Cambridge Assessment International Education

# Cambridge O Level

**ACCOUNTING** **7707/21**

Paper 2 **May/June 2022**

MARK SCHEME

Maximum Mark: 100

**Published**

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the May/June 2022 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

This document consists of **14** printed pages.

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**PUBLISHED**

## Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

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GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

## Social Science-Specific Marking Principles (for point-based marking)

**1 Components using point-based marking:**

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

**a** DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
**b** DO credit alternative answers/examples which are not written in the mark scheme if they are correct
**c** DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
**d** DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
**e** DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
**f** DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
**g** DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

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**2 Presentation of mark scheme:**

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

**3 Calculation questions:**

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

**4 Annotation:**

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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| Question | Answer | Marks |
|---|---|---|
| 1(a) | Nakul<br>Purchases journal<br><br>2022<br>Jan 12 Nadia (350 – 70) 280 **(1)**<br>18 Nadia (400 – 80) 320 **(1)**<br>29 Sophie 60 **(1)**<br>31 Transfer to purchases account 660 **(1)OF** | **4** |
| 1(b) | Nakul<br>Purchases returns journal<br><br>2022<br>Jan 14 Nadia (80 – 16) 64 **(1)**<br>30 Sophie 9 **(1)**<br>31 Transfer to purchases returns account 73 **(1)OF** | **3** |
| 1(c) | Nakul<br>Nadia account<br><br>Date Details $ Date Details $<br>2022 2022<br>Jan 2 Bank **(1)** 441 Jan 1 Balance b/d **(1)** 450<br>Discount **(1)** 9 12 Purchases **}(1)** 280<br>14 Purchases returns **(1)** 64 18 Purchases **}** 320<br>31 Balance c/d 536 1050<br>1050<br>Feb 1 Balance b/d **(1)OF** 536 | **6** |

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(d)</td><td>
<table>
<tr><td></td><td>Current liabilities</td><td>Non-current liabilities</td></tr>
<tr><td>Trade payables</td><td>✓(1)</td><td></td></tr>
<tr><td>Bank overdraft</td><td>✓(1)</td><td></td></tr>
</table>
</td><td>2</td></tr>
<tr><td>1(e)</td><td>Advantages<br>Would delay the outflow of cash/will reduce bank overdraft (1)<br>May reduce bank overdraft charges/interest (1)<br>Overdraft charges may be higher than cash discount offered by suppliers (1)<br>May currently be paying Nadia/suppliers quicker than is necessary (1)<br>Max (2)<br><br>Disadvantages<br>May lose the cash discount allowed by Nadia/suppliers (1)<br>Nadia/suppliers may charge interest on late payment (1)<br>Nadia/suppliers may stop supplying or reduce the amount they supply/may damage relationship with suppliers (1)<br>There may be better methods of improving cash flow (e.g. selling on cash terms) (1)<br>Max (2)<br><br>Accept other valid points<br><br>(1) for recommendation</td><td>5</td></tr>
</table>

| Question | Answer | | | | Marks |
|---|---|---|---|---|---|
| 2(a) | Fatima<br>Income Statement for the year ended 31 March 2022 | | | | **11** |
| | | $ | $ | $ | |
| | Revenue | | | 79 400 | |
| | Less Returns | | | 3 970 | |
| | | | | 75 430 **(1)** | |
| | Less Cost of sales | | | | |
| | Opening inventory | | 3 000 | | |
| | Purchases | 36 500 | | | |
| | Less goods for own use | 1 300 **(1)** | 35 200 | | |
| | | | 38 200 | | |
| | Less Closing inventory | | 3 120 | 35 080 **(1)OF** | |
| | Gross profit | | | 40 350 **(1)OF** | |
| | Add Discount received | | | 1 095 **(1)** | |
| | | | | 41 445 | |
| | Less Expenses | | | | |
| | Rent and rates (9000 – [2/3 × 1500]) | | 8 000 **(1)** | | |
| | Wages (10 100 + 800) | | 10 900 **(1)** | | |
| | General expenses | | 1 287 | | |
| | Insurance | | 1 800 | | |
| | Irrecoverable debts | | 200 **(1)** | | |
| | Provision for doubtful debts ([6400 – 200] × 3% = 186 – 156) | | 30 **(1)** | | |
| | Depreciation of fixtures and equipment ([80 000 – 39 040] × 20%) | | 8 192 **(1)** | 30 409 | |
| | Profit for the year | | | 11 036 **(1) OF** | |

| Question | Answer | Marks |
|---|---|---|
| 2(b) | Fatima<br>Capital account | **4** |

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| 2022 | | | 2021 | | |
| March 31 | Drawings (8580 **(1)** + 1300 **(1)**) | 9 880 | April 1 | Balance b/d | 59 000 |
| | Balance c/d | 60 156 | 2022 | | |
| | | | March 31 | Profit for the year **(1)OF** | 11 036 |
| | | 70 036 | | | 70 036 |
| | | | April 1 | Balance b/d **(1)OF** | 60 156 |

| Question | Answer | Marks |
|---|---|---|
| 2(c) | **In favour of accepting bank loan:**<br>Liability to bank ends after 4 years/do not have to repay until 4 years' time **(1)**<br>The interest would only need to be paid for four years **(1)**<br>Repayment of interest and loan when due improves relationship with bank **(1)**<br>Other ways of raising finance may require commitment for a longer period of time **(1)**<br>May be the best way for sole trader with limited access to funds to obtain extra finance **(1)**<br>**Max (2)**<br><br>**Against accepting bank loan:**<br>Bank loan has to be repaid by set date in future **(1)**<br>Bank may require security/personal assets may be at risk **(1)**<br>May find it difficult to repay the loan in 4 years' time **(1)**<br>Loan interest must be paid even if short of liquid funds **(1)**<br>There may be more appropriate ways of raising the finance **(1)**<br>**Max (2)**<br><br>**Accept other valid points**<br>**(1) for recommendation** | **5** |

| Question | Answer | Marks |
|---|---|---|
| 3(a) | Jules<br>Journal | **3** |

| Date | Details | Debit $ | Credit $ | |
|---|---|---|---|---|
| 2022<br>April 30 | Equipment<br>YZH Limited<br>Purchase of hairdressing equipment on credit from YZH Limited **(1)** | 1900 | 1900 | **(1)**<br>**(1)** |

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
<table>
<tr><td></td><td>Increase in profit</td><td>Decrease in profit</td></tr>
<tr><td>Heat and light</td><td>✓(1)</td><td></td></tr>
<tr><td>Depreciation</td><td></td><td>✓(1)</td></tr>
<tr><td>Insurance</td><td></td><td>✓(1)</td></tr>
</table>
</td><td>3</td></tr>
<tr><td>3(c)</td><td>
Jules<br>Journal
<table>
<tr><td>Error number</td><td>Details</td><td>Debit $</td><td>Credit $</td><td></td></tr>
<tr><td>1</td><td>General expenses<br>Suspense</td><td>28</td><td><br>28</td><td>(1)<br>(1)</td></tr>
<tr><td>2</td><td>Isaac<br>Suspense</td><td>36</td><td><br>36</td><td>(1)<br>(1)</td></tr>
<tr><td>3</td><td>Wages<br>Bank</td><td>144</td><td><br>144</td><td>(1)<br>(1)</td></tr>
<tr><td>4</td><td>Suspense<br>Discount received</td><td>76</td><td><br>76</td><td>(1)<br>(1)</td></tr>
<tr><td>5</td><td>Commission receivable<br>Rent</td><td>200</td><td><br>200</td><td>(1)<br>(1)</td></tr>
</table>
</td><td>10</td></tr>
</table>

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| Question | Answer | Marks |
|---|---|---|
| 3(d) | Jules<br>Suspense account<br><br>**Dr**<br>Date / Details / $<br>2022 April 30 — Discount received **(1)** — 76<br><br>**Cr**<br>Date / Details / $<br>2022 April 30 — Difference on trial balance **(1)OF** — 12<br>General expenses **(1)** — 28<br>Isaac **(1)** — 36<br>76 | **4** |

| Question | Answer | Marks |
|---|---|---|
| 4(a) | Gross margin<br>$\frac{112300-(12800+72250-14650)}{112300}=\frac{41900}{112300}$ **}(1)** $\times 100 = 37.31\%$ **(1)OF**<br><br>Profit margin<br>$\frac{(41900\ \textbf{OF}-19820)}{112300}=\frac{22080}{112300}$ **} OF (1)** $\times 100 = 19.66\%$ **(1)OF**<br><br>Rate of inventory turnover<br>$\frac{(12800+72250-14650)}{(12800+14650)/2}=\frac{70400}{13725}$ **(1) (1)** $= 5.13$ times **(1)OF**<br><br>Current ratio<br>(14 650 + 12 700) : (7125 + 5375) = 27 350 : 12 500 **(1) whole formula** = 2.19 : 1 **(1)OF**<br><br>Liquid ratio<br>12 700 : (7125 + 5375) = 12 700 : 12 500 **(1) whole formula** = 1.02 : 1 **(1)OF** | **11** |

| Question | Answer | Marks |
|---|---|---|
| 4(b) | **Advantages**<br>May be able to increase sales/gain more customers by reducing selling price **(1)**<br>**OR** May be able to increase sales/gain more customers by extra advertising **(1)**<br>Profit may increase if sales increase **(1)**<br>The gross margin may improve **(1)**<br>Can respond to increase in demand **(1)**<br>The inventory should not lose value **(1)**<br>**Max (2)**<br><br>**Disadvantages**<br>Expenses increase/profit decreases due to the increased advertising costs **(1)**<br>Demand for that particular type of inventory may decrease **(1)**<br>Inventory may deteriorate over time **(1)**<br>Goods may be of inferior quality **(1)**<br>Already has a large amount of inventory **(1)**<br>May increase storage costs **(1)**<br>May require an increased bank overdraft/reduce liquidity/decrease liquid ratio **(1)**<br>Advertising does not guarantee increase in sales **(1)**<br>**Max (2)**<br><br>**Accept other valid points**<br><br>**(1) for recommendation** | **5** |
| 4(c) | **Either** Accounting methods must be used consistently from one accounting period to the next **(1)**<br>**Or** Accounting methods should not be changed unless there is a good reason for doing so **(1)**<br><br>**Either** This means that accurate comparisons can be made from year to year **(1)**<br>**Or** The profit of a particular year will not be distorted **(1)**<br><br>**Max (2)**<br>**Accept other valid points** | **2** |

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| Question | Answer | Marks |
|---|---|---|
| 4(d) | Business reputation/goodwill **(1)**<br>Reliability of workforce/skills of workforce/ staff morale/working conditions **(1)**<br>Actions of competitors **(1)**<br>Government decisions **(1)**<br>Location of business **(1)**<br><br>**Max (2)**<br>**Accept other valid points** | **2** |

| Question | Answer | Marks |
|---|---|---|
| 5(a)(i) | Sew and Soup Club<br>Subscriptions account<br><br>*** (1) for both the opening balances**<br>**+ (1) dates** | **6** |

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| 2021 | | | 2021 | | |
| Jan 1 | Balance b/d | 1 820 | Jan 1 | Balance b/d **(1)*** | 2 260 |
| Dec 31 | Income and expenditure account **(1)OF** | 14 710 | Dec 31 | Bank **(1)** | 13 900 |
| | Balance c/d | 1 745 | | Balance c/d | 2 115 |
| | | 18 275 | | | 18 275 |
| 2022 | | | 2022 | | |
| Jan 1 | Balance b/d **(1)** | 2 115 | Jan 1 | Balance b/d **(1)** | 1 745 |

| | | |
|---|---|---|
| 5(a)(ii) | The amount received was less that the subscriptions due for the year **(1)**<br>Subscriptions in advance have decreased **(1)**<br>Subscriptions in arrears have increased **(1)**<br>**Max (2)**<br>**Accept other valid points**<br><br>The treasurer should not be pleased with this situation **(1)** | **3** |

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| Question | Answer | Marks |
|---|---|---|
| 5(b) | Calculation of profit on refreshments<br>$ $<br>Revenue 17 650 **(1)**<br>Less Cost of sales<br>Opening inventory 1 070 **(1)**<br>Purchases (1 580 **(1)** + 10 435 **(1)** – 1 940 **(1)**) 10 075<br>11 145<br>Closing inventory 1 130 **(1)** 10 015<br>Profit on refreshments 7 635 **(1)OF**<br><br>**Alternative forms of presentation acceptable** | **7** |
| 5(c) | Sew and Soup Club<br>Statement of financial position (extract) at 31 December 2022<br><br>Current assets $<br>Inventory 1 130 **(1)**<br>Other receivables (500 **(1)** + 2115 **(1)**) 2 615<br>Bank 7 743<br>11 488 **(1)OF** | **4** |