Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

1146427646

ACCOUNTING **7707/22**

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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1 Peter is a trader. The following transactions took place in April 2022.

April	2	Cash sales, $410, were paid directly into the bank account
	3	Paid $798 to Rahat, by cheque, in full settlement of a debt of $840
	8	Paid $42 cash for a motor vehicle repair
	15	Purchased goods, list price $320, on credit subject to a trade discount of 10%, from Rahat
	18	Cash sales, $460
	20	Paid $392 to Samir by telephone transfer, having deducted 2% cash discount from the amount due
	25	A cheque for commission receivable, $115, was paid into the bank account
	29	Paid $285 to Rafael by cash, in full settlement of a debt of $300

REQUIRED

(a) Prepare Peter's cash book on the page opposite.

Balance the cash book and bring down the balances on 1 May 2022.

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Peter
Cash Book

Date	Details	Discount allowed	Cash	Bank	Date	Details	Discount received	Cash	Bank
2022		$	$	$	*2022*		$	$	$
Apr 1	*Balance b/d*		*135*	*920*	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
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[11]

Peter has received a bank statement for April. He is using it to prepare a bank reconciliation statement and to update his cash book.

REQUIRED

(b) Place a tick (✓) to show how **each** item in the table below would be used to prepare the bank reconciliation statement **or** to update the cash book.

	Prepare bank reconciliation statement		Update cash book	
Items to be adjusted	Added to bank statement balance	Deducted from bank statement balance	Debited to cash book	Credited to cash book
Bank charges				
Direct debit for rent				
Cheque paid to a supplier but not yet cashed				
Cheque for commission received dishonoured				
Dividend received				

[5]

REQUIRED

(c) Prepare the account for Rahat as it would appear in the ledger of Peter.
Balance the account and bring down the balance on 1 May 2022.

Peter
Rahat account

Date 2022	Details	$	Date 2022	Details	$
.....	.....	.....	*Apr 1*	*Balance b/d*	*840*
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[4]

[Total: 20]

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2 Stalla started trading on 1 April 2021. All receipts are paid into the bank and all payments are made from the bank. She has not kept a full set of books but has provided the following information.

Summary of receipts and payments for the year ended 31 March 2022

	$
Receipts	
Capital introduced	8 000
Loan received (repayable 2027)	5 000
Sales (all cash)	36 000
Payments	
Trade payables	17 850
Fixtures and fittings	12 000
General expenses	1 920
Rent and insurance	7 100
Drawings	?
Bank balance at 31 March 2022	2 330

REQUIRED

(a) Record the total receipts and total payments to Stalla's bank account showing the cash drawings for the year ended 31 March 2022. Balance the bank account and bring the balance down on 1 April 2022.

Stalla
Bank account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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[4]

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[Turn over

During the year ended 31 March 2022, Stalla took goods from the business for her own personal use. The selling price of these goods is $3375. Her mark-up is 25%.

REQUIRED

(b) Calculate Stalla's total drawings for the year ended 31 March 2022.

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..... [2]

Stalla has provided a list of balances at 31 March 2022.

	$
Fixtures and fittings (net book value)	10 800
Inventory	2 150
Prepaid rent	500
Balance at bank	2 330
Trade payables	1 875
Loan (repayable 2027)	5 000
Capital	?

REQUIRED

(c) Prepare a statement of affairs to calculate Stalla's capital at 31 March 2022.

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Stalla
Statement of Affairs at 31 March 2022

	$	$
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[5]

(d) Calculate Stalla's profit for the year ended 31 March 2022.

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..... [4]

Stalla is now considering whether she should start to sell at least some of her goods on credit.

REQUIRED

(e) Advise Stalla whether or not she should start selling on credit terms. Justify your answer.

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..... [5]

[Total: 20]

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3 Mosi is a trader. The totals of his trial balance at 30 April 2022 did not agree and the difference was placed in a suspense account.

Mosi later discovered the following errors.

1 Commission received, $96, had been debited to the discount received account. The entry to the bank account was correctly made.

2 The total of the sales journal for April 2022, $1258, was transferred to the sales account as $2185.

3 A cheque payment for motor expenses, $77, had been omitted from the book-keeping records.

4 A payment by electronic transfer, $135, was recorded as a payment in the petty cash book.

5 An invoice received from Tracey, $160, was credited to the account for Stacey.

REQUIRED

(a) Prepare the journal entries to correct errors 1–5. Narratives are **not** required.

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11

Mosi
Journal

Error number	Details	Debit $	Credit $
.....	.....	.....	.....
.....	.....	.....	.....
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[11]

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

Mosi
Suspense account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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[4]

Mosi's original draft profit, before correcting the errors, was $39 970.

REQUIRED

(c) Calculate Mosi's corrected profit for the year ended 30 April 2022.

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[Total: 20]

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4 Nala is a trader who buys and sells stationery.

She provided the following information about her inventory at 28 February 2022.

Item	Number of units	Cost per unit $	Carriage inwards per unit $	Selling expenses per unit $	Selling price per unit $
Packs of paper	240	4.50	–	–	8.00
Packs of envelopes	225	5.50	1.00	1.50	10.00
Notepads	150	4.00	2.00	–	5.00
Boxes of pencils	96	3.50	–	–	6.00

REQUIRED

(a) (i) Calculate the value of Nala's inventory at 28 February 2022.

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..... [6]

(ii) State the accounting principle used to value inventory.

..... [1]

(b) (i) Complete the table by placing a tick (✓) to show how Nala should treat each item of her expenditure.

	Capital expenditure	Revenue expenditure
Computer printer paper		
Computer equipment		
Installation of computer equipment		
Motor vehicle		
Insurance of motor vehicle		
Delivery of motor vehicle		

[4]

(b) (ii) Explain how the materiality principle is applied to the treatment of non-current assets.

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..... [2]

Nala has treated the receipt of a bank loan as a revenue receipt.

REQUIRED

(c) Complete the table by placing a tick (✓) to show the effect of the error on capital and on liabilities.

	overstated	understated
Effect on capital		
Effect on liabilities		

[2]

Nala has charged depreciation on her shop fittings at 25% per annum using the reducing balance method. This year she is considering changing this to 10% per annum using the straight-line method, as this would improve her profit for the year.

REQUIRED

(d) Advise Nala whether or not she should change her depreciation method. Justify your answer.

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..... [5]

[Total: 20]

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5 The trial balance of M Limited at 30 November 2021 was as follows.

M Limited
Trial Balance at 30 November 2021

	Debit	Credit
	$	$
Revenue		203 600
Inventory at 1 December 2020	12 945	
Purchases	143 750	
Rent and rates	12 460	
Operating expenses	12 920	
Wages	24 380	
Equipment at cost	40 000	
Provision for depreciation of equipment		17 500
Trade receivables	9 800	
Provision for irrecoverable debts		295
Bank	162	
Trade payables		11 585
Ordinary share capital		20 000
General reserve		3 000
Retained earnings		2 037
Dividend paid on ordinary shares	1 600	
	258 017	258 017

Additional information

1 Inventory at 30 November 2021 was valued at $12 830.

2 Depreciation on equipment is to be charged at 25% per annum using the reducing balance method.

3 Accrued operating expenses at 30 November 2021 were $415.

4 Rent includes a payment of $2250 for the 3 months from 1 October 2021 to 31 December 2021.

5 The provision for doubtful debts is to be set at 4% of trade receivables.

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6 No dividends were outstanding at 30 November 2021.

7 $1000 is to be transferred to the general reserve at 30 November 2021.

REQUIRED

(a) Prepare the income statement for M Limited for the year ended 30 November 2021.

M Limited
Income Statement for the year ended 30 November 2021

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[7]

(b) Prepare the statement of changes in equity for M Limited for the year ended 30 November 2021.

M Limited
Statement of Changes in Equity for the year ended 30 November 2021

Details	Ordinary Share capital $	General reserve $	Retained earnings $	Total $
On 1 December 2020	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
On 30 November 2021	.....	.....	.....	.....

[5]

(c) Calculate the liquid ratio for M Limited at 30 November 2021.
The answer should be correct to **two** decimal places.

Liquid (acid test) ratio	
workings	answer

[3]

The managing director, Emily, plans to buy new equipment to be used to improve the profitability of the company. She is considering whether to fund the equipment by issuing further ordinary shares or requesting a bank overdraft.

REQUIRED

(d) Advise Emily whether to fund the purchase of the equipment by issuing further ordinary shares or by requesting a bank overdraft. Justify your answer.

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[Total: 20]

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