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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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