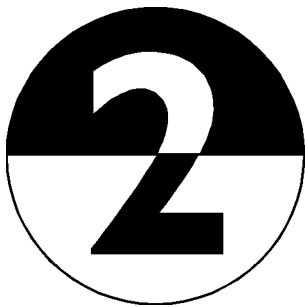


Certificate in

Book-keeping and Accounts



Level 2

Series 2 2003

(Code 2006)

Model Answers

(UK Accreditation No: 100/1449/4)

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Certificate in Book-keeping and Accounts Level 2

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
- (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 Book-keeping and Accounts Level 2

Series 2 2003

QUESTION 1

The following information is available for Python Limited:

	31 December 1999	Year Ended 31 December 2000	31 December 2001
	£	£	£
Debtors	127,800	145,600	165,600
Bad debts written off during year	691	375	735
Date written off	30 September 1999	30 September 2000	30 September 2001
Bad debts recovered during year	85	400	175
Date recovered	28 May 1999	1 February 2000	3 December 2001
Recovered debt originally written-off in	1998	1999	2001
Doubtful debts provision to be adjusted to	2.5%	2.75%	2.25%

Notes:

- (1) The balance on the Provision for Doubtful Debts Account at 1 January 1999 was £2,750.
- (2) The debtor balances shown above are **after** all bad debt write-offs.
- (3) Python Limited maintains a sales ledger control account as part of the double-entry.

REQUIRED

- (a) Prepare the following accounts in the ledger of Python Ltd for each of the years ended 31 December 1999, 2000 and 2001:
 - (i) Bad Debts
 - (ii) Bad Debts Recovered
 - (iii) Provision for Doubtful Debts.

(16 marks)
- (b) Show the Balance Sheet extract in respect of debtors for each of the years ended 31 December 1999, 2000 and 2001

(7 marks)
- (c) Briefly explain what is meant by the accounting term **Specific Provision for Doubtful Debts**.

(2 marks)

(Total 25 marks)

Model Answer to Question 1

(a) (i)

Bad Debts			
1999	£	1999	£
30 Sep Sales Ledger Control	<u>691</u>	31 Dec P & L	<u>691</u>
2000		2000	
30 Sep Sales Ledger Control	<u>375</u>	31 Dec P & L	<u>375</u>
2001		2001	
30 Sep Sales Ledger Control	735	03 Dec Sales Ledger Control	175
	<u>735</u>	31 Dec P & L	<u>560</u>
			<u>735</u>

(ii)

Bad Debts Recovered			
1999	£	1999	£
31 Dec P & L	<u>85</u>	28 May Sales Ledger Control	<u>85</u>
2000		2000	
31 Dec P & L	<u>400</u>	01 Feb Sales Ledger Control	<u>400</u>

(iii)

Provision for Doubtful Debts			
1999	£	1999	£
31 Dec Bal c/d	3,195	01 Jan Bal b/d	2,750
	<u>3,195</u>	31 Dec P & L	<u>445</u>
			<u>3,195</u>
2000		2000	
31 Dec Bal c/d	4,004	01 Jan Bal b/d	3,195
	<u>4,004</u>	31 Dec P & L	<u>809</u>
			<u>4,004</u>
2001		2001	
31 Dec P & L	278	01 Jan Bal b/d	4,004
31 Dec Bal c/d	<u>3,726</u>		<u>4,004</u>
	<u>4,004</u>		<u>4,004</u>
		2002	
		01 Jan Bal b/d	3,726

(b)

Python Limited			
Balance Sheet extract at 31 December			
	1999	2000	2001
	£	£	£
Current Assets			
Debtors	127,800	145,600	165,600
Less: Provision	<u>3,195</u>	<u>4,004</u>	<u>3,726</u>
	124,605	141,596	161,874

Model Answer to Question 1 continued

(c) Specific provision for doubtful debts

Examples

- 1 Relates to particular customer(s) balances
- 2 Doubt exists over ability to pay
- 3 Not considered sufficiently bad as yet to write-off

QUESTION 2

Adder and Viper are in partnership sharing profits and losses in the ratio 3:2. The partnership agreement further states that:

- (1) Viper will be credited with an annual salary of £10,000.
- (2) Each partner is to be charged interest at 5% per annum on the total amount of his drawings in any year.
- (3) Each partner is to be allowed interest of 4% per annum on the opening balance of his capital account in any year.

Additional information:

- (1) The net profit for the year ended 31 December 2002 was £37,900.
- (2) The following credit balances applied at 1 January 2002:

	Adder	Viper
	£	£
Capital account	20,000	15,000
Current account	1,800	4,500

- (3) Drawings during the year ended 31 December 2002 amounted to:

	Adder	Viper
	£	£
	16,000	9,500

- (4) On 31 December 2002, the following transfers were made from the partners' current accounts to their respective capital accounts:

	Adder	Viper
	£	£
	1,100	13,000

REQUIRED

- (a) Prepare for Adder and Viper, in respect of the year ended 31 December 2002:
 - (i) The Profit & Loss Appropriation Account. (8 marks)
 - (ii) The partners' Capital Accounts, in columnar format. Dates may be ignored. (4 marks)
 - (iii) The partners' Current Accounts, in columnar format. Dates may be ignored. (9 marks)
- (b) In the absence of a partnership agreement what, if anything, does the Partnership Act of 1890 specify in relation to:
 - (i) Interest on drawings
 - (ii) Interest on capital
 - (iii) Partners' salaries
 - (iv) Profit sharing ratio. (4 marks)

(Total 25 marks)

Model Answer to Question 2

(a) (i)

**Adder and Viper
Profit & Loss Appropriation Account
for the year ended 31 December 2002**

	£	£
Net Profit		37,900
Add: Interest on drawings		
Adder	800	
Viper	<u>475</u>	
		<u>1,275</u>
		39,175
Less:		
Salary	Viper	<u>10,000</u>
		29,175
Interest on capital		
Adder	800	
Viper	<u>600</u>	
		<u>1,400</u>
		27,775
Profit share		
Adder (60%)	16,665	
Viper (40%)	<u>11,110</u>	
		<u>-27,775</u>
		<u>0</u>

(ii)

Capital Account

	Adder £	Viper £		Adder £	Viper £
Bal c/d	21,100	28,000	Bal b/d	20,000	15,000
	<u>21,100</u>	<u>28,000</u>	Current Account	<u>1,100</u>	<u>13,000</u>
				<u>21,100</u>	<u>28,000</u>
			Bal b/d	21,100	28,000

(iii)

Current Account

	Adder £	Viper £		Adder £	Viper £
Drawings account	16,000	9,500	Bal b/d	1,800	4,500
Interest on drawings	800	475	Salary		10,000
Capital account	1,100	13,000	Interest on capital	800	600
Bal c/d	<u>1,365</u>	<u>3,235</u>	Profit share	<u>16,665</u>	<u>11,110</u>
	<u>19,265</u>	<u>26,210</u>		<u>19,265</u>	<u>26,210</u>
			Bal b/d	1,365	3,235

Model Answer to Question 2 continued

- (b) (i) **Interest on drawings** None
- (ii) **Interest on capital** None
- (iii) **Partners' salaries** None
- (iv) **Profit sharing ratio** Equal

QUESTION 3

The trial balance of Boa Ltd at 31 December 2002 did not balance. A suspense account was opened for the difference and accounts were then prepared showing a provisional net profit of £81,500 for the year ended 31 December 2002.

The following errors were subsequently discovered:

- (1) Credit sales of £12,000 had been omitted from the books.
- (2) A payment of £850 for stationery had been correctly entered in the cash book but credited to the Stationery Account.
- (3) The purchase of a new motor van costing £7,500 had been debited to the Motor Expenses Account. Boa Ltd provides for depreciation at 25% on all motor vans purchased during a financial year.
- (4) Discounts allowed totalling £750, had been correctly posted to the individual debtors' accounts but credited to the Discounts Allowed Account.
- (5) An amount of £5,000 for the purchase of a private garage at the home of one of the directors had been debited to the Land and Buildings Account. Boa Ltd does not provide for depreciation on land and buildings.
- (6) An accrual of £1,200 for wages and a prepayment of £1,000 for insurance had both been ignored in the preparation of the final accounts.

REQUIRED

- (a) Prepare journal entries, without narratives, to correct the above errors and omissions. (16 marks)
- (b) Calculate the opening balance in the Suspense Account stating whether it is a debit or a credit balance. You may assume that correction of the relevant errors will result in the clearance of the Suspense Account. (2 marks)
- (c) Commencing with the provisional net profit, prepare a statement showing the revised net profit of Boa Ltd, resulting from the correction of the above errors and omissions. (7 marks)

(Total 25 marks)

Model Answer to Question 3

		Journal	
		Debit	Credit
		£	£
(1)	Debtors Sales	12,000	12,000
(2)	Stationery Suspense	1,700	1,700
(3)	Motor vans – cost account Motor vehicle expenses	7,500	7,500
	Depreciation – motor vans Provision for depreciation – motor vans	1,875	1,875
(4)	Discounts allowed Suspense	1,500	1,500
(5)	Directors Loan/Current Account Land and Buildings	5,000	5,000
(6)	Wages Accruals/Creditors	1,200	1,200
	Prepayments/Debtors Insurance	1,000	1,000
(b)	Opening Suspense Account Balance	£	
	Printing & stationery	1,700	
	Discounts allowed	<u>1,500</u>	
		<u>3,200</u>	

This would be a debit balance

Boa Ltd			
Statement of Revised Profit			
for the year ended 31 December 2002			
		£	£
	Provisional Net Profit		81,500
<i>Add</i>			
	Sales	12,000	
	Motor van expenses	7,500	
	Insurance pre-paid	<u>1,000</u>	
			<u>20,500</u>
			102,000
<i>Less</i>			
	Stationery	1,700	
	Vehicle depreciation	1,875	
	Discount allowed	1,500	
	Wages accrued	<u>1,200</u>	
			<u>6,275</u>
	Revised Net Profit		<u>95,725</u>

QUESTION 4

The Treasurer of the Four Rivers Golf and Social Club extracted the following summary of receipts and payments from the club's bank statements in respect of the year ended 31 December 2002:

Receipts	£	Payments	£
Restaurant takings	95,000	Kitchen and restaurant staff wages	26,000
Members subscriptions	60,000	Kitchen equipment	5,000
Life membership scheme	2,600	Food supplies for restaurant	46,500
		Administrative staff wages	21,000
		Sundry expenses	900
		Bank charges	650
		Marketing and advertising	3,500
		Insurances	2,100
		Light and heat	1,000
		Gifts	750
		Travelling expenses	1,100
		Rent	45,000

Other information:

	Year ended 31 December	
	2001	2002
	£	£
Kitchen equipment at valuation	8,100	12,000
Cash in hand	275	420
Cash at bank	1,397	???
Subscriptions in arrears	2,600	3,100
Subscriptions in advance	150	300
Administrative staff wages accrued	-	450
Light and heat accrued	-	200
Insurances prepaid	200	500
Creditors – food supplies	1,800	3,900
Stock – food supplies	600	800

Notes:

- (1) The life membership scheme was introduced on 1 January 2002, with 4 members each paying £650. It was agreed that life membership fees would be transferred to the Income and Expenditure Account in equal amounts over a five year period.
- (2) One third of the cost of rent, insurances and light and heat relate to the restaurant.

REQUIRED

Prepare for the Four Rivers Golf and Social Club:

- (a) a statement of the accumulated fund at 1 January 2002 (3 marks)
- (b) the Restaurant Trading Account for the year ended 31 December 2002 (8 marks)
- (c) the Income and Expenditure Account for the year ended 31 December 2002 (10 marks)
- (d) a calculation, showing workings, of the balance of cash at bank at 31 December 2002. (4 marks)

(Total 25 marks)

Model Answer to Question 4

(a)

**The Four Rivers Golf and Social Club
Accumulated Fund
at 1 January 2002**

Assets:	£	£
Cash	275	
Bank	1,397	
Kitchen Equipment	8,100	
Subscriptions in arrears	2,600	
Insurances in advance	200	
Food stocks	<u>600</u>	
		13,172
 Liabilities:		
Subscriptions in advance	150	
Food creditors	<u>1,800</u>	
		<u>1,950</u>
Accumulated Fund		<u>11,222</u>

(b)

**The Four Rivers Golf and Social Club
Restaurant Trading Account
for the year ended 31 December 2002**

	£	£
Restaurant takings		95,000
Opening stock	600	
Purchases (46,500 – 1,800 + 3,900)	<u>48,600</u>	
	49,200	
Closing stock	<u>800</u>	
		<u>48,400</u>
		46,600
 <i>Less:</i>		
Restaurant wages	26,000	
Rent (45,000 x 1/3rd)	15,000	
Depreciation kitchen equip (8,100 + 5,000 – 12,000)	1,100	
Light & heat ([1,000 + 200] x 1/3rd)	400	
Insurances ([2,100 + 200 – 500] x 1/3rd)	<u>600</u>	
		<u>43,100</u>
Restaurant Profit		<u>3,500</u>

Model Answer to Question 4 continued

(c)

**The Four Rivers Golf and Social Club
Income and Expenditure Account
for the year ended 31 December 2002**

	£	£
Income		
Restaurant profit		3,500
Subscriptions (60,000 + 150 – 2,600 + 3,100 – 300)		60,350
Life Membership Scheme (2,600 x 20%)		<u>520</u>
		64,370
 Expenditure		
Rent (45,000 x 2/3rds)	30,000	
Administrative staff wages (21,000 + 450)	21,450	
Sundry expenses	900	
Bank charges	650	
Marketing and advertising	3,500	
Gifts	750	
Travelling	1,100	
Insurances ([2,100 + 200 – 500] x 2/3rds)	1,200	
Light and heat (1,200 x 2/3rds)	<u>800</u>	
		<u>60,350</u>
Excess/Surplus of Income over Expenditure		<u><u>4,020</u></u>

(d)

	£	£
Opening balance		1,397
 Add:		
Total receipts		<u>157,600</u>
		158,997
 Less:		
Total payments	153,500	
Increase in cash balance (420 – 275)	<u>145</u>	
		<u>153,645</u>
		<u><u>5,352</u></u>



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