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*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 |

**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]

**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 | ..... | ..... |
| | ..... | ..... |
| | _____ | _____ |
| | _____ | _____ |

[6]

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

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
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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 |

**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]

**(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]

**(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]

**PLEASE TURN OVER**

**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]

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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