

Mark Scheme (Results)

Series 3 2014

Pearson LCCI Level 2

Book-keeping and Accounts (ASE2007)

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**LCCI IQ SERIES 3 EXAMINATION 2014
 CERTIFICATE IN BOOK-KEEPING AND ACCOUNTS
 LEVEL 2
 MARKING SCHEME**

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

**Key:
 of = own figure**

TOTAL 100 MARKS

**Question 1
 Syllabus Topic 6: Stock Valuation (6.2.1, 6.2.2, 6.2.3)**

(a)

		Stock Valuation at 31 May 2014		
		£	£	£
Value of stock at 30 April 2014				65,200
		Increase	Decrease	
(2) Goods written off			(1,275)	1
(3) Sales	<u>63,900</u> 1.2		(53,250)	1+1of
(4) Goods at NRV	<u>3,900</u> 1.2			
	3,250 1 x 50% 1		(1,625)	1of
(5) Purchases		24,300	1	
(6) Sales returns	<u>1,080</u> 1.2	900		1+1of
(7) Purchases returns			(2,025)	1
(8) Sale or return	<u>960</u> 1.2	<u>800</u>		1+1of
Value of stock at 31 May 2014		<u>26,000</u>	<u>58,175</u>	<u>(32,175)</u> 1of <u>33,025</u> 1of

(14 marks)

(b)

Java
Trading Account for the month ended 31 May 2014 1 both

	£	£	£
Sales (63,900 – 960)			62,940
Less: Sales returns			<u>(1,080)</u> 1
			61,860
Cost of sales:			
Stock at 1 May 2014 (65,200 – 1,625 – 1,275)		62,300	
Add: Purchases	24,300 1		
Less: Purchases returns	<u>(2,025)</u> 1	<u>22,275</u>	
		84,575	
Less: Stock at 31 May 2014		<u>(33,025)</u> 1 of	<u>(51,550)</u>
Gross profit			<u>10,310</u> 1w+of

(11 marks)

(Total 25 marks)

Question 2

Syllabus Topic 10: Calculation & Interpretation of Accounting Ratios (10.3, 10.4, 10.5, 10.6, 10.7, 10.8, 10.9, 10.10, 10.11)

(a)	Jaycee Ltd		Aybee Ltd		
(i) Gross profit mark up					
<u>Gross profit</u> x 100					
Cost of sales					
$\frac{100}{300} \times 100 =$	33.3%	1	$\frac{180}{420} \times 100 =$	42.9%	1
(ii) Net profit margin (before interest)					
<u>Net profit before interest</u> x 100					
Sales					
$\frac{23}{400} \times 100 =$	5.8%	1	$\frac{77}{600} \times 100 =$	12.8%	1
(iii) Stock turnover stated as times per year					
<u>Cost of goods sold</u>					
Average stock					
$\frac{300}{(70 + 35) / 2} =$	5.7 times	1	$\frac{420}{(35 + 50) / 2} =$	9.9 times	1
(iv) Current (Working capital) ratio					
<u>Current assets</u>					
Current liabilities					
$\frac{90}{50} =$	1.8:1	1	$\frac{126}{24} =$	5.3:1	1
(v) Liquidity (Acid test) ratio					
<u>Current assets less closing stock</u>					
Current liabilities					
$\frac{90 - 35}{50} =$	1.1:1	1	$\frac{126 - 50}{24} =$	3.2:1	1
(vi) Return on capital employed before interest					
<u>Net profit before interest</u> x 100					
Capital employed					
$\frac{23}{285} \times 100 =$	8.1%	1	$\frac{77}{382} \times 100 =$	20.2%	1

Question 2 Continued

	Jaycee Ltd		Aybee Ltd	
(vii) Debtors' collection period in days				
	<u>Debtors</u> x 365			
	Sales			
	<u>55</u>	x 365	50.2 days	1
	400			
			<u>66</u>	x 365
			40.2 days	1
			600	
(viii) Creditors' settlement period in days				
	<u>Creditors</u> x 365			
	Purchases			
	<u>30</u>	x 365	41.3 days	1
	265			
			<u>24</u>	x 365
			20.1 days	1
			435	
(ix) Sales to capital employed as a percentage				
	<u>Sales</u> x 100			
	Capital employed			
	<u>400</u>	x 100 1	140.4%	
	285	1		
			<u>600</u>	x 100 1
			157.1%	
			382	1

(22 marks)

- (b) Determines the business's ability to meet its short-term debts
 Determines the ability of its current assets to meet its current liabilities.
1 mark for of the above reasons

(1 mark)

- (c) Aybee performed the best because:
Accept any two of the following:
1. Higher gross profit as % of cost of sales
 2. Higher net profit as % of sales
 3. Higher return on capital employed

(2 marks)

2 marks for two reasons based on of in part (a)

(Total 25 marks)

Question 3

Syllabus Topic 5: Manufacturing Accounts (5.1.1, 5.1.3, 5.1.5, 5.1.6, 5.1.7)

(a) **Provision for Unrealised Profit Account**

		£		£	
2014				2013	
				Feb 1	Balance b/d [W1]
					730
				2014	
Jan 31	Balance c/d	[W2]	<u>754</u>	1	
			<u>754</u>		
				Jan 31	P & L
					<u>24</u>
					<u>754</u>
				2014	
				Feb 1	Balance b/d
					754
					1of
W1	(8030 x 10 / 110) =		730		
W2	(8294 x 10 / 110) =		754		

(4 marks)

(b) **Selsy Ltd**
Manufacturing Account for the year ended 31 January 2014

	£	£	
Opening stock of raw materials		40,000	
Purchases of raw materials		348,100	
Carriage inwards		<u>1,400</u>	
		389,500	
Less: closing stock of raw materials		<u>(42,000)</u>	
Cost of raw materials consumed	1	347,500	
Add: direct costs			
Machine operators' wages		<u>155,200</u>	1
Prime cost	1	502,700	1of
Overheads:			
Factory supervisor	27,100		
Factory depreciation	21,800		
Factory rent and rates (12,000 x 60%)	7,200		1
Electricity (8,500 x 60%)	<u>5,100</u>		1
		<u>61,200</u>	
		563,900	
Add: Opening work in progress	7,000		
Less: Closing work in progress	<u>(5,100)</u>		
		<u>1,900</u>	1
Production cost		565,800	1w+of
Manufacturing profit		<u>56,580</u>	1w+of
Transfer to Trading Account	1	<u>622,380</u>	1of

(12 marks)

Question 3 continued

(c)

Selsy Ltd

Trading and Profit & Loss Account for the year ended 31 January 2014

	£	£	
Sales		762,000	
Opening stock of finished goods	8,030		
Purchases of finished goods	51,700		1
Carriage inwards	200		1
Transfer from Manufacturing Account	<u>622,380</u>		1of
	682,310		
Less: closing stock of finished goods	<u>(8,294)</u>	<u>(674,016)</u>	
Gross profit		87,984	1w+of
Less expenses:			
Administration wages	51,100		
Depreciation of administration equipment	16,600		
Rent and rates (12,000 x 40%)	4,800		1
Electricity (8,500x 40%)	3,400		1
Increase in provision for unrealised profit	<u>24</u>		1of
		<u>(75,924)</u>	
		12,060	
Manufacturing profit		<u>56,580</u>	1of
Net profit		<u>68,640</u>	1w+of

(9 marks)

(Total 25 marks)

Question 4 continued

(c) **Ordinary shareholders:**

1. They are the owners of the company.
2. They will usually have the right to vote at the Annual General Meeting.
3. They are entitled to a share of the profits or dividends of the company after all expenses have been charged against income (including any preference dividends).
4. If the company is wound up, ordinary shareholders have their capital repaid last.
5. The ordinary share dividend fluctuates.

Preference shareholders:

1. They are not normally entitled to vote at general shareholder meetings and therefore cannot influence the running of the company.
2. When the company has earned sufficient profit, preference shareholders are guaranteed a fixed percentage dividend per share.
3. Preference share dividends must be paid out before the ordinary shareholders receive a dividend.
4. If the company is wound up, preference shareholders have their capital repaid before the ordinary shareholders.
5. Because they take preference over the ordinary shares, preference shares are a less risky investment.
6. The preference dividend is fixed.

Award 1 mark each with a maximum of 2 marks for preference shareholders and 2 marks for ordinary shareholders.

(4 marks)

(Total 25 marks)

Question 5

Syllabus Topic: 1.3 Adjusting for Accruals and Prepayments (1.3.2, 1.3.4, 1.3.5, 1.3.8, 1.3.10, 1.3.11)

(a) (i)

Rates Account			
2012		£	
Aug 1 Bank	1,359		}
Oct 1 Bank	1,569		
2013			
Jan 1 Bank	1,569		}
Apr 1 Bank	1,569		
Jul 1 Bank	1,569		
	<u>7,635</u>		
2013			
Aug 1 Balance b/d	1,046		
2012			
Aug 1 Balance b/d		£	453
2013			
Jul 31 P&L A/c		6,136	1of
Balance c/d [W1]		1,046	1
		<u>7,635</u>	

Dates correct 1 mark

(6 marks)

[W1] $1,569 \times 2/3 = 1,046$

(ii)

Insurance Account			
2012		£	
Sep 1 Bank	370		}
Dec 1 Bank	406		
2013			
Mar 1 Bank	378		}
Jun 1 Bank	410		
Jul 31 Balance c/d	180		
	<u>1,744</u>		
2012			
Aug 1 Balance b/d		£	180
2013			
Jul 31 P&L A/c		1,564	1of
		<u>1,744</u>	
2013			
Aug 1 Balance b/d		180	1

Dates correct 1 mark

(6 marks)

(iii)

Rent Receivable Account			
2012		£	
Aug 1 Balance b/d	840		
2013			
Jul 31 P&L A/c	2,570		}
Balance c/d	890		
	<u>4,300</u>		
2012			
Dec 1 Bank		£	2,570
2013			
Jun 1 Bank		1,730	1 both
		<u>4,300</u>	
2013			
Aug 1 Balance b/d		890	1

Dates correct 1 mark

(5 marks)

Question 5 continued

(b)

Profit & Loss Account extract for the year ended 31 July 2013 1

	£	£
	Expense	Income
Rent receivable		2,570 1of
Rates	6,136	1of
Insurance	1,564	1of

(4 marks)

(c)

Balance Sheet extract at 31 July 2013

Current Assets 1	£
Prepayments: Rates	1,046 1of

Creditors: amounts falling due within 1 year

Accruals: Insurance	180 1
Prepaid income: Rent receivable	890 1

(4 marks)

(Total 25 marks)

