

# **Pearson LCCI Level 2 Certificate and Accounts (VRQ)**

## **Model Answers** Series 3 2013 (ASE2007)

## **Level 2 Certificate in Book-keeping and Accounts Series 3 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.

Pearson 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. Pearson accepts that candidates may offer other answers that could be equally valid.

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**EDI**  
**LCCI IQ SERIES 3 EXAMINATION 2013**  
**CERTIFICATE IN BOOK-KEEPING AND ACCOUNTS**  
**LEVEL 2**  
**MARKING SCHEME**

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

**Key:**  
**of = own figure**

TOTAL 100 MARKS

**QUESTION 1**

**Syllabus Topic 4: Incomplete Records (4.2.2, 4.2.3, 4.2.4)**

(a)	<b>Assets</b>	<b>£</b>	<b>£</b>	
	Fixtures and fittings		2,300	
	Stock		3,400	
	Prepayment		120	
	Bank		<u>4,400</u>	
			10,220	<b>1</b>
	<b>Liabilities</b>			
	Bank loan	2,000		
	Creditors	5,600		
	Accrual	<u>180</u>	<u>(7,780)</u>	<b>1</b>
	<b>Capital</b>		<u>2,440</u>	<b>1 of</b>
				(3 marks)
(b)	Opening bank balance		<b>£</b> 4,400	
	Add Receipts		<u>50,800</u>	
			55,200	
	Less Payments		<u>(47,300)</u>	
			7,900	
	Less Closing balance		<u>( 5,900)</u>	
	Cash drawings		<u>2,000</u>	<b>1 + 1of</b>
				(2 marks)

**QUESTION 1 CONTINUED**

(c) **Abdul Aziz**  
**Trading and Profit & Loss Account for the year ended 31 December 2012**

	£	£	
Sales (50,800 + 800)		51,600	1
<b>Less Cost of sales:</b>			
Opening stock	3,400		
Add Purchases (27,400 - 5,600 (1) + 6,120 (1) + 350 (1))	<u>28,270</u>		
	31,670		
Less Drawings	( <u>420</u> )		1
	31,250		
Less Closing stock	( <u>3,860</u> )	(27,390)	
<b>Gross profit</b>		<u>24,210</u>	<b>1 w+of</b>
<b>Add Other income</b>			
Discount Received		<u>350</u>	1
		<u>24,560</u>	
<b>Less Expenses:</b>			
General expenses (2,100 - 180 (1) + 220 (1))	2,140		
Insurance (1,750 + 120)	1,870		1
Rent	4,050		
Wages (8,500 + 800)	9,300		1
Depreciation fixtures and fittings (2,300 + 3,000 - 4,900)	<u>400</u>	(17,760)	1
<b>Net profit</b>		<u><u>6,800</u></u>	

(12 marks)

(d)

**Balance Sheet at 31 December 2012**

	£	£	£
<b>Fixed Assets</b>			
Fixtures and fittings			4,900
<b>Current Assets</b>			
Stock		3,860	
Bank		<u>5,900</u>	
		9,760	1
<b>Creditors: Amounts falling due within one year</b>			
Creditors	6,120		
Accrual	<u>220</u>		
		(6,340)	1
<b>Net Current Assets</b>		<u>3,420</u>	<b>1w+of</b>
		8,320	
<b>Creditors: Amounts falling due after more than one year</b>			
Bank Loan (long term)		(1,500)	1
		<u>6,820</u>	
<b>Capital</b>			
Balance 1 January 2012		2,440	1 of
Add Net profit		<u>6,800</u>	1 of
		9,240	
Less cash drawings (2,000 (1of) + 420 (1))		(2,420)	
		<u><u>6,820</u></u>	

(8 marks)

**(Total 25 marks)**

**QUESTION 2****Syllabus Topic 10: Ratios (10.1, 2.1, 2.3, 4.1, 5.2, 6.3, 7.2, 8.2, 8.3, 9.1, 10.1, 11.1)**

(a)

(i) **Return on owners' capital on net profit after interest**

$$\frac{\text{Net profit after interest} \times 100}{\text{Capital}} \quad 1 \quad \frac{11,600 \times 100}{58,800} = 19.7\% \quad 1$$

(ii) **Return on capital employed on net profit before interest**

$$\frac{\text{Net profit before interest} \times 100}{\text{Capital employed}} \quad 1 \quad \frac{12,000 \times 100}{66,800} = 18.0\% \quad 1$$

(iii) **Gross profit margin**

$$\frac{\text{Gross profit} \times 100}{\text{Sales}} \quad 1 \quad \frac{41,600 \times 100}{84,000} = 49.5\% \quad 1$$

(iv) **Net profit margin after interest**

$$\frac{\text{Net profit} \times 100}{\text{Sales}} \quad 1 \quad \frac{11,600 \times 100}{84,000} = 13.8\% \quad 1$$

(v) **Sales to capital employed**

$$\frac{\text{Sales} \times 100}{\text{Capital employed}} \quad 1 \quad \frac{84,000 \times 100}{66,800} = 125.8\% \quad 1$$

(vi) **Current ratio (working capital)**

$$\frac{\text{Current assets}}{\text{Current liabilities}} \quad 1 \quad \frac{26,600}{7,800} = 3.4:1 \quad 1$$

(vii) **Liquidity ratio (acid test)**

$$\frac{\text{Current assets less stock} (26,600 - 3,600)}{\text{Current liabilities}} \quad 1 \quad \frac{23,000}{7,800} = 2.9:1 \quad 1$$

(viii) **Rate of stock turnover**

$$\frac{\text{Cost of sales}}{\text{Average stock} (4,000 + 3,600 / 2)} \quad 1 \quad \frac{42,400}{3,800} = 11.2 \text{ times} \quad 1$$

(ix) **Debtors collection period (days)**

$$\frac{\text{Debtors} \times 365}{\text{Sales (credit)}} \quad 1 \quad \frac{14,500 \times 365}{79,800} = 66.3 \text{ days} \quad 1$$

(x) **Creditors collection period (days)**

$$\frac{\text{Creditors} \times 365}{\text{Purchases}} \quad 1 \quad \frac{7,800 \times 365}{42,000} = 67.8 \text{ days} \quad 1$$

(Accept alternative formula)

(20 marks)

(b) The return on capital employed has increased **(1of)** from 14% to 18.0%. **(1 of)**

The net profit has increased **1**  
 The bank loan has been reduced **1**  
 The expenses have decreased **1**

**Accept other valid answers**(5 marks)  
**(Total 25 marks)**

**QUESTION 3**

**Syllabus Topic 5: Manufacturing Accounts (5.1.1, 1.2, 1.3, 1.5, 1.6, 1.7)**

(a) **Jian**

**Manufacturing Account for the year ended 29 February 2012** **1 both**

	£		£	
Raw materials				
Opening stock			36,000	
Add Purchases			<u>335,000</u>	
			371,000	
Less Closing stock			( 32,000)	
<b>Cost of raw materials consumed</b>			339,000	<b>1 w+f</b>
Factory wages			180,000	
Packaging			<u>24,800</u>	<b>{ 1 both</b>
<b>Prime cost</b>			543,800	<b>1of</b>
<b>Add Factory overheads:</b>				
Packaging	37,200	<b>1</b>		
Manager's salary	38,000			
Rent	20,000	<b>1</b>		
Insurance	15,000	<b>1</b>		
Electricity	35,200	<b>1</b>		
General expenses	7,000	<b>1</b>		
Depreciation machinery	<u>95,000</u>	<b>1</b>	<u>247,400</u>	
			791,200	
<b>Work in progress:</b>				
Add Opening stock			<u>17,800</u>	
			809,000	
Less Closing stock			( 15,000)	<b>1 both</b>
Production cost			794,000	<b>1w+of</b>
Add Manufacturing profit (22%)			<u>174,680</u>	<b>1w+of</b>
<b>Transfer to Trading Account (1)</b>			<u>968,680</u>	<b>1of</b>

(15 marks)

(b) **Trading and Profit & Loss Account for the year ended 29 February 2012**

	£		£	
Sales			1,050,000	
<b>Less Cost of sales:</b>				
Opening stock	24,000			
Transfer from Manufacturing Account	<u>968,680</u>	<b>1of</b>		
			992,680	
Less Closing stock	( 22,800)		(969,880)	<b>1w+of</b>
<b>Gross profit</b>			80,120	<b>1w+of</b>
<b>Less Expenses:</b>				
Office wages and salaries	80,500			
Rent	4,000	<b>1</b>		
Insurance	3,000	<b>1</b>		
Electricity	8,800	<b>1</b>		
General expenses	21,000	<b>1</b>		
Depreciation of office equipment	<u>2,100</u>	<b>1</b>	(119,400)	
<b>Net loss</b>			(39,280)	
Add Manufacturing profit	174,680	<b>1of</b>		
Add decrease in provision for unrealised profit	<u>217</u>		<u>174,897</u>	
<b>Net profit</b>			<u>135,617</u>	<b>1w+of</b>

(10 marks)

**(Total 25 marks)**

**QUESTION 4**

**Syllabus Topic 7: Non-Trading Organisations (7. 3.2, 4.2, 4.3, 4.4, 4.5, 4.7)**

**(a) Subscriptions Account**

<b>2012</b>		<b>£</b>		<b>2012</b>		<b>£</b>
Jan 1	Balance b/d	180	<b>1</b>	Jan 1	Balance b/d	2,200 <b>1</b>
Dec 31	Income & Exp <b>(1)</b>	57,840	<b>1of</b>	Dec 31	Bank	58,320 <b>1</b>
	Balance c/d	2,800	<b>1</b>		Bad debt	60 <b>1</b>
		<u>60,820</u>			Balance c/d	<u>240</u>
						<u>60,820</u>
<b>2013</b>				<b>2013</b>		
Jan 1	Balance b/d	240	<b>1</b>	Jan 1	Balance b/d	2,800 <b>1</b>

1 mark for dates

(10 marks)

**(b) Life Membership Fund**

<b>2012</b>		<b>£</b>		<b>2012</b>		<b>£</b>
Dec 31	Income & Exp	1,700	<b>1</b>	Jan 1	Balance b/d	13,000 <b>1</b>
	Balance c/d	<u>15,300</u>		Dec 31	Bank	<u>4,000</u> <b>1</b>
		<u>17,000</u>				<u>17,000</u>
				<b>2013</b>		
				Jan 1	Balance b/d	15,300 <b>1of</b>

1 mark for dates

(5 marks)

**Alternative approach**

**2012**

Jan 1 Balance b/d 13,000 **1**  
 Add Dec 31 Bank 4,000 **1**  
 Less Dec 31 Balance c/d 15,300  
 = Dec 31 Income & Expenditure 1,700 **1**

1 mark for dates

**(c) Creditors Control Account**

<b>2012</b>		<b>£</b>		<b>2012</b>		<b>£</b>
Dec 31	Bank	33,740	<b>1</b>	Jan 1	Balance b/d	3,270 <b>1</b>
	Discount received	270	<b>1</b>	Dec 31	Purchases	33,690 <b>1w+of</b>
	Balance c/d	<u>2,950</u>				<u>36,960</u>
		<u>36,960</u>				
				<b>2013</b>		
				Jan 1	Balance b/d	2,950 <b>1</b>

(5 marks)

**(d) Insurance Account**

<b>2012</b>		<b>£</b>		<b>2012</b>		<b>£</b>
Jan 1	Balance b/d	135		Dec 31	Income & Exp <b>(1)</b>	1,800 <b>1</b>
Dec 31	Bank	<u>1,850</u>	<b>1</b>		Balance c/d	<u>185</u>
		<u>1,985</u>				<u>1,985</u>
<b>2013</b>						
Jan 1	Balance b/d	185	<b>1of</b>			

1 mark for dates

(5 marks)

**(Total 25 marks)**

**QUESTION 5****Syllabus Topic 2: Limited Liability Companies****(2.1, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.10. 2.12. 2.13. 2.14)**

(a)

	<b>£000</b>	<b>£000</b>
<b>Gross profit</b>		929
Add Deposit interest		<u>8</u> <b>1</b>
		937
<b>Less Expenses:</b>		
Administration expenses	110	
Selling and distribution expenses	160	
Depreciation machinery	65 <b>1</b>	
Depreciation office equipment	10 <b>1</b>	
Bad debt	3 <b>1</b>	
Increase in provision for doubtful debts	<u>1</u> <b>1</b>	
<b>Net profit</b>		(349)
Transfer to general reserve	100 <b>1</b>	588 <b>1w+of</b>
Ordinary dividend:		
Interim	60 <b>1</b>	
Final	176 <b>1</b>	
Preference dividend:		
Interim	12 <b>1</b>	
Final	<u>12</u> <b>1</b>	
<b>Retained profit for the year</b>		(360)
Retained profit brought forward		228 <b>1w+of</b>
<b>Retained profit carried forward</b>		<u>125</u>
		<u>353</u> <b>1w+of</b>

(13 marks)



**QUESTION 5 CONTINUED**

(b)

**Balance Sheet at 31 January 2012**

	Cost	Accumulated Depreciation	Net Book Value	
	£000	£000	£000	
<b>Fixed Assets</b>				
Freehold property	2,700		2,700	
Machinery	500	240	260	{1of
Office equipment	<u>80</u>	<u>21</u>	<u>59</u>	both
	<u>3,280</u>	<u>261</u>	3,019	1of
<b>Current Assets:</b>				
Stock		92		
Debtors (78-3)	75			1
Less Provision for doubtful debts	<u>(3)</u>	72		1of
Bank deposit		80		1
Interest receivable owing		<u>8</u>		1
		252		
<b>Creditors: Amounts falling due within one year</b>				
Bank	24			
Creditors	56			
Debentures	100			1
Proposed dividends:				
Ordinary	176			} 1 of both
Preference	<u>12</u>			
		<u>(368)</u>		
<b>Net Current Liabilities</b>			<u>(116)</u>	1w+of
			<u>2,903</u>	
<b>Capital and Reserves</b>				
1,600,000 £1 Ordinary shares			1,600	} 1 both w+f
400,000 6% £1 Preference shares			400	
Share premium			150	
General reserve			400	1
Profit and loss account			<u>353</u>	1of
			<u>2,903</u>	

(12 marks)

**(Total 25 marks)**

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