

Cambridge O Level

CANDIDATE
NAME

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ACCOUNTING

7707/02

Paper 2 Structured Written Paper

For examination from 2027

SPECIMEN PAPER

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. Do **not** use correction fluid or tape.
- 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 answers.

This document has **22** pages. Any blank pages are indicated.

- 1 Maria owns a retail business. She keeps detailed accounting records and uses them to calculate her profit or loss.

She purchases goods on credit from two suppliers.

In November 2026, she received the following purchase invoices.

- November 5 Houssam for \$274.
 11 B Limited for goods list price \$850 less a 20% trade discount.
 23 B Limited for goods list price \$2610 less a 30% trade discount.

REQUIRED

- (a) Give **three** reasons why it is important for Maria to calculate the profit or loss of her business.

.....

 [3]

- (b) Prepare Maria’s purchases journal for November 2026. Total the journal and indicate the account where the total will be posted.

Maria
purchases journal

date	details	\$	\$
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[4]

On 1 November, the following balances appeared in Maria's accounts for the two suppliers:

	\$	
B Limited	1040	credit
Houssam	43	debit

REQUIRED

(c) Suggest **one** reason why there was a debit balance on the account of Houssam on 1 November 2026.

..... [1]

The following transactions also occurred in November 2026.

- November 10 Paid Houssam the amount due at this date by bank transfer.
- 14 Maria returned goods with a list price of \$260 received on 11 November.
- 26 Paid B Limited in settlement of the amount due on 1 November by debit card less a 5% cash discount.

REQUIRED

(d) Prepare the ledger accounts for the two suppliers in the books of Maria for the month of November 2026. Balance the accounts and bring down the balance at 1 December 2026.

Maria
B Limited

date	details	\$	date	details	\$
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Houssam

date	details	\$	date	details	\$
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[7]

- 2 Nadia works for a firm of accountants. Recently she checked the accounting records of a local business owned by Khaled.

She discovered Khaled had made an error of commission and an error of principle.

REQUIRED

- (a) Define the term 'error of commission'.

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..... [2]

- (b) Define the term 'error of principle'.

.....
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..... [2]

Nadia also found Khaled had made errors which affected the trial balance at 31 January 2026. The difference was placed in a suspense account.

- 1 Closing inventory had been over-stated by \$225.
- 2 Khaled had taken some inventory of \$134 for his own use during the year. It had been correctly entered in the purchases account but no other entry had been made.
- 3 Khaled had not updated the allowance for irrecoverable debts from \$180 to \$135.
- 4 Purchases returns of \$412 had been debited to the sales returns account.

REQUIRED

(c) Prepare the suspense account. Include the balancing figure as the original difference on the trial balance.

Khaled
suspense account

date	details	\$	date	details	\$
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.....

[4]

Khaled's statement of profit or loss showed a draft profit for the year of \$16 100.

REQUIRED

- (d) Complete the table by entering the amount of correcting **each** error required to calculate Khaled's corrected profit for the year. If an item has no effect on profit, enter zero (0) in the 'no effect on profit' column.

	increase in profit \$	decrease in profit \$	no effect on profit	profit \$
draft profit for the year				16 100
error 1				
error 2				
error 3				
error 4				
totals				
corrected profit for the year				

[6]

- (e) State which accounting concept Nadia has applied when correcting each of the following errors.

	error	accounting concept
2	Khaled had taken some inventory of \$134 for his own use during the year. It had been correctly entered in the purchases account but no other entry had been made.	
3	Khaled had not updated the allowance for irrecoverable debts from \$180 to \$135.	

[2]

Nadia faced some ethical issues when dealing with the firm’s clients. She applied the relevant fundamental ethical principle in each situation.

REQUIRED

(f) State which fundamental ethical principle Nadia applied in each of the following situations.

situation	ethical principle applied
Nadia refused to tell a client about the profit made by a rival business.	
Nadia told a client she was unable to give advice on a complex accounting issue until she had undertaken some training and research.	

[2]

(g) Explain why it is important that Nadia applies the ethical framework.

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.....

..... [2]

[Total: 20]

- 3 Abadi owns a manufacturing business. The following information is available for the year ended 31 December 2026.

At 1 January 2026

	\$
factory machinery at cost	50 000
factory machinery – accumulated depreciation	18 000
inventories	
finished goods	12 400
raw materials	8 080
work in progress	3 310

For the year ended 31 December 2026

	\$
direct labour	37 290
direct factory expenses	1 160
factory power	5 320
indirect factory wages and salaries	18 430
maintenance and storage costs	2 760
purchases of raw materials	48 730
rent and insurance	14 550
revenue	163 800

At 31 December 2026

	\$
inventories	
finished goods	10 880
raw materials	6 590
work in progress	4 180

Additional information

- 1 Factory machinery is depreciated by 20% per annum using the reducing balance method.
- 2 A payment had been made for insurance of \$1650. This payment covers the period 1 January 2026 to 31 March 2027. Rent and insurance should be apportioned $\frac{3}{4}$ to the factory; $\frac{1}{4}$ to the office.
- 3 Indirect factory wages and salaries accrued amounted to \$550.

REQUIRED

- (a) State the meaning of the term 'work in progress'.

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 [1]

(b) Prepare the manufacturing account for the year ended 31 December 2026.

Abadi
manufacturing account for the year ended 31 December 2026

	\$	\$
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[11]

(c) Prepare the trading account section of the statement of profit or loss for the year ended 31 December 2026.

Abadi
statement of profit or loss (trading account section)
for the year ended 31 December 2026

	\$	\$
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[3]

Abadi currently has one supplier of raw materials who delivers orders once a month and gives a trade discount of 12.5% on all orders. However, a different supplier of raw materials has offered a trade discount on all orders of 15% and is prepared to deliver orders once a week.

REQUIRED

- (d) Advise Abadi whether he should change to the new supplier of raw materials. Justify your answer by providing **two** arguments for and **two** arguments against changing suppliers.

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..... [5]

[Total: 20]

- 4 The treasurer of the ML Social Club has provided the following information for the year ended 31 December 2026.

ML Social Club
receipts and payments account for the year ended 31 December 2026

receipts	\$	payments	\$
bank balance at 1 January 2026	4 170	social events expenses	5 239
subscriptions	1 040	purchase of new furniture	5 800
proceeds from sale of furniture	390	electricity	847
social events income	6 721	secretary's expenses	733
bank balance at 31 December 2026	1 748	subscriptions refunded	120
	<u>14 069</u>	rent and insurance	<u>1 330</u>
			<u>14 069</u>

Additional information

	At 1 January 2026	At 31 December 2026
	\$	\$
subscriptions outstanding	480	320
subscriptions received in advance	240	280

REQUIRED

- (a) Prepare the subscriptions account for the year ended 31 December 2026. Balance the account and bring down the balances at 1 January 2027.

ML Social Club
subscriptions account

date	details	\$	date	details	\$
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.....
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[7]

Additional information

- 1 At 1 January 2026, insurance of \$110 had been prepaid.
- 2 At 31 December 2026, electricity charges of \$108 were owing.
- 3 Furniture sold during the year had a net book value of \$840.
- 4 Depreciation of \$1300 should be provided on the club's non-current assets.

REQUIRED

(b) Prepare the income and expenditure account for the year ended 31 December 2026.

ML Social Club
income and expenditure account for the year ended 31 December 2026

	\$	\$	\$
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[7]

On 1 January 2026, the balance on the accumulated fund was \$12 330.

REQUIRED

(c) Calculate the closing balance on the accumulated fund at 31 December 2026.

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..... [2]

The club’s financial records have recently been computerised. The treasurer wants the computerised records to be stored securely.

REQUIRED

(d) State **four** ways to ensure that computerised records are stored securely.

1.....
2.....
3.....
4..... [4]

[Total: 20]

5 H Limited is a trading company which sells products to aid water conservation. The company was formed three years ago by two friends who had previously operated this business as a partnership.

REQUIRED

(a) State **two** advantages to the company of operating as a limited company rather than as a partnership.

1

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2

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[2]

(b) State **one** disadvantage to the company of operating as a limited company rather than as a partnership.

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..... [1]

At 1 December 2025, the company's equity consisted of the following:

	\$
ordinary share capital: shares of \$0.50 each	220 000
general reserve	40 000
retained earnings	68 400

During the year ended 30 November 2026 the following information affected the equity of the company.

- 1 The profit for the year was \$76 000.
- 2 An interim dividend of \$0.05 per share on ordinary shares was paid.
- 3 A transfer of \$30 000 to the general reserve was made.

REQUIRED

(c) Prepare the statement of changes in equity for the year ended 30 November 2026.

H Limited
statement of changes in equity for the year ended 30 November 2026

details	ordinary share capital \$	general reserve \$	retained earnings \$	total \$
At 1 December 2025	220 000	40 000	68 400	328 400
.....
.....
.....
At 30 November 2026

[5]

H Limited purchases products on credit. The company's sales revenue is 80% credit sales and 20% cash sales. Recently the directors have been concerned about the company's liquidity.

The following ratios were calculated at 30 November 2025.

trade payables turnover 31 days
 trade receivables turnover 29 days

The following additional information is available.

	For the year ended 30 November 2026
	\$
credit purchases	165 000
sales revenue	256 000

	At 30 November 2026
	\$
trade payables	14 900
trade receivables	19 600

REQUIRED

(d) Calculate the following ratios for the year ended 30 November 2026.

trade payables turnover (days)	
workings	answer (round up to the next whole day)

trade receivables turnover (days)	
workings	answer (round up to the next whole day)

[4]

(e) Explain why the directors should be concerned about the results of the ratios for the year ended 30 November 2026 compared to the results for the year ended 30 November 2025.

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..... [3]

Following a financial review, the directors are considering two possible options:

Option 1: Charging credit customers interest on their overdue accounts.

Option 2: Allowing cash sales only.

REQUIRED

(f) Advise the directors which option they should choose. Justify your answer by giving **one** advantage and **one** disadvantage for **each** option.

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[Total: 20]

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