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LCCI International Qualifications

Book-keeping & Accounts   
Level 2

Model Answers   
Series 3 2009 (2007)

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Book-keeping & Accounts Level 2   
Series 3 2009

How to use this booklet   
Model Answers have been developed by EDI to offer additional information and guidance to Centres, teachers and candidates as they prepare for LCCI International Qualifications. The contents of this booklet are divided into 3 elements:

(1)

Questions

– reproduced from the printed examination paper

(2)

Model Answers

– summary of the main points that the Chief Examiner expected to see in the answers to each question in the examination paper, plus a fully worked example or sample answer (where applicable)

(3)

Helpful Hints

– where appropriate, additional guidance relating to individual questions or to examination technique

Teachers and candidates should find this booklet an invaluable teaching tool and an aid to success. EDI provides Model Answers to help candidates gain a general understanding of the standard required. The general standard of model answers is one that would achieve a Distinction grade. EDI accepts that candidates may offer other answers that could be equally valid.

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QUESTION 1   
The following Sales Ledger Control Account was prepared by an inexperienced accounts assistant for the month of March 2009:   
Sales Ledger Control Account   
Balance b/d   
Credit sales   
Discounts allowed   
Allowances to customers

£   
43, 000   
640, 000   
5, 000   
5, 920

Cash received   
Bad debts written off   
Sales returns   
Interest charged   
Balance c/d

693, 920

£   
206, 000   
9, 000   
1, 600   
6, 000   
471, 320   
693, 920

The list of balances extracted from the Sales Ledger at 31 March 2009 totalled £455, 082. In addition to the errors in the above Sales Ledger Control Account, the following errors and omissions were discovered:

(1) An invoice for £1, 200 was entered in the Sales Day Book but had not been posted to the customer’s account in the Sales Ledger   
(2) The discount allowed column in the cash book was over-added by £400 (3) The allowances to customers figure of £5, 920, appearing in the above Control Account, includes £300 which has yet to be posted to the personal account of the customer (4) The list of debtors’ balances includes £500 which was incorrectly listed as a credit balance (5) The debit side of one customer’s   
account has been under-added by £100 (6) A debit balance of £1, 318 has been omitted from the list of debtors’ balances (7) A purchase ledger contra of £1, 600 had been recorded in the account of the customer but not in the Control Account

(8) The bank statement showed a credit transfer of £4, 000 from a customer which has been omitted from the books   
(9) The Sales Day Book was over-added by £3, 500   
(10) A cheque for £5, 800, received from a customer, has been incorrectly posted to the customer’s account as £4, 180   
(11) A sales invoice for £11, 000 was omitted from the Sales Day Book. REQUIRED   
(a) Commencing with the balance of £471, 320, prepare a statement showing the revised balance on the Sales Ledger Control Account following correction of the various errors and omissions. (13 marks)

(b) Commencing with the balance of £455, 082, prepare a statement showing the revised total of the Sales Ledger balances following correction of the various errors and omissions. (12 marks)   
(Total 25 marks)

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MODEL ANSWER TO QUESTION 1   
£   
471, 320

(a)   
Original balance   
Add:   
Interest charged (6, 000 x 2)   
Discounts allowed   
Sales invoice omitted

12, 000   
400   
11, 000   
494, 720

Less:   
Discounts allowed (5, 000 x 2)   
Allowances to customers (5, 920 x 2)   
Purchase ledger contra   
Credit transfer   
Sales Daybook correction

£   
10, 000   
11, 840   
1, 600   
4, 000   
3, 500

Revised balance

30, 940   
463, 780

Original balance

£   
455, 082

(b)   
Add:   
Sales invoice omitted   
Incorrectly listed balance (500 x 2)   
Under added debit side   
Omitted debit balance   
Sales invoice omitted   
Less:   
Allowance to customer omitted   
Credit transfer   
Error in posting of cheque (5, 800 - 4, 180)

£   
300   
4, 000   
1, 620   
5, 920   
463, 780

Revised balance

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1, 200   
1, 000   
100   
1, 318   
11, 000   
469, 700

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QUESTION 2   
ABC Ltd sells industrial machinery. The following analysis was made of the company’s Sales Ledger balances at 31 March 2009:   
Age of debt

Balance   
£

Less than 30 days   
30 days to 59 days   
60 days and over   
Total debtors

73, 182   
37, 400   
19, 444   
130, 026

Included in the total of £19, 444 is a debt of £7, 150 which ABC Ltd has decided to write off prior to the completion of final accounts for the year ended 31 March 2009. The Provision for Doubtful Debts of ABC Ltd is calculated as follows: Balances less than 30 days

Balances between 30 days and 59 days   
Balances of 60 days and over

Nil   
6%   
50%.

At 31 March 2008 the balance on the Provision for Doubtful Debts Account was £9, 032. REQUIRED   
(a) Explain the difference between a bad debt and a doubtful debt. (5 marks)   
(b) Calculate the adjustment to the Provision for Doubtful Debts Account for the year ended 31 March 2009.   
(4 marks)   
(c) Calculate the net value of debtors to be reported in the Balance Sheet of ABC Ltd at 31 March 2009.   
(4 marks)   
At 31 March 2009 details of three items included in ABC Ltd’s closing stock were as follows: Machine Type   
Cost   
Expected sales value   
Expenses of sale

Packing Machine   
£   
23, 560   
24, 000   
800

Industrial Press   
£   
46, 680   
48, 600   
1, 900

Fork Lift Truck   
£   
15, 704   
16, 800   
2, 880

REQUIRED   
(d) State the basic rule to be applied to the valuation of stock. (3 marks)   
(e) Calculate the value to be used for closing stock purposes at 31 March 2009 inrespectof each of the three machines listed above.   
(6 marks)   
(f)

State how goods issued on sale or return should be treated by the issuing business when valuing closing stock.   
(3 marks)   
(Total 25 marks)

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MODEL ANSWER FOR QUESTION 2   
(a)   
A bad debt is considered to be irrecoverable and is therefore written off. A doubtful debt is one about which there is a degree of uncertainty. This means that the debt may, or may not, be collected.

(b)

30 days - 59 days   
60 days and over (19, 444 - 7, 150)   
Closing provision required   
Opening provision   
Decrease in provision

(c)   
Debtors (130, 026 - 7, 150)   
Less: Doubtful Debts Provision

Balance   
£   
37, 400   
12, 294

£   
122, 876   
8, 391

%   
6   
50

Provision   
£   
2, 244   
6, 147   
8, 391   
9, 032   
641

£

114, 485

(d)   
Stock should be valued at the lower of cost or net realisable value (NRV).

(e)   
Packing   
Machine   
£   
23, 560

Industrial   
Press   
£   
46, 680

Fork Lift   
Truck   
£   
15, 704

Expected selling   
Costs   
NRV

24, 000   
800   
23, 200

48, 600   
1, 900   
46, 700

16, 800   
2, 880   
13, 920

Stock value

23, 200

46, 680

13, 920

Cost

(f)   
These should be added to stock, at the lower of cost or net realisable value, if the customer has not indicated an intention to retain the goods.

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QUESTION 3   
The following information relates to FGH plc, a manufacturer of machinery: At 31 December   
Stock of finished goods   
Includes mark-up of

2007   
£   
820, 060   
25%

2008   
£   
1, 119, 990   
50%

REQUIRED   
(a) Prepare the Provision for Unrealised Profit Account for the year ended 31 December 2008. (6 marks)   
(b) Calculate the figure that should appear in the Balance Sheet at 31 December 2008 for the value of finished goods.   
(4 marks)   
The following costs were incurred by FGH plc during the year ended 31 December 2008: (1)   
(2)   
(3)   
(4)   
(5)   
(6)   
(7)   
(8)   
(9)   
(10)   
(11)   
(12)   
(13)

Factory rent   
Factory lighting and heating   
Purchase of raw materials used in manufacturing machines   
Delivering raw materials to factory warehouse   
Labour used in manufacturing   
Electricity consumed by plant used in manufacturing machines Salary ofFinanceDirector   
Factory Supervisor’s wages   
Office cleaning   
Factory cleaning   
Factory insurance   
Direct expenses on each machine manufactured   
Subcontract labour used in manufacturing machines

£   
20, 500   
58, 000   
2, 150, 000   
7, 500   
3, 300, 600   
31, 900   
40, 000   
25, 000   
4, 000   
11, 000   
5, 000   
35, 000   
90, 000

REQUIRED   
(c) Copy the following table into your answer book and fill in the missing figures. Item (1) has already been completed as an example:   
Item   
(1)   
(2)   
(3)   
(4)   
(5)   
(6)   
(7)   
(8)   
(9)   
(10)   
(11)   
(12)   
(13)

Prime Cost   
£

Factory Overhead   
£

Non Manufacturing Cost   
£

20, 500

(15 marks)   
(Total 25 marks)

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MODEL ANSWER FOR QUESTION 3   
(a)   
Workings to establish unrealised profit:   
820, 060   
125

x 25 =

£   
164, 012

1, 119, 990   
150

x 50 =

373, 330

Provision for Unrealised Profit   
£   
373, 330 Balance b/d   
\_\_\_\_\_\_\_ Profit & Loss A/C   
373, 330

Balance c/d

£   
164, 012   
209, 318   
373, 330

Balance b/d

373, 330

(b)   
£   
1, 119, 990   
373, 330   
746, 660

Stock of finished goods   
Less: Provision for Unrealised Profit

(c)   
Prime   
Cost   
£   
[2]   
[3]   
[4]   
[5]   
[6]   
[7]   
[8]   
[9]   
[10]   
[11]   
[12]   
[13]

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Factory   
Overhead   
£   
58, 000

Non Manufacturing   
£

2, 150, 000   
7, 500   
3, 300, 600   
31, 900   
40, 000   
25, 000   
4, 000   
11, 000   
5, 000   
35, 000   
90, 000

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QUESTION 4   
Andrew and Brenda are in partnership sharing profits and losses equally. They decided to admit Cassandra as a partner on the following terms:   
(1) Goodwill would be valued at £60, 000 and recorded in the partnership books. (2) The value of fixed asset would be increased by £1, 500 and the value of stock reduced by £300.   
(3) Cassandra would introduce sufficient cash so that her capital would be equal to that of Brenda after Brenda’s capital has been adjusted to allow for the introduction of goodwill and the revaluation of other assets.

(4) The new profit sharing ratio between Andrew, Brenda and Cassandra would be 4: 3: 3 respectively.   
The summary Balance Sheet of Andrew and Brenda immediately prior to the admission of Cassandra was as follows:   
£   
Assets excluding bank and cash   
150, 000   
Bank and cash   
20, 000   
170, 000   
Current liabilities   
Capital – Andrew   
Capital – Brenda

50, 000   
80, 000   
40, 000   
170, 000

REQUIRED   
(a) Prepare journal entries, including bank, to record the admission of Cassandra. A revaluation account is not to be used.   
(9 marks)   
(b) Prepare the opening summary Balance Sheet of the new partnership. (6 marks)   
Shortly after the commencement of the new partnership it was decided to write off the balance on the Goodwill Account.   
REQUIRED   
(c) Prepare a journal entry to record the writing off of goodwill. (5 marks)   
Assets are often revalued when a new partner is admitted to the partnership or an existing partner retires.   
REQUIRED   
(d) State why such a revaluation is necessary.   
(3 marks)   
(e) Name one other instance when a revaluation of partnership assets might be necessary. (2 marks)   
(Total 25 marks)

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MODEL ANSWER FOR QUESTION 4   
Dr   
£

(a)

Goodwill   
Fixed Asset   
Stock   
Capital:   
Andrew   
Brenda

Cr   
£

60, 000   
1, 500   
300   
30, 600   
30, 600

Introduction of goodwill into the books and revaluation of fixed asset and stock prior to the admission of Cassandra   
Bank   
Capital:

(40, 000 + 30, 600)   
Cassandra

70, 600   
70, 600

(b)   
Andrew, Brenda and Cassandra   
Summary Opening Balance Sheet   
Assets excluding bank and cash (150, 000 + 60, 000 + 1, 500 - 300) Bank and cash (20, 000 + 70, 600)

Current liabilities   
Capital:   
Andrew (80, 000 + 30, 600)   
Brenda (40, 000 + 30, 600)   
Cassandra

£   
211, 200   
90, 600   
301, 800   
50, 000   
110, 600   
70, 600   
70, 600   
301, 800

(c)   
Capital:   
Andrew (4/10ths)   
Brenda (3/10ths)   
Cassandra (3/10ths)

Dr   
£   
24, 000   
18, 000   
18, 000

Goodwill

60, 000

Writing off goodwill

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Cr   
£

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MODEL ANSWER FOR QUESTION 4 CONTINUED   
(d)   
To fairly reflect the input of the retiring partner. Asset values will have changed over the years (especially freehold property and goodwill) and the retiring partner is entitled to his share of any increase or to suffer his   
share of any reduction (e)

Change in profit sharing ratios or death of a partner

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QUESTION 5   
The following list of balances was extracted from the books of Parker Ltd on 31 December 2008: Ordinary Share Capital – authorised issued and fully paid shares of £1 each 6% Preference Share Capital – authorised issued and fully paid shares of £1 each Freehold property

Motor vehicles   
Office equipment   
Motor vehicles - depreciation provision   
Office equipment - depreciation provision   
Gross profit   
Stock   
Administration expenses   
Selling expenses   
Distribution expenses   
8% Debentures - 2009   
Debenture interest paid   
Loss on sale of vehicle   
Profit & Loss Account - 1 January 2008 (credit balance)   
Debtors   
Creditors   
Cash at bank (credit balance)   
Cash in hand   
Share premium   
Interim dividend - Ordinary Shares   
Interim dividend - Preference Shares   
Doubtful debts provision

£   
1, 500, 000   
200, 000   
2, 300, 000   
500, 000   
170, 000   
375, 000   
102, 000   
1, 620, 000   
204, 000   
460, 000   
276, 000   
210, 000   
100, 000   
4, 000   
2, 000   
109, 100   
132, 000   
116, 000   
26, 800   
400   
150, 000   
37, 500   
6, 000   
3, 000

The following information is to be taken into account:   
(1) At 31 December 2008, accrued selling expenses amounted to £18, 500 and prepaid administrative expenses amounted to £7, 000.   
(2) The Doubtful Debts Provision is to be maintained at 2% of debtors at 31 December 2008. (3) Depreciation is to be provided as follows:   
Office equipment - 20% per annum on cost   
Motor vehicles - 50% reducing balance.   
(4) The directors propose:   
Payment of the final dividend to the preference shareholders A final dividend to the ordinary shareholders of £0. 15 per share. REQUIRED   
(a) Prepare the Profit Loss and Appropriation Account for the year ended 31 December 2008. (13 marks)   
(b) Prepare the Balance Sheet at 31 December 2008.

(9 marks)

(c) Explain your treatment of the 8% Debentures.

(3 marks)   
(Total 25 marks)

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MODEL ANSWER FOR QUESTION 5   
(a)

Parker Ltd   
Profit & Loss and Appropriation Account   
for the year ended 31 December 2008   
£

Gross Profit   
Doubtful Debts Provision (3, 000 - 2, 640)   
Less:   
Loss on sale of vehicle   
Administration expenses (460, 000 - 7, 000)   
Selling expenses (276, 000 + 18, 500)   
Distribution expenses   
Debenture interest (4, 000 + 4, 000)   
Depreciation:   
Office equipment (170, 000 x 20%)   
Motor vehicles ([500, 000 - 375, 000] x 50%)

2, 000   
453, 000   
294, 500   
210, 000   
8, 000   
34, 000   
62, 500   
1, 064, 000   
556, 360

Net Profit   
Interim dividends   
Preference shares   
Ordinary shares   
Proposed dividends   
Preference shares   
Ordinary shares (1, 500, 000 x £0. 15)

6, 000   
37, 500   
6, 000   
225, 000   
274, 500   
281, 860   
109, 100   
390, 960

Retained Profit for year   
Retained Profit brought forward   
Retained Profit carried forward

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£   
1, 620, 000   
360   
1, 620, 360

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MODEL ANSWER FOR QUESTION 5 CONTINUED   
(b)   
Parker Ltd   
Balance Sheet at 31 December 2008   
Fixed Assets

Freehold property   
Motor vehicles   
Office equipment

Current Assets   
Stock   
Debtors   
Less: Doubtful Debts Provision

Cost   
£   
2, 300, 000   
500, 000   
170, 000   
2, 970, 000

Accum   
Dep'n   
£   
437, 500   
136, 000   
573, 500

Net   
£   
2, 300, 000   
62, 500   
34, 000   
2, 396, 500

204, 000   
132, 000   
2, 640   
129, 360   
7, 000   
400   
340, 760

Prepayment   
Cash in hand

Creditors: Amounts due within one year   
Creditors   
116, 000   
Accruals (18, 500 + 4, 000)   
22, 500   
Dividends (6, 000 +225, 000)   
231, 000   
Bank   
26, 800   
Debentures   
100, 000   
496, 300   
Net Current Liabilities

(155, 540)   
2, 240, 960

Capital and Reserves   
Authorised, issued and fully paid   
200, 000 6% Preference Shares of £1 each   
1, 500, 000 Ordinary Shares of £1 each   
Share Premium   
Profit ; Loss

200, 000   
1, 500, 000   
150, 000   
390, 960   
2, 240, 960

(c) As debentures have become repayable within the next 12 months they are no longer a Creditor: Amount due after more than 1 year.

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