Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

5764968815

ACCOUNTING **7707/22**

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 **20** pages. Blank pages are indicated.

© UCLES 2020

1 Bilal is a trader. He buys goods on credit and for cash. He sells goods on a cash basis only.

The following transactions took place in April 2020.

April 4 Bought goods on credit from Milly, list price $320, subject to a trade discount of 20%

5 Bought goods on credit from EHL Limited, $500

6 Bought stationery, $145, paying by cheque

8 Cash sales, $280, were paid immediately into Bilal's bank account

10 Paid $128 cash to Milly

12 Cash sales, $110

13 Bought goods on credit, $250, from Todd who offers 4% cash discount for payments made within 14 days

17 Bought office equipment, $500, paying by bank transfer

21 Paid by cheque for the goods purchased from Todd on 13 April after deducting the cash discount

24 Paid $485 to EHL Limited by telephone transfer, having deducted 3% cash discount

28 Sold old office equipment for $50 cash

REQUIRED

(a) Prepare the purchases journal for April 2020.

Total the journal and indicate the ledger account to which the total would be posted.

Bilal
Purchases journal

Date	Details	$	$
……..….....	…….....	……...	…….....
…….....	…….....	……...	……...
……..….....	…….....	……...	……...
…….....	…….....	……...	…….....
…….....	…….....	……...	…….....
…….....	…….....	……..	……...

[4]

(b) Complete Bilal's cash book on the page opposite.

Balance the cash book and bring down the balances on 1 May 2020.

© UCLES 2020

© UCLES 2020

Bilal
Cash Book

Date 2020	Details	Discount allowed $	Cash $	Bank $	Date 2020	Details	Discount received $	Cash $	Bank $
April 1	*Balance b/d*	.....	*160*	*1960*	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

[12]

(c) Name **one** accounting principle applied by Bilal in **each** of the following situations.

	accounting principle
The double entry for the posting of the purchases journal entries is completed by posting the individual amounts to the purchases ledger.	
The purchase of goods on 5 April did not include goods costing $55 which Bilal bought for his own use.	
The stationery purchased on 6 April had been recycled. This is expected to improve the reputation of the business. Reputation is not recorded in the accounting statements.	
The value of office equipment shown in the financial statements was based on its purchase price.	

[4]

[Total: 20]

PLEASE TURN OVER

2 The K Music Club provides facilities for listening to music and also provides a refreshment bar for members. The club had the following assets and liabilities at 1 April 2019.

	$
Subscriptions in advance	250
Subscriptions in arrears	845
Cash at bank	1570
Cash in hand	130
Wages outstanding (refreshment bar)	140
Inventory (refreshment bar)	615
Fixtures and fittings at book value	11200

REQUIRED

(a) Calculate the accumulated fund at 1 April 2019.

.....

.....

.....

.....

.....

.....

.....

.....

..... [4]

(b) State how the accumulated fund of a club is built up over time.

.....

..... [2]

The following information is available for the year ended 31 March 2020.

	$
Subscriptions received (all by cheque)	8500
Subscriptions written off as irrecoverable	155
Wages paid to refreshments bar staff	1250

Balances at 31 March 2020 included the following.

	$
Subscriptions in advance	215
Subscriptions in arrears	975
Wages outstanding (refreshments bar)	115

© UCLES 2020

REQUIRED

(c) Calculate the refreshment bar staff wages for the year ended 31 March 2020.

.....

…… [2]

(d) Prepare the subscriptions account for the year ended 31 March 2020. Balance the account and bring down the balances on 1 April 2020.

K Music Club
Subscriptions account

Date	Details	$	Date	Details	$
……	……...	…….	……	……...	…….
……	……...	…….	……	……...	…….
……	……...	…….	……	……...	…….
……	……...	…….	……	……...	…….
……	……...	…….	……	……...	…….
……	……...	…….	……	……...	…….
……	……...	…….	……	……...	…….
……	……...	…….	……	……...	…….
……	……...	…….	……	……...	…….

[7]

(e) Advise the club treasurer whether or not club members should be required to pay their subscriptions by direct debit. Justify your answer by providing **two** advantages and **two** disadvantages.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

[Total: 20]

PLEASE TURN OVER

3 Gok is a wholesaler. He prepares his financial statements to the end of February each year.

At 29 February 2020, Gok's ledger account balances included the following.

	$
Revenue	420 000
Purchases	311 400
Sales returns	12 000
Discount allowed	9 000
Wages	12 360
Rent and rates	11 750
General expenses	4 220
Irrecoverable debts	8 600
Insurance	4 500
Telephone expenses	4 565
Inventory at 1 March 2019	26 700
Drawings	9 500
Fixtures and equipment at cost	120 000
Provision for depreciation of fixtures and equipment	43 200

Additional information

1 Gok did not have time to count and value his inventory at 29 February 2020. His margin is 25%.

2 A loan of $60 000 was obtained from the bank on 1 July 2019. Interest is charged at 7% per annum.

3 The fixtures and equipment are being depreciated at 20% per annum using the reducing balance method.

4 The insurance includes $1500 which covers the period from 1 March to 30 September 2020.

5 Drawings include a payment of $1660 for Gok's personal telephone expenses. One quarter of this amount was for business use.

© UCLES 2020

REQUIRED

(a) Prepare Gok's income statement for the year ended 29 February 2020.

Gok
Income Statement for the year ended 29 February 2020

	$	$
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[15]

© UCLES 2020

[Turn over

The wages paid by Gok are to his part-time warehouse assistant, Aiman.

REQUIRED

(b) Advise Gok whether or not he should offer Aiman a partnership in the business. Justify your answer with **two** advantages and **two** disadvantages.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

[Total: 20]

© UCLES 2020

PLEASE TURN OVER

4 Nadia is a trader. Her financial year ends on 31 March. She extracted a trial balance at 31 March 2020. The debit and credit totals did not agree. The difference was entered into a suspense account.

After Nadia prepared draft financial statements, she discovered the following errors.

1 The purchases account was overcast by $110.

2 $13 for discount allowed in February 2020 had been credited to the discount allowed account as $15.

3 A payment for insurance, $220, was correctly recorded in the cash book, but was recorded as $202 in the insurance account.

4 Commission received, $65, had been debited to the account for commission payable. The entry to the cash book had been correctly made.

5 Cash drawings, $85, were correctly entered in the cash book but were credited to the drawings account.

6 The cost of a vehicle repair, $190, had been debited to the motor vehicles account.

7 A payment of $100 to Robert had been posted to the account of Roberta.

REQUIRED

(a) Prepare the suspense account. Include the original difference on the trial balance as a balancing figure.

Nadia
Suspense account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[7]

© UCLES 2020

(b) Identify the type of error made in

(i) Error 6

..... [1]

(ii) Error 7

..... [1]

(c) Complete the following statement to show the effect on the profit for the year of **correcting** errors 2–7. If there is no effect on profit write 'nil' in the 'no effect' column. Calculate the corrected profit for the year. Ignore depreciation of non-current assets.

The first correction has been completed as an example.

Nadia

Statement of corrected profit for the year ended 31 March 2020

	No Effect	Increase in profit $	Decrease in profit $	$
Draft profit for the year before corrections				6720
Error 1		110		
Error 2	.....	.....	.....	
Error 3	.....	.....	.....	
Error 4	.....	.....	.....	
Error 5	.....	.....	.....	
Error 6	.....	.....	.....	
Error 7	.....	.....	.....	
Corrected profit for the year				.....

[7]

At 31 March 2020 Nadia's trade receivables owed $14 500. After the preparation of the draft financial statements for the year ended 31 March 2020, Nadia discovered the following.

1 $300 owed by DD Supplies should have been written off as irrecoverable.

2 A provision of doubtful debts of 2% of trade receivables should have been created.

REQUIRED

(d) Prepare journal entries to record 1 and 2 above. Narratives are **not** required.

Nadia
Journal

Date	Details	Debit $	Credit $
……..	…….....	……	……
……..	…….....	……	……
……..	…….....	……	……
……..	…….....	……	……
……..	…….....	……	……
……	…….....	……	……

[4]

[Total: 20]

© UCLES 2020

5 The directors of JKY Limited provided the following information.

For the year to 30 April 2020:

	$
Revenue	209 510
Purchases	121 618

At 30 April 2020:

Inventory	11 050
Trade receivables	28 700
Bank overdraft	6 280

All sales and purchases were made on credit terms.

Inventory at 1 May 2019 was valued at $8000

REQUIRED

(a) Calculate the following ratios. Show your workings.

Rate of inventory turnover	
workings	answer (to **two** decimal places)

Trade receivables turnover (days)	
workings	answer (round up to nearest whole day)

[5]

The rate of inventory turnover for the year ended 30 April 2020 was lower than that of the previous year.

The trade receivables turnover (days) for the year ended 30 April 2020 was higher than that of the previous year.

REQUIRED

(b) Explain the effects of the change in:

(i) inventory turnover

.....

.....

.....

.....

..... [3]

(ii) trade receivables turnover (days)

.....

.....

.....

.....

..... [3]

The directors are concerned about the level of trade receivables. They are considering introducing cash discount of 1% for payment within 21 days **or** charging interest on amounts outstanding after 30 days.

REQUIRED

(c) Advise the directors whether they should introduce the cash discount policy or the interest charge policy. Justify your answer by providing **one** advantage and **one** disadvantage of **each** policy.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

The information in the accounting statements is affected by the company's accounting policies.

REQUIRED

(d) Explain to the directors of JKY Limited the importance of the following objectives in selecting the company's accounting policies.

(i) comparability

.....

.....

.....

..... [2]

(ii) relevance

.....

.....

.....

..... [2]

[Total: 20]

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

Cambridge Assessment International Education is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of the University of Cambridge Local Examinations Syndicate (UCLES), which itself is a department of the University of Cambridge.