



Cambridge O Level

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ACCOUNTING

7707/22

Paper 2 Structured Written Paper

May/June 2023

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.

1 Omer is a trader.

The following transactions took place in April 2023.

April	3	Paid \$1000 into the bank from his own personal money
	7	Paid \$360 to a supplier, Alexander, by telephone transfer
	10	Cash sales, \$695, were paid directly into the bank account
	12	Purchased goods, \$340, on credit from Alexander
	15	Paid \$68 cash for petrol
	16	Paid rent, \$400, by standing order
	23	Received a cheque, \$384, from a credit customer, Esme, in full settlement of an invoice for \$400
	27	Paid \$323 by cheque to Alexander, having deducted \$17 cash discount
	28	Purchased goods, \$235, on credit from Alexander

REQUIRED

- (a) Complete Omer's cash book on the page opposite.
Balance the cash book and bring down the balances on 1 May 2023.

Omer
Cash Book

Date	Details	Discount allowed \$	Cash \$	Bank \$	Date	Details	Discount received \$	Cash \$	Bank \$
2023					2023				
Apr 1	Balance b/d		120		Apr 1	Balance b/d			477
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[11]

- (b) Prepare the account for Alexander for April 2023. Balance the account and bring down the balance at 1 May 2023.

Omer
Alexander account

Date	Details	\$	Date 2023	Details	\$
			Apr 1	Balance b/d	360

[4]

Omer buys all his supplies from Alexander who does not allow Omer any trade discount. Omer is now considering also purchasing supplies from Tahir who would offer him 3% trade discount but no cash discount.

REQUIRED

- (c) Advise Omer whether he should choose:
Option 1 – purchase supplies from Alexander only, or
Option 2 – purchase supplies from both Alexander and Tahir
Justify your answer by providing **three** advantages and **one** disadvantage of the option you have chosen.

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[5]

[Total: 20]

2 Ramla has calculated her draft profit figure for the year ended 28 February 2023. Adjustments in Ramla’s ledger accounts have still to be made for the following items.

- 1 An amount of \$99 owed to Ramla by Mai is to be written off as irrecoverable.
- 2 Fixtures and fittings, \$875, were purchased on credit from Padma.
- 3 A loan repayment, \$500, had been incorrectly recorded as loan interest.
- 4 Rent paid, \$350, had been recorded as \$530.
- 5 Drawings, \$120, had been debited to the wages account.

REQUIRED

(a) Prepare the journal entries required for items 1–5. Narratives are **not** required.

Ramla
Journal

Item number	Details	Debit \$	Credit \$
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[10]

(b) Complete the following table by entering the amount of each adjustment required to calculate Ramla’s adjusted profit. If an item has no effect on profit, enter zero (0) in the ‘no effect on profit’ box.

Item	Increase in profit \$	Decrease in profit \$	No effect on profit	Profit \$
Draft profit				11 650
1				
2				
3				
4				
5				
Adjusted profit				

[6]

(c) Explain

(i) how the journal for item 1 complies with the prudence principle.

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..... [2]

(ii) how the journal for item 5 complies with the business entity principle.

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..... [2]

[Total: 20]

- 3 The Favourite Book Club was formed several years ago. The subscription amount of \$52 per annum has remained unchanged since the club started. All subscriptions are paid by cheque or credit transfer.

The treasurer provided the following information.

	At 1 January 2022	At 31 December 2022
	\$	\$
Subscriptions in advance	260	156
Subscriptions in arrears	468	1040
Insurance paid in advance	348	366
Cash at bank	68	114

For the year to 31 December 2022:

Receipts	\$
Subscriptions received	5356
Payments	
Rent paid	2080
Insurance paid	732
General expenses paid	2498

The club had 128 members in 2021 and 120 in 2022. The treasurer is aware that 4 current members will not pay their subscriptions for 2022. She has decided to write these subscriptions off.

REQUIRED

- (a) Prepare the subscriptions account for the year ended 31 December 2022. Balance the account and bring down the balances on 1 January 2023.

Favourite Book Club
Subscriptions account

Date	Details	\$	Date	Details	\$
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[7]

(b) Prepare the income and expenditure account for the year ended 31 December 2022.

Favourite Book Club
Income and Expenditure Account for the year ended 31 December 2022

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[6]

The treasurer is considering increasing the subscription amount in order to obtain sufficient funds to purchase computer equipment. The equipment would cost \$400 and would be used to maintain the club records.

REQUIRED

- (c) Advise the treasurer whether she should fund the purchase of the computer equipment by increasing the subscription amount. Justify your answer by making points for **and** against increasing the subscription amount. Calculations are **not** required.

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- (d) State the meaning of the following terms:

- (i) receipts and payments account

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- (ii) accumulated fund

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[Total: 20]

4 Akila and Darius are in partnership. The partnership agreement provides for the following:

- interest on capital of 3% per annum
- interest on drawings of 5%
- a salary to Akila of \$9500 per annum
- residual profits and losses to be shared 60% to Akila and 40% to Darius.

The partners provided the following list of balances.

	\$
Capital accounts at 1 May 2022	
Akila	90 000
Darius	65 000
Current accounts at 1 May 2022	
Akila	2 600 debit
Darius	4 745 credit
Drawings for the year ended 30 April 2023	
Akila	19 400
Darius	16 320

The profit for the year ended 30 April 2023 was \$42 304.

REQUIRED

- (a) Prepare the appropriation account on the opposite page for Akila and Darius for the year ended 30 April 2023.

Akila and Darius
Appropriation Account for the year ended 30 April 2023

	\$	\$
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(b) (i) Prepare Akila’s current account for the year ended 30 April 2023.

Akila
Current account

Date	Details	\$	Date	Details	\$
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[5]

(ii) Calculate the balance on Akila’s current account at 30 April 2023 if he had been due \$1000 loan interest from the partnership.

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..... [2]

Akila and Darius’s partnership agreement provided for salary, interest on capital, interest on drawings, and profit share.

(c) State **two** other items which are usually included in a partnership agreement.

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[2]

Akila and Darius are considering forming a limited company. They would be the only two shareholders in the company.

- (d)** Advise Akila and Darius whether they should form a limited company. Justify your answer with **two** advantages and **two** disadvantages of Akila and Darius forming a limited company.

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[5]

[Total: 20]

- 5 Amadi prepared the following trial balance which is not yet totalled and contains errors.

Amadi		Debit	Credit
Trial balance at 31 March 2023		\$	\$
Fittings and equipment at cost			30 000
Provision for depreciation of fittings and equipment	7 500		
Trade receivables	6 100		
Bank overdraft	3 106		
Trade payables			3 485
Capital			20 000
Sales			73 250
Purchases			41 785
Discount received	1 990		
Returns inwards	3 390		
Carriage inwards	1 223		
General expenses	6 430		
Rent and rates	7 380		
Drawings	9 500		
Inventory at 1 April 2022			3 752
Inventory at 31 March 2023	3 965		

REQUIRED

- (a) Prepare a corrected trial balance at 31 March 2023. Show the remaining difference between the debit and credit totals as 'suspense.'

Amadi
Corrected Trial Balance at 31 March 2023

	Debit \$	Credit \$
Fittings and equipment at cost
Provision for depreciation of fittings and equipment
Trade receivables
Bank overdraft
Trade payables
Capital
Sales
Purchases
Discount received
Returns inwards
Carriage inwards
General expenses
Rent and rates
Drawings
Inventory
Suspense

[6]

Amadi then discovered the following errors.

- 1 The general expenses account had been undercast by \$200.
- 2 A rent payment, \$516, had been posted to the rent and rates account as \$615.
- 3 The total for discount received in the cash book for February 2023, \$165, had been debited to the drawings account. No other entry for this total had been made.

REQUIRED

(b) Prepare the suspense account.

Amadi
Suspense account

Date 2023	Details	\$	Date 2023	Details	\$
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[5]

REQUIRED

(c) Prepare the trading section of Amadi's income statement for the year ended 31 March 2023.

Amadi
Income Statement (trading section) for the year ended 31 March 2023

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[4]

(d) Calculate Amadi’s gross margin, correct to two decimal places.

Gross margin	
workings	answer

[2]

Amadi’s main competitor is Hector who owns his own business premises. Amadi and Hector have similar gross margins but Hector has a slightly higher profit margin.

REQUIRED

(e) Explain whether or not Amadi should be satisfied with these results.

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[3]

[Total: 20]

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