



Cambridge O Level

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ACCOUNTING

7707/22

Paper 2 Structured Written Paper

May/June 2024

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 Lottie is a trader. Her financial year end is 30 April. She keeps her petty cash book using the imprest system. The imprest amount is \$150. The totals of the payments analysis columns in her petty cash book for April 2024 are as follows.

	\$
Cleaning	21
Stationery	47
Sundry expenses	44

During April 2024, Lottie received a refund for damaged stationery, \$15. This amount was received into petty cash.

REQUIRED

- (a) Calculate the amount required to restore the petty cash imprest on 1 May 2024.

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..... [3]

The petty cash book is one of the books of prime entry.

REQUIRED

- (b) State

- (i) **one** other book of prime entry

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..... [1]

- (ii) **two** advantages of using books of prime entry

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..... [2]

On 30 April 2024, Lottie sold a motor vehicle for \$6000 on credit to Y Limited. She had purchased the vehicle on 1 May 2021 for \$12000. Lottie charges depreciation on vehicles at 25% using the reducing balance method. No depreciation is charged in the year of disposal.

REQUIRED

(c) (i) Calculate the accumulated depreciation on the vehicle at 30 April 2024.

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..... [2]

(ii) Prepare the disposal of motor vehicles account.

Lottie
Disposal of motor vehicles account

Date	Details	\$	Date	Details	\$
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[4]

Lottie sells 3 different types of goods. Her inventory at 30 April 2024 is as follows.

Type	Number of units	Purchase price per unit \$	Net realisable value per unit \$	Carriage inwards per unit \$
A	60	14	20	1
B	85	17	24	0
C	30	21	22	2

REQUIRED

(d) Calculate the value of Lottie’s inventory at 30 April 2024.

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..... [4]

Lottie pays \$360 per annum for insurance. On 1 May 2023, insurance of \$60 was prepaid. On 1 August Lottie paid \$360 by bank transfer for the year 1 July 2023 to 30 June 2024.

REQUIRED

(e) Prepare the insurance account for the year ended 30 April 2024. Bring down the balance at 1 May 2024.

Lottie
Insurance account

Date	Details	\$	Date	Details	\$
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[4]

[Total: 20]

2 Toyah owns a factory which makes dolls' houses. Her financial year end is 31 January.

At 31 January 2024, her ledger accounts included the following balances.

	\$
Inventory at 1 February 2023	
Raw materials	12 400
Work in progress	16 970
Finished goods	14 825
Revenue	390 100
Purchases of raw materials	143 000
Wages	
Factory operatives	51 000
Factory supervisor	19 000
Sales staff	30 000
Factory electricity	16 000
Rates and insurance	16 200
General factory expenses	6 155
Factory machinery – at cost	120 000
Factory machinery – provision for depreciation	52 500

Additional information

1. Inventory at 31 January 2024

Raw material	11 205
Work in progress	17 682
Finished goods	13 480

2. Rates and insurance are to be apportioned 2/3 to the factory and 1/3 to the office.

3. At 31 January 2024, general factory expenses of \$235 were unpaid.

4. Factory machinery is depreciated at 25% per annum using the reducing balance method.

REQUIRED

(a) Prepare Toyah's manufacturing account for the year ended 31 January 2024.

Toyah
Manufacturing Account for the year ended 31 January 2024

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(b) Prepare Toyah's income statement (trading section) for the year ended 31 January 2024.

Toyah
Income statement (trading section) for the year ended 31 January 2024

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[5]

The factory produced 6936 dolls' houses during the year ended 31 January 2024.

REQUIRED

(c) Calculate the manufacturing cost of each dolls' house. Round up your answer to the nearest dollar.

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..... [1]

Idir, a competitor of Toyah's, has decided to cease trading. He has offered to sell his inventory of finished goods to Toyah at a discounted price in return for immediate payment in cash. The total price for these items is \$9600. Toyah has \$1415 cash at bank.

REQUIRED

(d) Advise Toyah whether or not she should buy Idir's inventory. Justify your answer by providing **two** points for and **two** points against buying this inventory.

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..... [5]

[Total: 20]

- 3 Akil prepared his trial balance at 29 February 2024. The total of the debit side was \$83640 and the total of the credit side was \$84025.

Akil later discovered the following errors.

- 1 The total of the sales journal for January 2024, \$3416, had been credited to the sales returns account.
- 2 A direct debit for insurance, \$115, had been credited to both the bank account and the insurance account.
- 3 Discount allowed, \$47, had been credited to the account for discount received.
- 4 A payment for office equipment, \$52, had been debited to the stationery account.
- 5 The purchases journal for February had been overcast by \$90.

REQUIRED

(a) State

- (i) which business document shows when the direct debit for insurance was paid
..... [1]
- (ii) which of the errors listed in 1 to 5 above is an error of principle
..... [1]

(b) Prepare the journal entries to correct errors 1 to 3 **only**. Narratives are **not** required.

Akil
Journal

Error number	Details	Debit \$	Credit \$
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[7]

(c) (i) State why a balance may remain on the suspense account after errors 1 to 5 have been corrected.

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 [1]

(ii) Prepare the suspense account. Bring down any remaining balance at 1 March 2024.

Akil
Suspense account

Date	Details	\$	Date	Details	\$
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[5]

Akil's draft profit for the year, before correction of the errors, was \$17 420.

REQUIRED

(d) Calculate Akil's profit **after** items 1 to 5 have been corrected.

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 [5]

[Total: 20]

- 4 Tadeen and Yadid are lawyers who have been in partnership for many years. The partners provided the following trial balance at 30 April 2024.

Tadeen and Yadid
Trial balance at 30 April 2024

	\$	\$
Revenue		236 350
Salaries	79 800	
Rates and insurance	17 320	
Advertising	16 730	
Office expenses	6 150	
Interest on loan from Tadeen	1 200	
Premises at cost	180 000	
Fittings and equipment at cost	70 000	
Provision for depreciation of fittings and equipment		31 500
Receivables	24 200	
Cash at bank	19 335	
Cash in hand	1 375	
Loan from Tadeen		20 000
Capital accounts		
Tadeen		125 000
Yadid		85 000
Current accounts		
Tadeen		3 300
Yadid	4 240	
Drawings		
Tadeen	34 300	
Yadid	46 500	
	<u>501 150</u>	<u>501 150</u>

Additional information

- 1 Rates and insurance include an amount of \$1920 for the year 1 March 2024 to 28 February 2025.
- 2 At 30 April 2024, \$1800 for salaries was due but unpaid.
- 3 Irrecoverable receivables of \$670 are to be written off.
- 4 Depreciation on fittings and equipment is to be charged at 15% per annum using the straight-line method.
- 5 The partnership agreement provides for
 - interest on partner's loan of 6% per annum
 - interest on drawings of 5%
 - interest on capital of 3% per annum
 - a salary to Yadid of \$10 000 per annum
 - residual profits and losses are to be shared 60% to Tadeen and 40% to Yadid.

(b) Prepare the appropriation account for Tadeen and Yadid for the year ended 30 April 2024.

Tadeen and Yadid
Appropriation account for the year ended 30 April 2024

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[5]

(c) State

(i) **one** reason why the partners might consider reducing their drawings

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..... [1]

(ii) which accounting principle reflects the partners’ intention to continue trading indefinitely.

..... [1]

5 Ajay is a retailer. He has provided the following information.

\$

At 1 April 2023

Inventory	5 200
Trade receivables	6 875
Cash at bank	1 946
Trade payables	5 115

For the year ended 31 March 2024

Revenue – credit sales	86 400
– cash sales	10 600
Purchases	51 300
Expenses	23 750

At 31 March 2024

Inventory	6 500
Trade receivables	9 550
Cash at bank	1 200
Trade payables	6 000

REQUIRED

(a) Complete the following table.

ratio	working	answer
Gross margin (to 2 decimal places)		
Profit margin (to 2 decimal places)		
Rate of inventory turnover (times) (to 2 decimal places)		
Trade receivables turnover days (round up to next whole day)		
Liquid (acid test) ratio (to 2 decimal places)		

[11]

Ajay has been trading for 3 years and he has established a good reputation. He has never changed his selling price. His gross margin for the year ended 31 March 2024 is higher than for the previous years.

REQUIRED

(b) (i) Suggest **one** reason why Ajay’s gross margin has increased.

.....
 [1]

(ii) State **one** reason why Ajay’s customers might be interested in his financial statements.

.....
 [1]

Ajay is concerned about the levels of his inventory and trade receivables. He is considering reducing his selling price.

REQUIRED

(c) Advise Ajay whether or not he should reduce his selling price. Justify your answer by providing advantages and disadvantages of reducing his selling price.

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..... [5]

Although Ajay’s gross margin has increased, his profit margin has fallen for each of the last two years. Sales revenue is Ajay’s only income.

REQUIRED

(d) State **two** reasons why Ajay should be concerned about his falling profit margin.

1
.....
2
..... [2]

[Total: 20]

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