Cambridge Assessment International Education

Cambridge O Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

3122375497

ACCOUNTING **7707/22**

Paper 2 Structured Written Paper **October/November 2025**

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.

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1 On 31 March 2025, Zac's bank statement showed an overdrawn balance of $1665, but the bank column of his cash book showed a debit balance of $825 on the same date.

Upon investigation, he discovered that the following items appeared on his bank statement, but **not** in his cash book.

March		$
20	Payment received by bank transfer from Zoe, a credit customer	310
23	Electricity charges paid by direct debit	936
25	Bank charges	58
29	A standing order for insurance had been deducted in error	1121
30	Interest received	45

The following items appeared in his cash book, but **not** on his bank statement.

March		$
27	A cheque payable to AC Motors had **not** been presented	480
30	Cash and cheques deposited into the bank	1210

REQUIRED

(a) Update the bank columns of Zac's cash book.

Balance the account and bring down the balance at 1 April 2025.

Zac
Cash Book – bank columns

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(b) Prepare a bank reconciliation statement at 31 March 2025.

Zac
Bank reconciliation at 31 March 2025

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Currently, Zac completes a bank reconciliation statement twice every year but is now considering completing one every three months.

REQUIRED

(c) Advise Zac whether he should be completing a bank reconciliation statement every three months. Justify your answer by considering advantages and disadvantages of doing so.

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(d) State what is meant by the term 'dishonoured cheque'.

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On 5 April, Zac was notified that a cheque paid into his business bank account during March had been dishonoured. The cheque for $128 was from Ali, a credit customer.

REQUIRED

(e) Complete the following table to show the journal entry required to record the dishonoured cheque in Zac's accounts. A narrative is **not** required.

Zac
Journal

Details	Debit $	Credit $

[2]

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2 Jaya is a trader. Her financial year ends on 31 July.

The totals of her trial balance at 31 July 2025 did **not** agree.

REQUIRED

(a) (i) Name the account that Jaya would need to open to enable her trial balance totals to agree.

..... [1]

(ii) State the primary purpose of this account.

..... [1]

Jaya later discovered the following five errors:

1 **No** entry had been made for distribution costs of $320 paid by bank transfer.

2 Closing inventory had been recorded as $12 200 instead of $12 900.

3 Purchases returns of $95 had been correctly entered in the credit supplier's account but had been debited to the sales returns account.

4 A cheque for $225 received from ABC wholesalers, a credit customer, had been correctly entered in the cash book, but **no** other entry had been made.

5 Property maintenance costs of $1220 had been incorrectly charged to the land and buildings account.

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REQUIRED

(b) Prepare the journal entries to correct errors 1 to 5. Narratives are **not** required.

Jaya
Journal

Error number	Details	Debit $	Credit $

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(c) Name **two** types of error that will **not** be revealed by the trial balance.

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[2]

(d) Complete the table by entering the amount by which Jaya's profit for the year would be overstated or understated if **each** error is left **uncorrected**. If an error has no effect on profit, enter zero (0) in the 'no effect' box.

Error 1 has been completed as an example.

Profit for the year

Error	Overstated $	Understated $	No effect
1	*320*		
2			
3			
4			
5			

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3 Ahmed has a vehicle breakdown recovery business. He owns a recovery vehicle and has provided the following information about the vehicle:

- Purchase date: 1 October 2021
- Purchase price: $80 000 paid by bank transfer
- Estimated residual value: $30 000
- Estimated working life: 5 years

Ahmed provides a full year's depreciation in the year of purchase but charges **no** depreciation in the year of disposal. He depreciates his vehicles using the reducing balance method at 20% per annum.

His recovery vehicle is now 4 years old and is no longer reliable. Ahmed considered replacing his recovery vehicle on 31 August 2025.

Ahmed's financial year ends on 30 April.

REQUIRED

(a) Calculate the depreciation charge for **each** year of the recovery vehicle's working life, assuming Ahmed replaces the recovery vehicle on 31 August 2025. Show your workings.

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(b) State **one** advantage and **one** disadvantage of the reducing balance method of depreciation.

Advantage .....

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Disadvantage .....

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[2]

On 1 February 2025, a local dealer offered to buy the recovery vehicle from Ahmed for $35 000 cash.

REQUIRED

(c) Calculate the profit or loss on disposal if Ahmed had sold his recovery vehicle to the local dealer on 1 February 2025.

Show your workings, and state whether it would have been a 'profit' or 'loss'.

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(d) (i) Prepare Ahmed's motor vehicles account for the year ended 30 April 2025 if Ahmed had sold his recovery vehicle to the local dealer on 1 February 2025.

Ahmed
Motor vehicles account

Date	Details	$	Date	Details	$
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[2]

(ii) Prepare Ahmed's disposal of motor vehicles account for the year ended 30 April 2025 if Ahmed had sold his recovery vehicle to the local dealer on 1 February 2025.

Ahmed
Disposal of motor vehicles account

Date	Details	$	Date	Details	$
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Ahmed sold his recovery vehicle. Since the sale, he has been hiring a recovery vehicle capable of recovering larger vehicles and is now considering buying a similar vehicle.

He would finance the purchase of this new vehicle using the money received from selling his old recovery vehicle, and the balance will come from a bank loan repayable in 5 years. Delivery of the new vehicle is estimated to be in 6 months.

REQUIRED

(e) Advise Ahmed whether he should buy this new recovery vehicle. Justify your answer by providing advantages and disadvantages of buying the new recovery vehicle.

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4 AY Limited has provided the following performance data for the last two years of trading.

Ratio	Year 1 ended 31 March 2024	Year 2 ended 31 March 2025
Return on capital employed (ROCE)	10.67%	10.05%
Gross margin	22%	23.5%
Profit margin	11.5%	11.0%
Rate of inventory turnover	9.46 times	11.45 times
Trade payables turnover	34 days	30 days
Trade receivables turnover	32 days	36 days
Liquid (acid test) ratio	1.42:1	0.95:1

All sales and purchases are on credit and are subject to a 30-day credit period.

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REQUIRED

(a) Complete the following table by indicating whether the ratio has improved or deteriorated at the end of year 2, and give **two** reasons which may have caused the change.

The Return on capital employed (ROCE) has been completed as an example.

Ratio	Improved or deteriorated	Possible reasons for the change
Return on capital employed (ROCE)	*Deteriorated*	*Introduction of additional capital or loans.* *Profit for the year has decreased.*
Gross margin		
Profit margin		
Rate of inventory turnover (times)		
Liquid (acid test) ratio		

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The directors at AY Limited were concerned that the trade receivables turnover rate had deteriorated and so increased the provision for doubtful debts from 2% to 3% for the year ended 31 March 2025. The trade receivables balances were as follows:

	$
31 March 2024	346 000
31 March 2025	399 000

REQUIRED

(b) Write up the provision for doubtful debts account in AY Limited's ledger for the year ended 31 March 2025.

Balance the account and bring down the balance at 1 April 2025.

AY Limited
Provision for doubtful debts account

Date	Details	$	Date	Details	$
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(c) **(i)** Explain what is meant by 'a provision for doubtful debts'.

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(ii) Name the accounting principle being applied when creating a provision for doubtful debts.

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The directors of AY Limited have been considering buying a new piece of equipment costing $75 000. A machinery supplier has approached them, offering a 15% discount on this equipment if they make an immediate purchase. The supplier has indicated that the purchase would need to be on a cash basis. AY Limited's accountant has suggested that they may be able to finance the purchase of the equipment by delaying payments to their trade payables.

REQUIRED

(d) Advise the directors of AY Limited whether or not delaying payments to their trade payables would be a good way to secure the purchase of the equipment. Justify your answer by providing points for and against delaying payments to their trade payables.

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5 GH Company manufactures car parts and has provided the following information relating to the year ended 31 March 2025.

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Revenue	1 107 272
Raw materials	
Inventory at 1 April 2024	21 700
Inventory at 31 March 2025	16 400
Finished goods	
Inventory at 1 April 2024	76 370
Inventory at 31 March 2025	49 660
Salaries and wages	
Operatives' wages	241 200
Factory supervisors' salaries	48 240
Office staff salaries	64 350
Purchases of raw materials	280 050
Purchases of finished goods	122 430
Carriage in on finished goods	2 242
Factory machinery at cost	427 000
Accumulated depreciation of factory machinery	187 000
Rent and rates	10 060
Electricity charges	9 344
Insurance	18 400
Factory general expenses	27 640
Work in progress at 1 April 2024	83 440
Work in progress at 31 March 2025	92 510

Additional information

1 Depreciation on factory machinery is to be provided at 15%, using the reducing balance method.

2 Rent and rates – 60% relate to the factory, with the remainder being for the office.

3 Electricity charges are to be split in the ratio 5 : 3 between factory and office.

4 Insurance is split equally between factory and office.

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REQUIRED

(a) Prepare the manufacturing account for GH Company for the year ended 31 March 2025.

GH Company
Manufacturing Account for the year ended 31 March 2025

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REQUIRED

(b) Prepare the trading section of the income statement for GH Company for the year ended 31 March 2025.

GH Company
Income Statement (Trading section) for the year ended 31 March 2025

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