

Book-keeping and Accounts Level 2



International
Qualifications from EDI

Model Answers Series 2 2012 (2007)

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

Shen Lee, a sole trader, who does not maintain double-entry records, has provided the following information:

	Dr £	Cr £
Debtors and creditors at 1 January 2011	83,620	53,000
Debtors and creditors at 31 December 2011	98,474	55,060

Year ended 31 December 2011

	£
Cash received from debtors	478,000
Cash sales	103,800
Discount allowed	4,200
Cash paid to creditors	222,940
Discount received	1,800
Cash purchases	58,918
Goods taken by the owner	4,350
Sales ledger balances transferred to the Purchases Ledger	9,000

REQUIRED

(a) Calculate for the year ended 31 December 2011, the value of the following:

(i) total sales

(7 marks)

(ii) total purchases.

(8 marks)

The following information was also available for 2011:

- (1) Stock at 1 January £10,200
- (2) Stock at 31 December £11,400
- (3) General expenses £6,300
- (4) Rent and rates £4,325
- (5) Insurance £350
- (6) General expenses prepaid £136 at 1 January and accrued £245 at 31 December
- (7) Rent and rates accrued £298 at 1 January, and prepaid £367 at 31 December
- (8) Fixed assets costing £15,000 are to be depreciated by 10% per annum straight line.

(b) Prepare for Shen Lee the Trading and Profit & Loss Account for the year ended 31 December 2011.

(10 marks)

(Total 25 marks)

MODEL ANSWER TO QUESTION 1

Syllabus Topic 4: Factors in production of detailed final accounts from IR (4.2.1), (4.2.2)

(a) (i)	Sales	£	£	
	Closing sales ledger balance		98,474	1
	Cash received		478,000	1
	Cash sales		103,800	1
	Discount allowed		4,200	1
	Purchases ledger contra		<u>9,000</u>	1
			693,474	
	Less:			
	Opening sales ledger balance		<u>(83,620)</u>	1
	Total sales		<u>609,854</u>	1(Of)
				(7 marks)
(ii)	Purchases		£	
	Closing purchases ledger balance		55,060	1
	Cash paid		222,940	1
	Cash purchases		58,918	1
	Discount received		1,800	1
	Sales ledger contra		<u>9,000</u>	1
			347,718	
	Less:			
	Opening purchases ledger balance	53,000		1
	Goods taken by owner - drawings	<u>4,350</u>		1
			<u>(57,350)</u>	
	Total purchases		<u>290,368</u>	1(Of)
				(8 marks)

No own figures if aliens present

Syllabus Topic4: Factors in production of detailed final accounts from IR (4.2.4)

(b)	Shen Lee			
	Trading and Profit & Loss Account for the year ended 31 December 2011			
		£	£	
	Sales		609,854	1Of
	Cost of goods sold:			
	Opening stock	10,200		
	Add Purchases	<u>290,368</u>		1Of
		300,568		
	Less Closing stock	<u>(11,400)</u>		
			(289,168)	
	Gross profit		320,686	
	Add Discount received		<u>1,800</u>	1
			322,486	
	Less Expenses			
	Discount allowed	4,200		1
	General expenses (6,300 + 136 + 245)	6,681		2
	Rent and rates (4,325 - 298 - 367)	3,660		2
	Insurance	350		
	Depreciation (15,000 x 10%)	<u>1,500</u>		1
			(16,391)	
	Net profit		<u>306,095</u>	1Of W&F
				(10 marks)

(Total 25 marks)

QUESTION 2

The following balances appeared in the books of Cai Gee on 31 December 2011:

	£
Discount allowed	818
Discount received	2,988
Debtors	21,544
Creditors	17,960
Cash in hand	1,620
Bank – Balance in hand	15,312
Vehicle at cost	16,400
Provision for depreciation of vehicles	8,200
Capital	250,000
Purchases	178,566
Sales	384,010
Wages	66,012
General expenses	110,200
Returns inwards	1,496
Returns outwards	952
Premises	240,000
Stock at 1 January 2010	15,142

On preparing the Trial Balance, it did not balance. The difference was posted to a suspense account and draft final accounts were prepared.

REQUIRED

- (a) Calculate the opening balance on the Suspense Account, clearly stating whether this is a debit or a credit balance.

(2 marks)

The following errors were subsequently discovered:

- (1) Rent receivable, £200, had been debited to the Rent Payable Account
- (2) Motor vehicle expenses, £90, had been posted to the Motor Vehicle Account
- (3) The Sales Day Book had been under-cast by £1,000
- (4) A purchase invoice from G Scott for £420 had been entered in the Purchases Day Book as £240
- (5) A credit note for £800, issued to J Pinder, a customer, had been posted to the wrong side of his account
- (6) A cash sale of £350 had not been entered in the books.

REQUIRED

- (b) Prepare the Journal entries to correct the errors in (1) to (6) above. Narratives are **not** required.

(15 marks)

- (c) Prepare the Suspense Account.

(5 marks)

- (d) Name **three** types of errors that are **not** revealed by a trial balance.

(3 marks)

(Total 25 marks)

MODEL ANSWER TO QUESTION 2

Syllabus Topic 9: Suspense accounts (9.2), (9.3), (9.7), (9.8)

(a)		£		
	Total debit balances		667,110	
	Total credit balances		<u>664,110</u>	
	Suspense Account - Cr balance		<u>3,000</u>	1F + 1 for stating credit

(2 marks)

(b)		£		£	
	Suspense	1	400		
	Rent payable	1		200	
	Rent receivable	1		200	
	Motor vehicle expenses	1	90		
	Motor vehicle	1		90	
	Suspense	1	1,000		
	Sales	1		1,000	
	Purchases	1	180		
	G Scott	1		180	
	Suspense (800 x 2)	2	1,600	(1 for 800)	
	J Pinder (800 x 2)	2		1,600	(1 for 800)
	Cash/Bank	1	350		
	Sales	1		350	

(15 marks)

(c)	Suspense Account							
	2011		£	2011		£		
	Dec 31	Rent payable	1	200	Dec 31	Difference	1Of (a)	3,000
		Rent receivable	1	200				
		Sales	1	1,000				
		J Pinder	1Of	<u>1,600</u>				
				<u>3,000</u>				<u>3,000</u>

(5 marks)

- (d)
- Errors of omission
 - Errors of commission
 - Errors of principle
 - Reversal of entries
 - Errors of original entry
 - Compensating errors
- Accept any three answers from above for 1 mark each**
- (3 marks)

(Total 25 marks)

QUESTION 3

The following information relates to Alpha Ltd for the year ended 31 December 2011:

	£
Net profit for the year (before debenture interest accrued 1 July 2011 – 31 December 2011	420,000
Retained profit 1 January 2011	124,000
Interim ordinary dividend paid	20,000
Interim preference dividend paid	10,000
6% Debenture loan (to be repaid 30 June 2012)	140,000
Issued and fully paid share capital:	
400,000 5% £1 preference shares	400,000
1,000,000 £1 ordinary shares	1,000,000
General reserve 1 January 2011	100,000
Creditors	160,000

The directors propose the following:

- (1) Payment of a final ordinary dividend of £0.04 per share
- (2) Payment of the final dividend on the preference shares
- (3) Transfer of £80,000 to the general reserve.

REQUIRED

- (a) Prepare the Profit & Loss Appropriation Account for the year ended 31 December 2011. (9 marks)

 - (b) Prepare, from the information provided, the following sections of the Balance Sheet at 31 December 2011:
 - (i) Creditors falling due within 1 year
 - (ii) Capital and reserves. (9 marks)

 - (c) State **two** differences between ordinary shares and preference shares. (4 marks)

 - (d) Explain why a Share Premium Account is created. (3 marks)
- (Total 25 marks)**

MODEL ANSWER TO QUESTION 3

Syllabus Topic 3: Limited liability companies - preparation of final accounts (3.2.3), (3.2.5) (3.2.6), (3.2.7), (3.2.10)

(a) **Alpha Ltd**
Profit & Loss Appropriation Account for the year ended 31 December 2011

		£	
Net Profit	(420,000 – 4,200 debenture interest)	415,800	1 W&F
Less		£	
Preference shares -	interim	10,000	1
	proposed	10,000	1
Ordinary shares -	interim	20,000	1
	proposed	40,000	1
General Reserve		<u>80,000</u>	1
		(160,000)	
Retained profit for the year		255,800	1 of & w
Retained profit brought forward		<u>124,000</u>	1 W&F
Retained profit carried forward		<u><u>379,800</u></u>	1 of & w

(9 marks)

(b) **Balance Sheet extract at 31 December 2011**

(i) **Creditors falling due within 1 year**

Creditors	160,000	1	
	1Of	1Of	
Proposed dividends (10,000 + 40,000)	50,000		
6% Debenture loan	140,000	1	
Debenture interest accrual	<u>4,200</u>	1	
	354,200		

(ii) **Capital and Reserves**

1,000,000 £1 ordinary shares	1,000,000	1	
General reserve (100,000 + 80,000)	180,000	1	
Profit & Loss	<u>379,800</u>	1Of	
Total ordinary shareholders funds	1,559,800		(9 marks)
400,000 5% £1 preference shares	<u>400,000</u>	1	
Total shareholder funds	1,959,800		

(c) Any **2 reasonable suggestions** for **2 marks each** e.g.
 Ordinary shares are entitled to vote but preference shares are not
 Preference shares are paid before ordinary shares upon the liquidation of a business
 Preference shares are paid any dividends before ordinary shares
 Preference shares receive a fixed amount of dividends but ordinary shares receive variable dividends based on the directors decision and available profits

(4 marks)

(d) Share premium arises when a company issues shares for more **(1)** than their nominal or par value. **(1)** The amount paid for the shares above the nominal or par value must be transferred to a Share Premium Account. **(1)**

(3 marks)

(Total 25 marks)

QUESTION 4

Yu and Zan are in partnership sharing profits and losses in the ratio 3:2 respectively. At 31 March 2011, their Balance Sheet was as follows:

Fixed assets	£	£
Goodwill		120,000
Premises		180,000
Office equipment		40,000
Fixtures and fittings		<u>30,000</u>
		370,000
 Current assets		
Stock	26,000	
Debtors	34,000	
Bank	<u>18,000</u>	
	78,000	
 Creditors falling due within one year		
Creditors	<u>(30,000)</u>	
 Net current assets		<u>48,000</u>
		<u>418,000</u>
 Capital		
Yu		258,000
Zan		<u>160,000</u>
		<u>418,000</u>

The following additional information was available:

- (1) Veata was admitted into the partnership on 1 April 2011. It was agreed that all profits and losses in the new partnership would be shared equally.
- (2) Veata introduced into the partnership stock valued at £40,000, debtors of £16,000, and also sufficient cash to cover her share of goodwill.
- (3) Assets and liabilities of the former partnership were revalued as follows:

	New Value
	£
Goodwill	180,000
Premises	260,000
Office equipment	36,000
Creditors	27,800
Stock	25,200

- (4) The partners decided that goodwill will **not** be recorded in the books of the new partnership.

REQUIRED

Prepare the:

- (a) Revaluation Account of Yu and Zan (7 marks)
- (b) Capital Accounts of Yu, Zan and Veata following both the revaluation of assets and liabilities and the admission of Veata (7 marks)
- (c) Balance Sheet of Yu, Zan and Veata at 1 April 2011. (11 marks)

(Total 25 marks)

MODEL ANSWER TO QUESTION 4

Syllabus Topic 2: Partnerships - admission of new partner (2.4.1), (2.4.2), (2.4.3), (2.5.1), (2.5.2), (2.2.6)

(a)

Revaluation Account

		£			£
Office equipment	1	4,000	Goodwill	60,000	1
Stock	1	800	Premises	80,000	1
Capital Yu 3/5	1Of	82,440	Creditors	2,200	1
Capital Zan 2/5	1Of	54,960			
		<u>142,200</u>		<u>142,200</u>	

(ratios must be correct for own figure & no aliens)

(7 marks)

(b)

Capital Accounts

	Yu £	Zan £	Veata £		Yu £	Zan £	Veata £		
Goodwill	60,000	60,000	60,000	1 for all 3	Balance b/d	258,000	160,000		
Balance c/d	280,440	154,960	56,000	1Of for all 3 No aliens	Revaluation profit	82,440	54,960	1Of	
					Stock		40,000	1 for both	
					Debtors		16,000		
					Bank/cash		60,000		
	<u>340,440</u>	<u>214,960</u>	<u>116,000</u>			<u>340,440</u>	<u>214,960</u>	<u>116,000</u>	
					Balance b/d	280,440	154,960	56,000	1Of for all 3

(7 marks)

MODEL ANSWER TO QUESTION 4 CONTINUED

(c)

**Yu, Zan and Veata
Balance Sheet at 1 April 2011**

1 if heading complete

	£	£	
Fixed assets			
Premises		260,000	1
Office equipment		36,000	1
Fixtures & fittings		<u>30,000</u>	1
		326,000	1f
Current assets			
Stock (25,200 + 40,000)	65,200		1
Debtors (34,000 + 16,000)	50,000		1
Bank (18,000 + 60,000)	<u>78,000</u>		1
		193,200	
Creditors falling due within one year			
Creditors		<u>(27,800)</u>	1
Net current assets		<u>165,400</u>	1Of
		<u>491,400</u>	
Financed by:			
Capital: Yu		280,440	1Of
Zan		154,960	
Veata		<u>56,000</u>	
		<u>491,400</u>	

(11 marks)

(Total 25 marks)

QUESTION 5

White Ltd has prepared the following financial statements for 2011:

Trading and Profit & Loss Account for the year ended 30 September 2011

	£000	£000
Sales		1000
Cost of sales		
Opening stock	70	
Add Purchases	<u>520</u>	
	590	
Less Closing stock	<u>(80)</u>	
		<u>(510)</u>
Gross profit		490
Less: expenses (including debenture interest)		<u>(283)</u>
Net profit		<u>207</u>

Balance Sheet at 30 September 2011

	£000	£000
Fixed assets		550
Current assets		
Stock	80	
Debtors	250	
Bank	<u>90</u>	
	420	
Creditors falling due within 1 year		
Creditors	<u>(120)</u>	
Net current assets		<u>300</u>
		850
Creditors falling due after more than 1 year		
6% debentures – repayable 2019		<u>(200)</u>
		<u>650</u>
Capital and reserves		
400,000 Ordinary shares of £1 each		400
Retained profits		<u>250</u>
		<u>650</u>

REQUIRED

- (a) Calculate the following ratios for White Ltd for the year ended 30 September 2011. All workings **must** be shown and answers given to **one** decimal place.
- Gross profit as a percentage of sales
 - Net profit before interest charges as a percentage of sales
 - Rate of stock-turnover (times)
 - Current/working capital ratio
 - Liquidity/acid test ratio
 - Debtors' collection period in days
 - Creditors' settlement period in days
 - Sales to capital employed as a percentage

(17 marks)

QUESTION 5 CONTINUED

- (b) State the effect that the following transactions will have upon the current/working capital ratio and the liquidity/acid test ratio:
- (i) Purchase of stock on credit
 - (ii) Sale of a fixed asset
 - (iii) Purchase of stock for cash
 - (iv) Repayment of a long term loan
 - (v) Receipt of cash from debtors

The first answer is given as an example below:

	Effect on working capital ratio	Effect on liquidity/acid test ratio
(i) Purchase of stock on credit	Decrease	Decrease

(8 marks)

(Total 25 marks)

MODEL ANSWER TO QUESTION 5

Syllabus Topic 10: Calculation and interpretation of ratios (10.4.1), (10.4.3), (10.5.2), (10.6.3), (10.6.5), (10.7.4), (10.7.2), (10.8.3), (10.9.1), 10.10.1)

		Workings		Answer	
(i)	Gross profit margin	$\frac{490}{1000}$	1 x 100	49.0%	1
(ii)	Net profit margin 207+12	$\frac{219}{1000}$	1 x 100	21.9%	1
(iii)	Rate of stock-turnover (80 + 70)/2	$\frac{510}{75}$	1 (average stock)	6.8 times	1
(iv)	Current ratio	$\frac{420}{120}$	1	3.5:1	1
(v)	Liquidity ratio	$\frac{420 - 80}{120}$	1 1	2.8:1	1
(vi)	Debtors' collection period	$\frac{250}{1000}$	x 365 1	91.3 days	1
(vii)	Creditors' settlement period	$\frac{120}{520}$	x 365 1	84.2 days	1
(viii)	Sales to capital employed	$\frac{1000}{850}$	x 100 1	117.6%	1

(17 marks)

		Effect on current/working capital ratio	Effect on liquidity/acid test ratio
(i)	Purchase of stock on credit	Decrease	Decrease
(ii)	Sale of a fixed asset	Increase 1	Increase 1
(iii)	Purchase of stock for cash	No effect 1	Decrease 1
(iv)	Repayment of a long term loan	Decrease 1	Decrease 1
(v)	Receipt of cash from debtors	No effect 1	No effect 1

(8 marks)

(Total 25 marks)

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