Cambridge Assessment International Education

Cambridge O Level

ACCOUNTING **7707/02**

Paper 2 Structured Written Paper **For examination from 2020**

MARK SCHEME

Maximum Mark: 100

Specimen

This document has **12** pages. Blank pages are indicated.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1: Marks must be awarded in line with: • the specific content of the mark scheme or the generic level descriptors for the question • the specific skills defined in the mark scheme or in the generic level descriptors for the question • the standard of response required by a candidate as exemplified by the standardisation scripts.
GENERIC MARKING PRINCIPLE 2: Marks awarded are always **whole marks** (not half marks, or other fractions).
GENERIC MARKING PRINCIPLE 3: Marks must be awarded **positively**: • marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate • marks are awarded when candidates clearly demonstrate what they know and can do • marks are not deducted for errors • marks are not deducted for omissions • answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.
GENERIC MARKING PRINCIPLE 4: Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.
GENERIC MARKING PRINCIPLE 5: Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

MARK SCHEME NOTES

The following notes are intended to aid interpretation of the mark scheme.

Abbreviation

OF Own Figure (**OF**) marks are awarded when an incorrect figure for which candidates may have previously lost marks has been correctly carried forward.

Question	Answer	Marks
1(a)	Shahid Cash Book	**11**

Date	Details	Discount allowed $	Cash $	Bank $	Date	Details	Discount received $	Cash $	Bank $
2017					2017				
Aug 1	Balance b/d		50		Aug 1	Balance b/d			7150
24	Mariam **(1)**	13		507	9	EN Supplies (dis cheque) **(1)**			362
30	Sales **(1)**		3224		18	Drawings **(1)**			54
31	Cash c **(1)OF**			3174	27	Office equipment **(1)**			365
	Balance c/d			4285		Office equipment repairs **(1)**			35
					31	Bank c **(1)**		3174	
						Balance c/d		100	
		13	3274	7966				3274	7966
2017					2017				
Sept 1	Balance b/d		100 **(1)**		Sept 1	Balance b/d			4285 **(1)OF**

+ (1) dates

Question	Answer	Marks
1(b)		**4**

Transaction	Document	Book of prime entry
August 9 Goods	Sales invoice **(1)**	Sales journal **(1)**
13 Returns	Credit note issued **(1)**	Sales returns journal **(1)**

Question	Answer	Marks
1(c)	Mariam Shahid account	5

Date		Details	$		Date		Details	$	
2017					2017				
Aug	13	Purchases returns	24	**(1)**	Aug	1	Balance b/d	520	
	24	Bank	507	**(1)**		9	Purchases	340	**(1)**
		Discount	13	**(1)**					
	31	Balance c/d	316						
			860					860	
					2017				
					Sept	1	Balance b/d	316	**(1)OF**

Question	Answer	Marks
2(a)	Yasmin Manufacturing Account for the year ended 30 April 2017	10

	$		$	
Cost of materials used				
Purchases of raw materials			30 100	**(1)**
Less Closing inventory of raw materials			3 150	**(1)**
			26 950	
Direct wages (31 500 + 800)			32 300	**(1)**
Prime cost			59 250	**(1)**
Factory overheads				
Indirect factory wages	11 860	**(1)**		
General factory expenses	3 240	**}**		
Rates	4 500	**} (1)**		
Depreciation – Machinery (35 000 × 20%)	7 000	**}**		
Tools (1 000 – 830)	170	**} (1)**	26 770	
			86 020	**(1) OF**
Less Closing work in progress			2 820	**(1)**
Cost of production			83 200	**(1) OF**

Question	Answer	Marks
2(b)	The savings in direct labour costs would amount to $10 767 a year **(1)**. The cost of production would reduce by $5 767 a year (wages decrease by $10 767 and depreciation increases by $5 000) **(1)**. Reducing cost of production and maintaining selling price increase profit **(1)**. The purchase would increase depreciation by $5 000 a year **(1)** and might also increase the cost of repairs and power. **(1)** The purchase might incur finance charges if funds are not immediately available. **(1)** However redundancy costs might be incurred. **(1)** Would the reduction in labour enable her to be flexible enough to cope with fluctuations in demand / to cover holidays and sickness **(1)**? How easy would it be to hire more labour if the need arose **(1)**? max **(2)** for advantages, max **(2)** for disadvantages **(1)** for decision Accept all valid points	**5**
2(c)(i)	$ Cost of production 83 200 **(1) OF** Purchases of finished goods <u>15 700</u> **(1)** 98 900 Less Closing inventory of finished goods <u>6 800</u> Cost of sales <u>92 100</u> **(1) OF** (no omissions or extraneous items)	**3**
2(c)(ii)	$ Revenue 113 640 Cost of sales <u>92 100</u> **OF** Gross profit <u>21 540</u> **(1) OF**	**1**
2(d)	Increase selling price Increase mark-up Reduce trade discount allowed to customers Reduce cost of manufacturing Purchase cheaper raw materials Buy in bulk to obtain trade discount Reduce factory wages Reduce factory overheads **Any 1 point (1)**	**1**

Question	Answer	Marks
3(a)	Amla Rates and insurance account	9

Date	Details	$	$	Date	Details	$	$
2016				2016			
Jan 1	Balance (insurance) b/d		700 **(1)**	Jan 1	Balance (rates) b/d		480 **(1)**
Dec 31	Bank – rates		2560 **(1)**	Dec 31	Income statement		
	insurance		2400 **(1)**		rates	1920 **(1)**	
					insurance	<u>2300</u> **(1)**	4220
					Balance c/d –		
					rates	160	
					insurance	<u>800</u>	<u>960</u>
			<u>5660</u>				<u>5660</u>
2017							
Jan 1	Balance b/d						
	rates	160					
	insurance	<u>800</u>	960 **(2)CF/(1)OF**				

(1) Dates

Question	Answer	Marks
3(b)	Section of statement of financial position: Current assets **(1)** Reason: Both the rates and insurance are prepaid at the end of the year **(1)**	2
3(c)	Amla Rent receivable account	4

Date	Details	$	Date	Details	$
2016			2016		
Dec 31	Income statement	1200 **(1)**	Oct 1	Bank	800 **(1)**
			Dec 31	Balance c/d	<u>400</u>
		<u>1200</u>			<u>1200</u>
2017					
Jan 1	Balance b/d	400 **(1)OF**			

(1) Dates

Question	Answer	Marks
3(d)	Section of statement of financial position: Current assets **(1)** Reason: Rent receivable is owed by the tenant **(1)**	**2**
3(e)	Each monthly payment would be smaller making it easier to finance / having less impact on cash flow. **(1)** Payments would be made automatically avoiding the need for Amla to take action. **(1)** It would be more difficult for Amla to get behind with her payments. **(1)** Amla would lose control of her payment schedule. **(1)** Amla would not be able to pick and choose when to make the payment, when funds were sufficient. **(1)** Amla's bank charges might increase. **(1)** max **(1)** for advantage, max **(1)** for disadvantage plus **(1)** for decision. **Accept all valid points**	**3**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)</td><td>
Wasim
Suspense account
<table>
<tr><td>Date</td><td>Details</td><td>$</td><td>Date</td><td>Details</td><td>$</td></tr>
<tr><td>2017</td><td></td><td></td><td>2017</td><td></td><td></td></tr>
<tr><td>Mar 31</td><td>Difference on trial balance</td><td>495 (1)</td><td>Mar 31</td><td>Purchases</td><td>18 (1)</td></tr>
<tr><td></td><td>Balance c/d</td><td>190</td><td></td><td>Petty cash</td><td>100 (1)</td></tr>
<tr><td></td><td></td><td></td><td></td><td>Discount allowed</td><td>250 (1)</td></tr>
<tr><td></td><td></td><td></td><td></td><td>Discount received</td><td>250 (1)</td></tr>
<tr><td></td><td></td><td></td><td></td><td>Stationery</td><td>67 (1)</td></tr>
<tr><td></td><td></td><td>685</td><td></td><td></td><td>685</td></tr>
<tr><td></td><td></td><td></td><td>2017</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>Apr 1</td><td>Balance b/d</td><td>190 (1)OF</td></tr>
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</td><td>7</td></tr>
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Question	Answer	Marks
4(b)	(see table below)	6

Error number	Details	Debit $	Credit $
2	DDE Limited DEC Limited Correction of error – DDE Limited wrongly credited	150	150
4	Motor vehicle repairs Motor vehicles Correction of error – motor vehicles wrongly debited	283	283
5	Fixtures OS Supplies Correction of error of reversal	4000	4000

Any TWO of the above journal entries (1) debit entry
(1) credit entry
(1) narrative

Question	Answer	Marks
4(c)	Error of commission **(1)**	1
4(d)	(see table below)	6

error number	affects the profit for the year	does not affect the profit for the year
1	✓	
2		✓ **(1)**
3		✓ **(1)**
4	✓ **(1)**	
5		✓ **(1)**
6	✓ **(1)**	
7	✓ **(1)**	

Question	Answer	Marks
5(a)	K Limited Statement of Changes in Equity for the year ended 30 September 2017	5

Details	Share capital $	General reserve $	Retained earnings $	Total $
On 1 October 2016	90 000	4 000	5 500	99 500 **(1) row**
Profit for the year			9 000	9 000 **(1) row**
Transfer to general reserve		2 000	(2 000)	**(1) row**
Interim dividend paid			(4 500)	(4 500) **(1) row**
On 30 September 2017	90 000	6 000	8 000	104 000 **(1 OF) row**

Question	Answer	Marks
5(b)	Current ratio (5 100 + 8 500) : (6 100 + 4 300 + 1 400) = 13 600 : 11 800 **(1)** = 1.15 : 1 **(1)** Liquid (acid test) ratio (8 500 : (6 100 + 4 300 + 1 400) = 8 500 : 11 800 **(1)** = 0.72 : 1 **(1)** Return on capital employed (ROCE) $\left.\frac{9\,000}{(90\,000+6\,000+8\,000)}\right\}\mathbf{(1)} \times \frac{100}{1}$ OR $\left.\frac{9\,000}{(102\,200+13\,600-11\,800)}\right\}\mathbf{(1)} \times \frac{100}{1}$ = 8.65% **(1) OF**	6

Question	Answer	Marks
5(c)	Cash can be tied up in inventory **(1)**. The bank account is already overdrawn **(1)**. If excess inventory is held there are storage costs **(1)** and the risk of damage and obsolescence **(1)**. The already low current ratio would fall **(1)** and there would be no effect on the liquid (acid test) ratio **(1)**. However the fall in inventory might cause a fall in trade payables and the effect on the ratios cannot be quantified **(1)**. Reducing inventory increases the risk of items not being available when necessary **(1)** and sales could be lost **(1)**. This would decrease the ROCE if profit falls **(1)**. If sales were lost then trade receivables could also fall which would also tend to lower the liquid (acid test) ratio and current ratios **(1)**. max **(4)** for comments plus **(1)** for decision	**5**
5(d)	Unsatisfied (1)	**1**
5(e)	On average they are taking 22 days more than is allowed to pay credit suppliers, this may be caused by the credit customers taking too long to pay May result in further supplies being refused / damage relationship with suppliers May result in interest being charged on the overdue accounts Will not be able to take advantage of cash discount **Any 3 comments (1) each**	**3**

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