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International Education

Cambridge O Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

1494266155

ACCOUNTING **7707/21**

Paper 2 Structured Written Paper **May/June 2026**

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 answer.

This document has **24** pages. Any blank pages are indicated.

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1 Reggie maintains a petty cash book using the imprest system. The imprest amount is $250 and is restored on the first day of each month.

All payments of less than $50 are made from petty cash.

All cash receipts of less than $50 are paid into petty cash.

On 1 April 2026, Reggie had $133 in his petty cash box. He provided the following information for April 2026.

April	1	Restored petty cash imprest from the business bank account
	5	Paid $40 to Greta, a trade payable
	9	Paid $16 for cleaning materials
	15	Received $31 from Awez, a trade receivable
	20	Paid $11 for postage
	27	Paid $42 wages to the cleaner of the business premises
	29	Paid $23 for printer paper

REQUIRED

(a) Prepare Reggie's petty cash book for the month of April 2026.

Balance the petty cash book and bring down the balance at 1 May 2026.

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Reggie
Petty cash book

total received $	date 2026	details	total paid $	cleaning $	office expenses $	ledger accounts $
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The amount of cash drawn from the bank account to restore the imprest on 1 April has been omitted from the cash book. When Reggie received his bank statement dated 30 April 2026, he identified an unpresented cheque for $390 and an uncredited deposit of $450. The bank balance shown on the bank statement is a positive balance of $982.

REQUIRED

(b) Calculate the bank balance which was shown in the cash book at 30 April 2026.

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Reggie is considering using petty cash for receipts and payments of under $10 **only**. All other receipts would be required by bank transfer and all other payments would be made by bank transfer. The imprest amount would be reduced to $100.

REQUIRED

(c) Advise Reggie whether or not he should require that all receipts over $10 are made by bank transfer and make all payments over $10 by bank transfer. Justify your answer by providing both advantages **and** disadvantages of making this change.

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2 The Hi Notes Music Club provides facilities for its members to practise together. It also runs a coffee shop where members can buy refreshments.

The club's assets and liabilities were:

	31 March 2025	31 March 2026
	$	$
cash at bank	1715	6625
subscriptions received in advance	720	640
subscriptions owing by members	400	480
club rent paid in advance	1200	1800
coffee shop inventory	390	375

The following totals have been taken from the club's receipts and payments account for the year ended 31 March 2026.

	$
receipts	
subscriptions received	16160
coffee shop sales	14760
payments	
coffee shop purchases	5395
coffee shop wages	2800
club rent and insurance	13467
club general expenses	4348

REQUIRED

(a) Calculate the accumulated fund of the club at 31 March 2025.

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(b) Prepare the subscriptions account for the year ended 31 March 2026. Balance the account and bring down the balances at 1 April 2026.

Hi Notes Music Club
Subscriptions account

date	details	$	date	details	$
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(c) Prepare the income statement for the coffee shop for the year ended 31 March 2026.

Hi Notes Music Club
Coffee shop income statement for the year ended 31 March 2026

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(d) Prepare the income and expenditure account for the club for the year ended 31 March 2026.

Hi Notes Music Club
Income and expenditure account for the year ended 31 March 2026

	$	$
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(e) Calculate the accumulated fund of the club at 31 March 2026.

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3 Yasmin and Zafran are in partnership. They prepare their financial statements to 31 March each year.

The annual rent expense for the partnership is $8400.

During the year ended 31 March 2026, rent of $6300 was paid.

At 1 April 2025, there was a prepayment of rent of $700.

REQUIRED

(a) Prepare the rent expense account for the year ended 31 March 2026. Balance the account and bring down the balance at 1 April 2026.

Yasmin and Zafran
Rent expense account

date	details	$	date	details	$
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Yasmin and Zafran are considering obtaining a long-term loan to buy the storeroom which they are now renting.

REQUIRED

(b) Advise the partners whether or not they should take out a long-term loan in order to buy the storeroom. Justify your answer by providing points both for **and** against doing this.

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The partnership agreement provides for:

- interest on partners' loans of 7.5% per annum
- interest on drawings of 5% per annum
- interest on capital of 3% per annum
- a salary to Yasmin of $8000 per annum
- residual profits and losses to be shared equally.

The residual profit for the year ended 31 March 2026, after the income statement and the appropriation account had been prepared, was $22 400.

The partners provided the following information.

	$	
Yasmin's capital account balance at 1 April 2025	42 000	
Yasmin's current account balance at 1 April 2025	2 900	credit
Yasmin's drawings for the year ended 31 March 2026	18 000	

On 1 April 2025, Yasmin made a loan of $30 000 to the business. The loan interest recorded in the income statement has not yet been paid.

REQUIRED

(c) Prepare Yasmin's current account for the year ended 31 March 2026. Balance the account and bring down the balance at 1 April 2026.

Yasmin
Current account

date	details	$	date	details	$
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The **credit** balances on Zafran's accounts at 31 March 2026 were:

	$
capital account	35 000
current account	5 600

REQUIRED

(d) Prepare an extract from the statement of financial position showing the capital section (closing balances **only**) at 31 March 2026.

Yasmin and Zafran
Statement of financial position (extract) at 31 March 2026

	$	$	$
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4 Sally is a trader. She has prepared a draft income statement for the year ended 28 February 2026.

Sally charges depreciation on her motor vehicle at 20% per annum using the reducing balance method. She purchased her motor vehicle on 1 March 2023 for $21 000.

Depreciation had been correctly charged in the two years to 28 February 2025. However, in the year ended 28 February 2026, an incorrect amount of depreciation of $4200 had been charged on the motor vehicle.

REQUIRED

(a) Prepare the journal entry required to correct the depreciation charge. A narrative **is** required.

Sally
Journal

date	details	debit $	credit $
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Workings:

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Sally has now discovered the following further errors in her accounting records.

1 Rent expense paid of $620 had been debited to the rental income account.

2 The sales journal and the purchases journal had both been overcast by $900.

3 Wages of $170 had been debited to the drawings account.

4 Motor expenses paid for $625 had been recorded as $256.

REQUIRED

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

Sally
Journal

error number	details	debit $	credit $
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(c) Calculate the corrected profit for the year ended 28 February 2026.

	$
original profit for the year per draft financial statements	11 750
profit for the year after correcting errors	

[4]

(d) State the type of error shown in:

(i) error 1 (rent expense paid)

..... [1]

(ii) error 2 (overcast).

..... [1]

Sally records her sales when the sale is made and the goods are provided to the customer.

REQUIRED

(e) State which accounting principle Sally is applying when she does this.

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Turn over

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5 Ahmed is a trader. All his sales and purchases are on credit. Ahmed has provided the following information.

	$
at 1 April 2025	
inventory	4 620
trade receivables	13 800
trade payables	6 900
bank overdraft	1 127
for the year ended 31 March 2026	
revenue	130 844
purchases	93 460
at 31 March 2026	
inventory	4 156
trade receivables	13 920
trade payables	9 200
bank overdraft	2 254

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REQUIRED

(a) Complete the following table.

ratio	workings	answer
rate of inventory turnover (times) (to **two** decimal places)		
trade receivables turnover (days) (round up to **next** whole day)		
trade payables turnover (days) (round up to **next** whole day)		
current ratio at 31 March 2026 (to **two** decimal places)		
liquid (acid test) ratio at 31 March 2026 (to **two** decimal places)		

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Ahmed had written off irrecoverable debts for the year ended 31 March 2026. He is now considering setting up a provision for doubtful debts.

REQUIRED

(b) (i) State **one** accounting principle which Ahmed would be following if he set up a provision for doubtful debts.

..... [1]

(ii) State **one** reason why Ahmed should set up a provision for doubtful debts (other than to comply with accounting principles).

.....

..... [1]

Ahmed allows his customers 30 days to pay, and his suppliers allow him 30 days to pay.

REQUIRED

(c) State **two** factors which may cause Ahmed concern.

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Ahmed is considering selling the delivery vehicle of his business for cash so that he can pay the trade payables. The disposal proceeds of the delivery vehicle would be $4830.

REQUIRED

(d) Advise Ahmed whether or not he should sell the delivery vehicle of his business so that he can pay the trade payables. Justify your answer by providing points for **and** against doing this.

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