



Cambridge O Level

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ACCOUNTING

7707/22

Paper 2 Structured Written Paper

May/June 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 **16** pages. Any blank pages are indicated.



- 1 Leo maintains a petty cash book using the imprest system. The imprest amount, which is \$200, is restored on the first day of each month.

All payments of less than \$100 are made from petty cash. All cash receipts of less than \$100 are paid into petty cash.

On 1 April 2021 Leo had \$48 in his petty cash box. Leo provided the following information for April 2021.

April	1	Restored petty cash imprest from the business bank account
	5	Paid for office cleaning, \$21
	7	Paid for train ticket, \$13
	13	Paid \$72 to Hunter, a trade payable
	18	Paid taxi fare, \$14
	25	Received cash, \$11, from Conrad, a trade receivable

REQUIRED

- (a) Prepare Leo's petty cash book for the month of April 2021, on **page 3**.

Balance the petty cash book and bring down the balance on 1 May 2021.

[illegible]

[Turn over

- (b) (i) Name the ledger to which **each** of the following would be posted.

The total of the column for travel expenses

The payment to Hunter

[2]

- (ii) Name the accounting principle which is being applied when figures from the petty cash book are posted to the appropriate ledgers.

..... [1]

Leo received a statement of account from Hunter.

REQUIRED

- (c) State **two** purposes of issuing this statement to Leo.

1

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2

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[2]

Leo is considering making all payments over \$50 to trade payables by credit transfer.

REQUIRED

- (d) Advise Leo whether he should go ahead with this change. Justify your answer by providing **two** advantages and **two** disadvantages.

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..... [5]

[Total: 20]

- 2 Tej is a trader who sells goods on credit. His year end is 28 February. Tej provided the following information.

		\$
At 1 March 2020		
Trade receivables		6250
Other receivables (rent prepaid)		300
For the year ended 28 February 2021		
Rent charge for the year		3900
Cheque payments for rent	30 June 2020	1950
	30 November 2020	2100
At 28 February 2021		
Trade receivables		7000

The provision for doubtful debts was 4% of trade receivables at 1 March 2020 and 6% of trade receivables at 28 February 2021.

REQUIRED

- (a) Prepare the rent payable account for the year ended 28 February 2021. Balance the account and bring down the balance on 1 March 2021.

Tej
Rent payable account

Date	Details	\$	Date	Details	\$
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[6]

- (b) Prepare the provision for doubtful debts account for the year ended 28 February 2021. Balance the account and bring down the balance on 1 March 2021.

Tej
Provision for doubtful debts account

Date	Details	\$	Date	Details	\$
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[4]

- (c) Name the accounting principle applied when the income statement is adjusted for rent prepaid.

..... [1]

- (d) (i) Explain how the realisation principle is applied to the recording of Tej's credit sales.

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..... [2]

- (ii) Explain how the prudence principle is applied to the maintenance of Tej's provision for doubtful debts.

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..... [2]

Tej sells to a small number of customers. He has good working relationships with them and they sometimes recommend him to potential customers.

Tej is concerned that his customers are taking a long time to pay him. He is considering charging interest on overdue accounts.

REQUIRED

(e) Advise Tej whether or not he should charge interest on overdue accounts. Justify your answer.

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..... [5]

[Total: 20]

- 3 The trial balance of HV Limited at 31 March 2021 was as follows.

HV Limited Trial Balance at 31 March 2021		
	Debit	Credit
	\$	\$
Revenue		145 000
Inventory at 1 April 2020	5 820	
Purchases	64 900	
Rent and insurance	9 280	
Wages	24 750	
Operating expenses	8 500	
Fittings at cost	200 000	
Provision for depreciation of fittings		72 000
Trade receivables	12 500	
Bank	13 765	
Trade payables		6 615
4% Debentures (repayable 1 April 2031)		30 000
Ordinary share capital		70 000
Retained earnings		21 500
Dividend paid on ordinary shares	5 600	
	<u>345 115</u>	<u>345 115</u>

Additional information

- 1 Inventory at 31 March 2021 was valued at \$6090.
- 2 Depreciation on fittings is to be charged at 20% per annum using the reducing balance method.
- 3 Rent includes a payment of \$1800 for the 3 months from 1 March 2021 to 31 May 2021.
- 4 Accrued wages at 31 March 2021 were \$2250.
- 5 No debenture interest has been paid for the year ended 31 March 2021.
- 6 No dividends were outstanding at 31 March 2021.
- 7 \$2000 is to be transferred to a general reserve on 31 March 2021.

REQUIRED

(a) Prepare the income statement for HV Limited for the year ended 31 March 2021.

HV Limited
Income Statement for the year ended 31 March 2021

[illegible]

[8]

- (b) Prepare the statement of changes in equity for HV Limited for the year ended 31 March 2021.

HV Limited Statement of Changes in Equity for the year ended 31 March 2021				
Details	Ordinary Share capital \$	General reserve \$	Retained earnings \$	Total \$
On 1 April 2020				
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On 31 March 2021				

[5]

- (c) Calculate the return on capital employed for the year ended 31 March 2021.
The answer should be correct to **two** decimal places.

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..... [3]

- (d) State **two** differences between ordinary shares and preference shares.

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[4]

[Total: 20]

- 4 RIA Music Club owns its premises where it has a shop and a number of music rooms. Shop sales are for cash and shop purchases are on credit. Mark-up is 20%. The treasurer provided the following information.

	At 1 January 2020	At 31 December 2020
	\$	\$
Subscriptions in advance	1 200	1 050
Subscriptions in arrears	5 215	5 830
Total shop trade payables	4 275	4 990
Shop inventory	2 500	2 500
Balance at bank	240	110
For the year to 31 December 2020		
Subscriptions received	36 700	
Shop purchases	34 200	
Shop purchases returns	1 710	
Interest charged on overdue shop trade payables accounts	200	

REQUIRED

- (a) Prepare the subscriptions account for the year ended 31 December 2020. Balance the account and bring down the balances on 1 January 2021.

RIA Music Club Subscriptions account

Date	Details	\$	Date	Details	\$
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[6]

- (b) Prepare the total shop trade payables account for the year ended 31 December 2020 to calculate the amount paid to shop trade payables.

RIA Music Club
Total shop trade payables account

Date	Details	\$	Date	Details	\$
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[6]

- (c) Calculate the revenue from shop sales for the year ended 31 December 2020.

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..... [3]

The treasurer is concerned about the decreasing bank balance and the increase in shop trade payables. He is looking into the possibility of renting out part of the club premises to an art society for \$400 per month.

REQUIRED

- (d) Advise the treasurer whether renting out part of the premises is the most suitable way of improving cash flow or whether other methods may be more suitable. Justify your answer.

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..... [5]

[Total: 20]

5 Kia is a trader.

The totals of the trial balance prepared on 30 April 2021 did not agree and the difference was placed in a suspense account.

Kia later discovered the errors shown in the table in part (a).

REQUIRED

- (a) Complete the following table to show the entries required to **correct each** error. The first one has been completed as an example.

Error	Entries required to correct the error			
	Debit		Credit	
	Account	\$	Account	\$
Cash drawings, \$200, had been omitted from the drawings account.	<i>Drawings</i>	<i>200</i>	<i>Suspense</i>	<i>200</i>
A petty cash book payment, \$31, to Abel, a supplier, had been recorded in the column for office expenses.				
				
Sales returns, \$105, had been correctly entered in the customer's account but had been credited to the purchases returns account.				
				
A payment for motor expenses, \$72, had been recorded in the motor expenses account as \$172.				
				
A purchase invoice, \$102, from Abel, had been debited to Abel's account and credited to the purchases account.				
				

[9]

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

Kia
Suspense account

Date	Details	\$	Date	Details	\$
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[5]

- (c) The account for Abel in Kia's books showed that Kia owed him \$327 **before** the errors were corrected. Calculate the correct amount which Kia owed Abel at 30 April 2021.

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..... [3]

Kia has recorded the purchase of a calculator, \$5, as an office expense.

REQUIRED

- (d) State **three** reasons why Kia did **not** record this as a non-current asset.

1

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2

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3

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[3]

[Total: 20]

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