1 April 2019 Rani had received $420 in advance, and $300 was owed to her.

During the year ended 31 March 2020, Rani received cheque payments totalling $6000. She decided to write off the amount of $300 due to her.

On 31 March 2020 Rani had received $500 in advance, and $400 was owed to her.

REQUIRED

(d) Prepare the advertising income account in the ledger of Rani for the year ended 31 March 2020. Balance the account and bring down the balances on 1 April 2020.

Rani
Advertising income account

Date	Details	$	Date	Details	$
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[7]

(e) Explain to Rani the effect on gross profit of recording sales of inventory as advertising income.

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..... [2]

[Total: 20]

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5 MPT Limited prepares its financial statements to 30 April each year.

The company's retained earnings at 1 May 2019 were $14 000. The general reserve was $35 000.

During the year ended 30 April 2020 the following took place.

1 The company made a profit for the year of $28 000 after charging debenture interest.

2 A transfer of $5000 was made to the general reserve.

3 A dividend of $4500 was paid. No other dividends were payable for the year.

MPT Limited provided the following balances at 30 April 2020.

	$
Fixtures and equipment at book value	152 000
Motor vehicles at book value	60 400
Inventory	30 330
Bank overdraft	6 200
Trade payables	24 900
Trade receivables	31 500
Provision for doubtful debts	630
5% Debentures (repayable 2025)	20 000
Ordinary share capital	150 000

REQUIRED

(a) Calculate the retained earnings of MPT Limited at 30 April 2020.

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..... [3]

(b) Prepare the statement of financial position for MPT Limited at 30 April 2020.

MPT Limited
Statement of Financial Position at 30 April 2020

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[7]

The directors of MPT Limited are considering using the general reserve to repay the bank overdraft.

REQUIRED

(c) State why it is not appropriate to use the general reserve to repay the bank overdraft.

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..... [1]

(d) Calculate the return on capital employed (ROCE) for the year ended 30 April 2020. The calculation should be correct to **two** decimal places and should be based on closing capital employed.

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..... [4]

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The directors are considering increasing dividend in 2021 as a way of increasing return on capital employed (ROCE).

REQUIRED

(e) Advise the directors how the return on capital employed (ROCE) can be increased. Justify your answer by commenting on **both** profit and capital employed.

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..... [5]

[Total: 20]

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