

Pearson LCCI Level 2 Certificate and Accounts (VRQ)

Model Answers Series 2 2013 (ASE2007)

Level 2 Certificate in Book-keeping and Accounts Series 2 2013

How to use this booklet

Model Answers have been developed 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.

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EDI
LCCI IQ SERIES 2 EXAMINATION 2013
CERTIFICATE IN BOOK-KEEPING AND ACCOUNTS
LEVEL 2
MARKING SCHEME

DISTINCTION MARK 75%
CREDIT MARK 60%
PASS MARK 50%

TOTAL 100 MARKS

QUESTION 1
Syllabus Topic 2: Partnerships (2.6.1, 6.4, 6.5, 6.6, 6.8)

(a)

Dissolution Account						
	£		£			
Premises	180,000	}	Creditors	14,000	1	
Vehicles	50,000		Salako Ltd	240,000	1 w+f	
Fixture and fittings	35,000		Capital:			
Stock	24,000		Li	18,000	}	1 all three
Debtors	32,000		Hana	14,000		
Bank:		Nasir	12,000			
Creditors	13,300	1	Bank:			
Dissolution expenses	1,270	1	Fixtures and fittings	32,800	}	1 all three
Capital:			Stock	21,770		
Li	28,200	1 of	Debtors	30,000		
Hana	9,400	}				
Nasir	9,400		1 of both			
	<u>382,570</u>			<u>382,570</u>		

(9 marks)

(b)

Capital Accounts									
	Li £	Hana £	Nasir £		Li £	Hana £	Nasir £		
Current		10,000	1	Balance b/d	120,000	80,000	70,000	}	1 both
Salako Ltd	144,000	1	48,000	1	Current	35,000	15,000		
Dissolution	18,000	14,000	12,000	1 x all	Dissolution	28,200	9,400	9,400	1 of x all
Bank	<u>21,200</u>	1 of	<u>17,400</u>	1 of					
	<u>183,200</u>		<u>89,400</u>		<u>183,200</u>	<u>89,400</u>	<u>94,400</u>		

(10 marks)

(c) **Bank Account**

	£		£			
Balance b/d	28,000	1	Bank Loan	25,000	1	
Dissolution account:			Dissolution account:			
Fixtures and fittings	32,800	}	Creditors	13,300	1	
Stock	21,770		1 x all	Dissolution exps	1,270	1
Debtors	30,000			Capital:		
			Li	21,200	}	1 of x all
			Hana	17,400		
			Nasir	34,400		
	<u>112,570</u>			<u>112,570</u>		

(6 marks)

(Total 25 marks)

QUESTION 2

Syllabus Topic 1: Depreciation (1.1, 1.2.3, 2.4, 2.7, 2.8, 2.9, 2.10)

(a) Capital expenditure

Purchase or improvement of a fixed asset
Benefit lasts more than one year
Increases fixed asset in balance sheet
Used to generate profits

Revenue expenditure

Day-to-day expense
Benefit is used up within one year
Increases expenditure in profit and loss account
Reduces profit

2 points x 2 marks each
(4 marks)

(b)

£		
Cost	70,500	1
Delivery	5,400	1
Installation	<u>3,600</u>	1
	<u>79,500</u>	1 of no alien

(4 marks)

(c) Provision for Depreciation of Machinery Account

2011		£		2011		£
Jan 31	Balance c/d	<u>23,850</u>	1 of	Jan 31	Profit and Loss (Wkg 1)	<u>23,850</u> 1 of w+f
2012	Jan 31	Balance c/d	40,545 1 of	Feb 1	Balance b/d	23,850 1 of
				2012	Jan 31	Profit and Loss (Wkg 2)
						<u>16,695</u> 1 of w+f
		<u>40,545</u>			Feb 1	Balance b/d
						<u>40,545</u> 1 of

(6 marks)

Wkg 1: 79,500 x 30% = 23,850
Wkg 2: 79,500 – 23,850 = 55,650 x 30% = 16,695

(d) (i)

		Machinery Account			
2012		£	2012		£
Feb 1	Balance b/d	79,500	1 of	Mar 1	Disposal
Mar 1	Vijay Ltd	<u>87,000</u>	1 w+f	Mar 1	Balance c/d
		<u>166,500</u>			<u>87,000</u>
Mar 1	Balance b/d	87,000	1 of		<u>166,500</u>

(5 marks)

(ii)

	Disposal of Machinery Account		
	£		£
Machinery	79,500	1 of	Provision for Depreciation
			Jason Chan
	<u>79,500</u>		Profit and Loss
			<u>40,545</u> 1 of
			<u>36,500</u> 1 w+f
			<u>2,455</u> 1 of
			<u>79,500</u>

(4 marks)

(e) The cost of machinery is consumed quicker in the first few years of use. **(2)**

The reducing balance method writes off larger amounts in the early years of a machine's useful life. **(2)**

(Maximum 2 marks)

(Total 25 marks)

QUESTION 3

Syllabus Topic 8: Control Accounts (8.1, 8.4, 8.5, 8.6, 8.7, 8.10)

(a) (i)

Purchases Ledger Control Account

	£		£
Balance b/d	1,750	Balance b/d	65,200
Contra sales ledger	3,100 1	Purchases	69,830 1
Returns outwards	1,350 1	Bank – refund	840 1
Discount received	300 1	Balance c/d	980
Bank	59,700 1		
Balance c/d	<u>70,650</u> 1		
	<u>136,850</u>		
Balance b/d	980 1	Balance b/d	<u>136,850</u> 1of
			(9 marks)

(ii)

Sales Ledger Control Account

	£		£
Balance b/d	98,400	Balance b/d	800
Sales	110,300 1	Contra purchases ledger	3,100 1
Bank/dishonoured cheque	1,460 1	Returns inwards	1,090 1
Balance c/d	650	Discount allowed	570 1
		Bad debt	515 1
		Bank	92,450 1
		Balance c/d	<u>112,285</u> 1
	<u>210,810</u>		<u>210,810</u>
Balance b/d	112,285 1of	Balance b/d	650 1
			(10 marks)

(b) **Balance Sheet (extract) at 31 December 2012** **1**

	£	£
Current Assets		
Debtors (112,285 + 980)	113,265 1of	
Less Provision for doubtful debts (112,285 x 2%)	(2,246) 1of	111,019 1of
Creditor: Amounts falling due within one year		
Creditors (70,650 + 650)		71,300 1of
		(5 marks)

(c)

- Checks the arithmetical accuracy of the Sales and Purchases Ledgers
- Sales and Purchases Ledger balances are checked before the preparation of the Trial Balance
- Provides a total balance of debtors and creditors
- Total debtors and creditors balances are used in the preparation of the Trial Balance and the Balance Sheet
- Accept any other valid comment

One point x 1

(1 mark)

(Total 25 marks)

QUESTION 4**Syllabus Topic 3: Limited Liability Companies****(3.2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.10, 2.13, 2.14)**

(a)

Laxmi Ltd**Trading and Profit & Loss Account for the year ended 30 November 2012**

	£	£
Sales		582,200
Less Cost of sales:		
Opening stock	86,290	
Add Purchases (183,900 + 3,500)	<u>187,400</u> 1	
	273,690	
Less Closing stock	<u>(88,470)</u>	<u>(185,220)</u>
Gross profit		396,980
Add Other income:		
Rent receivable (30,500 + 6,500)		37,000 1
Decrease in provision for doubtful debts		<u>630</u> 1
		434,610
Less Expenses:		
Salaries and wages	87,440	
Administration expenses	56,560	
Selling and distribution expenses	40,150	
Auditors' fees	6,440	
Directors' fees (46,300 + 10,400)	56,700 1	
Depreciation:		
motor vehicles	12,420 1	
equipment	12,960 1	
Debenture Interest	<u>4,800</u> 1	<u>(277,470)</u>
Net profit		157,140
Ordinary dividend – interim	22,500 1	
final	54,000 1	
Preference dividend – interim	4,800 1	
final	<u>4,800</u> 1	<u>(86,100)</u>
Retained profit for the year		71,040 1 of w+f
Retained profit brought forward		<u>66,320</u>
Retained profit carried forward		<u>137,360</u> 1 of w+f

(13 marks)

QUESTION 4 CONTINUED

(b) **Laxmi Ltd**

Balance Sheet at 30 November 2012

Fixed Assets	Cost	Accumulated Depreciation	Net Book Value
	£	£	£
Buildings	720,000		720,000
Equipment	108,000	36,360	71,640 1of
Motor vehicles	<u>87,200</u>	<u>37,520</u>	<u>49,680</u> 1of
	<u>915,200</u>	<u>73,880</u>	841,320
 Current Assets			
Stock		88,470	
Debtors	59,000		
Less Provision for doubtful debts	(<u>1,770</u>)	57,230 1of	
Income owing		<u>6,500</u> 1	
		152,200	
 Creditors: Amounts falling due within one year			
Bank	5,690		
Creditors (38,970 + 3,500)	42,470 1		
Accrual	10,400 1		
Debenture Interest	4,800		
Proposed dividends:			
Ordinary	54,000		
Preference	<u>4,800</u>	1of both (122,160)	
Net Current Assets			<u>30,040</u> 1of
			871,360
 Creditors: Amounts falling due after more than one year			
6% Debentures (2018)			(<u>80,000</u>) 1
			<u>791,360</u>
 Capital and Reserves			
450,000 £1 Ordinary shares			450,000 1 w+f
120,000 8% £1 Preference shares			120,000 1 w+f
Share Premium			84,000
Profit and Loss Account			<u>137,360</u> 1of
			<u>791,360</u>

(12 marks)

(Total 25 marks)

QUESTION 5

Syllabus Topic 10: Ratios (10.2.1, 2.3, 4.2, 6.2, 6.3, 7.2, 10.8, 10.9, 10.10, 10.11)

Syllabus Topic 11: Preparation of financial statements using ratios (11.1)

(a)	(i)	Net profit margin				
		$\frac{\text{Net profit margin} \times 100}{\text{Sales}}$	$\frac{12,000 \times 100}{96,000}$		12.5%	1
	(ii)	Return on total capital employed (net profit before interest)				
		$\frac{\text{Net profit before interest} \times 100}{\text{Capital employed}}$	$\frac{13,000 \times 100}{85,000}$		15.3%	1
	(iii)	Rate of stock turnover				
		$\frac{\text{Cost of sales}}{\text{Average stock}}$	$\frac{41,000}{18,500 (18,000 + 19,000/2)}$	1	2.2 times	1
	(iv)	Current ratio (working capital)				
		$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{41,000}{8,000}$		5.1:1	1
	(v)	Liquidity ratio (acid test)				
		$\frac{\text{Current assets less stock}}{\text{Current liabilities}}$	$\frac{23,000 (41,000-18,000)}{8,000}$	1	2.9:1	1
	(vi)	Debtors collection (days)				
		$\frac{\text{Debtors} \times 365}{\text{Sales}}$	$\frac{15,000 \times 365}{96,000}$	1	57.0 days	1
	(vii)	Creditors settlement (days)				
		$\frac{\text{Creditors} \times 365}{\text{Purchases}}$	$\frac{8,000 \times 365}{40,000}$	1	73.0 days	1

(11 marks)

(b)

Lee King

Planned Trading and Profit & Loss Account for the year ended 31 December 2013 **1 both**

	£		£
Sales			120,000 1
Less Cost of sales			
Opening stock	18,000 1		
Add Purchases	<u>44,000</u> 1of		
	62,000		
Less Closing stock	<u>(14,000)</u> 1		<u>(48,000)</u> 1 (Wkg 1)
Gross profit			72,000 1 of
Less Expenses			
General	45,000		
Selling	3,600 1of		
Bank interest (Wkg 2)	<u>850</u> 2		<u>(49,450)</u>
Net profit			<u><u>22,550</u></u> 1of

Wkg 1: Cost of sales: average stock 16,000 x 3 times = 48,000

Wkg 2: 20,000 x 5% = 1,000 x 3/12 = 250
 16,000 x 5% = 800 x 9/12 = 600
 850

(11 marks)

QUESTION 5 CONTINUED

- (c) (i) $\frac{\text{Net profit} \times 100}{\text{Sales}}$ $\frac{22,550 \times 100}{120,000}$ 18.8% **1of** (1 mark)
- (ii) Net profit margin has increased from 12.5% to 18.8% **1of** (1 mark)
- (iii)
- Expenses in relation to sales have decreased
 - Bank interest is lower
 - Gross profit margin has increased

One valid point x 1

(1 mark)

(Total 25 marks)

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