

Lcci past paper



**ASSIGN
BUSTER**

LCCI International Qualifications

Book-keeping & Accounts

Level 2

Model Answers

Series 3 2009 (2007)

For further

information

contact us:

Tel. +44 (0) 8707 202909

Email.

www.lcci.org.uk

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

<https://assignbuster.com/lcci-past-paper/>

- 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.

©EducationDevelopment International plc 2009

All rights reserved; no part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the Publisher. The book may not be lent, resold, hired out or otherwise disposed of by way of trade in any form of binding or cover, other than that in which it is published, without the prior consent of the Publisher

Page 1 of 13

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

<https://assignbuster.com/lcci-past-paper/>

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)

2007/3/09/MA

Page 2 of 13

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

2007/3/09/MA

1,	200
----	-----

1,	000
----	-----

100

1,	318
----	-----

11,	000
-----	-----

469, 700

Page 3 of 13

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)

<https://assignbuster.com/lcci-past-paper/>

(e) Calculate the value to be used for closing stock purposes at 31 March 2009 in respect of 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)

2007/3/09/MA

Page 4 of 13

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.

2007/3/09/MA

Page 5 of 13

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 of Finance Director

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)

2007/3/09/MA

Page 6 of 13

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

2007/3/09/MA

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

Page 7 of 13

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)

2007/3/09/MA

Page 8 of 13

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

2007/3/09/MA

Cr

£

Page 9 of 13

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

2007/3/09/MA

Page 10 of 13

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)

2007/3/09/MA

Page 11 of 13

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

2007/3/09/MA

£

1, 620, 000
 360
 1, 620, 360

Page 12 of 13

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

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.

2007/3/09/MA

Page 13 of 13

EDI

International

House

Siskin

Parkway

East

Middlemarch

Business

Park

Coventry

CV3

4PE

UK

Tel. +44 (0) 8707 202909

Fax. +44 (0) 2476 516505

Email.

www. ediplc. com