Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

1900797351

ACCOUNTING **7707/22**

Paper 2 Structured Written Paper **October/November 2021**

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 Ayesha is a trader who maintains a full set of accounting records and prepares control accounts at the end of each month.

She provided the following information for the month of August 2021.

	$
On 1 August	
Sales ledger control account debit balance	9800
Sales ledger control account credit balance	420
Purchases ledger control account credit balance	7700
Totals for the month	
Credit sales	88850
Credit purchases	55400
Cash purchases	1860
Receipts from customers	82100
Payments to credit suppliers	50600
Discount received	600
Discount allowed	900
Irrecoverable debt written off	300
Provision for doubtful debts	450
Sales returns	2400
Interest charged to customer on overdue account	90
Contra between sales ledger and purchases ledger	2920

The sales ledger control account credit balance brought down on 1 September 2021 was $350.

REQUIRED

(a) Prepare the sales ledger control account **and** the purchases ledger control account for August 2021.

Balance the accounts and bring down the balances on 1 September 2021.

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Ayesha
Sales ledger control account

Date 2021	Details	$	Date 2021	Details	$
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Purchases ledger control account

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[14]

(b) Name the book of prime entry which Ayesha would use to obtain the following information when preparing her sales ledger control account.

Item	Book of prime entry
Returns	
Discount allowed	
Interest charged to customer on overdue account	
Contra entry	

[4]

(c) Suggest **two** reasons why the sales ledger control account had a credit balance of $420 on 1 August 2021.

1 .....

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2 .....

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[2]

[Total: 20]

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2 Jabir owns an electrical wholesale business.

The following balances appeared in his books on 30 September 2021.

	$
Inventory	8 000
Purchases	109 000
Trade payables	11 600
Revenue	160 000
Trade receivables	22 600
Operating expenses	35 200

The inventory on 1 October 2020 was $11 000.

All sales and purchases were on a credit basis.

REQUIRED

(a) Calculate the gross profit **and** profit for the year.

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..... [2]

(b) (i) Calculate the gross margin.

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..... [2]

(ii) Advise Jabir on **two** actions he could take to improve his gross margin.

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2 .....

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[2]

(c) Calculate the trade receivables turnover. Round up your answer to the next whole day.

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..... [2]

Jabir wants to increase his credit sales and is considering allowing his credit customers an extra 14 days above his current trade receivables turnover.

REQUIRED

(d) Advise Jabir whether he should allow his credit customers an extra 14 days above his current trade receivables turnover. Justify your answer.

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..... [5]

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(e) Calculate the trade payables turnover. Round up your answer to the next whole day.

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..... [2]

Jabir's credit suppliers are prepared to double the rate of his trade discount provided he increases his current monthly purchases by 20%.

REQUIRED

(f) Advise Jabir whether he should increase his current monthly purchases by 20% to earn the additional trade discount. Justify your answer.

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..... [5]

[Total: 20]

3 On 31 July 2021 the following information was provided by KA Limited, a manufacturer of garden tools.

	$
Inventory 1 August 2020	
Raw materials	5 820
Work in progress	1 750
Finished goods	12 360
Purchases	
Raw materials	34 200
Finished goods	3 900
Carriage on purchases	
Raw materials	410
Finished goods	80
Direct wages	67 200
Indirect factory wages	24 000
Factory machinery at cost	47 000
Provision for depreciation of factory machinery	11 000
Factory general overheads	16 400
Rates	5 300
Inventory 31 July 2021	
Raw materials	6 030
Work in progress	2 780
Finished goods	10 340
Revenue	223 000

Additional information

1 On 31 July 2021 rates, $500, were prepaid.
Rates are to be apportioned 75% factory, 25% office.

2 On 31 July 2021 factory general overheads, $230, were accrued.

3 Factory machinery is to be depreciated at 20% per annum using the reducing balance method.

REQUIRED

(a) Prepare the manufacturing account of KA Limited for the year ended 31 July 2021.

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KA Limited
Manufacturing Account for the year ended 31 July 2021

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[10]

(b) Prepare the income statement (trading section) of KA Limited for the year ended 31 July 2021.

KA Limited
Income Statement (Trading section) for the year ended 31 July 2021

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[4]

DH Limited, a customer of KA Limited, has been declared bankrupt. A debt of $350 was owing to KA Limited. This is to be written off.

REQUIRED

(c) Prepare the journal entry to record the irrecoverable debt. A narrative is **not** required.

KA Limited
Journal

Details	Debit $	Credit $
.....	.....	.....
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[2]

KA Limited maintains a provision for doubtful debts.

REQUIRED

(d) Explain how maintaining a provision for doubtful debts is an application of **each** of the following accounting principles.

(i) Matching

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..... [2]

(ii) Prudence

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..... [2]

[Total: 20]

4 Nikita is a trader. The totals of her trial balance at 30 June 2021 did not agree. The debits exceeded the credits by $2600. Nikita opened up a suspense account.

The following errors were later discovered.

1 Insurance of $2500 had been entered as $4500 in the insurance account. The correct entry had been made in the cash book.

2 The total of the discount received column in the cash book of $500 had been debited to the discount allowed account in the general ledger.

3 Credit sales of $1400 to Kajal had been correctly entered in the sales account, but debited as $1000 in Kajal's account.

4 A cheque of $700 received from Anisah had been correctly entered in the cash book, but credited to Aisha's account.

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REQUIRED

(a) Prepare journal entries to correct errors 1 to 4. Narratives are **not** required.

Nikita
Journal

Error number	Details	Debit $	Credit $
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[10]

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[Turn over

(b) Prepare the suspense account. Start with the difference on the trial balance.

Nikita
Suspense account

Date	Details	$	Date	Details	$
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[5]

(c) Complete the statement to show the effect on the profit for the year of **correcting** errors 1 to 4.

Where the error does not affect profit write 'no effect'. Calculate the corrected profit for the year.

Nikita
Statement of corrected profit for the year ended 30 June 2021

	Increase in profit $	Decrease in profit $	$
Profit for the year before corrections			28 000
Error 1	.....	.....	
Error 2	.....	.....	
Error 3	.....	.....	
Error 4	.....	.....	
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	_____	_____	_____
Corrected profit for the year			_____

[5]

[Total: 20]

5 Simon has a business selling office stationery. On 1 January 2019 he owned two delivery vehicles which had been purchased on 1 January 2018.

Delivery vehicle A had cost $30 000 and delivery vehicle B had cost $25 000.

Simon uses the straight-line method for depreciating the delivery vehicles. A rate of 20% per annum on cost is used, with the rate being applied for each part of the year for which the delivery vehicles are owned.

Due to a decline in business, delivery vehicle B was sold on 31 March 2020 and a cheque for $10 350 was received. Delivery vehicle A was still in use at the end of 2020.

REQUIRED

(a) Complete the following accounts for **each** of the years ended 31 December 2019 and 2020. Balance the accounts at the end of **each** year where appropriate.

Simon
Delivery vehicles account

Date	Details	$	Date	Details	$
2019					
Jan 1	*Balance b/d*	*55 000*	.....	.....	.....
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Provision for depreciation of delivery vehicles account

Date	Details	$	Date	Details	$
			2019		
.....	.....	.....	*Jan 1*	*Balance b/d*	*11 000*
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[Turn over

Delivery vehicles disposal account

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[15]

Simon's sister Yasmin is also in business and depreciates her delivery vehicles by the reducing balance method.

Simon is considering whether to apply the reducing balance method of depreciation to his delivery vehicles.

REQUIRED

(b) Advise Simon whether he should apply the reducing balance method of depreciation. Justify your answer.

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[Total: 20]

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