LCCI International Qualifications

Level 2 Certificate in Book-keeping & Accounts

LCCI International Qualifications from EDI

Annual Qualification Review

2011

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INTRODUCTION

The annual qualification review provides qualification–specific support and guidance to centres. This information is designed to help teachers preparing to teach the subject and to help candidates preparing to take the examination.

The reviews are published in September and take into account candidate performance, demonstrated in both on demand and series examinations, over the preceding 12 months. Global pass rates are published so you can measure the performance of your centre against these.

The review identifies candidate strengths and weaknesses by syllabus topic area and provides examples of good and poorer candidate responses. It should therefore be read in conjunction with details of the structure and learning objectives contained within the syllabus for this qualification found on the website.

The review also identifies any actual or proposed changes to the syllabus or question types together with their implications.

PASS RATE STATISTICS

The following statistics are based on the performance of candidates who took this qualification between 1 October 2010 and 31 August 2011.

Global pass rate	63.88%

Grade distributions

Pass	20.16%
Credit	33.79%
Distinction	46.04%

General Strengths and Weaknesses

Strengths

- Candidates consistently perform well on Partnerships and Control Accounts questions
- Candidates are improving at Manufacturing Accounts. Fewer are **deducting** factory overheads from prime cost
- Candidates seem to prefer syllabus area(s) 2: Partnerships and 8: Control accounts.

Weaknesses

Candidates consistently fail to show workings, produce illegible work, do not show a full understanding of the basic book-keeping principles (i.e. double entry book-keeping in particular) and do not present a fully understanding of Level 1 Book-keeping in general.

Candidates underperform in the following syllabus areas:

1: Advanced aspects of the syllabus for Level 1 Book-keeping

3: Limited liability companies

6: Stock valuation

7: Non-trading organisations.

To achieve full marks, candidates should:

- Sit the level 1 Book-keeping examination or have a full understating of all level 1 topics
- Stock valuation: understand how to calculate the cost price of stock when the sales price is given in the question
- Limited liability companies: understand how to calculate loan interest (fraction of a year) when a loan has been taken out during the financial year, correctly label and calculate the retained profit for the year (the retained profit brought down from the previous year must be shown after the retained profit for the year) and correctly label the retained profit carried down. Ordinary shares and preference share capital must be shown with the value or number of shares
- Non-trading organisations: understand how to account for lifetime subscriptions, account for donations which are not treated as capital receipts, account for subscriptions received during the financial year, account for subscriptions in arrears or in advance at the start of the financial year and account for subscriptions in arrears or in advance at the end of the financial year.

TEACHING POINTS BY SYLLABUS TOPIC

1 Advanced aspects of the syllabus for Level 1 Book-keeping

- Candidates could improve upon their performance by attempting level 1 Book-keeping practice papers and by reading level 1 and level 2 Passport to Success books.

1.1 Advanced aspects of the syllabus for Level 1 Book-keeping

- Candidates struggle with recording transactions through double entry and journal entries. A thorough understanding of the level 1 Book-keeping syllabus would assist candidates.

1.2 Advanced Aspects of Depreciation (including Disposal) Methods include: Straight-line and Reducing/Diminishing

- Candidates struggle with determining the difference between a depreciation expense account and an account for the accumulated provision for depreciation. More emphasis should be placed on teaching these topics.

1.3 Adjusting for accruals and prepayments

- Candidates have difficulty when recording entries for the rent received account and often erroneously record prepayment balances as current liabilities on the balance sheet.

FURTHER GUIDANCE

- Only 4 of the 5 questions should be attempted
- The questions attempted should be recorded on the front page of the script
- All workings should be shown
- Writing should be neat and legible
- Past papers should be practiced
- Revision should be encouraged to reinforce learning.

EXAMPLES OF CANDIDATE RESPONSES

QUESTION 3

The Trading Account has been completed and the following were extracted from the books of Stone Ltd on 30 April 2011.

	£	
Land and buildings	341,850	
Motor vehicles	100,000	
Provision for depreciation on motor vehicles	75,000	
Office equipment	35,000	
Provision for depreciation on office equipment	14,000	
Gross profit	252,200	
Stock at 30 April 2011	45,000	
Selling expenses	30,000	
Distribution expenses	65,000	
Administration expenses	42,500	
5% Debentures repayable 2019	50,000	
Interest paid to debenture holders for the first half of the year	1,250	
Provision for doubtful debts	750	
Profit on sale of vehicle	600	
Profit and loss account: 1 May 2010	41,750	Cr
6% Bank deposit	25,000	
Debtors	31,000	
Creditors	22,500	
Bank overdraft	3,400	
Ordinary share capital: issued and fully paid at £1 each	200,000	
8% Preference share capital: issued and fully paid at £1 each	40,000	
Share premium	20,000	
Interim dividend paid: preference shares	1,600	
Interim dividend paid: ordinary shares	2,000	

Additional information at 30 April 2011:

(1) Depreciation is to be provided, as follows:

- (i) motor vehicles 25% per annum reducing balance
- (ii) office equipment 20% per annum on cost

(2) Prepaid selling expenses, £1,000

(3) Accrued distribution expenses, £300

(4) The provision for doubtful debts is to be 2% of debtors

(5) The 6% Bank deposit was invested on 1 January 2011. The first year's interest will be received on 31 December 2011

(6) The directors have proposed:

- (i) a transfer to a general reserve of £12,500
- (ii) to pay the remainder of the preference divided for the year
- (iii) a final dividend to the ordinary shareholders of £0.10 per share.

REQUIRED

(a) Prepare the Profit & Loss and Appropriation Account for year ended 30 April 2011.

(15 marks)

(b) Prepare the Balance Sheet at 30 April 2011.

(10 marks)

(Total 25 marks)

Candidate A – Fail Response

(a)

Stone Ltd
Profit & Loss & Appropriation Account
for year ended 30 April 2011

	£	£
Gross profit		252,200
Profit on sale of vehicle		600
Decrease in provision for doubtful debts (750 - 620)		130
		252,930
Less:		
Selling expenses (30,000 +1,000)	31,000	
Distribution expenses (65,000 - 300)	64,700	
Administration expenses	42,500	
Debenture interest	1,250	
Depreciation:		
Vehicles ([100,000 - 75,000] x 25%)	6,250	
Office equipment (35,000 x 20%)	7,000	152,700
Net Profit		100,230
Less:		
Preference dividend - interim	1,600	
Ordinary dividend - interim	2,000	3,600
Retained profit		96,630
Retained profit b/fwd		41,750
Retained profit for the year		54,880

- Deposit interest omitted
- Debenture interest accrual not accounted for
- Proposed dividends omitted
- General reserves omitted
- Incorrect labelling of retained profit for the year
- Retained profit b/d deducted from retained profit for the year

(b)

Syllabus topic 3.2 Preparation of final accounts (3.2.7), (3.2.8), (3.2.9), (3.2.10), (3.2.12), (3.2.13),
for a limited company (2.6.1), (2.6.4), (2.6.5), (2.6.6), (2.6.10)

Stone Ltd
Balance Sheet at 30 April 2011

		£	£	£
Fixed Assets		**Cost**	**Accumulated Dep'n**	**NBV**
Land & buildings		341,850		341,850
Motor vehicles		100,000	81,250	18,750
Office equipment		35,000	21,000	14,000
		476,850	102,250	374,600
W1 75,000+6,250				
W2 14,000+7,000				
Current Assets				
Stock		45,000		
Debtors	31,000			
Less: PDD	750	30,250		
Sundry Debtors		300		
Bank deposit account		25,000	100,550	
Creditors due within 1 year				
Creditors		22,500		
Accruals (1,000)		1,000		
Bank overdraft		3,400	26,900	
Net Current Assets				73,650
				448,250
Creditors due after more than 1 year				
5% Debenture loan 2019				50,000
				498,250
Capital and Reserves				
Issued and fully paid share capital				
Ordinary shares				200,000
Preference shares				40,000
				240,000
Reserves				
Share premium			20,000	
Profit & Loss			41,750	
General reserve			12,500	
				74,250
Total Shareholders Funds				314,250

- Provision for doubtful debts incorrectly calculated
- Deposit interest accrual omitted
- Debenture interest accrual not accounted for
- Accruals an prepayments incorrectly treated
- Proposed dividends omitted
- Debenture incorrectly treated – added to net assets
- Issued and fully paid share capital incorrectly labelled
- Retained profit b/d from previous year used – not retained profit c/d

Candidate B – Pass Response

(a)

Stone Ltd
Profit & Loss & Appropriation Account
for year ended 30 April 2011

	£	£
Gross profit		252,200
Profit on sale of vehicle		600
Deposit interest accrued (25,000 x 6%)		1,500
Decrease in provision for doubtful debts (750 - 620)		130
		254,430
Less:		
Selling expenses (30,000 - 1,000)	29,000	
Distribution expenses (65,000 + 300)	65,300	
Administration expenses	42,500	
Debenture interest (1,250 + 1,250)	2,500	
Depreciation:		
Vehicles ([100,000 - 75,000] x 25%)	6,250	
Office equipment (35,000 x 20%)	7,000	152,550
Net Profit		406,980
Add:		
Preference dividend - interim	1,600	
Preference dividend - proposed	1,600	
Ordinary dividend - interim	2,000	
Ordinary dividend - proposed (200,000 x 0.10)	20,000	
Transfer to general reserve	12,500	37,700
Retained profit		329,280
Retained profit c/d		41,750
Retained profit for the year		371,030

- Incorrect labelling of retained profit
- Deposit interest accrued incorrectly calculated
- Expenses added to gross profit

Syllabus topic 3.2 Preparation of final accounts (3.2.7), (3.2.8), (3.2.9), (3.2.10), (3.2.12) (3.2.13), for a limited company (2.6.1), (2.6.4), (2.6.5), (2.6.6), (2.6.10) (3.2.1)

(b)

Stone Ltd
Balance Sheet at 30 April 2011

		£	£	£
		Cost	**Accumulated Dep'n**	**NBV**
Fixed Assets				
Land & buildings		341,850		341,850
Motor vehicles		100,000	81,250	18,750
Office equipment		35,000	21,000	14,000
		476,850	102,250	374,600
W1 75,000+6,250				
W2 14,000+7,000				
Current Assets				
Stock		45,000		
Debtors	31,000			
Less: PDD (750-130)	620	30,380		
Sundry Debtors (1,000+500)		1,500		
Bank deposit account		25,000	101,880	
Creditors due within 1 year				
Creditors		22,500		
Accruals (1,250 + 300)		1,550		
Proposed dividends (20,000+1,600)		21,600		
Bank overdraft		3,400	49,050	
Net Current Assets				52,830
				427,430
Capital and Reserves				
Issued and fully paid share capital				
Ordinary shares				200,000
Preference shares				40,000
				240,000
Reserves				
Share premium			20,000	
Profit & Loss			371,030	
General reserve			12,500	
				403,530
Total Shareholders Funds				643,530

- Incorrect labelling of ordinary and preference shares
- Omitted creditors due after more than 1 year

Candidate C – Distinction Response

(a)

Stone Ltd
Profit & Loss & Appropriation Account
for year ended 30 April 2011

	£	£
Gross profit		252,200
Profit on sale of vehicle		600
Deposit interest accrued (25,000 x 6% x 4/12)		500
Decrease in provision for doubtful debts (750 - 620)		130
		253,430
Less:		
Selling expenses (30,000 - 1,000)	29,000	
Distribution expenses (65,000 + 300)	65,300	
Administration expenses	42,500	
Debenture interest (1,250 + 1,250)	2,500	
Depreciation:		
Vehicles ([100,000 - 75,000] x 25%)	6,250	
Office equipment (35,000 x 20%)	7,000	152,550
Net Profit		100,880
Less:		
Preference dividend - interim	1,600	
Preference dividend - proposed	1,600	
Ordinary dividend - interim	2,000	
Ordinary dividend - proposed (200,000 x 0.10)	20,000	
Transfer to general reserve	12,500	37,700
Retained profit for year		63,180
Retained profit b/fwd		41,750
Retained profit c/fwd		104,930

Syllabus topic 3.2 Preparation of final accounts (3.2.7), (3.2.8), (3.2.9), (3.2.10), (3.2.12), (3.2.13), for a limited company (2.6.1), (2.6.4), (2.6.5), (2.6.6), (2.6.10) (3.2.14)

(b)

Stone Ltd
Balance Sheet at 30 April 2011

		£	£	£
Fixed Assets		**Cost**	**Accumulated Dep'n**	**NBV**
Land & buildings		341,850		341,850
Motor vehicles		100,000	81,250	18,750
Office equipment		35,000	21,000	14,000
		476,850	102,250	374,600
W1 75,000+6,250				
W2 14,000+7,000				
Current Assets				
Stock		45,000		
Debtors	31,000			
Less: PDD (750-130)	620	30,380		
Sundry Debtors (1,000+500)		1,500		
Bank deposit account		25,000	101,880	
Creditors due within 1 year				
Creditors		22,500		
Accruals (1,250 + 300)		1,550		
Proposed dividends (20,000+1,600)		21,600		
Bank overdraft		3,400	49,050	
Net Current Assets				52,830
				427,430
Creditors due after more than 1 year				
5% Debenture loan 2019				50,000
				377,430
Capital and Reserves				
Issued and fully paid share capital				
200,000 Ordinary shares at £1 each				200,000
40,000 8% Preference shares at £1 each				40,000
				240,000
Reserves				
Share premium			20,000	
Profit & Loss			104,930	
General reserve			12,500	
				137,430
Total Shareholders Funds				377,430

- All entries in both parts treated correctly with accurate layout and calculations

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