

Book-Keeping and Accounts Level 2



International
Qualifications from EDI

Model Answers Series 3 2011 (2007)

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Series 3 2011

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

The following information is available for the business of Sally Bright at 31 March 2011:

	£
Purchases	93,750
Sales	125,000
Cost of sales	94,750
Gross profit	30,250
Net profit	15,000
Debtors	7,535
Creditors	10,000
Bank	500 Dr
Capital employed	150,000
Stock 1 April 2010	10,500
Stock 31 March 2011	9,500

REQUIRED

(a) Calculate the following ratios to the nearest **one** decimal place:

- (i) Current/working capital
- (ii) Liquidity/acid test
- (iii) Gross profit margin
- (iv) Net profit margin
- (v) Return on capital employed
- (vi) Rate of stock turnover (times per year)
- (vii) Debtors' collection period (days)
- (viii) Creditors' settlement period (days)
- (ix) Sales to capital employed (percentage)

(18 marks)

(b) State **three** interested parties who might use ratio analysis, and explain how they would use the information.

(6 marks)

(c) State **one** limitation of using ratio analysis.

(1 mark)

(Total 25 marks)

MODEL ANSWER TO QUESTION 1

Syllabus topic 10: Calculation and interpretation of ratios (10.2.1), (10.4.1), (10.4.2), (10.6.3), (10.7.2), (10.8.3), (10.9.1), (10.10.1) and (10.10.11)

(a)					
(i)	Current/working capital	$\frac{17,535}{10,000}$	1	1.8:1	1
(ii)	Liquidity/acid test (17,535 – 9,500)	$\frac{8,035}{10,000}$	1	0.8:1	1
(iii)	Gross profit margin	$\frac{30,250}{125,000} \times 100$	1	24.2%	1
(iv)	Net profit margin	$\frac{15,000}{125,000} \times 100$	1	12%	1
(v)	Return on capital employed	$\frac{15,000}{150,000} \times 100$	1	10%	1
(vi)	Rate of stock turnover (10,500 + 9,500 ÷ 2)	$\frac{94,750}{10,000}$	1	9.5 times	1
(vii)	Debtors' collection period	$\frac{7,535}{125,000} \times 365$	1	22 days	1
(viii)	Creditors' settlement period	$\frac{10,000}{93,750} \times 365$	1	39 days	1
(ix)	Sales to capital employed	$\frac{125,000}{150,000} \times 100$	1	83.3%	1

(18 marks)

(b)

- The owners of a business – to help them make financial decisions affecting the development of the business
 - Investors – to assess whether the company is a good investment
 - Suppliers – to determine whether the business is a good credit risk
 - The government – to ensure that the correct amount of tax is being paid
 - Lenders – to determine whether the business is a good risk
- Or any other acceptable answer

Award 1 mark for any three interested parties and 1 mark for any three reasons (6 marks)

(c) **Award 1 mark for any reasonable answer e.g.:**

Ratios use historic data – difficulty in predicting future results based on past results

Business may use different accounting policies which will distort the results

It is difficult to compare different types of business

(1 mark)

(Total 25 marks)

QUESTION 2

Sam and Gill agreed to dissolve their partnership on 31 March 2011.

At 31 March 2011, the partnership had the following assets and liabilities:

	£
Equipment at net book value	36,000
Motor vehicles at net book value	28,000
Bank	1,167 Dr
Stock	430
Debtors	1,250
Creditors	340

The Capital Account balances were:

	£
Sam	51,319
Gill	15,188

The following information was also available:

- (1) A vehicle with a book value of £12,000 was taken over by Gill for £9,000
- (2) The remaining vehicles were sold for £15,000
- (3) Stock was sold for £380
- (4) The equipment was sold to Miles Ltd for £20,000. The purchase price of the equipment was settled by the issue of 20,000 ordinary shares of £1 each in Miles Ltd. Each partner received half of the shares
- (5) Creditors were paid in full
- (6) Debtors paid £1,150 in full settlement
- (7) The costs of dissolution amounted to £2,485
- (8) Profits and losses are shared by Sam and Gill in the ratio of 2:1 respectively

REQUIRED

- (a) Prepare the Dissolution Account to calculate the profit or loss on dissolution. (12 marks)
- (b) Prepare the partners' Capital Accounts to record the closing entries. (9 marks)
- (c) Name **four** items that are included in a Partnership Agreement. (4 marks)

(Total 25 marks)

MODEL ANSWER TO QUESTION 2

Syllabus topic 2.6: Dissolution of a partnership (2.6.1), (2.6.4), (2.6.5), (2.6.6) and (2.6.10)

(a)

Dissolution Account					
	£			£	
Equipment	36,000	1	Capital – Gill (motor vehicle)	9,000	1
Motor vehicles	28,000	1	Bank (motor vehicles)	15,000	1
Stock	430	1	Bank (stock)	380	1
Debtors	1,250	1	Miles Ltd (equipment)	20,000	1
Bank: dis'n costs	2,485	1	Bank: debtors	1,150	1
			Loss on dissolution: Sam	15,090	1 of
			Loss on dissolution: Gill	<u>7,545</u>	1 of
	<u>68,165</u>			<u>68,165</u>	

(12 marks)

Syllabus topic 2.6: Dissolution of a partnership (2.6.2), (2.6.8)

(b)

Capital Accounts					
	Sam	Gill		Sam	Gill
	£	£		£	£
	1 of	1 of		1	1
Loss on dissolution	15,090	7,545	Balance b/d	51,319	15,188
	1 of	1 of			1 of
Shares in Miles Ltd	10,000	10,000	Bank		11,357
		1			
Motor vehicle		9,000			
	1 of				
Bank	<u>26,229</u>			<u>51,319</u>	<u>26,545</u>
	<u>51,319</u>	<u>26,545</u>			

(9 marks)

Syllabus topic 2.1: Formation of a partnership and partnership agreement (2.1.2)

- (c)
- (1) The amount of fixed capital each partner is to contribute
 - (2) Interest on capital
 - (3) Interest on drawings
 - (4) Salary
 - (5) Profit share
 - (6) The procedures for admitting new partners and the retirement of existing partners

**Accept any other valid point
Award 1 mark each for any four of the above**

(4 marks)

(Total 25 marks)

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 dividend 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)

MODEL ANSWER TO QUESTION 3

Syllabus topic 3.2: Preparation of final accounts (3.2.3), (3.2.4), (3.2.5) and (3.2.6)

(a)

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

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

(15 marks)

QUESTION 3 CONTINUED

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) and (3.2.14)

(b)

Stone Ltd			
Balance Sheet at 30 April 2011			
	Cost	Accumulated	NBV
	£	Dep'n	£
		£	
Fixed assets			
Land & buildings	341,850		341,850
Motor vehicles	100,000	81,250	18,750
Office equipment	<u>35,000</u>	<u>21,000</u>	<u>14,000</u>
	<u>476,850</u>	<u>102,250</u>	<u>374,600</u>
Current assets			
Stock	45,000		
Debtors	31,000		
Less: PDD (750-130)	<u>620</u>		
Sundry debtors	500		
Pre payment	1,000		
Bank deposit account	<u>25,000</u>	101,880	
Creditors falling due within 1 year			
Creditors	22,500		
Accruals (1,250+300)	1,550		
Proposed dividends (20,000+1,600)	21,600		
Bank overdraft	<u>3,400</u>	<u>49,050</u>	
Net current assets			<u>52,830</u>
			427,430
Creditors falling due after more than 1 year			
5% Debenture loan 2019			<u>50,000</u>
			<u>377,430</u>
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			<u>40,000</u>
			240,000
Reserves			
Share premium		20,000	
General reserve		12,500	
Profit & Loss		<u>104,930</u>	
			<u>137,430</u>
Total Shareholders Funds			<u>377,430</u>
W1 75,000 + 6,250			
W2 14,000 + 7,000			

(10 marks)

(Total 25 marks)

QUESTION 4

The Bourne Social Club had the following Balance Sheet at 30 April 2010:

Fixed assets	Cost	Accumulated Depreciation	NBV
	£	£	£
Equipment	17,200	3,200	14,000
Fixtures and fittings	<u>15,600</u>	<u>5,575</u>	<u>10,025</u>
	<u>32,800</u>	<u>8,775</u>	24,025
Current assets			
Stock – restaurant		3,080	
Subscriptions in arrears		200	
Prepaid rent		500	
Bank		<u>4,610</u>	
		8,390	
Creditors falling due within 1 year			
Creditors – restaurant	400		
Subscriptions in advance	100		
Accrued wages – restaurant	250		
Accrued heating and lighting	<u>110</u>		
		<u>860</u>	
Net current assets			<u>7,530</u>
			<u>31,555</u>
Accumulated fund			30,985
Life members' fund			<u>570</u>
			<u>31,555</u>

The following additional information is available:

- (1) The Receipts & Payments Account for the year ended 30 April 2011 was as follows:

	£		£
Balance b/d	4,610	Rent	6,700
Restaurant sales	54,100	Restaurant purchases	32,870
Subscriptions received for the year ended:		Restaurant wages	9,600
30 April 2010	120	Fixtures and fittings	4,650
30 April 2011	16,480	Heating and lighting	6,130
30 April 2012	120	General expenses	12,145
Life members' subscriptions	900	Balance c/d	4,685
Bank interest	50		
Sale of fixtures and fittings	<u>400</u>		
	<u>76,780</u>		<u>76,780</u>

- (2) Depreciation is provided on equipment at 25% per annum reducing balance and on fixtures and fittings at 10% per annum on cost. A full year's depreciation is provided in the year of purchase and none in the year of disposal.
- (3) Unpaid subscriptions are written off when they have been outstanding for a year.
- (4) Life membership is available for a one-off subscription of £300. The Club apportions this evenly to income over a period of 20 years. The club has five life members.
- (5) The fixtures and fittings sold during the year had been purchased on 1 December 2007, at a cost of £1,100.
- (6) Half of the heating and lighting costs are apportioned to the restaurant.

QUESTION 4 CONTINUED

(7) Other balances at 30 April 2011 were:

	£
Stock - Restaurant	5,660
Subscriptions in arrears	420
Prepaid rent	600
Creditors for restaurant purchases	560
Accrued heating and lighting	130

REQUIRED

Prepare, for the year ended 30 April 2011, the:

- (a) Subscriptions Account (4 marks)
- (b) Life Members' Fund Account (3 marks)
- (c) Fixtures & Fittings Disposal Account (4 marks)
- (d) Restaurant Trading Account to calculate the restaurant profit (5 marks)
- (e) Income & Expenditure Account. (9 marks)

(Total 25 marks)

MODEL ANSWER TO QUESTION 4

Syllabus Topic 7.4: Non-trading organisations (7.4.2), (7.4.3) and (7.4.4)

(a)

Subscriptions Account			
	£		£
Balance b/d	200	Balance b/d	100
Income & Expense	17,000	Bank	16,720
Balance c/d	120	Bad debts/subs written off	80
		Balance c/d	<u>420</u>
	<u>17,320</u>	Balance b/d	<u>17,320</u>
Balance b/d	420		120

(4 marks)

Syllabus topic 7.4: Non-trading organisations (7.4.5)

(b)

Life Members' Fund Account			
	£		£
Income & Expense (5x300 / 20)	75	Balance b/d	570
Balance c/d	<u>1,395</u>	Bank	<u>900</u>
	<u>1,470</u>	Balance b/d	<u>1,470</u>
			1,395

(3 marks)

Syllabus topic 1.2: Advanced aspects of the syllabus for Level 1 Book-keeping (1.2.8) and (1.2.9)

(c)

Disposal Account			
	£		£
Fixtures and fittings	1,100	Prov'n for depn (3 x 10% x 1,100)	330
		Bank	400
		Income & Expense	<u>370</u>
	<u>1,100</u>		<u>1,100</u>

(4 marks)

Syllabus topic 7.3: Non trading organisations (7.3.1), (7.3.2) and (7.3.3)

(d)

Bourne Social Club			
Restaurant Trading Account for the year ended 30 April 2011			
	£	£	
Sales		54,100	
Less Cost of sales			
Opening stock	3,080		
Purchases (32,870 – 400 + 560)	<u>33,030</u>		2
	36,110		
Less closing stock	<u>5,660</u>	<u>30,450</u>	
Gross profit		23,650	1of
Wages (9,600 – 250)	9,350		1
Heating and lighting (6,130 – 110 + 130) x 50%	<u>3,075</u>		1
		<u>12,425</u>	
Net profit		<u>11,225</u>	

(5 marks)

QUESTION 4 CONTINUED

Syllabus topic 7.4: Non trading organisations

(e) **Income and Expenditure Account for the year ended 30 April 2011**

	£	£	
Restaurant profit		11,225	1of
Subscriptions		17,000	1of
Life members' fund		75	1of
Bank interest		<u>50</u>	
		28,350	
Less expenses			
I.E. Bad debts	80		1of
Loss on disposal	370		1of
Rent (6,700 + 500 – 600)	6,600		1
Heating and lighting	3,075		1of*
General expenses	12,145		
Depreciation – equipment (14,000 x 25%)	3,500		1
Depreciation – fixtures and fittings [(15,600 – 1,100 + 4,650) x 10%]	<u>1,915</u>		1
Surplus income over expenditure		<u>27,685</u>	
		<u>665</u>	

(9 marks)

***must be same as figure in part (d) for OF mark**

(Total 25 marks)

QUESTION 5

Suzie values her stock at the month end. The stock record at 28 February 2011 showed a value of £85,200, at cost. The following information relates to all stock movements for March 2011:

- (1) Purchases during March 2011 were £44,700, at cost
- (2) Sales during March 2011 were £63,900
- (3) A quantity of stock, valued at selling price, £3,600, was damaged in March. This could now only be sold at half the cost price
- (4) A stock sheet at 28 February 2011 had been over-cast by £1,275
- (5) Returns by customers during March 2011 were £1,085, at selling price
- (6) Returns to suppliers during March 2011 were £2,025, at cost price
- (7) Included in the March sales figure were goods on a sale or return basis £975, at selling price. The customer had not stated an intention to buy or return the goods, at 31 March 2011
- (8) All sales include a mark-up on cost of 25%.

REQUIRED

- (a) Commencing with the value of stock of £85,200 at 28 February 2011, calculate the value of closing stock at 31 March 2011. (15 marks)
- (b) Prepare Suzie's Trading Account for the month ended 31 March 2011. (10 marks)

(Total 25 marks)

MODEL ANSWER TO QUESTION 5

Syllabus topic 6: Stock Valuation (6.1) and (6.2)

(a)

	£		£		£
Stock at 1 March 2011					85,200
Add: Purchases			44,700	1	
Sales returns	<u>1,085</u>	1			
	1.25	1	868		
Sale or return	<u>975</u>	1			
	1.25	1	<u>780</u>		<u>46,348</u>
					131,548
Less: Sales	<u>63,900</u>	1	(51,120)		
	1.25	1			
Goods at NRV	<u>3,600</u>	1			
	1.25	1			
			2,880 x 50%		
			1 of 1		(1,440)
Stock sheet adjustment			(1,275)	1	
Purchases returns			(2,025)	1	
Stock at 31 March 2011					<u>55,860</u>
					<u>75,688</u>

1+1 of (15 marks)

Syllabus Topic 1.1: Advanced Aspects of Syllabus for Level 1 Book-Keeping

(b)

Suzie

Trading Account for the month ended 31 March 2011

	£		£		£
Sales (63,900 – 975)					62,925
Less: Sales returns					<u>1,085</u>
					61,840
Cost of sales:					
Stock at 1 March 2011					
(85,200 – 1,275)			83,925	1+1 of	
Add: Purchases	44,700	1			
Less: Purchases returns	<u>2,025</u>	1	<u>42,675</u>		
			126,600		
Less: Stock at 31 March 2011			<u>75,688</u>	1 of	<u>50,912</u>
Gross profit					<u>10,928</u>

1+1 of (10 marks)

(Total 25 marks)

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