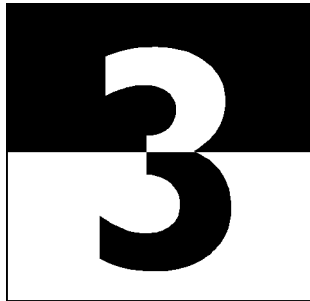


Certificate in

Accounting



Level 3

Series 2 2003

(Code 3001)

Model Answers

(UK Accreditation No: 100/1450/0)

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Certificate in Accounting Level 3

Series 2 2003

How to use this booklet

Model Answers have been developed by LCCIEB to offer additional information and guidance to Centres, teachers and candidates as they prepare for LCCIEB examinations. 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.

The London Chamber of Commerce and Industry Examinations Board provides Model Answers to help candidates gain a general understanding of the standard required. The Board accepts that candidates may offer other answers that could be equally valid.

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**Certificate in Accounting Level 3
Series 2 2003**

SECTION A

(Answer Questions 1 and 2 in Section A – Compulsory)

QUESTION 1

Magnum plc had the following figures on its Balance Sheet at 31 December 2002:

	Cost £000	Depreciation £000	Net £000
Tangible Fixed Assets			
Land and Buildings	250	30	220
Machinery	1,650	540	1,110
Vehicles	<u>170</u>	<u>95</u>	<u>75</u>
	<u>2,070</u>	<u>665</u>	1,405
Investment in Parkson Ltd			<u>620</u>
			<u>2,025</u>
 Current Assets			
Stock	165		
Debtors	252		
Bank	<u>45</u>	462	
Less: Liabilities due within 1 year			
Creditors	187		
Proposed Dividend	<u>95</u>	<u>282</u>	<u>180</u>
			2,205
Less: Liability due in more than 1 year			
12% Debenture stock			<u>600</u>
			<u>1,605</u>
 Financed by			
£1 Ordinary Shares			1,200
Retained profits			<u>405</u>
			<u>1,605</u>

SECTION A CONTINUED

QUESTION 1 CONTINUED

At the same date Parkson Ltd had the following Balance Sheet:

	Cost	Depreciation	Net
	£000	£000	£000
Tangible Fixed Assets			
Land and Buildings	150	50	100
Machinery	550	180	370
Vehicles	<u>20</u>	<u>5</u>	<u>15</u>
	<u>720</u>	<u>235</u>	<u>485</u>
Current Assets			
Stock	94		
Debtors	<u>82</u>	176	
Less Liabilities due within 1 year			
Creditors	17		
Bank overdraft	<u>32</u>	<u>49</u>	<u>127</u>
			<u>612</u>
Financed by			
£1 Ordinary Shares			600
Retained profits			<u>12</u>
			<u>612</u>

Included in the above figures is a sale made by Parkson Ltd to Magnum plc amounting to £32,000. Magnum plc has sold these goods to a third party but has not yet paid Parkson Ltd for them.

At 31 December 2001 the balance of Parkson Ltd's Retained Profits was £48,000. The loss for 2002 can be taken as accruing evenly over the year.

Magnum Ltd acquired 55% of the shares in Parkson Ltd on 1 April 2002 at a cost of £350,000. They bought a further 25% of the shares on 1 July 2002 at a cost of £140,000 and the final 20% on 1 October 2002 at a cost of £130,000.

REQUIRED

Prepare the Consolidated Balance Sheet of Magnum plc and its subsidiary at 31 December 2002.

(20 marks)

Model Answer to Question 1

Consolidated Balance Sheet for Magnum plc and Subsidiary at 31 December 2002

	Cost £000	Depreciation £000	Net £000
Tangible Fixed Assets			
Land and Buildings	400	80	320
Machinery	2,200	720	1,480
Vehicles	<u>190</u>	<u>100</u>	<u>90</u>
	<u>2,790</u>	<u>900</u>	1,890
Current Assets			
Stock	259		
Debtors (252 + 82 – 32)	302		
Bank	<u>45</u>	606	
Less: Liabilities due within 1 year			
Creditors (187 + 17 – 32)	172		
Bank overdraft	32		
Proposed Dividend	<u>95</u>	<u>299</u>	<u>307</u>
			2,197
Less Liability due in more than 1 year			
12% Debenture stock			<u>600</u>
			<u>1,597</u>
Financed by			
£1 Ordinary Shares			1,200
Retained profits (1)			383.85
Capital reserve (2)			<u>13.15</u>
			<u>1,597.00</u>
Note 1			
The retained profits are	Magnum		405
Loss on Parkson Ltd	April-Dec 55% of (75% x (48-12))	14.85	
	July-Dec 25% of (50% x (48-12))	4.5	
	Oct-Dec 20% of (25% x (48-12))	<u>1.80</u>	
			<u>21.15</u>
			383.85
Or alternatively			
Note 1			
The retained profits are	Magnum		405
Loss on Parkson Ltd	April-June 55% x 9,000	4.95	
	July-Sept 80% x 9,000	7.20	
	Oct-Dec 100% x 9,000	<u>9.00</u>	
			<u>21.15</u>
			383.85
Note 2			
Capital reserve/goodwill			
Initial purchase Parkson Ltd worth £639: 55% = £351.45 paid £350			
	Capital reserve		1.45
Second purchase Parkson Ltd worth £630: 25% = £157.5 paid £140			
	Capital reserve		17.5
Final purchase Parkson Ltd worth £621: 20% = £124.2 paid £130			
	Goodwill		<u>5.8</u>
Total net capital reserve			<u>13.15</u>

SECTION A CONTINUED

QUESTION 2

The following figures were extracted from the books of Georgia plc:

	£000	£000	£000	£000	£000
Year ended					
31 March	1998	1999	2000	2001	2002
Sales	186	212	240	265	280
Gross Profit	46	53	60	65	70
Depreciation (P&L)	10	12	12	14	15
Net Profit	15	18	20	17	19
Balance Sheet at					
31 March					
Machinery at book value	90	108	108	126	135
Stock	12	15	32	28	35
Debtors	15	20	25	30	45
Bank	5	8	(9)*	(12)*	(20)*
Creditors	10	12	15	24	30
£1 shares	100	120	120	120	120
Retained profit	12	19	21	28	45

* Bank overdraft

REQUIRED

(a) A calculation to one decimal place of the following for each of the four years 1999-2002:

- (i) dividend paid** (3 marks)
- (ii) return on capital employed (based on opening capital)** (3 marks)
- (iii) current ratio** (3 marks)
- (iv) stock turnover ratio (based on average stock and expressed in days).** (3 marks)

(b) A report on the company's progress in terms of liquidity and profitability.

(8 marks)

(Total 20 marks)

Model Answer to Question 2

(a)

	Year	1999	2000	2001	2002
(i)	Dividend paid (£000)	11	18	10	2
(ii)	Net profit: Capital %	16.1	14.4	12.1	12.8
(iii)	Current ratio	3.6 : 1	2.4 : 1	1.6 : 1	1.6 : 1
(iv)	Stock turnover (days)	31	47.7	54.8	54.8

WORKINGS

(i) **Dividend paid (£000):**

Retained profit

1999 = add profit for 1999 of 18 deduct retained profit for 1999 of 19 = 11

2000 19 + 20 – 21 = 18

2001 21 + 17 – 28 = 10

2002 28 + 19 – 45 = 2.

(ii) **Return on Capital employed:**

1999 18/112 = 16.1

2000 20/139 = 14.4

2001 17/141 = 12.1

2002 19/148 = 12.8.

(iii) **Current ratio:**

1999 43/12 = 3.6

2000 57/24 = 2.4

2001 58/36 = 1.6

2002 80/50 = 1.6.

(iv) **Stock turnover:**

1999 (12 + 15) / 2 = 13.5 13.5 / (212 – 53) *365 = 31

2000 (15 + 32) / 2 = 23.5 23.5 / (240 – 60) *365 = 47.7 (Note if multiplied by 366 for a leap year it is OK)

2001 (32 + 28) / 2 = 30 30 / (265 – 65) *365 = 54.75

2002 (28 + 35) / 2 = 31.5 31.5 / (280 – 70) * 365 = 54.75

(b) **Liquidity** has declined over the period but has stabilised at a current ratio that is generally seen to be acceptable. However, stock turnover has slowed down and the bank overdraft is steadily increasing. Debtors are also increasing out of proportion to sales. At the start of the period the debtors were given roughly 1 month and are now taking roughly 2 months to pay. The liquidity position is not dangerous but needs to be watched.

Profitability has declined both in relation to sales and in relation to capital. There was a slight improvement in 2002. Due to the liquidity problem, dividend has steadily declined since 2000. Overall a less than satisfactory performance and not one that would attract new investment.

SECTION B

(Answer any THREE questions from Section B)

QUESTION 3

Joe, Bill and Mary have been in partnership for four years. For the first three years they operated without a partnership agreement.

At the start of the partnership Joe provided £20,000, Bill £25,000 and Mary £30,000 as their opening capital.

In the first year they made a profit of only £4,800. In the second year the profit rose to £25,500. At the end of that year Joe transferred £2,500 from his current account to his capital account.

The third year showed a profit of £49,500 and at the end of that year Joe transferred a further £4,000 to his capital account and Bill transferred £3,000 to his capital account. Both these transfers were from current account.

In the fourth year the partners have made £52,500 profit and prior to allocating that profit, their current account balances were Joe Dr £4,700, Bill Dr £3,700 and Mary Dr £5,100.

Joe, Bill and Mary decided to bring in a partnership agreement from the beginning of the fourth year under which there would be each year: 8% interest on capital, a salary to Joe of £2,500 and remaining profits divided in the ratio 4: 7: 9 respectively.

REQUIRED

- (a) Calculate the total drawings for each partner over the four year period. (7 marks)
- (b) Calculate the balance on their current accounts after the appropriation of year 4. (13 marks)
- (Total 20 marks)**

Model Answer to Question 3

(a) Profit total (£4,800 + £25,500 + £49,500) = £79,800 each partner gets £26,600

Joe transfers £6,500 to capital and has a debit balance of £4,700 so his drawings were £26,600 - £6,500 + £4,700 = £24,800

Bill transfers £3,000 to capital and has a debit balance of £3,700 so his drawings were £26,600 - £3,000 + £3,700 = £27,300

Mary has a debit balance of £5,100 so her drawings were £26,600 + £5,100 = £31,700.

(b) Current account after appropriation.

	Joe £	Bill £	Mary £
Balance before allocation	(4,700)	(3,700)	(5,100)
*Interest on capital	2,120	2,240	2,400
Salary	2,500		
Remaining profit (4: 7: 9)	<u>8,648</u>	<u>15,134</u>	<u>19,458</u>
Balance	<u>8,568</u>	<u>13,674</u>	<u>16,758</u>

* Joe (20,000 + 2,500 + 4,000) x .08

Bill (25,000 + 3,000) x .08

Mary (30,000) x .08

SECTION B CONTINUED

QUESTION 4

The Shire Sports Club currently has 80 members and the subscription for the year ending 31 March 2002 was £105.

The Shire Sports Club Balance Sheet at 1 April 2001 was as follows:

	£	£	£
Club House owned freehold at cost			35,000
Equipment at cost	17,450		
Less depreciation	<u>8,400</u>		9,050
Stock at bar	3,750		
Subscriptions in arrears	300		
Balance at bank	<u>250</u>	4,300	
Less			
Creditor for bar supplies	1,150		
Subscriptions in advance	<u>210</u>	<u>1,360</u>	<u>2,940</u>
Accumulated Fund			<u>46,990</u>

For the year ended 31 March 2002 the bank account of the Shires Sports Club was as follows:

	£	£
Opening balance		250
2000-2001 subscriptions	300	
2001-2002 subscriptions	7,980	
Cash from bar sales	8,240	
Fund raising receipts	<u>740</u>	<u>17,260</u>
		17,510
Less		
Paid for bar supplies	6,140	
Costs of fund-raising	175	
Postage and administration expenses	845	
New equipment	1,740	
Club house expenses – repairs and rates	1,240	
Bar stewards wages	1,400	
Match costs	1,500	
Travel costs	830	
Secretary's wages	<u>2,000</u>	<u>15,870</u>
Closing balance		<u>1,640</u>

At 31 March 2002 there were no subscriptions paid in advance for the year 2002-2003. The bar supplier was owed £1,995 and the stock in hand in the bar was £4,100. Equipment is depreciated at 10% per annum, on cost based on the cost of equipment held at the end of the year.

REQUIRED

Prepare for the Shire Sports Club:

(a) a Bar Trading Account, including the bar stewards wages, for the year ended 31 March 2002 (4 marks)

(b) an Income and Expenditure Account for the year ended 31 March 2002 (7 marks)

(c) a Balance Sheet at 31 March 2002. (9 marks)

(Total 20 marks)

Model Answer to Question 4

(a)

**Shire Sports Club
Bar Trading Account Year ended 31 March 2002**

	£	£
Sales		8,240
Open stock	3,750	
Purchases (6,140 – 1,150 + 1,995)	<u>6,985</u>	
	10,735	
Less Closing stock	<u>4,100</u>	<u>6,635</u>
		1,605
Less Bar stewards wages		<u>1,400</u>
Bar profit		<u>205</u>

(b)

**Shire Sports Club
Income and Expenditure Account Year ended 31 March 2002**

	£	£	£
Subscriptions for the year (80 x 105)		8,400	
Bar profit		205	
Fund raising (740 – 175)		<u>565</u>	9,170
Less			
Postage and administration	845		
Club house costs	1,240		
Match costs	1,500		
Travel costs	830		
Secretarial wages	2,000		
Depreciation on equipment (10% of (17,450 + 1,740))	<u>1,919</u>		<u>8,334</u>
Surplus for year			<u>836</u>

(c)

Shire Sports Club Balance Sheet at 31 March 2002

	£	£	£
Fixed Assets			
Club House at cost			35,000
Equipment at cost (17,450 + 1,740)	19,190		
Less accumulated depreciation	<u>10,319</u>		<u>8,871</u>
(8,400 + 1,919)			43,871
Current Assets			
Stock at bar	4,100		
Subs in arrears (8,400 – 7,980 – 210)	210		
Balance at bank	<u>1,640</u>	5,950	
Less Bar creditor		<u>1,995</u>	<u>3,955</u>
			<u>47,826</u>
Accumulated fund at 1 April 2001			46,990
Add years surplus			<u>836</u>
			<u>47,826</u>

SECTION B CONTINUED

QUESTION 5

Bergons plc has the following Authorised Capital structure:

Authorised

2,000,000 £0.50 Ordinary shares
100,000 £1 8% Preference shares.

At 1 April 2002 the capital and reserves section of the Balance Sheet of Bergons plc was as follows:

Issued	£000
1,000,000 £0.50 Ordinary shares	500
80,000 £1 8% Preference shares	80
Revaluation reserve	75
Retained earnings	<u>105</u>
	<u>760</u>

It also had £150,000 10% Debenture stock and £30,000 cash at bank.

On 1 April 2002 the Directors decided to:

- (1) Make a bonus issue of 1 for every 5 Ordinary shares
- (2) Issue the remaining Ordinary shares at a premium of £0.25 per share
- (3) Issue the remaining Preference shares at par
- (4) Redeem the Debenture stock at a premium of 6%.

Note:

Bergons plc wishes to minimise its use of retained earnings in carrying out the above transactions.

REQUIRED

- (a) **Journal entries, without narratives, for all the above transactions.** (13 marks)
- (b) **A calculation of the balance at bank after all of the above transactions had taken place.** (2 marks)
- (c) **The capital and reserves section of Bergons plc's Balance Sheet after the above transactions have taken place.** (5 marks)
- (Total 20 marks)**

Model Answer to Question 5

(a)

Journal Entries		£000	£000
1 April	Dr Revaluation Reserve Retained earnings Cr Ordinary share capital	75 25	100
1 April	Dr Bank (0.75 (2,000 – 1,000 – 200)) Cr Ordinary Share Capital Share premium	600	400 200
1 April	Dr Bank (100 – 80) Cr Preference Share capital	20	20
1 April	Dr Share Premium (0.06 x 150) Debentures Cr Bank	9 150	159

(b) **Balance at Bank**

Previous balance	30
Ordinary Shares	600
Preference Shares	<u>20</u>
	650
Less debenture redemption	<u>159</u>
Balance at bank	<u>491</u>

(c)

Share Capital and Reserves section of Balance Sheet

Issued	£000
2,000,000 £0.50 Ordinary shares	1,000
100,000 £1 8% Preference shares	100
Share Premium Account (200 – 9)	191
Retained Earnings (105 – 25)	<u>80</u>
	<u>1,371</u>

SECTION B CONTINUED

QUESTION 6

On 1 June 2002, Jones who lived in the UK entered a joint venture with Sing who lived in Hong Kong. Under the terms of their agreement Sing would purchase clothing in Hong Kong and ship it to the UK where Jones would sell it. The trade would continue for 6 months and at the end of that period Jones would purchase any unsold stock at cost plus the proportion of shipping insurance and import costs necessary to bring it to the UK. Profits would then be divided equally between the two parties.

Sing kept his transactions in \$ and Jones in £.

Sing's books showed the following transactions:

		£	\$
1 Jun	Purchases		25,000
5 Jun	Storage – rent of warehouse for 6 months		3,250
9 Jun	Shipping and Insurance costs		5,025
5 Jul	Purchases		37,400
8 Jul	Shipping and Insurance costs		6,230
1 Aug	Received from Jones on account	14,000	
10 Sep	Purchases		42,600
15 Sep	Shipping and Insurance costs		7,025
1 Oct	Received from Jones on account	15,000	
18 Oct	Purchases		38,425
22 Oct	Shipping and Insurance costs		6,350
5 Nov	Purchases		52,400
8 Nov	Shipping and Insurance costs		8,150

For the same period Jones' books showed:

1 Jul	Import charges	850
3 Jul	Storage – rent of warehouse for 6 months	2,400
8 Jul	Sales	6,500
31 Jul	Sent to Sing	14,000
1 Aug	Import costs	940
5 Aug	Sales	9,300
25 Sep	Import costs	1,050
30 Sep	Sent to Sing	15,000
3 Oct	Sales	13,450
5 Nov	Import costs	850
12 Nov	Sales	11,240
22 Nov	Import costs	622
28 Nov	Sales	9,250

At 30 November the stock still on hand with Jones represented 30% of the last purchase made by Sing.

Throughout the period the exchange rate was **£1 = \$6.5 dollars**, and the final settlement between the Joint Ventures was not made until 20 December 2002.

REQUIRED

Making all calculations to the nearest £, prepare:

(a) the Memorandum Joint Venture Account for Jones and Sing for the 6 months ended 30 November 2002

(13 marks)

(b) the Joint Venture with Sing Account in the books of Jones for the 6 months ended 30 November 2002.

(7 marks)

(Total 20 marks)

Model Answer to Question 6

(a)

**Jones and Sing
Memorandum Joint Venture**

	£	£	£
Sales (6,500 + 9,300 + 13,450 + 11,240 + 9,250)			49,740
Stock taken by Jones 30% x (52,400 + 8,150)/6.5 + (30% x 622))			<u>2,982</u>
			52,722
<i>Less</i>			
Purchases (25,000 + 37,400 + 42,600 + 38,425 + 52,400)/6.5			<u>30,127</u>
Gross profit			22,595
<i>Less</i>			
Shipping and Insurance costs (5,025 + 6,230 + 7,025 + 6,350 + 8,150)/6.5		5,043	
Warehouse in Hong Kong (3,250/6.5)		500	
Warehouse in UK		2,400	
Import costs (850 + 940 + 1,050 + 850 + 622)		<u>4,312</u>	<u>12,255</u>
Net profit on joint venture			10,340
Jones (0.5 * 10,340)	5,170		
Sing (0.5 * 10,340)	<u>5,170</u>		<u>10,340</u>

Alternative

	£		£
Purchases	3,846	Sales	6,500
	5,754		9,300
	6,554		13,450
	5,912		11,240
	<u>8,062</u>		<u>9,250</u>
	30,128		49,740
Gross Profit	<u>22,594</u>	Add stock taken	<u>2,982</u>
	<u>52,722</u>		<u>52,722</u>
<i>less</i>		Gross profit	22,594
Shipping and Insurance			
	773		
	958		
	977		
	1,081		
	<u>1,254</u>		
	5,043		
Warehouse			
Hong Kong	500		
UK	2,400		
Import cost			
	850		
	940		
	1,050		
	850		
	<u>622</u>		
	4,312		
Net profit	<u>10,340</u>		
	<u>22,594</u>		<u>22,594</u>
Jones	5,170	Net profit	10,340
Sing	5,170		

Model Answer to Question 6 continued

(b)

Joint Venture with Sing

	£		£
Bank (Rent)	2,400	Bank (Sales)	49,740
Bank (Import costs)	4,312	Stock	2,982
Bank (Sing (14,000 + 15,000))	29,000		
Profit & Loss	5,170		
Balance owing to Sing	<u>11,840</u>		
	<u>52,722</u>		<u>52,722</u>



**EXAMINATIONS
BOARD**

London Chamber of Commerce and Industry Examinations Board

Athena House 112 Station Road

Sidcup Kent DA15 7BJ United Kingdom

Facsimile: +44 (0) 20 8302 4169/+44 (0) 20 8309 5169

Website: www.lccieb.com

Customer Service Team Tel: +44 (0) 20 8309 3000 email: custserv@lccieb.org.uk

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