

Book-keeping Level 1



International
Qualifications from EDI

Model Answers Series 4 2012 (1017)

Book- Keeping Level 1

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

Vito's Trial Balance at 31 October 2011 was as follows:

	Dr £	Cr £
Capital at 1 November 2010		33,167
Equipment	5,000	
Motor vehicles	21,000	
Provisions for depreciation at 1 November 2010:		
equipment		2,250
motor vehicles		6,500
Stock at 1 November 2010	5,250	
Debtors and Creditors	16,475	5,427
Bank	3,249	
Rent, rates and insurance	4,640	
Purchases and Sales	34,268	98,345
Carriage outwards	1,246	
Wages and salaries	36,170	
General expenses	18,391	
	<u>145,689</u>	<u>145,689</u>

Additional information at 31 October 2011:

- (1) Stock £5,500
- (2) Vito used a business cheque to pay for private home insurance £530
- (3) Rent prepaid £250
- (4) General expenses owing £325
- (5) On 28 October the bank credited Vito's account with £200 from Tari, this had not been recorded in the books.
- (6) Depreciation is calculated as follows:
 equipment – 15% on cost
 motor vehicles – 25% on cost.

REQUIRED

Prepare the:

- (a) Trading and Profit & Loss Account for the year ended 31 October 2011 (13 marks)
- (b) Balance Sheet at 31 October 2011. (12 marks)

(Total 25 marks)

Model Answer to Question 1

Syllabus Topics: 19 Trading and Profit & Loss, 20 Balance Sheet

(a) **Vito**
Trading and Profit & Loss Account for the year ended 31 October 2011 **1**

	£	£	
Sales		98,345	1
Cost of sales:			
Stock 1 November 2010	5,250		
Purchases	<u>34,268</u>		
	39,518		
Less Stock 31 October 2011	<u>(5,500)</u>		
		(34,018)	1
Gross profit		64,327	1of
Rent, rates and Insurance (4,640-530-250)	3,860		1+1of
Wages and Salaries	36,170		1
General expenses (18,391+325)	18,716		1+1
Carriage outwards	1,246		1
Depreciation:			
equipment (5,000 x 15%)	750		1
motor vehicles (21,000 x 25%)	<u>5,250</u>		1
		(65,992)	
Net loss		(1,665)	1of

(13 marks)

(b) **Balance Sheet at 31 October 2011**

	Cost	Aggregate Depreciation	Net Book Value	
	£	£	£	
Fixed Assets				
Equipment	5,000	3,000	2,000	1
Motor vehicles	<u>21,000</u>	<u>11,750</u>	<u>9,250</u>	1
	<u>26,000</u>	<u>14,750</u>	11,250	1of
Current Assets				
Stock		5,500		
Debtors (16,475-200)		16,275		1
Prepayments		250		1
Bank (3,249+200)		<u>3,449</u>		1
		25,474		1
Current Liabilities				
Creditors	5,427			1
Accruals	<u>325</u>			1
		(5,752)		1
Net Current Assets			<u>19,722</u>	
			<u>30,972</u>	
Financed by:				
Capital 1 November 2010			33,167	
Less Net loss		1,665		1of
Drawings		<u>530</u>		1
			(2,195)	
			<u>30,972</u>	(12 marks)

(Total 25 marks)

Question 2

Jenae provided the following from her financial records:

Balances at 1 June 2010:

Debtors	14,918
Creditors	5,244

Transactions for the year ended 31 May 2011:

Sales	87,524
Purchases	28,963
Returns outwards	294
Returns inwards	417
Discount received	65
Discount allowed	148
Cheques received from customers	84,621
Cheques paid to suppliers	28,437
Interest charged to customers	28
Bad debt written off (D Moon)	168

Included in debtors at 1 June 2010 was a balance of £125 due from D Moon.

Sales on 23 July 2010 included an invoice for £43 in respect of D Moon.

REQUIRED

Prepare, for the year ended 31 May 2011 the:

- (a) Sales Ledger Control Account (9 marks)
- (b) Purchases Ledger Control Account (7 marks)
- (c) D Moon Account. (3 marks)

REQUIRED

- (d) State whether each of the items (i) to (vi) below, is either '**capital expenditure**', '**revenue expenditure**' or '**neither**'.
 - (i) Wages of the shop assistant
 - (ii) Second hand shop fixtures
 - (iii) Installing shop fixtures
 - (iv) Paying £10,000 into a deposit account
 - (v) Insurance of shop fixtures
 - (vi) Drawings by the shop owner (6 Marks)

(Total 25 marks)

Model Answer to Question 2

Syllabus Topics: 2.2 Prepare "T" accounts, 16.2 Classify capital and revenue expenditure, 21.4 Record in control accounts

(a)

Jenae – Sales Ledger Control Account										
2010				£	2011				£	
June	1	Balance b/d		14,918	1	May	31	Returns inwards	417	1
2011								Discount allowed	148	1
May	31	Sales		87,524	1			Bank	84,621	1
		Interest charged		28	1			Bad debts	168	1
				<u>102,470</u>				Balance c/d	<u>17,116</u>	1
									<u>102,470</u>	
2011										
June	1	Balance b/d		17,116	1of					(9 marks)

(b)

Purchases Ledger Control Account										
2011				2010	2011					
May	31	Returns outwards		294	1	June	1	Balance b/d	5,244	1
		Discount received		65	1	2011				
		Bank		28,437	1	May	31	Purchases	28,963	1
		Balance c/d		<u>5,411</u>	1				<u>34,207</u>	
				<u>34,207</u>					<u>34,207</u>	
						2011				
						June	1	Balance b/d	5,411	1of
										(7 marks)

(c)

D Moon Account										
2010				2011	2011					
June	1	Balance b/d		125	1	May	31	Bad debts	168	1
July	23	SDB/Sales		43	1				<u>168</u>	
				<u>168</u>					<u>168</u>	(3 marks)

Note: Other labels will be acceptable in the above accounts

(d)

(i)	Wages of shop assistant	Revenue	1
(ii)	Second-hand shop fixtures	Capital	1
(iii)	Installing shop fixtures	Capital	1
(iv)	Paying £10,000 into a deposit account	Neither	1
(v)	Insurance of shop fixtures	Revenue	1
(vi)	Drawings by the shop owner	Neither	1

(6 Marks)

(Total 25 marks)

Question 3

Kyaya's provisional accounts for the year ended 30 June 2011 show a Gross Profit of £53,684 and a Net Profit of £13,862.

The following errors were then found:

- (1) Goods taken from stock and used privately by Kyaya, valued at £350, have not been recorded in the books
- (2) A payment for motor expenses, £83, has been posted to the Purchases Account
- (3) Closing stock was overvalued by £400
- (4) Wages includes £3,000 drawings
- (5) A bad debt, £180, should be written off.

REQUIRED

- (a) Prepare the Journal entries to correct each of the errors in (1) to (5) above
Narratives are not required. (10 marks)
- (b) Prepare a table to show the effect, on the Gross Profit and the Net Profit, of the correction of each of the errors. The format of this table should be: (13 marks)

	Gross Profit		Net Profit	
	£	£	£	£
From provisional accounts			53,684	13,862
Adjustments:	Increase	Decrease	Increase	Decrease
(1)				
(2)				
(3)				
(4)				
(5)				
Net effect on profits				
Revised profits				

- (c) State the type of errors caused in the transactions (1) and (2) above. (2 marks)

(Total 25 marks)

Model Answer to Question 3

Syllabus Topics: 17.3 Types of errors, 17.4 Journal correcting entries, 17.5 Effect of corrections on profit.

(a) **Kyaya - Journal**

	Dr	Cr	
	£	£	
(1) Drawings	350		1
Purchases		350	1
(2) Motor expenses	83		1
Purchases		83	1
(3) Trading stock	400		1
		400	1
(4) Drawings	3,000		1
Wages		3,000	1
(5) Bad debts	180		1
Debtors		180	1

(10 marks)

(b)

	£	£	Gross Profit	£	£	Net Profit
			£			£
From provisional accounts			53,684			13,862
Adjustments:	Increase	Decrease		Increase	Decrease	
(1)	350			350		2
(2)	83			-		2
(3)		400			400	2
(4)	-			3,000		2
(5)	-				180	2
	<u>433</u>	<u>400</u>		<u>3,350</u>	<u>580</u>	
Net effect on profits			33			2,770 1
Revised profits			<u>53,717</u>	1of		<u>16,632</u> 1of

(13 marks)

(c) Error types

- (1) Omission 1
 - (2) Commission 1
- (2 marks)

(Total 25 marks)

Question 4

On 31 January 2012 the bank balance in the Cash Book of Andreas Sialis was £5,130 Dr. This did not agree with the balance at that date, shown on the Bank Statement.

An examination of the records at 31 January 2012 identified the following:

- (1) On 20 January 2012 a payment by cheque of £1,575 to N Alesu, a creditor, had been entered in the Cash Book as £1,755
- (2) A standing order payment for insurance of £450 on 28 January 2012 had not been entered in the Cash Book
- (3) On 26 January 2012 a cheque for £1,075 from M Kousta, a debtor, had been received and banked on that date. The cheque was dishonoured on 29 January 2012. No entry recording of the dishonoured cheque had been made in the Cash Book
- (4) Bank charges of £175 had not been recorded in the Cash Book.
- (5) On 30 January 2012 a cheque for £1,800 from A Violari, a debtor, was received and banked. The bank did not credit the cheque until 3 February 2012.
- (6) The following cheques had not been presented to the bank:

Cheque Number	Amount £
1061	1,350
1064	490
1067	990
1069	630

REQUIRED

- (a) Commencing with the balance of £5,130 (Dr) bring the bank columns of the Cash Book up to date and bring down the balance at 1 February 2012. (10 marks)
- (b) Prepare a Bank Reconciliation Statement at 31 January 2012. (11 marks)
- (c) State what the following abbreviations stand for:
 - (i) C/T
 - (ii) D/D
 - (iii) S/O
 - (iv) Div.

(4 marks)

(Total 25 marks)

Model Answer to Question 4
Syllabus Topic 9: Bank Reconciliation (9.2) and (9.4)

(a)

Cash Book (Bank Columns)							
2012		£		2012		£	
Jan 31	Balance b/d	5,130	1	Jan 31	Insurance	450	1
	N Alesu	180	1		M Kousta	1,075	1
					Bank charges	175	1
		<u>5,310</u>			Balance c/d	<u>3,610</u>	1
Feb 1	Balance b/d	3,610	1+1of			<u>5,310</u>	

(10 marks)

(b)

Andreas Sialis 1for both
Bank Reconciliation Statement at 31 January 2012

Balance as per Cash Book	£	3,610	1+1of
Add: Unpresented Cheques:			
	Cheque Number	£	
1 for all four	1061	1,350	1
	1064	490	1
	1067	990	1
	1069	<u>630</u>	1
		<u>3,460</u>	
		7,070	
Less: Lodgements not credited:			
A Violari		1,800	1
Balance as per Bank Statement		<u>5,270</u>	1+1of

(11 marks)

Syllabus Topic 7: Bank facilities/methods of payment

(c)

- (i) Credit transfer 1
- (ii) Direct debit 1
- (iii) Standing order 1
- (iv) Dividend 1

(4 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