Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

9619922522

ACCOUNTING **7707/21**

Paper 2 Structured Written Paper **May/June 2022**

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. Any blank pages are indicated.

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[Turn over

1 Nakul is a trader. He buys and sells goods on credit. He buys most of his supplies from one supplier, Nadia, who allows Nakul a trade discount of 20%.

The following transactions took place in January 2022.

Jan	2	Paid $441 by cheque to Nadia, in full settlement of $450 owed to her at 1 January 2022.
	12	Bought goods on credit from Nadia, list price $350
	14	Returned faulty goods to Nadia, list price $80
	18	Bought goods on credit from Nadia, list price $400
	23	Sold goods on credit, $800
	29	Bought goods on credit, $60, from Sophie
	30	Returned goods to Sophie, $9

REQUIRED

(a) Prepare the purchases journal for January 2022.
Total the journal and indicate the ledger account to which the total would be posted.

Nakul
Purchases journal

Date	Details	$	$
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[4]

(b) Prepare the purchases returns journal for January 2022.
Total the journal and indicate the ledger account to which the total would be posted.

Nakul
Purchases returns journal

Date	Details	$	$
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[3]

(c) Prepare the account for Nadia, for January 2022, as it would appear in the books of Nakul.
Balance the account and bring down the balance on 1 February 2022.

Nakul
Nadia account

Date	Details	$	Date	Details	$
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[6]

(d) Complete the table by placing a tick (✓) to show where each item is shown on the statement of financial position.

	Current liabilities	Non-current liabilities
Trade payables		
Bank overdraft		

[2]

Nakul has a bank overdraft and would like to reduce it. He is considering paying his suppliers later than he currently does in order to help him reduce his bank overdraft.

REQUIRED

(e) Advise Nakul whether or not he should take longer to pay his suppliers. Justify your answer by providing **two** advantages and **two** disadvantages.

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[Total: 20]

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2 Fatima is a sole trader. She prepares her financial statements to the end of March each year.

At 31 March 2022, Fatima's ledger account balances included the following.

	$
Revenue	79400
Sales returns	3970
Purchases	36500
Rent and rates	9000
Wages	10100
General expenses	1287
Insurance	1800
Discount received	1095
Inventory at 1 April 2021	3000
Fixtures and equipment at cost	80000
Fixtures and equipment – provision for depreciation	39040
Trade receivables	6400
Trade payables	4995
Provision for doubtful debts	156
Cash drawings	8580
Capital at 1 April 2021	59000

The following information is also available.

1 Inventory at 31 March 2022 was $3120.

2 Fatima took goods for her own use from the business during the year ended 31 March 2022. These goods cost $1300.

3 Depreciation on fixtures and equipment is to be charged at 20% per annum using the reducing balance method.

4 Accrued wages at 31 March 2022 were $800.

5 Rent includes a payment of $1500 for the 3 months from 1 March 2022 to 31 May 2022.

6 An irrecoverable trade receivable of $200 is to be written off.

7 The provision for doubtful debts is to be set at 3% of trade receivables.

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REQUIRED

(a) Prepare Fatima's income statement for the year ended 31 March 2022.

Fatima
Income Statement for the year ended 31 March 2022

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[11]

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(b) Prepare Fatima's capital account for the year ended 31 March 2022. Balance the account and bring down the balance on 1 April 2022.

Fatima
Capital account

Date	Details	$	Date	Details	$
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[4]

Fatima would like to expand the business. She thinks that additional finance of $20 000 would be required for the equipment which she would need. Fatima's bank have offered to lend her $20 000, to be repaid after four years at interest of 6% per annum.

REQUIRED

(c) Advise Fatima whether or not to agree to the bank loan. Justify your answer.

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[Total: 20]

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3 Jules is a hairdresser. He bought some new energy-saving hairdrying equipment, $1900, on credit from YZH Limited on 30 April 2022.

REQUIRED

(a) Prepare the journal entry to record the purchase of these hairdryers. A narrative **is** required.

Jules
Journal

Date	Details	Debit $	Credit $
.....	.....	.....	.....
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.....	.....	.....	.....
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[3]

The new hairdryers will use less electricity than his old ones. There will be an additional insurance charge for the new hairdryers. The old hairdryers had been fully depreciated so that their net book value was nil.

REQUIRED

(b) Complete the table by placing a tick (✓) to show whether these changes in expenses increase or decrease the profit.

Expense	Increase in profit	Decrease in profit
Heat and light		
Depreciation		
Insurance		

[3]

Jules has discovered the following five errors in his accounting records for the year ended 30 April 2022.

1 The total for general expenses, $28, in the petty cash book for April 2022 has not been posted to the general ledger.

2 A direct debit to Isaac, a supplier, $195 had been recorded as $159 in the account for Isaac.

3 A payment by credit transfer for wages, $144, has not been recorded in the accounting records.

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4 The discount received total for January 2022, $38, had been debited to the discount received account.

5 The account for rent and the account for commission receivable had both been overcast by $200.

REQUIRED

(c) Prepare the journal entries required to correct these five errors. Narratives are **not** required.

Jules
Journal

Error number	Details	Debit $	Credit $
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[10]

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[Turn over

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

Jules
Suspense account

Date	Details	$	Date	Details	$
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[4]

[Total: 20]

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4 Ekua is a trader who sells household furnishings. She has provided the following information.

	$
At 30 April 2022:	
Inventory	14 650
Trade receivables	12 700
Bank overdraft	5 375
Trade payables	7 125
For the year to 30 April 2022:	
Revenue	112 300
Purchases	72 250
Expenses	19 820

All sales and purchases are on credit.
Inventory at 1 May 2021 was valued at $12 800.

REQUIRED

(a) Complete the following tables.

Gross margin	
workings	answer (to **two** decimal places)

Profit margin	
workings	answer (to **two** decimal places)

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

Current ratio	
workings	answer (to **two** decimal places)

Liquid (acid test) ratio	
workings	answer (to **two** decimal places)

[11]

One of Ekua's suppliers has offered to sell her a large quantity of inventory at a reduced price. Ekua is considering accepting this offer and increasing her expenditure on advertising in order to sell more inventory.

REQUIRED

(b) Advise Ekua whether she should purchase the additional inventory. Justify your answer by providing **two** advantages and **two** disadvantages.

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(c) Explain the meaning and importance of the principle of consistency in the preparation of financial statements.

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..... [2]

(d) State **two** non-financial factors which may affect Ekua's trading results.

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[2]

[Total: 20]

5 The Sew and Soup Club offers membership to people who are interested in sharing sewing and knitting patterns. It runs a refreshment café for members. The club had the following assets and liabilities at 31 December.

	2020	**2021**
	$	$
Subscriptions in advance	2260	1745
Subscriptions in arrears	1820	2115
Inventory of refreshments	1070	1130
Rent paid in advance	500	500
Trade payables for refreshment supplies	1940	1580
Bank balance	4628	7743

The following totals are for the year ended 31 December 2021.

	$
Receipts	
Subscriptions received (all by cheque)	13900
Cash sales from refreshments	17650
Payments	
Rent	6000
Wages	7000
Other expenses	5000
Trade payables for refreshment supplies	10435

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REQUIRED

(a) (i) Prepare the subscriptions account for the year ended 31 December 2021. Balance the account and bring down the balances on 1 January 2022.

Sew and Soup Club
Subscriptions account

Date	Details	$	Date	Details	$
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[6]

(ii) Explain whether the treasurer should be satisfied with the amount of cash received from member subscriptions during the year ended 31 December 2021.

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..... [3]

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[Turn over

(b) Calculate the profit on refreshments for the year ended 31 December 2021.

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[7]

(c) Prepare the current assets section of the club's statement of financial position at 31 December 2021.

Sew and Soup Club
Statement of financial position (extract) at 31 December 2021

	$	$
Current Assets		
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