



Cambridge O Level

ACCOUNTING

7707/22

Paper 2 Structured

May/June 2020

MARK SCHEME

Maximum Mark: 120

Published

Students did not sit exam papers in the June 2020 series due to the Covid-19 global pandemic.

This mark scheme is published to support teachers and students and should be read together with the question paper. It shows the requirements of the exam. The answer column of the mark scheme shows the proposed basis on which Examiners would award marks for this exam. Where appropriate, this column also provides the most likely acceptable alternative responses expected from students. Examiners usually review the mark scheme after they have seen student responses and update the mark scheme if appropriate. In the June series, Examiners were unable to consider the acceptability of alternative responses, as there were no student responses to consider.

Mark schemes should usually be read together with the Principal Examiner Report for Teachers. However, because students did not sit exam papers, there is no Principal Examiner Report for Teachers for the June 2020 series.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the June 2020 series for most Cambridge IGCSE™ and Cambridge International A & AS Level components, and some Cambridge O Level components.

This document consists of **12** printed pages.

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.

Question	Answer										Marks																																																																																																																								
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2(a)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: right;">\$</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Subscriptions in arrears</td> <td style="text-align: right;">845 (1)</td> <td></td> </tr> <tr> <td>Cash at bank</td> <td style="text-align: right;">1 570</td> <td></td> </tr> <tr> <td>Cash in hand</td> <td style="text-align: right;">130</td> <td></td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">615</td> <td></td> </tr> <tr> <td>Fixtures and fittings</td> <td style="text-align: right;"><u>11 200</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">14 360 (1)</td> <td></td> </tr> <tr> <td>Subscriptions in advance</td> <td style="text-align: right;">250</td> <td></td> </tr> <tr> <td>Wages outstanding</td> <td style="text-align: right;"><u>140</u></td> <td style="text-align: right;"><u>390 (1)</u></td> </tr> <tr> <td>Accumulated fund</td> <td></td> <td style="text-align: right;"><u>13 970 (1)(OF)</u></td> </tr> </table>		\$	\$	Subscriptions in arrears	845 (1)		Cash at bank	1 570		Cash in hand	130		Inventory	615		Fixtures and fittings	<u>11 200</u>			14 360 (1)		Subscriptions in advance	250		Wages outstanding	<u>140</u>	<u>390 (1)</u>	Accumulated fund		<u>13 970 (1)(OF)</u>	4
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2(c)	$1250 + 115 - 140$ (1) = 1225 (1)OF	2																														

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2(d)	<p style="text-align: center;">K Music Club Subscriptions account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%; text-align: right;">2019</td> <td style="width: 15%; text-align: right;">\$</td> <td style="width: 15%;"></td> <td style="width: 15%; text-align: right;">2019</td> <td style="width: 15%; text-align: right;">\$</td> </tr> <tr> <td></td> <td>Apr 1</td> <td>Balance b/d</td> <td style="text-align: right;">845</td> <td style="text-align: right;">(1)</td> <td>Apr 1</td> <td>Balance b/d</td> <td style="text-align: right;">250</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td>2020</td> <td></td> <td></td> <td></td> <td>2020</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Mar 31</td> <td>Income and Expenditure</td> <td style="text-align: right;">8 820</td> <td style="text-align: right;">(1)OF</td> <td>Mar 31</td> <td>Bank</td> <td style="text-align: right;">8 500</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td>Balance c/d</td> <td style="text-align: right;">215</td> <td></td> <td></td> <td>Irrecoverable debts</td> <td style="text-align: right;">155</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>9 880</u></td> <td></td> <td></td> <td>Balance c/d</td> <td style="text-align: right;"><u>975</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>9 880</u></td> <td></td> </tr> <tr> <td></td> <td>2020</td> <td></td> <td></td> <td></td> <td>2020</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Apl 1</td> <td>Balance b/d</td> <td style="text-align: right;">975</td> <td style="text-align: right;">(1)OF</td> <td>Apl 1</td> <td>Balance b/d</td> <td style="text-align: right;">215</td> <td style="text-align: right;">(1)OF</td> </tr> </table>								2019	\$		2019	\$		Apr 1	Balance b/d	845	(1)	Apr 1	Balance b/d	250	(1)		2020				2020					Mar 31	Income and Expenditure	8 820	(1)OF	Mar 31	Bank	8 500	(1)			Balance c/d	215			Irrecoverable debts	155	(1)				<u>9 880</u>			Balance c/d	<u>975</u>									<u>9 880</u>			2020				2020					Apl 1	Balance b/d	975	(1)OF	Apl 1	Balance b/d	215	(1)OF	7
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2(e)	<p>Advantages</p> <p>Subscriptions in arrears have risen from \$845 to \$975, so this may be a concern (1)</p> <p>Subscriptions in arrears are significantly higher than subscriptions in advance (1)</p> <p>Irrecoverable debts would be minimised particularly if the direct debits were set up for the start of the year (1)</p> <p>The timing of cash receipts from members will be known (1)</p> <p>Administration costs may be reduced (1)</p> <p>Accept other valid points</p> <p>Max (2)</p> <p>Disadvantages</p> <p>Members may prefer to choose their own method of payment (1)</p> <p>They may prefer to pay their subscription at a time of their choosing (1)</p> <p>Some members may decide not to renew their membership (1)</p> <p>Accept other valid points</p> <p>Max (2)</p> <p>Recommendation (1)</p>						5																																																																															

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3(a)	<p style="text-align: center;">Gok Income Statement for the year ended 29 February 2020</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td style="text-align: right;">420 000</td> <td></td> </tr> <tr> <td>Less Sales returns</td> <td style="text-align: right;"><u>12 000</u></td> <td style="text-align: right;">408 000 (1)</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">26 700</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;"><u>311 400</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">338 100</td> <td></td> </tr> <tr> <td>Less Closing inventory</td> <td style="text-align: right;"><u>32 100</u> (1)OF</td> <td style="text-align: right;"><u>306 000</u> (1) OF</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">102 000 (1)</td> </tr> <tr> <td>Less Expenses</td> <td></td> <td></td> </tr> <tr> <td>Discount allowed</td> <td style="text-align: right;">9 000 (1)</td> <td></td> </tr> <tr> <td>Wages</td> <td style="text-align: right;">12 360 }</td> <td></td> </tr> <tr> <td>Rent and rates</td> <td style="text-align: right;">11 750 } (1)</td> <td></td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">4 220 }</td> <td></td> </tr> <tr> <td>Irrecoverable debts</td> <td style="text-align: right;">8 600 (1)</td> <td></td> </tr> <tr> <td>Insurance (4 500 – 1 500)</td> <td style="text-align: right;">3 000 (1)</td> <td></td> </tr> <tr> <td>Telephone expenses (4 565(1) + [1 660/4] (1))</td> <td style="text-align: right;">4 980</td> <td></td> </tr> <tr> <td>Depreciation on Fixtures and equipment (20% × 76 800) (1)</td> <td style="text-align: right;"><u>15 360</u> (1)OF</td> <td style="text-align: right;"><u>69 270</u></td> </tr> <tr> <td>Profit from operations</td> <td></td> <td style="text-align: right;">32 730</td> </tr> <tr> <td>Loan interest (60 000 × 7%)(1) × 8/12(1)</td> <td></td> <td style="text-align: right;"><u>2 800</u></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;"><u>29 930</u> (1)OF</td> </tr> </tbody> </table>			\$	\$	Revenue	420 000		Less Sales returns	<u>12 000</u>	408 000 (1)	Cost of sales			Opening inventory	26 700		Purchases	<u>311 400</u>			338 100		Less Closing inventory	<u>32 100</u> (1)OF	<u>306 000</u> (1) OF	Gross profit		102 000 (1)	Less Expenses			Discount allowed	9 000 (1)		Wages	12 360 }		Rent and rates	11 750 } (1)		General expenses	4 220 }		Irrecoverable debts	8 600 (1)		Insurance (4 500 – 1 500)	3 000 (1)		Telephone expenses (4 565(1) + [1 660/4] (1))	4 980		Depreciation on Fixtures and equipment (20% × 76 800) (1)	<u>15 360</u> (1)OF	<u>69 270</u>	Profit from operations		32 730	Loan interest (60 000 × 7%)(1) × 8/12(1)		<u>2 800</u>	Profit for the year		<u>29 930</u> (1)OF	15
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3(b)	<p>Advantages Gok would no longer need to pay wages to Aiman as he would not be an employee (1) Aiman may invest capital into the business (1) Gok would consider how much capital would be introduced by Aiman (1) The risks and responsibilities would be shared with Aiman (1) Aiman may have skills which could be used in the business, other than those which he currently uses as a warehouse assistant (1) Aiman may be prepared to work longer hours in the business if he became a partner (1) Currently Gok has not had time to carry out an inventory count so it seems that any extra hours which Aiman may work would be helpful (1) Accept other valid points Max (2)</p> <p>Disadvantages Gok would no longer be able to take all the decisions on his own (1) Aiman would be entitled to a share of the profits (1) Gok would consider how profits and losses are to be shared (1) Aiman would expect to take drawings from the business (1) Accept other valid points Max (2)</p> <p>Recommendation (1)</p>	5

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4(c)	<p style="text-align: center;">Nadia Statement of corrected profit for the year ended 31 March 2020</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;">Profit for the year before corrections</th> <th style="width: 10%;">No effect</th> <th style="width: 10%;">Increase in profit \$</th> <th style="width: 10%;">Decrease in profit \$</th> <th style="width: 10%;">\$ 6720</th> </tr> </thead> <tbody> <tr> <td>Error 1</td> <td></td> <td style="text-align: right;">110</td> <td></td> <td></td> </tr> <tr> <td>Error 2</td> <td></td> <td></td> <td style="text-align: right;">28 (1)</td> <td></td> </tr> <tr> <td>Error 3</td> <td></td> <td></td> <td style="text-align: right;">18 (1)</td> <td></td> </tr> <tr> <td>Error 4</td> <td></td> <td style="text-align: right;">130 (1)</td> <td></td> <td></td> </tr> <tr> <td>Error 5</td> <td style="text-align: center;">nil (1)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Error 6</td> <td></td> <td></td> <td style="text-align: right;">190 (1)</td> <td></td> </tr> <tr> <td>Error 7</td> <td style="text-align: center;">nil (1)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Corrected profit for the year</td> <td></td> <td style="text-align: right;"><u>240</u></td> <td style="text-align: right;"><u>236</u></td> <td style="text-align: right;"><u>4(1)(OF)</u> <u>6724</u></td> </tr> </tbody> </table>	Profit for the year before corrections	No effect	Increase in profit \$	Decrease in profit \$	\$ 6720	Error 1		110			Error 2			28 (1)		Error 3			18 (1)		Error 4		130 (1)			Error 5	nil (1)				Error 6			190 (1)		Error 7	nil (1)				Corrected profit for the year		<u>240</u>	<u>236</u>	<u>4(1)(OF)</u> <u>6724</u>	7
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5(a)	<p>Rate of inventory turnover $\frac{(8\,000 + 121\,618 - 11\,050)(1)}{(8\,000 + 11\,050) / 2(1)} = \frac{118\,568}{9\,525} = 12.45 \text{ times (1)OF}$</p> <p>Trade receivables turnover</p> $\frac{28\,700}{209\,510} \times \frac{365}{1} \text{ (1) whole formula} = 50 \text{ days (1)OF}$	5
5(b)(i)	<p>Risk of obsolete inventory (1) Risk of damage to inventory (1) Increased storage costs (1) May need to reduce selling price to sell old inventory (1) Cash is tied up longer in inventory (1) May mean missed business opportunities if insufficient cash (1) Accept other valid points Max (3)</p>	3
5(b)(ii)	<p>Risk of irrecoverable debts (1) A provision for doubtful debts may be required (1) Credit control may need to be reviewed (1) Cash tied up in trade receivables (1) May mean missed business opportunities if insufficient cash (1) Effect may be significant as all sales are on credit (1) Accept other valid points Max (3)</p>	3

Question	Answer	Marks
5(c)	<p>Cash discount</p> <p>Advantages Cash will be received significantly earlier (1) Good customer relationships are maintained (1) Credit control costs may be reduced (1) Irrecoverable debts may be reduced (1) Accept other valid points Max (1)</p> <p>Disadvantages Less cash will be received (1) 1% may not be enough to encourage earlier payment (1) If customers have insufficient funds to pay the cash discount may have no effect (1) Accept other valid points Max (1)</p> <p>Interest</p> <p>Advantages More cash may be received (1) Cash may be received earlier (1) Interest received will increase profit (1) Irrecoverable debts may be reduced (1) Accept other valid points Max (1)</p> <p>Disadvantages Customer relationships may worsen (1) Increased administration costs (1) Customers may refuse to pay the interest (1) Customers may find an alternative supplier (1) Accept other valid points Max (1)</p> <p>Recommendation (1)</p>	5

Question	Answer	Marks
5(d)(i)	Accounting policies should be applied consistently so that financial statements can be compared from year to year (1) Financial statements can be compared with similar businesses (1) Any change in the company's accounting policies, and the effect of the change, should be disclosed (1) Accept other valid points Max (2)	2
5(d)(ii)	Information is relevant if it is capable of influencing the decisions being made (1) Information must be available in time for decisions to be taken (1) Relevant information helps the directors to evaluate past, present and future events (1) Accept other valid points Max (2)	2