

**EDUCATION DEVELOPMENT INTERNATIONAL PLC
LCCI IQ SAMPLE PAPER ANSWERS 2008
BOOK-KEEPING AND ACCOUNTS (ASE2007)
LEVEL 2**

QUESTION 1

(a)		Workings	Answer
Gross profit margin		$\frac{1,125}{2,100} \times 100$	53.57%
Current ratio		$\frac{807}{300}$	2.69:1
Liquidity ratio	(807 -157)	$\frac{650}{300}$	2.17:1
Rate of stock-turnover	([205+157]/2)	$\frac{975}{181}$	5.39 times
Debtors' collection period		$\frac{450}{2100} \times 365$	78.21 days
Creditors' settlement period		$\frac{300}{927} \times 365$	118.12 days
Return on total capital employed		$\frac{**281}{1,519} \times 100$	18.50%
Sales to capital employed		$\frac{2,100}{1,519} \times 100$	138.25%

** Net profit £263 + debenture interest £18 = £281

(19 marks)

- (b) Current ratio: Sufficient current assets to pay back its current liabilities
 Liquidity ratio: Ratio is high therefore idle use of resources
 Debtors collection period: Debtors paying back their debts in a reasonable time
 Creditors settlement period: Taking too long to pay debts to creditors

(4 marks)

- (c) Bought goods at a lower unit price
 Sold goods at a higher unit price

(2 marks)

(Total 25 marks)

QUESTION 2

		Rent Payable			
		£		£	
2005			2005		
1 Aug	Bank	390	1 Aug	Balance b/d	130
1 Oct	Bank	447			
2006			2006		
1 Jan	Bank	447	31 Jul	P&L A/c	1,750
1 Apr	Bank	447	31 Jul	Balance c/d	298
1 Jul	Bank	447			
		<u>2178</u>			<u>2178</u>

1 Aug Balance b/d 298

		Telephone			
		£		£	
2005			2005		
1 Sep	Bank	185	1 Aug	Balance b/d	90
1 Dec	Bank	203			
2006			2006		
1 Mar	Bank	189	31 Jul	P&L A/c	782
1 Jun	Bank	205			
1 Jul	Balance c/d	90			
		<u>872</u>			<u>872</u>

1 Aug Balance b/d 90

		Insurance			
		£		£	
2005					
1 Aug	Balance b/d	80			
1 Sep	Bank	800			
			2006		
			31 Jul	P&L A/c	813
			31 Jul	Balance c/d	67
		<u>880</u>			<u>880</u>

1 Aug Balance b/d 67

		Rent Receivable			
		£		£	
2005			2005		
1 Aug	Balance b/d	420	1 Dec	Bank	1,260
2006			2006		
31 Jul	P&L A/c	1,285	1 Jun	Bank	890
31 Jul	Balance c/d	445			
		<u>2,150</u>			<u>2,150</u>

1 Aug Balance b/d 445

(12 marks)

QUESTION 2 CONTINUED

- (b) **Foster's Garden Centre**
Profit & Loss Account extract for the year ended 31 July 2006

	£	£
Rent Receivable		1,285
Rent payable	1,750	
Telephone	782	
Insurance	813	

(6 marks)

- (c) **Balance Sheet extract at 31 July 2006**

Current Assets		£
Prepayments	(298 + 67)	365

Current Liabilities		
Accruals	(90 + 445)	535

(5 marks)

- (d) (i) To match up expenses debited to the profit & loss account with the expense cost used up in the period.
- (ii) To match up revenue credited to the profit & loss account with revenue earned for the period. (2 marks)

(Total 25 marks)

QUESTION 3

(a)

**D Rose and M Lily
Profit & Loss and Appropriation Account
for the year ended 30 June 2006**

	£	£	£
Gross Profit b/d			259,854
<i>Less:</i>			
Rent	21,400		
Insurance (9,200 - 1,600)	7,600		
Lighting & heating (14,600 + 700)	15,300		
Vehicle running expenses (18,600 - 3,600)	15,000		
Depreciation	24,000		
General expenses	5,200		
Wages & salaries	105,000		
Provision for doubtful debts (29,600 x 2%)	592		
			194,092
Net Profit			65,762
<i>Add:</i>			
Interest on drawings:			
Rose ([30,000 + 1,800] x 5%)	1,590		
Lily ([15,000 + 1,800] x 5%)	840		
			2,430
			68,192
<i>Less:</i>			
Interest on capital:			
Rose (120,000 x 6%)	7,200		
Lily (40,000 x 6%)	2,400		
			9,600
			58,592
Salary to Lily			40,000
			18,592
Share of profit:			
Rose (18,592 x 3/4)	13,944		
Lily (18,592 x 1/4)	4,648		
			18,592

(12 marks)

QUESTION 3 CONTINUED

(b)

Current Accounts					
	Rose	Lily		Rose	Lily
	£	£		£	£
Bal b/d	9,000		Bal b/d	3,000	
Drawings	31,800	16,800	Interest on capital	7,200	2,400
Interest on drawings	1,590	840	Salary		40,000
Bal c/d		32,408	Profit	13,944	4,648
			Bal c/d	21,246	
	42,390	50,048		42,390	50,048
Bal b/d	21,246		Bal b/d		32,408

(11 marks)

(c)

- (i) allowing interest on capital balances rewards the partners for introducing capital into the business
- (ii) charging interest on drawings deters the partners from withdrawing unnecessary cash from the business

(2 marks)

(Total 25 marks)

QUESTION 4

		Purchases Ledger Control Account			
2006		£	2006		£
1 Aug	Balance b/d	1,470	1 Aug	Balance b/d	258,932
30 Aug	Purchases returns	2,998	30 Aug	Purchases	168,340
30 Aug	Bank	237,940	30 Aug	Balance c/d	2,820
30 Aug	Discounts received	1,666			
30 Aug	Sales Ledger – contra	900			
30 Aug	Balance c/d	185,118			
		<u>430,092</u>			<u>430,092</u>

1 Sep	Balance b/d	2,820	1 Sep	Balance b/d	92,559
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(9 marks)

		Sales Ledger Control Account			
2006		£	2006		£
1 Aug	Balance b/d	292,416	1 Aug	Balance b/d	1,084
30 Aug	Sales	146,452	30 Aug	Sales returns	2,664
30 Aug	Cash	880	30 Aug	Bad debt	1,200
30 Aug	Bank - dishonoured chq	2,352	30 Aug	Bank	154,146
30 Aug	Debtor - interest	600	30 Aug	Discounts allowed	1,998
30 Aug	Debtors - legal expenses	270	30 Aug	Purchases ledger - contra	900
30 Aug	Balance c/d	1,894	30 Aug	Balance c/d	282,872
		<u>444,864</u>			<u>444,864</u>

1 Sep	Balance b/d	282,872	1 Sep	Balance b/d	1,894
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(14 marks)

		Provision for Doubtful Debts Account			
2006		£	2006		£
30 Aug	Profit & Loss	2,234	1 Aug	Balance b/d	10,720
30 Aug	Balance c/d (282,872 x 3%)	8,486			
		<u>10,720</u>			<u>10,720</u>

1 Sep	Balance b/d	8,486
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(2 marks)

(Total 25 marks)

QUESTION 5

(a)

**P Chan Ltd
Manufacturing Account
for the year ended 31 December 2005**

	£000	£000
Raw materials		
Purchases	1,592	
Carriage	65	
	1,657	
Less: Returns	18	
	1,639	
Less: Closing Stock	122	
Cost of Raw Materials used		1,517
Direct wages	(462 + 12)	474
Prime cost of production		1,991
Production overheads	(924 - 8)	916
Production cost		2,907
Less: Work-in-progress		77
		2,830
Manufacturing profit	(2,830 x 10%)	283
Production Cost/Transfer to Trading Account		3,113

(11 marks)

(b)

**P Chan Ltd
Trading Account
for the year ended 31 December 2005**

	£	£	£
Sales			4,763
Less: returns			92
			4,671
Production Cost/Transfer from Manufacturing Account	3,113		
Purchases	480		
Carriage	14		
	494		
Less: returns	11		
	483		
		3,596	
Less: stock finished goods	(445 + 57)		502
Cost of goods sold			3,094
Gross profit			1,577

(10 marks)

(c)

- Electricity
- Wages and salaries of managers, supervisors, etc
- Depreciation of machinery
- Repairs to machinery

(4 marks)

(Total 25 marks)