



Cambridge O Level

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ACCOUNTING

7707/22

Paper 2 Structured Written Paper

October/November 2024

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. Any blank pages are indicated.



1 Kalima is a trader.

At the start of September 2024, Kalima had a cash balance of \$240, a bank balance of \$890 credit and a credit customer, Elizah, owed Kalima \$520.

The following transactions took place during the month:

September	2	Paid stationery in cash, \$82
	3	Cash sales, \$478
		A cheque for \$30 received at the end of August from Badr, a credit customer, was dishonoured
	5	Paid wages by credit transfer, \$1390
	7	Bought goods from Gulnar on credit, \$200
	10	Kalima withdrew \$150 from the business bank account for personal use
	14	Received a cheque from Elizah in full settlement of the amount owed less 2.5% cash discount
	16	Paid \$120 cash into the business bank account
	21	Paid Gulnar the full amount due by credit transfer less a cash discount of 2%
	23	Sold goods to Elizah on credit, \$1450
	29	A credit note totalling \$325 was issued to Elizah for goods returned

REQUIRED:

(a) Prepare Kalima's cash book on the page opposite, for September 2024.

Balance the account and bring down the balances on 1 October 2024.



[illegible]



- (b) What does the credit balance in the bank on 1 September 2024 represent?

.....

.....

[1]

- (c) Prepare the account of Elizah as it would appear in Kalima's books. Balance the account and bring down any balances on 1 October 2024.

Kalima

Elizah Account					
Date 2024	Details	Amount \$	Date 2024	Details	Amount \$
.....					
.....					
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[5]

- (d) Name the section heading in Kalima's statement of financial position where the balance on Elizah's account would appear.

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[1]

[Total: 20]





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2 Ben runs a small business but does not maintain a full set of accounting records. He has provided the following information:

	31 March 2024	1 April 2023
	\$	\$
Premises at cost	140 000	140 000
Machinery at cost	106 000	92 000
Accumulated depreciation on machinery	36 000	10 000
Inventory	42 000	24 600
Trade receivables	43 400	39 600
Trade payables	19 700	24 750
Bank	13 000 debit	3 200 credit
Other receivables	1 200	1 650

REQUIRED:

(a) Calculate Ben's opening and closing capital.

	Workings	Answer \$
Capital at 1 April 2023		
Capital at 31 March 2024		





During the year ended 31 March 2024, Ben withdrew goods for his own use, \$620. He also deposited an additional \$10 000 cash into the business bank account from his personal funds.

REQUIRED:

- (b) Calculate the profit for the year using the table below. Include your opening and closing capitals from **2(a)** and indicate whether the amounts of Ben's transactions shown should be added or deducted from the opening capital.

	Added to opening capital \$	Deducted from opening capital \$	Total \$
Capital at 1 April 2023			
Capital introduced			
Profit for the year			
Drawings			
Total adjustments			
Capital at 31 March 2024			

[4]

In addition, Ben was able to provide details of transactions received and paid.

	\$
Receipts from credit customers	452 000
Cash sales	21 000
Payments to credit suppliers	224 700

REQUIRED:

- (c) (i) Calculate Ben's credit purchases for the year ended 31 March 2024.

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[3]





(ii) Calculate Ben's **total** sales for the year ended 31 March 2024.

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[3]

As his business is growing, Ben is considering maintaining a full set of accounting records. To allow him to do this, he believes he would need to employ an experienced book-keeper at a salary of \$18 000.

REQUIRED:

(d) Advise Ben whether he should employ a book-keeper. Justify your answer with **two** advantages and **two** disadvantages of employing a book-keeper.

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[5]



Ben has reviewed the age and level of his trade receivables and believes he should provide for possible doubtful debts.

REQUIRED:

- (e) (i) Which accounting principle would he be applying by creating a provision for doubtful debts?

.....

.....

[1]

- (ii) Complete the table by placing a tick (✓) to show what effect creating a provision for doubtful debts would have on Ben's profit for the year, trade receivables and cash at bank.

	Profit for the year	Trade receivables	Cash at bank
Increase			
Decrease			
No effect			

[2]

[Total: 20]





- 3 Sports T is a club providing sporting facilities to its members. The club hires all sporting equipment.

The club also runs a small café selling food and refreshments which members and guests can use. All sales from the café are on a cash basis.

The club treasurer has provided the following information for the year ending 31 December 2023:

Receipts throughout the year:

	\$
Café sales	27 000
Members' subscriptions	162 000
Bank interest	720

Payments made throughout the year:

	\$
Salaries & Wages:	
Sports coaches	58 220
Administration salaries	31 720
Café assistant's wages	14 352
Rent of premises	16 250
Hiring costs – sports equipment	31 900
Rates and insurance	3 200
Purchases of food and drink for resale	8 220
Accountancy fees	2 400

Balances at 1 January 2023:

	\$	
Inventory of food & drink	1 290	
Subscriptions owing from previous year	1 520	
Receipts and payments account	3 300	debit

Balances at 31 December 2023:

	\$
Inventory of food & drink	1 340
Subscriptions received in advance	2 800
Subscriptions outstanding	1 280

Additional information:

1. The contract for hiring the sports equipment is \$34 800 per annum and is paid monthly.
2. Rent of premises is paid for the period from 1 January 2023 up to 31 January 2024.





REQUIRED

(a) Prepare the café income statement for the year ended 31 December 2023.

Sports T club
Café Income Statement for the year ended 31 December 2023

	\$	\$
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[5]





- (b) Prepare the subscriptions account in the books of Sports T club for the year ending 31 December 2023.

Balance the account and bring down the balances on 1 January 2024.

Sports T club
Subscriptions account for the year ended 31 December 2023

Date	Details	\$	Date	Details	\$
.....					
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[5]

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- (c) Prepare the income and expenditure account of Sports T club for the year ended 31 December 2023.

Sports T club
Income and expenditure account for the year ended 31 December 2023

	\$	\$
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[10]

[Total: 20]





4 Y Limited is a public limited company.

REQUIRED:

(a) State **one** difference between a public limited company and a private limited company.

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.....

[1]

(b) Explain the difference between issued share capital and called up share capital.

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[2]

(c) State **two** benefits of operating as a limited company.

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2.

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[2]

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Y Limited's financial year ends on 31 December each year. On 1 January 2023, the company had:

800 000 ordinary shares of \$1 each, issued and fully paid.

300 000 5% redeemable preference shares of \$0.50 each.

Retained earnings of \$62 000.

General reserves of \$78 000.

Y Limited provided the following information:

Proposed final ordinary share dividend of \$43 000 for the year ended 31 December 2022 was paid on 31 March 2023.

Interim ordinary share dividend of \$40 000 was paid on 30 September 2023.

Profit for the year ended 31 December 2023 was \$126 000 (before the payment of preference share dividend).

On 31 December 2023:

The company decided to transfer \$32 000 to its general reserve.

Agreed a final ordinary share dividend for the year of 6%.

REQUIRED:

(d) Prepare the statement of changes in equity for Y limited for the year ended 31 December 2023

Y Limited
Statement of changes in equity for the year ended 31 December 2023

	Ordinary Share Capital \$	General Reserve \$	Retained Earnings \$	Total \$
On 1 January 2023				
.....				
.....				
.....				
.....				
On 31 December 2023				

[7]





- (e) Using the information from your statement of changes in equity in **4(d)**, prepare an extract from the statement of financial position at 31 December 2023 showing **the equity and reserves section only**.

Y Limited
Extract from Statement of financial position at 31 December 2023

	\$
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[2]

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11

(f) Advise the board of directors whether they should issue additional ordinary shares or debentures to raise the additional finance required. Justify your answer.

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(g) Name the section heading in a company's statement of financial position where debentures would be included.

.....

.....

[Total: 20]



- 5 Azim is a wholesaler. He sells goods on both cash and credit basis. Terms of business for all credit sales is 30 days.

Azim has provided the following information for the year ended 31 December 2023.

	\$
Cash sales	18 170
Credit sales	392 600
Credit purchases	278 429
Inventory at 31 December 2022	24 074
Inventory at 31 December 2023	25 600
Money owed by credit customers at 31 December 2023	42 375
Money owed to credit suppliers at 31 December 2023	21 603

REQUIRED:

- (a) Using the information provided, calculate the following ratios for the year ended 31 December 2023. Show your workings.

Ratio	Workings	Answer
Inventory turnover (correct to 2 decimal places)		
Trade receivables turnover (round up your answer to the nearest whole day)		
Trade payables turnover (round up your answer to the nearest whole day)		

[7]





Azim had been considering using the services of a debt collection company to improve the speed at which he receives his money from his credit customers.

(b) Advise Azim whether he should appoint a debt collection company. Justify your answer with **two** advantages and **two** disadvantages.

[illegible]

[Turn over



- (c) Suggest **two** other measures that Azim might take to reduce his trade receivables turnover period.

1.

 2.

 [2]

Azim had calculated his gross profit margin and profit margin for the year ended 31 December 2023. He wants to compare these to his competitor Baher who has a similar sized business.

	<u>Azim</u>	<u>Baher</u>
Gross profit margin	33%	37%
Profit margin	10%	12%

REQUIRED:

- (d) Suggest **one** action that Azim might take to improve his:

- (i) Gross profit margin

.....

 [1]

- (ii) Profit margin

.....

 [1]

During the year ended 31 December 2023, Azim took goods for his own use, \$340, but had not entered this in his accounting records. To correct this error, Azim made a year-end adjustment.

REQUIRED:

- (e) (i) Prepare the journal entry that Azim would need to make to correct this error. A narrative is **not** required.

Details	Debit \$	Credit \$
.....		
.....		

[2]





- (ii) Complete the table below by placing a tick (✓) to indicate the effect of correcting this error on Azim's gross profit and closing capital.

	increase	decrease	no effect
gross profit			
closing capital			

[2]

[Total: 20]







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