LCCI International Qualifications

# Book-keeping and Accounts
# Level 2

LCCI

International
Qualifications from EDI

## Model Answers
Series 3 2012 (2007)

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**Book- Keeping and Accounts Level 2**
**Series 3 2012**

## 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.

## QUESTION 1

The following details were extracted from the books of Petro Ltd at 31 December 2011:

| | £ |
|---|---|
| Net profit for the year ended 31 December 2011 (after deducting debenture interest of £4,000) | 500,200 |
| 8% debentures (repayable 2012) | 100,000 |
| Interim ordinary dividend paid | 50,000 |
| Interim preference dividend paid | 7,500 |
| 5% loan from Brank's Bank (repayable 2018) | 25,000 |
| Share premium | 50,000 |
| Issued and fully paid share capital: | |
| 500,000 £1 ordinary shares | 500,000 |
| 300,000 5% £1 preference shares | 300,000 |
| General reserve | 20,000 |
| Retained profits at 31 December 2010 | 175,000 |

**Additional information:**

Following the calculation of the net profit it was discovered that:

(1) The stock at 31 December 2011 had been undervalued by £5,200

(2) A full year's interest on the loan from Brank's Bank remained unpaid at 31 December 2011 and no entries had been made in the accounts

(3) No allowance had been made for accrued directors' fees of £35,000

(4) The directors propose:

- a final dividend of £0.20 per ordinary share
- payment of the final preference share dividend
- to transfer £30,000 to the general reserve

**REQUIRED**

(a) Commencing with £500,200, prepare a statement to show the adjusted net profit of Petro Ltd for the year ended 31 December 2011.

(5 marks)

(b) Commencing with the adjusted net profit, prepare the Profit & Loss Appropriation Account for the year ended 31 December 2011.

(8 marks)

(c) Prepare a Balance Sheet extract at 31 December 2011, from the information available.

(12 marks)

**(Total 25 marks)**

**MODEL ANSWER TO QUESTION 1**
**Syllabus Topic 3: Limited liability companies (3.2.1), (3.2.2), (3.2.3), (3.2.4), (3.2.5), (3.2.6), (3.2.7), (3.2.8), (3.2.10)**

(a)

**Petro Ltd**
**Statement of adjusted net profit for the year ended 31 December 2011**

| | £ | | £ | |
|---|---|---|---|---|
| Original net profit | | | 500,200 | |
| **Add**: undervalued closing stock | | | 5,200 | 1 |
| | | | 505,400 | |
| **Less**: | | | | |
| Interest on Brank's loan (£25,000 x 5%) | 1,250 | 1 | | |
| Directors' fees | 35,000 | 1 | | |
| Debenture interest | 4,000 | 1 | | |
| | | | 40,250 | |
| Adjusted net profit | | | 465,150 | 1of |

(5 marks)

(b)

**Petro Ltd**
**Profit & Loss Appropriation Account for the year ended 31 December 2011**

| | £ | | £ | |
|---|---|---|---|---|
| Net profit b/d | | | 465,150 | 1of |
| Interim preference share dividend | 7,500 | 1 | | |
| Proposed final preference share dividend | 7,500 | 1 | | |
| Interim ordinary share dividend | 50,000 | 1 | | |
| Proposed final ordinary share dividend | 100,000 | 1 | | |
| Transfer to general reserve | 30,000 | 1 | | |
| | | | 195,000 | |
| Retained profit for the year | | | 270,150 | 1of |
| Retained profit b/fwd | | | 175,000 | 1 |
| Retained profit c/fwd | | | 445,150 | |

(8 marks)

**MODEL ANSWER TO QUESTION 1 CONTINUED**

(c)

**Petro Ltd**

**Balance Sheet extract at 31 December 2011**

| | £ | |
|---|---|---|
| **Creditors: amount falling due within one year** | | |
| Proposed dividends (7,500 [1] + 100,000 [1]) | 107,500 | |
| 8% Debentures repayable 2012 | 100,000 | 1 |
| Accruals (1,250 [1] + 35,000 [1] + 4,000 [1]) | 40,250 | |
| **Creditors: amount falling due after more than one year** | | |
| 5% Loan from Brank's Bank | 25,000 | 1 |
| **Issued and fully paid share capital** | | |
| 500,000 £1 Ordinary shares | 500,000 | 1 |
| 300,000 5% £1 preference shares | 300,000 | 1 |
| Share premium | 50,000 | 1 |
| General reserve | 50,000 | 1 |
| Profit and loss account | 445,150 | 1of |
| Total shareholders' funds | 1,345,150 | |

(12 marks)

**(Total 25 marks)**

**(Total 25 marks)**

**QUESTION 2**

Garcia and Martino are in partnership sharing profits and losses in the ratio 2:1. At 30 June 2011, their Balance Sheet was as follows:

| | £ | £ |
|---|---|---|
| **Fixed Assets** | | |
| Goodwill | | 40,000 |
| Premises | | 70,000 |
| Office equipment | | 25,000 |
| Fixtures and fittings | | 20,000 |
| | | 155,000 |
| **Current Assets** | | |
| Stock | 12,000 | |
| Debtors | 18,000 | |
| Bank | 8,000 | |
| | 38,000 | |
| **Creditors: amounts falling due within one year** | | |
| Creditors | 13,000 | |
| **Net Current Assets** | | 25,000 |
| | | 180,000 |
| **Capital** | | |
| Garcia | | 120,000 |
| Martino | | 60,000 |
| | | 180,000 |

Zarita was admitted into the partnership on 1 July 2011 and it was agreed that all future profits and losses would be shared equally. Zarita introduced into the partnership, stock valued at £40,000, debtors of £5,000 and sufficient cash to cover his share of goodwill.

At the same time, some assets and liabilities of the old partnership were revalued as follows:

| | £ |
|---|---|
| Goodwill | 60,000 |
| Premises | 120,000 |
| Office equipment | 15,000 |
| Stock | 12,600 |
| Creditors | 13,900 |

**REQUIRED**

(a) The Revaluation Account of Garcia and Martino.

(7 marks)

(b) The Capital Accounts of Garcia, Martino and Zarita, following the revaluation of assets and liabilities and the admission of Zarita. It was decided that goodwill would **not** be retained in the books of the new partnership.

(9 marks)

(c) The opening Balance Sheet of Garcia, Martino and Zarita.

(6 marks)

(d) State **three** items to be found in a partnership agreement other than profit sharing ratios.

(3 marks)

**(Total 25 marks)**

**MODEL ANSWER TO QUESTION 2**
**Syllabus Topic 2: Partnerships (2.1.2), (2.1.9),(2.2.6),(2.5.2),(2.4.1)**

(a)

**Revaluation Account**

| | | | | £ | | £ | |
|---|---|---|---|---|---|---|---|
| Office equipment | | | 1 | 10,000 | Goodwill | 20,000 | 1 |
| Creditors | | | 1 | 900 | Premises | 50,000 | 1 |
| Garcia | (2/3rd) | 39,800 | 1Of | | Stock | 600 | 1 |
| Martino | (1/3rd) | 19,900 | 1Of | 59,700 | | | |
| | | | | 70,600 | | 70,600 | |

(7 marks)

(b)

**Capital Accounts**

| | Garcia £ | | Martino £ | | Zarita £ | | | Garcia £ | | Martino £ | | Zarita £ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Goodwill | 20,000 | 1 | 20,000 | 1 | 20,000 | 1 | Balance b/d | 120,000 | | 60,000 | | | 1 both |
| Balance c/d | 139,800 | | 59,900 | | 45,000 | 1of All | Revaluation profit | 39,800 | 1of | 19,900 | 1of | | |
| | | | | | | | Stock | | | | | 40,000 | 1 all |
| | | | | | | | Debtors | | | | | 5,000 | |
| | | | | | | | Bank/cash | | | | | 20,000 | |
| | 159,800 | | 79,900 | | 65,000 | | | 159,800 | | 79,900 | | 65,000 | |
| | | | | | | | Balance b/d | 139,800 | | 59,900 | | 45,000 | 1 of All |

(9 marks)

## MODEL ANSWER TO QUESTION 2 CONTINUED

(c)

**Garcia, Martino and Zarita**
**Balance Sheet at 1 July 2011**

| | | £ | | £ | |
|---|---|---|---|---|---|
| **Fixed Assets** | | | | | |
| Premises | | | | 120,000 | |
| Office equipment | | | | 15,000 | |
| Fixtures & fittings | | | | 20,000 | |
| | | | | 155,000 | 1 |
| **Current Assets** | | | | | |
| Stock (12,600 + 40,000) | | 52,600 | 1 | | |
| Debtors (18,000 + 5,000) | | 23,000 | 1 | | |
| Bank (8,000 + 20,000) | | 28,000 | 1 | | |
| | | 103,600 | | | |
| **Creditors: amount falling due within one year** | | | | | |
| Creditors | | 13,900 | | | |
| **Net Current Assets** | | | | 89,700 | 1of |
| | | | | 244,700 | |
| **Financed by:** | | | | | |
| Capital: | Garcia | | | 139,800 | 1of all |
| | Martino | | | 59,900 | |
| | Zarita | | | 45,000 | |
| | | | | 244,700 | |

(6 marks)

(d) **Any three items for 1 mark each e.g.**

Amount of capital each partner will introduce
Interest allowable on capital accounts
Interest chargeable on drawings
Partners' salaries
Interest allowable on current accounts
Interest on current accounts
Any other reasonable items

(3 marks)

**(Total 25 marks)**

**QUESTION 3**

The following information relates to Lucy Ling's Debtors Account:

(1) The Balance Sheet at 31 January 2010 included the following entry:

| | **£** |
|---|---|
| Debtors | 40,500 |
| **Less** Provision for doubtful debts | 1,215 |
| | 39,285 |

(2) The debtors' figures **before** the deduction of provision for doubtful debts were:

| | **£** |
|---|---|
| At 31 January 2011 | 44,400 |
| At 31 January 2012 | 39,150 |

(3) The bad debts figures were:

| | **£** |
|---|---|
| For the year ended 31 January 2011 | 1,800 |
| For the year ended 31 January 2012 | 2,100 |

The bad debts had been written off throughout the year.

(4) At the end of financial years 2011 and 2012, Lucy Ling made provision for doubtful debts of 4% of her debtors.

**REQUIRED**

(a) Prepare the following accounts for the year's ended 31 January 2011 and 31 January 2012:

(i) Bad Debts

(4 marks)

(ii) Provision for Doubtful Debts.

(9 marks)

(b) Prepare the entries for Lucy Ling's debtors in her Balance Sheet at 31 January 2012.

(2 marks)

(c) State **two** reasons why a provision for doubtful debts is made at the financial year end.

(4 marks)

(d) In February 2012, the bad debts incurred in 2011 are recovered. Prepare the Journal entries that need to be made in Lucy Ling's books, including the year end transfer. Narratives are **not** required.

(6 marks)

**(Total 25 marks)**

**MODEL ANSWER TO QUESTION 3**

**Syllabus Topic 1: Advanced aspects of the syllabus for L1 Book-keeping (1.4), (1.4.3), (1.4.5), (1.4.6)**

(a) (i) **Bad Debts Account**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **2010 - 2011** | | **£** | | **2011** | | **£** | |
| Jan 31 | Debtors | 1,800 | 1 | Jan 31 | P & L | 1,800 | 1 |
| **2011 - 2012** | | | | **2012** | | | |
| Jan 31 | Debtors | 2,100 | 1 | Jan 31 | P & L | 2,100 | 1 |

(4 marks)

(ii) **Provision for Doubtful Debts Account**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **2011** | | **£** | | **2010** | | **£** | |
| Jan 31 | Balance c/d | 1,776 | 1 | Feb 1 | Balance b/d | 1,215 | 1 |
| | | | | **2011** | | | |
| | | | | Jan 31 | P & L 1 | 561 | 1 |
| | | 1,776 | | | | 1,776 | |
| **2012** | | | | **2011** | | | |
| Jan 31 | P & L 1 | 210 | 1 | Feb 1 | Balance b/d | 1,776 | 1of |
| Jan 31 | Balance c/d | 1,566 | 1 | | | - | |
| | | 1,776 | | | | 1,776 | |
| | | | | **2012** | | | |
| | | | | Feb 1 | Balance b/d | 1,566 | 1of |

(9 marks)

(b) **Lucy Ling**

**Balance Sheet extract at 31 January 2012**

| | | |
|---|---|---|
| **Current Assets** | **£** | |
| Debtors | 39,150 | |
| **Less** provision for doubtful debts | 1,566 | 1Of |
| | 37,584 | 1Of |

(2 marks)

(c) To charge possible bad debts as an expense in the Profit and Loss Account 2

To show a realistic debtors figure on the Balance Sheet 2

To show a true and fair value of debtor on the balance sheet

(4 marks)

**MODEL ANSWER TO QUESTION 3 CONTINUED**
**Syllabus Topic 1: Advanced aspects of the syllabus for L1 Book-keeping (1.4.2)**

(d) **Journal**

| | £ Dr | £ Cr | |
|---|---|---|---|
| Cash/Bank | 1,800 | | 1 |
| Debtors | | 1,800 | 1 |
| | | | |
| Debtors | 1,800 | | 1 |
| Bad debts recovered | | 1,800 | 1 |
| | | | |
| Bad debts recovered | 1,800 | | 1 |
| P&L | | 1,800 | 1 |

(6 marks)

**(Total 25 marks)**

## QUESTION 4

The following financial statements relate to Sorby Ltd:

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

| | **£000** |
|---|---|
| Sales | 800 |
| Less: Cost of sales | 300 |
| Gross profit | 500 |
| Less: expenses (including debenture interest) | 383 |
| Net profit | 117 |

**Balance Sheet at 30 September 2011**

| | **£000** | **£000** |
|---|---|---|
| **Fixed Assets** | | 450 |
| **Current Assets:** | | |
| Stock | 70 | |
| Trade debtors | 200 | |
| Bank | 180 | |
| | 450 | |
| **Creditors falling due within one year:** | | |
| Trade creditors | (200) | |
| **Net Current Assets** | | 250 |
| | | 700 |
| **Creditors falling due after more than one year:** | | |
| 6% debentures - issued 2008 | | (150) |
| | | 550 |
| **Capital and Reserves:** | | |
| 350,000 Ordinary shares of £1 each | | 350 |
| Retained profits | | 200 |
| | | 550 |

**Additional information:**
Stock at 1 October 2010 was £80,000

**REQUIRED**

(a) Calculate the following ratios for Sorby Ltd for the year ended 30 September 2011. All calculations should be to **one** decimal place. Show the formula for each ratio.

(i) Gross profit as a % of sales (margin)
(3 marks)

(ii) Rate of stock-turnover (number of times per year)
(2 marks)

(iii) Current/working capital ratio
(2 marks)

(iv) Liquidity/acid test ratio
(3 marks)

(v) Return on **total** capital employed. Use net profit **before** interest.
(3 marks)

When preparing their financial plans for the year ending 30 September 2012, the directors of Sorby Ltd made the following assumptions:

(1) Sales would increase by 20% if selling prices were reduced by 5%.
(2) Cost of sales would increase in line with sales but purchase prices would reduce by 3%.
(3) Expenses, before debenture interest, would increase by 4%.

**REQUIRED**

(b) Prepare a planned Trading and Profit & Loss Account for the year ending 30 September 2012. **All workings must be shown.**
(12 marks)

**(Total 25 marks)**

**MODEL ANSWER TO QUESTION 4**

**QUESTION 4**

**Syllabus Topic 10: Calculation and interpretation of ratios (10.3.3), (10.4.1), (10.6.3), (10.7.2), (10.8.3)**

(a)

| | | | | Workings | Answer | |
|---|---|---|---|---|---|---|
| (i) | **Gross profit margin** | Gross profit x 100 / sales | 1 | 500 x 100 / 800 | 62.50% | 2 |
| (ii) | **Rate of stock-turnover** | Cost of Sales / Average stock (80 + 70 ) / 2 | 1 | 300 / 75 | 4 times | 1 |
| (iii) | **Current/working capital ratio** | Current assests / Current liabilities | 1 | 450 / 200 | 2.3:1 | 1 |
| (iv) | **Liquidity/acid test ratio** | Current assets - stock / Current liabilities | 1 | 450-70 / 200 | 1.9:1 | 2 |
| (v) | **Return on total capital employed** | Net Profit before Interest / Total capital | 1 | 126 x 100 / 700 | 18% | 2 |

(13 marks)

** Net profit £117 + debenture interest of £9 = £126

**Syllabus Topic 11: Preparation, by the use of ratios, of simple financial (11.1) statements**

(b)

**Sorby Ltd**

**Planned Trading and Profit & Loss Account for the year ending 30 September 2012**

| | £ | |
|---|---|---|
| Sales (£800,000 x 1.20 x 0.95) = | 912,000 | 3 |
| **Less**: Cost of sales (£300,000 x 1.20 x 0.97) = | 349,200 | 3 |
| **Gross Profit** | 562,800 | 1of |
| **Less**: expenses(£383,000 – 9,000 x 1.04) + 9,000 (including debenture interest) | 397,960 | 4 |
| **Net profit** | 164,840 | 1of |

(12 marks)

**1 mark for each component - workings must be shown**

**(Total 25 marks)**

**QUESTION 5**

Growwell Ltd, a garden centre business, carried out an annual stock check.

At 30 September 2011, the stock was valued at £47,900.

Subsequently, the following were discovered:

(i) 30 bird baths were included in the stock list at £35 each. The actual cost had been £53 each.

(ii) 6 trees costing a total of £300 had been badly wind damaged. It was decided to destroy these items.

(iii) A patio table with a selling price of £90 had been omitted from the stock sheets. The mark up on this item was 20%.

(iv) 5 bird tables costing £15 were damaged. It was decided to sell these items at a reduced profit of 40% on cost price.

(v) 12 seasonal shrubs, costing £15 each, were outdated and would need to be sold at £120 in total.

(vi) On 1 June 2011, goods costing £1,560 were sent on a sale or return basis to a customer. On 3 October 2011, the customer returned all the goods to Growmore Ltd.

(vii) 12 specimen plants had been included at their selling price of £250 each. The mark up on these was 25%.

(viii) A delivery of garden sheds, costing £1,200, was made on 29 September 2011. The invoice was received and entered in the Purchases Day Book on the same date, but it remained unpaid on 30 September 2011.

(ix) One stock sheet total had been incorrectly added to £3,500. The correct total should have been entered as £4,300.

**REQUIRED**

Calculate the:

(a) Adjusted stock value of each item. In a table, show whether there is an increase or decrease and where there is no effect state 'no effect'

(16 marks)

(b) Net adjustment to the original stock value

(2 marks)

(c) Corrected total value of the stock at 30 September 2011.

(2 marks)

**REQUIRED**

Maggie Ng owns a shop. She had a theft on her year-end date of 31 December 2011 and the remaining stock was £30,000. She has provided the following information:

| | **£** |
|---|---|
| Sales for the year | 190,000 |
| Purchases for the year | 124,000 |
| Opening stock | 16,000 |

The gross margin is 45% on sales.

(d) Prepare Maggie Ng's Trading Account, showing the stock loss, for the year ended 31 December 2011.

(5 marks)

**(Total 25 marks)**

**MODEL ANSWER TO QUESTION 5**

**Syllabus Topic 6.1 and 6.2: Stock Valuation**
**Syllabus Topic 6.3: Stock Losses (6.3.2)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | **£** | | |
| Original stock valuation at 30 September 2011 | | | | | 47,900 | | |
| | **Item** | | **Add £** | **Deduct £** | | | |
| (a) (i) | Bird baths | (30 x 18) | 540 | | | 1+1of | |
| (ii) | Trees | | | 300 | | 1 | |
| (iii) | Patio table | 90 x 100 / 120 | 75 | | | 1+1of | |
| (iv) | No effect | | | | | 1 | |
| (v) | Shrubs | (12 x 15) - 120 | | 60 | | 2+1of | |
| (vi) | Sale or return | | 1,560 | | | 1 | |
| (vii) | Specimen plants | (12 x 250) x 25 / 125 | | 600 | | 3+1of | |
| (viii) | No effect | | | | | 1 | |
| (ix) | Stock sheet | | 800 | | | 1 | |
| | | | 2,975 | 960 | | | (16 marks) |
| (b) | Net adjustment to original stock value | | | | 2,015 | 1+1of | (2 marks) |
| (c) | Revised stock valuation at 30 September 2011 | | | | 49,915 | 1+1of | (2 marks) |

(d)

**Maggie Ng**
**Trading Account for the year ended 31 December 2011**

| | £ | £ | £ | |
|---|---|---|---|---|
| Sales | | | 190,000 | |
| Cost of goods sold | | | | |
| Add: Opening stock | 16,000 | | | |
| Purchases | 124,000 | | | |
| | | 140,000 | | 1 |
| Less: Closing stock | 30,000 | | | |
| Less: stock loss (balancing figure) | 5,500 | | | [W3] 1+1of |
| | | (35,500) | | [W2] 1 |
| | | | (104,500) | [W1] 1 |
| **Gross profit** | | | 85,500 | |

**MODEL ANSWER TO QUESTION 5 CONTINUED**

| | |
|---|---|
| **[W1 ]** | Cost of goods sold = 190,000 - (190,000 x 45%) = 104,500 |
| **[W2]** | Stock = 140,000 - 104,500 = 35,500 |
| **[W3]** | Stock loss = 35,500 - 30,000 = 5,500 |

(5 marks)

**(Total 25 marks)**

 

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