



Cambridge O Level

CANDIDATE
NAME

CENTRE
NUMBER

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CANDIDATE
NUMBER

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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.



- 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]

- (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.

.....

 [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.

.....

 [5]

[Total: 20]

- 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
	<u>24 320</u>		<u>24 320</u>

Additional information

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

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

[illegible]

[6]

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

[4]

[4]

(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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.....		
.....		
.....		
.....		
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.....		
.....		

[7]

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

.....

 [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.

.....
 [2]

[Total: 20]

PLEASE TURN OVER

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.

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]

- (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]

- 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]

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

..... [6]

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]

PLEASE TURN OVER

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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.....					
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[6]

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