

Cambridge O Level

CANDIDATE NAME					
CENTRE NUMBER			CANDIDATE NUMBER		

576496881

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.

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
 - 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.

[12]

Bank	↔							
Cash	\$							
Discount	\$							
Details								
Date	2020							
Bank	↔	1960						
Cash	↔	160						
Discount	8							
Details		Balance b/d						
Date	2020	April 1					:	:

(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	11 200

REQUIRED

(a)	Calculate the accumulated fund at 1 April 2019.		
			[4]
(b)	State how the accumulated fund of a club is built up of	over time.	
			[2]
The	following information is available for the year ended 3	1 March 2020.	
Sub	escriptions received (all by cheque) escriptions written off as irrecoverable ges paid to refreshments bar staff	\$ 8500 155 1250	
Bala	ances at 31 March 2020 included the following.	•	
Sub	scriptions in advance scriptions in arrears ges outstanding (refreshments bar)	\$ 215 975 115	

REQUIRE	
----------------	--

(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.
	[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	311400
Sales returns	12000
Discount allowed	9000
Wages	12360
Rent and rates	11750
General expenses	4220
Irrecoverable debts	8600
Insurance	4500
Telephone expenses	4 5 6 5
Inventory at 1 March 2019	26700
Drawings	9500
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.

REQUIRED

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

Gok Income Statement for the year ended 29 February 2020

\$	\$

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]

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.
- 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]

(b)	lder	ntify the type of error ma	ade in			
	(i)	Error 6				
						[1]
	(ii)	Error 7				
						[1]
(c)	erro		effect on profi	t write 'nil' in	the 'no effect'	the year of correcting column. Calculate the
	The	first correction has bee	en completed a	s an example		
		Statement of cor		ndia r the year end	ed 31 March 2	
		Draft profit for the	e year before c	orrections		\$ 6720
			No Effect	Increase in profit \$	Decrease in profit \$	
		Error 1		110		
		Error 2				
		Error 3				
		Error 4				
		Error 5				
		Error 6				
		Error 7		<u></u>	<u></u>	

[7]

Corrected profit for the year

At 31 March 2020 Nadia's trade receivables owed \$14500. 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]

5 The directors of JKY Limited provided the following information.

For the year to 30 April 2020:

\$

Revenue	209510
Purchases	121618

At 30 April 2020:

Inventory	11 050
Trade receivables	28700
Bank overdraft	6280

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 receiva	ables 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)	Exp	lain 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)	cha	ise the directors whether they should introduce the cash discount policy or the interest rge policy. Justify your answer by providing one advantage and one disadvantage of h policy.
		[5]
The	info	rmation in the accounting statements is affected by the company's accounting policies.
REC	QUIR	RED
(d)	-	lain to the directors of JKY Limited the importance of the following objectives in selecting company's accounting policies.
	(i)	comparability
		[2]

(ii)	relevance
	[2
	[Total: 20

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