

Pearson LCCI
Level 2 Certificate in Book-
keeping & Accounts
(ASE2007)

Annual Qualification
Review
2014/2015

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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 sat the Qualification between 1 October 2012 and 31 August 2013.

Global pass rate 75.9%

Grade distributions of candidates achieving pass or higher

Pass 13.6%

Merit 43.6%

Distinction 18.7%

* This figure excludes absences on the day of the exam

GENERAL STRENGTHS AND WEAKNESSES

Strengths

- Most candidates were able to complete the examination in the given time
- Generally good at preparing control accounts
- Most candidates produced neat, tidy work

Weaknesses

- Untidy work in a few cases
- Attempting 5 questions when only 4 are required
- Poor knowledge of level 1 Book-keeping topics
- Difficulty with written answers
- Not showing all workings when required
- Failing to indicate on the front cover which questions had been attempted
- Failing to bring down account balances
- Incorrectly labelling figures

TEACHING POINTS BY SYLLABUS TOPIC

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

Series 2 2015; Question 3

(a) (i) Prepare the Motor Vehicles

There was a failure to use the narrative 'bank'; 'motor vehicle' was a common narrative. There was a failure to split the £42,000 into £20,000 bank and £22,000 disposal with correct narratives.

(ii) Prepare the Provision for Depreciation of Motor Vehicles

Depreciation was often miscalculated and the dates were often inaccurate.

(iii) Prepare the Depreciation of Motor Vehicles

Narratives and dates were often inaccurate.

(iv) Prepare the Disposal of Motor Vehicles

Motor vehicle often had the narrative 'bank'.

(b) Name three methods of depreciation other than the reducing balance method.

Very few candidates could identify an alternative method of depreciation other than the straight line method.

Syllabus Topic 1.4: Bad debts and provision for doubtful debts

Series 3 2015; Question 5

(a) Prepare the following:

(i) Bad Debts Account

The quality of answers varied significantly. Quite a few candidates did not name the specific debtors but just used the generic name 'debtors'. Some failed to include the full dates.

(ii) Provision for Doubtful Debts Account

The structure and narratives of the ledger account were often correct but the opening balance was stated erroneously as 2014 and balances b/d in 2015 and 2016. A few candidates completely reversed the account.

(b) Prepare extracts from the Profit & Loss Accounts, recording the bad debts and the adjustments to the provision for doubtful debts

It was surprising the number of candidates who gave no indication of whether the entries were expenses or incomes

(c) Prepare a Balance Sheet extract to show the debtors

The entries were generally accurate but many candidates failed to state that these would be under current assets. Some recorded debtors as £88,880, instead of £78,300, or included the bad debts of £4,200.

(d) Prepare Journal entries to record a bad debt recovered

Many candidates scored high marks in this section but others again failed to provide suitable narratives. 'Debtors' instead of 'Damia' was common as a narrative. A common misunderstanding was that it would affect the bad debts account rather than the bad debts recovered account.

(e) State why a provision for doubtful debts is created
If the candidate answered the question it was generally worthy of the mark.

Syllabus Topic 2.1, 2.2: Partnerships Series 4 2014; Question 2

(a) Prepare the Journals, including narratives, to:

(i) open the books of the new partnership

Most candidates prepared journals which showed the introduction of assets and liabilities and arrived at a capital for each partner. The narrative was often omitted.

(ii) write off the goodwill

The writing off of the goodwill was answered well, but some candidates recorded an incorrect partner split of £45 000 and £27 000 rather than £48,00 and £24,000. The narrative was often omitted.

(b) Prepare the Balance Sheet

The question was answered well with most candidates linking the capital accounts to their answers to part (a).

(c) Explain the rules for appropriating profits/losses where no partnership agreement Exists

Answers were variable with some candidates not providing an answer and a minority of candidates stating that profits were split on the ratio of the last capital.

Series 2 2015; Question 2

(a) Prepare the Revaluation Account

The most common errors were to include alien items and omit the provision for doubtful debts.

(b) Prepare the Capital Accounts

The most common error was to include the current account balances.

(c) Prepare the opening Balance Sheet of the new partnership

The most common error was excluding the current account balances.

Series 3 2015; Question 1

Q1(a) Prepare the Profit & Loss and Appropriation Account

Some candidates deducted the interest on drawings. Some candidates included an alien i.e. provision for depreciation of fixtures and fittings of £8,870 as an expense.

Q1(b) Prepare the partners' Current Accounts

A few candidates included the capital account balances

Q1(c) Where there is no formal partnership agreement, state the rule for:

(i) sharing profits and losses; (ii) partners' salaries; (iii) charging interest on partners' drawings; (iv) paying interest on partners' loans

Answers to (c) were really quite poor with many candidates not attempting the section or providing inaccurate answers. Some candidates also answered the question by stating the terms of the partners' partnership agreement.

Syllabus Topic 4: Incomplete records

Series 4 2014: Question 4

(a) Prepare a Statement of Affairs to calculate the opening capital

Candidates could generally calculate the capital but few of them attempted to prepare a Statement of Affairs. Many just prepared a string of figures.

(b) Prepare the Trading and Profit & Loss Account

There were many correct answers, but incorrect figures of £75,058 for sales and £62,504 for purchases were commonly seen. Items in the profit and loss account were full and accurate.

(c) Prepare the Balance Sheet

This was answered well with many correct figures using the own figure rule.

(d) State two uses of a Statement of Affairs

Few candidates attempted this part of the question.

Syllabus Topic 5: Manufacturing Accounts

Series 3 2015; Question 4

(a) (i) Prepare the Manufacturing Account

The question was answered well but there were some common errors: the heading was often incomplete. 'Cost of raw materials' consumed was not accurately labeled. Some candidates recorded the machine operator's wages as a production overhead and others recorded the salary of factory supervisor as a direct cost. A few candidates included the depreciation on delivery vans in the manufacturing account, others deducted the overhead expenses, but this did not seem to be as widespread as in previous examinations. Weaker candidates were unable to apportion the correct rent and insurance to the manufacturing cost.

(ii) Prepare the Trading and Profit & Loss Account

The trading and profit and loss was substantially accurate with no common errors.

(b) Define the term prime cost

The answers were generally very good with most candidates scoring the maximum two marks.

Syllabus Topic 6: Stock Valuation

Series 2 2015; Question 5

(a) Prepare a calculation showing the stock valuation

For the calculation of item (6), £575 was a common figure, but many other alternatives were offered.

(b) Prepare the Trading Account

This was usually well attempted.

(c) State the accounting rule used when valuing stock

The question was generally not answered.

Syllabus Topic 7: Non-trading organisations

Series 4 2014; Question 5

(a) Prepare the:

(i) Receipts and Payments Account

Many of the candidates achieved full marks on this part of the question whilst some failed to achieve any marks.

(ii) Subscriptions Account

Most candidates recorded the account correctly but almost no candidates brought down the balances. Therefore they scored four out of six marks.

(iii) Refreshment Trading Account

Answers to the Trading Account were variable; many candidates recorded the purchases as £10,400 (failure to make the adjustments for refreshment creditors in arrears) so a gross profit of £8,320 was common.

(iv) Income and Expenditure Account

Many candidates included donations (which, as the question stated, were to be treated as a capital receipt); there were a variety of calculations for the depreciation and the surplus was often called a 'net profit'.

(b) (i) Define the meaning of the term accumulated fund

(ii) State two causes for an increase in the accumulated fund

Both parts were generally not attempted and those that did attempt this part of the question produced very poor answers.

Series 3 2015; Question 3

(a) Prepare the Restaurant Trading Account

Section (a) was generally completed well but many candidates included a range of expenses other than restaurant wages in the account. More candidates ascertained the correct wages amount of £8,200 compared to purchases of £18,130 in the calculation of the restaurant profit.

(b) Prepare the Income and Expenditure Account

Section (b) was generally well prepared. Common errors were to omit the life membership subscription, subscriptions written off and to miscalculate the depreciation on equipment basing the figure on 20% of £14,950 (failing to consider the additional equipment purchased in the year for £2800). Many overlooked subscriptions written off of £200 as expenditure.

(c) Balance Sheet

Section (c) was generally answered well but there were common errors of not including the £2,800 in the equipment cost, and not recording the balance of the life membership.

Syllabus Topic 8: Control Accounts

Series 4 2014; Question 1

(a) Prepare the:

(i) Sales Ledger Control Account

Very few candidates recorded the bad debt recovered of £430 correctly on both sides of the account. Some candidates recorded the debit entry only, but most candidates omitted both entries. Some failed to bring down their balances.

(ii) Purchase Ledger Control Account.

High marks were achieved. Some failed to bring down their balances.

(b) Prepare the Journal entries to record the bad debts recovered

Many candidates used the narrative 'debtors' instead of the debtor's name of 'B Lee'.

Series 2 2015; Question 1

(a) Prepare the:

(i) Purchases Ledger Control Account

High marks were achieved. Some failed to bring down their balances.

(ii) Sales Ledger Control Account.

The most common error was of not treating the bank refund correctly.

(b) State in which sections of the Balance Sheet the following balances would be entered:

(i) debit balance on the Purchases Ledger Control Account

(ii) credit balance on the Purchases Ledger Control Account

The most common error was of not identifying the section of the balance sheet where the entries would be recorded, and just simply recording the figures.

Syllabus Topic 9: Suspense Accounts

Series 4 2014; Question 3

(a) Prepare the Journal entries to correct errors

Common errors were in item (2) using 'Shen Ltd' as a narrative instead of 'rent received'; item (3) debiting motor vehicle repairs only; item (5) correct narratives but incorrect value of £180.

(b) Prepare the Suspense Account

This was answered well but often alien entries were included.

(c) Show the effect of each of the errors on the net profit in the draft final accounts.

Calculate the corrected net profit

This was answered well with high marks being achieved.

Series 2 2015; Question 4

(a) Prepare Journal entries to correct errors

Candidates often failed to correctly record the ledger control accounts and to make the correct entries for depreciation and provision for depreciation.

(b) Prepare the Suspense Account

The suspense account was generally well attempted. Some entered a narrative of 'balance c/d' for the balance b/d.

(c) Name four types of error that will not prevent the Trial Balance from balancing

Candidates either scored full marks or did not attempt the question.

Syllabus Topic 10: Calculation & Interpretation of Accounting Ratios

Series 3 2015; Question 2

a) Calculate the following ratios to one decimal place. You **must** state the formulae in words.

(i) Gross profit margin

(ii) Net profit as a percentage of sales

(iii) Rate of stock turnover (times per year)

(iv) Return on capital employed

(v) Current/working capital ratio

(vi) Liquidity/acid test ratio

(vii) Sales to capital employed (as a percentage)

(viii) Average time that goods are carried in stock (in months)

(ix) Debtors' collection period (in days)

(x) Creditors' settlement period (in days)

In general, the formulae were stated and calculated accurately. The value of the capital employed in ratio (iv) and (vii) was often shown as £153,800 (capital) rather than £186,200 (capital employed), however all other calculations were very accurate.

(b) At 30 April 2014, the gross profit margin was 45%. State **three** possible reasons for the change in the gross profit margin from 2014 to 2015.

This section was either not completed or completed very, very poorly. Candidates usually referred to general points, for instance higher purchases, lower sales, increased opening stock and decreased closing stock, which achieved no marks.

(c) Give **one** reason why each of the following might use ratios:

(i) Owners of a business

(ii) Bank.

This section (b) was also either not completed or completed very, very poorly.

Further Guidance

Cover all aspects of the Book-keeping level 1 syllabus

Read and practice the exercises in the Passport to Success Book

Revise using past LCCI Book-keeping & Accounts level 2 examination papers

EXAMPLES OF CANDIDATE RESPONSES

Question 5

Dong's Balance Sheet at 31 January 2013 included the following:

	£
Debtors	81,000
Less provision for doubtful debts	<u>(2,430)</u>
	<u>78,570</u>

The debtors' balances **after** the bad debts had been written off were:

	£
At 31 January 2014	88,800
At 31 January 2015	78,300

The bad debts that had been written off during the two years were:

	£
For the year ended 31 January 2014: Damia	3,600
For the year ended 31 January 2015: Cyril	4,200

At the end of January 2014 and 2015, Dong maintained a provision for doubtful debts at 4% of debtors.

Required

(a) Prepare the following for the years ended 31 January 2014 and 31 January 2015:

(i) Bad Debts Account (4)

(ii) Provision for Doubtful Debts Account. (7)

(b) Prepare extracts from the Profit & Loss Accounts for the years ended 31 January 2014 and 31 January 2015, recording the bad debts and the adjustment to the provision for doubtful debts. (4)

(c) Prepare a Balance Sheet extract to show Dong's debtors at 31 January 2015. (3)

(d) A cheque was received on 6 February 2015 for the bad debt of Damia which written off during the year ended 31 January 2014.
Prepare Journal entries to fully record this transaction in Dong's books. (6)

(e) State why a provision for doubtful debts is created. (1)

(Total for Question 5 = 25 marks)

Question 5

(a)(i)

Bad Debts Account

2013-2014		£		2014	£
Jan 31	Damia	3,600	1	Jan 31	P&L 3,600 1
2014 -2015				2015	
Jan 31	Cyril	4,200	1	Jan 31	P&L 4,200 1

(4)

(a)(ii)

Provision for Doubtful Debts Account

2014		£		2013	£
Jan 31	Balance c/d	3,552	1	Feb 1	Balance b/d 2,430 1
		<u>3,552</u>		2014	
				Jan 31	P&L <u>1,122</u> 1 of
					<u>3,552</u>
2015				2014	
Jan 31	P&L	420	1 of	Feb 1	Balance b/d 3,552 1 of
Jan 31	Balance c/d	<u>3,132</u>	1		<u>3,552</u>
		<u>3,552</u>		2015	
				Feb 1	Balance b/d 3,132 1 of

(7)

Q5(b) Profit and Loss Account extract for the year ended 31 January

2013 - 2014		£	£
Expenses:			
Bad debts		3,600	1
Increase in provision for doubtful debts		1,122	1of
2014 - 2015			
Expenses:			
Bad debts		4,200	1
Income:			
Decrease in provision for doubtful debts		420	1of

(4)

Q5(c)

Balance Sheet extract at 31 January 2015

Current Assets 1	£
Debtors	78,300
Less provision for doubtful debts	<u>(3,132)</u> 1of
	75,168 1of

(3)

Q5(d)

General Journal

	Dr	Cr
	£	£
2015		
6 February		
Bank	3,600	1
Damia		3,600 1
Damia	3,600	1
Bad debts recovered		3,600 1
2016		
31 January		
Bad debts recovered	3,600	1
Profit and Loss		3,600 1

(6)

Q5(e)

To charge possible bad debts as an expense in the Profit and Loss Account.

To show a realistic debtors' figure on the balance sheet.

Comply with the prudence concept.

To write off the possible future loss/matching concepts.

Award 1 mark each for any one of the above.

(1)

Total for Question 5 – 25 marks

Series 3 2015

Subject Code ASE2007

Candidate number 13136624

Example Fail

(a)(i) No attempt was made to prepare the bad debts account.

(a)(ii) Full marks were achieved for the provision for doubtful debts account.

(b) A balance sheet extract was produced NOT a profit and loss account extract.

(c) Full marks were achieved for the balance sheet extract.

(d) One mark was awarded for the debit entry of bank 3,600. Only one credit entry was recorded for 'bad debts', which was incorrect.

Series 3 2015

Subject Code ASE2007

Candidate number 13036733

Example Pass

(a)(i) Full marks were achieved for the bad debts account.

(a)(ii) The provision for doubtful debts account was completely reversed.

(b) Full marks were achieved for the profit and loss account extract.

(c) Full marks were achieved for the balance sheet extract.

(d) One mark each was awarded for the Dr entry of Damia, Dr entry of bank and Cr entry of Damia. No figures were shown therefore, the mark was not awarded for the first correct entry of Dr bad debts recovered.

(e) Failed to provide an answer for why a provision for doubtful debts is created.

Series 3 2014

Subject Code ASE2007

Candidate number 13036701

Example Merit

(a)(i) Two marks were achieved for recording the two correct credit entries in the

bad debts account. The label 'debtor' was used instead of the debtor's names for the two debit entries.

- (a)(ii) The provision for doubtful debts account was completely reversed.
- (b) Full marks were achieved for the profit and loss account extract.
- (c) Full marks were achieved for the balance sheet extract.
- (d) Full marks were achieved for the journal entries.
- (e) Failed to provide an answer for why a provision for doubtful debts is created.

Series 3 2014

Subject Code ASE2007

Candidate number 13036668

Example Distinction

- (a)(i) Full marks were achieved for the bad debts account.
- (a)(ii) Full marks were achieved for the provision for doubtful debts account .
- (b) Full marks were achieved for the profit and loss account extract.
- (c) Full marks were achieved for the balance sheet extract.
- (d) Marks were lost for Dr bad debts account instead of the bad debts recovered account and Cr Damia's account instead of the profit and loss account in the journal entries.
- (e) Failed to state a valid answer for why a provision for doubtful debts is created. Answer referred to bad debts NOT provision for doubtful debts.

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