

Book-Keeping and Accounts Level 2



International
Qualifications from EDI

Model Answers Series 4 2012 (2007)

Book-Keeping and Accounts Level 2

Series 4 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.

© Education Development International plc 2012

All rights reserved; no part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the Publisher. The book may not be lent, resold, hired out or otherwise disposed of by way of trade in any form of binding or cover, other than that in which it is published, without the prior consent of the Publisher.

Question 1

Craft Ltd manufactures parts for knitting machines. It also purchases some parts for resale. The following information is available:

	31 January 2011	31 January 2012
	£	£
Stock:		
raw materials	62,000	62,800
work in progress	17,000	15,100
finished goods	16,280	16,500

Some of the balances for the year ended 31 January 2012 were as follows:

	£
Sales of finished goods	922,000
Purchases of raw materials	358,100
Purchases of finished goods	61,700
Carriage on raw materials	2,400
Carriage on finished goods	400
Machine operators' wages	153,500
Factory supervisor's salary	28,100
Administrative and sales wages	52,100
Depreciation of factory machinery	22,800
Depreciation of office equipment	17,600
Rent	16,000
Light and heat	9,800

Additional Information:

- (1) Goods from the factory are transferred to finished goods stock at production cost plus 10%
- (2) At 31 January 2012 prepaid rent was £1,000 and accrued light and heat was £700
- (3) Rent and light and heat are apportioned 50% to the factory and 50% to administration
- (4) All finished goods stocks are manufactured goods.

REQUIRED

Prepare for the year ended 31 January 2012 the:

- (a) Provision for Unrealised Profit Account (3 marks)
 - (b) Manufacturing Account (12 marks)
 - (c) Trading and Profit & Loss Account. (10 marks)
- (Total 25 marks)**

Model Answer to Question 1

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		
		£		£
2012			2011	
			Feb 1	Balance b/d
				1,480
			2012	
Jan 31	Balance c/d	<u>1,500</u>	Jan 31	P & L
		<u>1,500</u>		<u>20</u>
				<u>1,500</u>
			2012	
			Feb 1	Balance b/d
				1,500

W1 (16,500 x 10/110) = 1,500
W2 (16,280 x 10/110) = 1,480

(3 marks)

(b)

Craft Ltd
Manufacturing Account for the year ended 31 January 2012

Raw materials:	£	£	
Opening stock		62,000	
Purchases		358,100	} 1 both
Carriage inwards		<u>2,400</u>	
		422,500	
Less: closing stock		<u>(62,800)</u>	
Cost of raw materials consumed		359,700	1 of
Add: Direct costs			
Machine operators' wages		153,500	1
Prime cost		513,200	1 W&of
Add Factory overheads:			
Supervisor salary	28,100		
Depreciation of machinery	22,800		
Rent	7,500		1
Light and heat	<u>5,250</u>		1
		<u>63,650</u>	
		576,850	
Add: Opening work in progress	17,000		
Less: Closing work in progress	<u>(15,100)</u>		
		<u>1,900</u>	1
Production cost		578,750	1 W&of
Manufacturing profit		<u>57,875</u>	1 of
Transfer to Trading Account		<u>636,625</u>	1 of

(12 marks)

Model Answer to Question 1 continued

(c)

Craft Ltd
Trading and Profit & Loss Account for the year ended 31 January 2012

	£	£	£	
Sales			922,000	
Less cost of sales:				
Opening stock of finished goods		16,280		
Purchases of finished goods	61,700			1
Carriage inwards	<u>400</u>	62,100		1
Transfer from Manufacturing Account		<u>636,625</u>		1 of
		715,005		
Less: closing stock		<u>(16,500)</u>	(698,505)	1 of
Gross profit			223,495	1 of
Manufacturing profit			<u>57,875</u>	1 of +w
			281,370	
Less: Expenses				
Administrative and sales wages		52,100		
Depreciation of office equipment		17,600		
Rent		7,500		1 of
Light and heat		5,250		1 of
Increase in provision for unrealised profit		<u>20</u>	(82,470)	1 of
Net profit			<u>198,900</u>	1 of

(10 marks)

(Total 25 marks)

Question 2

On 1 January 2011 Yen had two vehicles for use in his business. Vehicle X was bought several years earlier for £7,500 and vehicle Y was purchased in 2010 for £10,500.

On 31 December 2011, he sold vehicle X for £3,600 and replaced it with, vehicle Z, paid for by cheque.

Yen's policy is to provide depreciation on vehicles at 25% per annum, on the reducing balance method. A full year's depreciation is charged in the year of purchase and none in the year of disposal.

The balances in Yen's accounts were as follows:

	31 December 2010	31 December 2011
	£	£
Vehicles at cost	18,000	22,000
Provision for depreciation	6,961	7,469

REQUIRED

- (a) Prepare the Motor Vehicles Account for the year 31 December 2011 (4 marks)
- (b) Calculate the depreciation charge for:
- (i) Vehicle Y for year 2010 and 2011 (2 marks)
 - (ii) Vehicle Z for year 2011 (2 marks)
 - (iii) total depreciation charge for 2011. (1 mark)
- (c) Prepare for the year ended 31 December 2011 the:
- (i) Provision for Depreciation of Motor Vehicles Account (4 marks)
 - (ii) Disposal of Motor Vehicles Account. (4 marks)

Additional information:

	£
Debtors at 31 December 2010	9,650
Debtors at 31 December 2011	9,300

For the year ended 31 December 2011

Gross profit	15,900
Bad debts written off	100
Other expenses	5,100

Yen provides for doubtful debts of debtors, at the rate of 4% of debtors.

REQUIRED

For the year ended 31 December 2011:

- (d) Prepare the Provision for Doubtful Debts Account (3 marks)
- (e) Calculate Yen's net profit. (5 marks)

(Total 25 marks)

Model Answer to Question 2

Syllabus Topic 1: Advanced aspects of the syllabus for Book-keeping level 1 (1.1, 1.2, 1.2.4, 1.2.7, 1.2.8, 1.2.9, 1.2.10)

(a) **Motor Vehicles Account**

2011		£	2011		£		
Jan 1	Balance b/d	18,000	1	Dec 31	Disposal	7,500	1
Dec 31	Bank	<u>11,500</u>	1	Dec 31	Balance c/d	<u>22,000</u>	1
		<u>29,500</u>				<u>29,500</u>	
2012							
Jan 1	Balance b/d	22,000					

(4 marks)

(b)

		£		
(i) Vehicle Y	Cost in 2010	10,500		
	Depreciation in 2010	<u>2,625</u>	1	(10,500 x 25%)
	NBV at Jan 1 2011	7,875		
	Depreciation in 2011	<u>1,969</u>	1 of	(7,875 x 25%)
	NBV at Jan 1 2012	<u>5,906</u>		

(2 marks)

(ii) Vehicle Z

Cost in 2011	11,500	1 of	(22,000 – 18,000 + 7,500)
Depreciation in 2011	<u>2,875</u>	1 of	(11,500 x 25%)
	<u>8,625</u>		

(2 marks)

(iii) Total depreciation charge for 2011 -

Y	1,969	
Z	<u>2,875</u>	
	<u>4,844</u>	1 of

(1 mark)

(c) (i) **Provision for Depreciation of Motor Vehicles Account**

2011		£	2011		£		
Dec 31	Disposal *	4,336	1	Jan 1	Balance b/d	6,961	1
Dec 31	Balance c/d	<u>7,469</u>	1	Dec 31	P & L	<u>4,844</u>	1 of
		<u>11,805</u>				<u>11,805</u>	
	*(6,961 – 2,625)			2012			
				Jan 1	Balance b/d	7,469	

(4 marks)

(ii) **Disposal of Motor Vehicles Account**

2011		£	2011		£		
Dec 31	Motor vehicles	7,500	1	Dec 31	Prov for Dep	4,336	1 of
Dec 31	P & L	<u>436</u>	1 of	Dec 31	Bank/cash	<u>3,600</u>	1
		<u>7,936</u>				<u>7,936</u>	

(4 marks)

Model Answer to Question 2 continued

(d) **Syllabus topic 1: Advanced aspects of the syllabus for Book-keeping Level 1 (1.4, 1.4.5)**

Provision for Doubtful Debts Account					
2011		£		2011	
31 Dec	P & L	14	1	1 Jan	Balance b/d *
31 Dec	Balance c/d **	<u>372</u>	1		<u>386</u>
		<u>386</u>			<u>386</u>
				2012	
	*9,650 x 4% = 386			1 Jan	Balance b/d
	**9,300 x 4% = 372				372

(3 marks)

Syllabus topic 1: Advanced aspects of the syllabus for Book-keeping Level 1 (1.1)

(e)		£	
Gross profit		15,900	
Add other income:			
Profit on disposal		436	1 of
Decrease in PDD		<u>14</u>	1 of
		16,350	
Less expenses:			
Bad debts	100		
Depreciation	4,844		1 of of from (c)
Other expenses	<u>5,100</u>	<u>(10,044)</u>	
Net profit		<u>6,306</u>	1+1 of

(5 marks)

(Total 25 marks)

Question 3

Zhong's book-keeper prepared a Trial Balance on 31 October 2012.

The book-keeper was unable to make the Trial Balance totals agree and therefore opened a Suspense Account. Control accounts are not in use.

A subsequent examination of the books revealed the following errors:

- (1) The Sales Journal had been overcast by £900
- (2) Zhong had taken goods amounting to £1,200 at cost for his own use. No entries had been made in the books
- (3) A motor vehicle had been sold during the year for which Zhong had received a cheque for £5,000. This had been entered on the wrong side of the Cash Book although treated correctly in the Disposal Account
- (4) A credit note from Tam, a supplier, for £120 was incorrectly entered in the Purchases Returns Journal as £80
- (5) An insurance payment of £380 was correctly entered in the Cash Book but entered in the Insurance Account as £580
- (6) Cash of £400 was received from a tenant for rent received. This had been correctly entered in the Cash Book but no other entry had been made.
- (7) Discount allowed of £60 had been incorrectly credited to the Discount Received Account.

REQUIRED

- (a) Prepare Journal entries to correct the errors in (1) to (7) above.
Narratives are **not** required. (15 marks)
- (b) Prepare the Suspense Account. (8 marks)
- (c) Explain the term error of principle, giving an example to support your answer. (2 marks)

(Total 25 marks)

Model Answer to Question 3

Syllabus Topic 9: Suspense accounts (9.1, 9.3, 9.7, 9.8, 9.9)

(a)	Dr	Cr
	£	£
(1) Sales	900	1
Suspense		900 1
(2) Drawings	1,200	1
Purchases		1,200 1
(3) Bank	10,000	1
Suspense		10,000 1
(4) Tam	40	1
Purchases returns		40 1
(5) Suspense	200	1
Insurance		200 1
(6) Suspense	400	1
Rent received		400 1
(7) Discount received	60	1
Discount allowed	60	1
Suspense		120 1

(15 marks)

(b) **Suspense Account**

	£			£	
Balance b/d	10,420	1 + 1 of	Sales	900	1
Insurance	200	1	Bank	10,000	1
Rent received	400	1	Discount allowed	60	1
	<u>11,020</u>		Discount received	<u>60</u>	1
				<u>11,020</u>	

(8 marks)

- (c) An error of principle occurs when an entry is posted to the wrong type or class of account. **1**
 Example: An invoice for a motor vehicle was posted to motor vehicle expenses account. **1**

(2 marks)

(Total 25 marks)

Question 4

The following balances were extracted from the books of Sandy Ltd on 1 September 2012:

	Dr £	Cr £
Purchases Ledger	2,500	57,200
Sales Ledger	88,120	1,450

In the month of September 2012, the following transactions occurred:

Debit balance on Sales Ledger transferred to Purchases Ledger	3,300
Cash purchases	8,240
Debtor's cheque dishonoured	1,200
Legal fees for debt collection charged to customer's account	200
Credit sales	89,700
Credit purchases	64,430
Returns outwards to credit suppliers	2,530
Returns inwards from credit customers	1,060
Discount allowed	870
Discount received	600
Bad debts written off	315
Payments to credit suppliers	54,360
Receipts from credit customers	84,910
Refund to credit customer for overpayment	500
Cash sales	13,200

Additional information at 1 October 2012:

Purchases Ledger debit balances	480
Sales Ledger credit balances	620

REQUIRED

(a) Prepare for the month of September 2012 the:

(i) Purchases Ledger Control Account

(9 marks)

(ii) Sales Ledger Control Account.

(13 marks)

(b) State **three** functions of Control Accounts.

(3 marks)

(Total 25 marks)

Model Answer to Question 4

Syllabus Topic 8: Control Accounts (8.1), (8.2), (8.4), (8.5), (8.6), (8.7)

(a) (i) **Purchases Ledger Control Account**

	£		£	
Balance b/d		2,500	Balance b/d	57,200
Contra	1	3,300	Credit purchases	1 64,430
Returns outwards	1	2,530	Balance c/d	1 480
Discount received	1	600		
Bank	1	54,360		
Balance c/d	1	<u>58,820</u>		
		<u>122,110</u>		<u>122,110</u>

Balance b/d 1 480 Balance b/d 1 of 58,820

(9 marks)

(ii) **Sales Ledger Control Account**

	£		£	
Balance b/d		88,120	Balance b/d	1,450
Bank: Dis'd cheque	1	1,200	Contra	1 3,300
Legal fees	1	200	Returns inwards	1 1,060
Credit sales	1	89,700	Discount allowed	1 870
Bank: Refund	1	500	Bad debts	1 315
Balance c/d	1	620	Bank	1 84,910
		<u>180,340</u>	Balance c/d	1 <u>88,435</u>
				<u>180,340</u>

Balance b/d 1 of 88,435 Balance b/d 1 620

(13 marks)

- (b)
- (1) They provide total balances of debtors and creditors which can be used in the Trial Balance and in the Balance Sheet.
 - (2) They provide a total figure for debtors or creditors without the need to spend time extracting a full list of debtors and creditors.
 - (3) They can be used to check the arithmetic accuracy of the purchase and sales ledgers.
 - (4) They can help with constructing final accounts where a business has not kept a full set of double entry accounts.
 - (5) Checks on the efficiency of staff.
 - (6) Prevention of fraud.

Accept any 3 appropriate answers for 1 mark each

(3 marks)

(Total 25 marks)

Question 5

The following is a summary of the receipts and payments of the Lynton Sports and Social Club for the year ended 30 June 2012:

	£
Receipts	
Restaurant takings	210,600
Annual subscriptions	115,400

	£
Payments	
Wages of restaurant staff	40,890
Restaurant purchases	100,740
Sports equipment	30,025
Club treasurer's fee	6,000
Rent and rates	100,800
Light and heat	30,080
General expenses	9,160
Bank charges	900
Sports club manager's salary	15,360

Additional information:

(1) Balances at:	1 July 2011	30 June 2012
	£	£
Stock of restaurant supplies	11,090	6,050
Light and heat accrued	550	690
Rent and rates paid in advance	4,000	-
Rent and rates in arrears	-	5,070
Cash in hand	650	650
Cash at bank	30,890	?
Sports equipment at net book value	119,400	144,700
Creditors for restaurant supplies	6,010	8,050
Subscriptions in arrears	4,850	5,010
Subscriptions paid in advance	3,005	3,010
Accumulated fund	161,315	?

(2) Rent and rates is to be apportioned 50% to the restaurant.

REQUIRED

Prepare the:

- (a) Restaurant Account for the year ended 30 June 2012 (6 marks)
- (b) Income and Expenditure Account for the year ended 30 June 2012 (10 marks)
- (c) Balance Sheet at 30 June 2012. (9 marks)

(Total 25 marks)

Model Answer to Question 5
Syllabus Topic 7: Non-trading Organisations (7.3, 7.4, 7.5)

(a)

Lynton Social Club Restaurant Account for the year ended 30 June 2012

	£		£
Sales			210,600
Less cost of sales:			
Opening stock	11,090		
Purchases (100,740 - 6,010 + 8,050)	<u>102,780</u>	2	
	113,870		
Closing stock	<u>(6,050)</u>		
Cost of goods sold			<u>(107,820)</u>
Gross profit			102,780
Wages of restaurant staff	40,890	1	
Rent and rates [(100,800 + 4,000 + 5,070) x 50%]	<u>54,935</u>	1+1 of	
			<u>(95,825)</u>
Profit			<u><u>6,955</u></u>

(6 marks)

(b)

Income & Expenditure Account for the year ended 30 June 2012

Income:		£	£
Subscriptions (115,400 + 3,005 - 4,850 + 5,010 - 3,010)	1		115,555
Restaurant profit	1		<u>6,955</u>
	1		1 of
	1		122,510
Less expenses			
Rent and rates (109,870 x 50%)		54,935	1 of
Light and heat (30,080 - 550 + 690)		30,220	2
Depreciation (119,400 + 30,025 - 144,700)		4,725	1
Club treasurer's fee		6,000	} 1
General expenses		9,160	
Bank charges		900	
Club manager's salary		<u>15,360</u>	
			<u>(121,300)</u>
Surplus of income over expenditure			<u><u>1,210</u></u>

(10 marks)

Model Answer to Question 5 continued

(c)

Balance Sheet at 30 June 2012

	£		£
Fixed Assets			
Sports equipment			144,700
Current Assets			
Stock	6,050		
Subscriptions in arrears	5,010	1	
Bank (30,890 + receipts 326,000 – payments 333,995 = £22,935)	22,935	1	
Cash	<u>650</u>		
		34,645	1
Creditors: amounts falling due within one year			
Creditors	8,050		
Subscriptions in advance	3,010	1	
Rent and rates accrued	5,070	1	
Light and heat accrued	<u>690</u>	1	
		(16,820)	1
Net Current Assets			<u>17,825</u> 1
			<u>162,525</u>
Accumulated fund			
Balance at 1 July 2011			161,315
Surplus of income over expenditure			<u>1,210</u> 1 of
			<u>162,525</u>

(9 marks)

(Total 25 marks)

EDI

International House
Siskin Parkway East
Middlemarch Business Park
Coventry CV3 4PE
UK

Tel. +44 (0) 8707 202909

Fax. +44 (0) 2476 516505

Email. enquiries@ediplc.com

www.ediplc.com



International
Qualifications from EDI