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<br>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 | | | |
| 30 | Sales **(1)** | | 3224 | | | (dis cheque) **(1)** | | | 362 |
| 31 | Cash c **(1)OF** | | | 3174 | 18 | Drawings **(1)** | | | 54 |
| | Balance c/d | | | 4285 | 27 | Office equipment **(1)** | | | 365 |
| | | | | | | 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**

| | | | |
|---|---|---|---|
| 1(b) | 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)** |

**4**

| Question | Answer | Marks |
|---|---|---|
| 1(c) | Mariam<br>Shahid account<br><br>Date 2017 / Details / $ — Date 2017 / Details / $<br>Aug 13 Purchases returns 24 **(1)** — Aug 1 Balance b/d 520<br>24 Bank 507 **(1)** — 9 Purchases 340 **(1)**<br>Discount 13 **(1)**<br>31 Balance c/d 316<br>860 — 860<br>2017 Sept 1 Balance b/d 316 **(1)OF** | **5** |

| Question | Answer | | | Marks |
|---|---|---|---|---|
| 2(a) | Yasmin<br>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)**<br><br>However redundancy costs might be incurred. **(1)**<br>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)**?<br><br>max **(2)** for advantages, max **(2)** for disadvantages **(1)** for decision<br><br>Accept all valid points | **5** |
| 2(c)(i) | $<br>Cost of production 83 200 **(1) OF**<br>Purchases of finished goods 15 700 **(1)**<br>98 900<br>Less Closing inventory of finished goods 6 800<br>Cost of sales 92 100 **(1) OF**<br>(no omissions or extraneous items) | **3** |
| 2(c)(ii) | $<br>Revenue 113 640<br>Cost of sales 92 100 **OF**<br>Gross profit 21 540 **(1) OF** | **1** |
| 2(d) | Increase selling price<br>Increase mark-up<br>Reduce trade discount allowed to customers<br>Reduce cost of manufacturing<br>Purchase cheaper raw materials<br>Buy in bulk to obtain trade discount<br>Reduce factory wages<br>Reduce factory overheads<br><br>**Any 1 point (1)** | **1** |

| Question | Answer | Marks |
|---|---|---|
| 3(a) | Amla<br>Rates and insurance account<br><br>Date 2016 / Details / $ / Date 2016 / Details / $<br>Jan 1 Balance (insurance) b/d 700 **(1)** / Jan 1 Balance (rates) b/d 480 **(1)**<br>Dec 31 Bank – rates 2560 **(1)** / Dec 31 Income statement<br>insurance 2400 **(1)** rates 1920 **(1)**<br>insurance 2300 **(1)** 4220<br>Balance c/d –<br>rates 160<br>insurance 800 960<br>5660 5660<br>2017<br>Jan 1 Balance b/d<br>rates 160<br>insurance 800 960 **(2)CF/(1)OF**<br><br>**(1) Dates** | **9** |
| 3(b) | Section of statement of financial position: Current assets **(1)**<br>Reason: Both the rates and insurance are prepaid at the end of the year **(1)** | **2** |
| 3(c) | Amla<br>Rent receivable account<br><br>Date 2016 / Details / $ / Date 2016 / Details / $<br>Dec 31 Income statement 1200 **(1)** / Oct 1 Bank 800 **(1)**<br>Dec 31 Balance c/d 400<br>1200 1200<br>2017<br>Jan 1 Balance b/d 400 **(1)OF**<br><br>**(1) Dates** | **4** |

| Question | Answer | Marks |
|---|---|---|
| 3(d) | Section of statement of financial position: Current assets **(1)**<br>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)**<br>Payments would be made automatically avoiding the need for Amla to take action. **(1)**<br><br>It would be more difficult for Amla to get behind with her payments. **(1)**<br><br>Amla would lose control of her payment schedule. **(1)**<br>Amla would not be able to pick and choose when to make the payment, when funds were sufficient. **(1)**<br>Amla's bank charges might increase. **(1)**<br><br>max **(1)** for advantage, max **(1)** for disadvantage plus **(1)** for decision.<br>**Accept all valid points** | **3** |

| Question | Answer | Marks |
|---|---|---|
| 4(a) | Wasim<br>Suspense account<br><br>Date 2017 / Details / $ / Date 2017 / Details / $<br>Mar 31 Difference on trial balance 495 **(1)** — Mar 31 Purchases 18 **(1)**<br>Balance c/d 190 — Petty cash 100 **(1)**<br>Discount allowed 250 **(1)**<br>Discount received 250 **(1)**<br>Stationery 67 **(1)**<br>685 — 685<br>2017<br>Apr 1 Balance b/d 190 **(1)OF** | **7** |

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
<table>
<tr><th>Error number</th><th>Details</th><th>Debit $</th><th>Credit $</th></tr>
<tr><td>2</td><td>DDE Limited<br>DEC Limited<br>Correction of error – DDE Limited wrongly credited</td><td>150</td><td><br>150<br></td></tr>
<tr><td>4</td><td>Motor vehicle repairs<br>Motor vehicles<br>Correction of error – motor vehicles wrongly debited</td><td>283</td><td><br>283<br></td></tr>
<tr><td>5</td><td>Fixtures<br>OS Supplies<br>Correction of error of reversal</td><td>4000</td><td><br>4000<br></td></tr>
</table>
<br>Any TWO of the above journal entries (1) debit entry<br>(1) credit entry<br>(1) narrative
</td><td>6</td></tr>
<tr><td>4(c)</td><td>Error of commission (1)</td><td>1</td></tr>
<tr><td>4(d)</td><td>
<table>
<tr><th>error number</th><th>affects the profit for the year</th><th>does not affect the profit for the year</th></tr>
<tr><td>1</td><td>✓</td><td></td></tr>
<tr><td>2</td><td></td><td>✓ (1)</td></tr>
<tr><td>3</td><td></td><td>✓ (1)</td></tr>
<tr><td>4</td><td>✓ (1)</td><td></td></tr>
<tr><td>5</td><td></td><td>✓ (1)</td></tr>
<tr><td>6</td><td>✓ (1)</td><td></td></tr>
<tr><td>7</td><td>✓ (1)</td><td></td></tr>
</table>
</td><td>6</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(a)</td><td>K Limited<br>Statement of Changes in Equity for the year ended 30 September 2017<br><br>
<table>
<tr><th>Details</th><th>Share capital<br>$</th><th>General reserve<br>$</th><th>Retained earnings<br>$</th><th>Total<br>$</th></tr>
<tr><td>On 1 October 2016</td><td>90 000</td><td>4 000</td><td>5 500</td><td>99 500 (1) row</td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td>9 000</td><td>9 000 (1) row</td></tr>
<tr><td>Transfer to general reserve</td><td></td><td>2 000</td><td>(2 000)</td><td>(1) row</td></tr>
<tr><td>Interim dividend paid</td><td></td><td></td><td>(4 500)</td><td>(4 500) (1) row</td></tr>
<tr><td>On 30 September 2017</td><td>90 000</td><td>6 000</td><td>8 000</td><td>104 000 (1 OF) row</td></tr>
</table></td><td>5</td></tr>
<tr><td>5(b)</td><td>Current ratio (5 100 + 8 500) : (6 100 + 4 300 + 1 400) = 13 600 : 11 800 (1)<br>= 1.15 : 1 (1)<br><br>Liquid (acid test) ratio (8 500 : (6 100 + 4 300 + 1 400) = 8 500 : 11 800 (1)<br>= 0.72 : 1 (1)<br><br>Return on capital employed (ROCE) $\frac{9\,000}{(90\,000 + 6\,000 + 8\,000)}$ (1) $\times \frac{100}{1}$<br><br>OR $\frac{9\,000}{(102\,200 + 13\,600 - 11800)}$ (1) $\times \frac{100}{1}$ = 8.65% (1) OF</td><td>6</td></tr>
</table>

| 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)**.<br><br>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)**.<br><br>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<br>May result in further supplies being refused / damage relationship with suppliers<br>May result in interest being charged on the overdue accounts<br>Will not be able to take advantage of cash discount<br><br>**Any 3 comments (1) each** | **3** |

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