

*Certificate in*

# **Book-keeping and Accounts**



*Level 2*

*Series 2 2004*

*(Code 2006)*

**Model Answers**

(UK Accreditation No: 100/1449/4)

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# **Certificate in Book-keeping and Accounts Level 2**

## **Series 2 2004**

### **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 2004

### QUESTION 1

Wind and Rain were in partnership, sharing profits and losses in the ratio 2:1 respectively.

The Balance Sheet of the partnership at 30 September 2003 was as follows:

	£	£	£
<b>Fixed assets</b>			
Goodwill			60,000
Land and buildings			240,000
Motor vehicle			45,000
Fixtures and fittings			<u>15,000</u>
			360,000
<b>Current assets</b>			
Stock	11,100		
Trade Debtors	29,000		
Bank	<u>22,600</u>		
		62,700	
<b>Creditors: amounts due within one year</b>			
Trade Creditors	23,000		
Short term loan	<u>12,000</u>	<u>35,000</u>	
Working Capital			<u>27,700</u>
			<u>387,700</u>
<b>Represented by</b>			
Capital Accounts			
Wind		250,000	
Rain		<u>125,000</u>	375,000
Current Accounts			
Wind		300	
Rain		12,400	<u>12,700</u>
			<u>387,700</u>

At 30 September 2003, Rain retired, and certain partnership assets were revalued as follows:

	Revised value £
Goodwill	75,000
Land and buildings	270,000
Debtors	26,000

On the same date, Wind agreed to take Storm into partnership sharing profits and losses equally. Storm introduced the following assets into the partnership:

	£
Goodwill	30,000
Debtors	17,000
Motor vehicle	25,000
Cash paid into bank	130,000

Following Storm's admission, the total amount owed to Rain was paid in full.

## QUESTION 1 CONTINUED

### REQUIRED

Prepare the following in the books of the partnership to reflect both the retirement of Rain and the admission of Storm:

- (a) Revaluation Account (5 marks)
  - (b) Capital Account of Rain (4 marks)
  - (c) Bank Account (5 marks)
  - (d) Opening Balance Sheet of Wind and Storm at 1 October 2003. (11 marks)
- (Total 25 marks)**

**Model Answer to Question 1**

(a) **Revaluation Account**

		£			£
30 Sep	Debtors	3,000	30 Sep	Land and buildings	30,000
30 Sep	Capital Wind	28,000	30 Sep	Goodwill	15,000
30 Sep	Capital Rain	14,000			
		<u>45,000</u>			<u>45,000</u>

**ALTERNATIVE ANSWER:**

**Revaluation Account**

		£			£
30 Sep	Debtors	3,000	30 Sep	Land and buildings	30,000
	Capital:				
	Wind	18,000			
	Rain	9,000			
		<u>30,000</u>			<u>30,000</u>

(b) **Capital Account - Rain**

		£			£
30 Sep	Bank	151,400	30 Sep	Balance b/d	125,000
			30 Sep	Current Account	12,400
			30 Sep	Revaluation	14,000
		<u>151,400</u>			<u>151,400</u>

**ALTERNATIVE ANSWER:**

**Capital Account - Rain**

		£			£
30 Sep	Bank	151,400	30 Sep	Balance b/d	125,000
				Current account	12,400
				Revaluation	9,000
				Goodwill adjustment	5,000
		<u>151,400</u>			<u>151,400</u>

**Model Answer to Question 1 continued**

		<b>Bank Account</b>			
		£	£		
30 Sep	Balance b/d	22,600	30 Sep	Capital Rain	151,400
30 Sep	Capital, Storm	<u>130,000</u>	30 Sep	Balance c/d	<u>1,200</u>
		<u>152,600</u>			<u>152,600</u>
01 Oct	Balance b/d	1,200			

		<b>Wind and Storm Balance Sheet at 1 October 2003</b>		
		£	£	£
<b>Fixed assets</b>				
	Goodwill	(75,000 + 30,000)		105,000
	Land and buildings			270,000
	Motor vehicles	(45,000 + 25,000)		70,000
	Fixtures and fittings			<u>15,000</u>
				460,000
<b>Current assets</b>				
	Stock		11,100	
	Trade debtors	(26,000 + 17,000)	43,000	
	Bank		<u>1,200</u>	
			55,300	
<b>Creditors: amounts falling due within one year</b>				
	Trade Creditors	23,000		
	Short term loan	<u>12,000</u>	<u>35,000</u>	
	Working Capital			<u>20,300</u>
				<u>480,300</u>
<b>Represented by</b>				
	Fixed Capital:			
	Wind	(250,000 + 28,000)	278,000	
	Storm		<u>202,000</u>	480,000
	Current Accounts:			
	Wind			<u>300</u>
				<u>480,300</u>

## QUESTION 2

Thunder and Lightning Ltd prepare accounts every six months, on 31 March and 30 September. The following information was extracted from the business records:

### Motor Insurance Account

01 Apr 2002	Bal b/d	2 months' insurance prepaid	£ 800
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The following payment was made on 1 June 2002 in respect of the year ended 31 May 2003. 5,400

### Rents Receivable Account

- (1) Tenant A paid £3,000 rent three monthly in advance on 1 June 2002, 1 September 2002, 1 December 2002 and March 1, 2003.
- (2) On 1 June 2002, Tenant B paid a year's rent of £3,600 in advance.
- (3) Tenant C commenced a new lease on 1 July 2002 at a rental of £6,000 per annum, but the first three months of the lease were offered rent free. The subsequent first three monthly rent was received in advance on the due date, but nothing further has been received.

### Rates Account

01 Apr 2002	Bal b/d	3 months' rates prepaid	£ 600
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The following payments were made

27 Aug 2002	3 months' rates	600
20 Dec 2002	3 months' rates	600

## REQUIRED

In the books of Thunder and Lightning Ltd, prepare and balance the following accounts at 30 September 2002 and 31 March 2003. Transfers to the Profit & Loss Account must be clearly shown.

- (a) Motor Insurance Account (4 marks)
- (b) Rents Receivable Account (9 marks)
- (c) Rates Account (7 marks)

In respect of the six months ended 31 March 2003:

- (d) Prepare for Thunder and Lightning Ltd a Balance Sheet extract clearly showing both accruals and prepayments. (5 marks)

**(Total 25 marks)**

**Model Answer to Question 2**

(a)

		<b>Motor Insurance Account</b>			
		£			£
01 Apr 02	Balance b/d	800	30 Sep 02	P & L a/c	2,600
01 Jun 02	Bank	5,400	30 Sep 02	Balance c/d	3,600
		<u>6,200</u>			<u>6,200</u>

01 Oct 02	Balance b/d	3,600	31 Mar 03	P & L a/c	2,700
		<u>3,600</u>	31 Mar 03	Balance c/d	900
					<u>3,600</u>

01 Apr 03	Balance b/d	900			
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(b)

		<b>Rents Receivable Account</b>			
		£			£
30 Sep 02	P & L a/c	5,200	01 Jun 02	Bank	3,600
30 Sep 02	Balance c/d (W1)	4,400	01 Jun 02	Bank	3,000
		<u>9,600</u>	01 Sep 02	Bank	3,000
					<u>9,600</u>

31 Mar 03	P & L a/c	10,800	01 Oct 02	Balance b/d (W1)	4,400
31 Mar 03	Balance c/d (W2)	2,600	01 Oct 02	Bank	1,500
		<u>13,400</u>	01 Dec 02	Bank	3,000
			01 Mar 03	Bank	3,000
			31 Mar 03	Accrual	1,500
					<u>13,400</u>

01 Apr 03	Balance b/d	1,500	01 Apr 03	Balance b/d	2,600
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(c)

		<b>Rates Account</b>			
		£			£
01 Apr 02	Balance b/d	600	30 Sep 02	P & L a/c	1,200
27 Aug 02	Bank	600			
		<u>1,200</u>			<u>1,200</u>

20 Dec 02	Bank	600	31 Mar 03	P & L a/c	1,200
31 Mar 03	Accrual	600			
		<u>1,200</u>			<u>1,200</u>

			01 Apr 03	Balance b/d	600
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**Model Answer to Question 2 continued**

(d)

**Thunder and Lightning Ltd  
Balance Sheet Extract at 31 March 2003**

<b>Current Assets</b>	<b>£</b>	<b>£</b>
Prepayment - Insurance	900	
Rent receivable	<u>1,500</u>	2,400
<b>Creditors: amounts falling due within one year</b>		
Accrual		
Rates	600	
Rent receivable	<u>2,600</u>	3,200
<b>W1</b> 2 months x £1,000	2,000	
8 months x £300	<u>2,400</u>	
	<u>4,400</u>	
<b>W2</b> 2 months x £1,000		2,000
2 months x £300		<u>600</u>
		<u>2,600</u>

### QUESTION 3

Tempest Ltd is a manufacturing company that commenced trading on 1 January 2003. The financial year end is 31 December.

Tempest Ltd manufactures deep freezers, and also purchases the same product from a local supplier when the company cannot manufacture sufficient numbers to meet demand.

The Trial Balance of Tempest Ltd at 31 December 2003 included the following balances:

	£000 Dr	£000 Cr
Purchases of raw materials	1,061	
Returns of raw materials		12
Purchases of finished goods	320	
Returns of finished goods		7
Carriage paid on:		
Purchases of raw materials	43	
Purchases of finished goods	9	
Production overheads	616	
Direct wages	308	
Sales		3,175
Sales returns	61	

Additional information at 31 December 2003 was as follows:

	£000
(1) Stocks of raw materials at cost	81
(2) Stocks of finished manufactured goods	330
Finished goods are transferred from the factory at production cost plus 10% and stock is valued accordingly	
(3) Work-in-progress at cost	48
(4) Stocks of finished goods purchased from supplier and valued at purchase cost	38
(5) Accrued direct wages	8
(6) Production overheads were prepaid by	5

### REQUIRED

Prepare, in the books of Tempest Ltd:

- (a) Manufacturing Account for the year ended 31 December 2003. (11 marks)
- (b) Trading Account for the year ended 31 December 2003. (11 marks)
- (c) Calculate the balance that will appear on the Provision for Unrealised Profit Account at 31 December 2003. (3 marks)

**(Total 25 marks)**

**Model Answer to Question 3**

(a)

**Tempest Ltd  
Manufacturing Account  
for the year ended 31 December 2003**

	<b>£000</b>	<b>£000</b>
Raw materials		
Purchases	1,061	
Carriage	<u>43</u>	
	1,104	
Less: Returns	<u>12</u>	
	1,092	
Less: Closing Stock	<u>81</u>	
Cost of Raw materials used		1,011
Direct wages (308 + 8)		<u>316</u>
Prime cost of production		1,327
Production overheads (616 - 5)		<u>611</u>
Production cost		1,938
Less Work in progress 31 December 2003		<u>48</u>
		1,890
Manufacturing profit		<u>189</u>
Transfer to Trading Account		<u>2,079</u>

(b)

**Tempest Ltd  
Trading Account  
for the year ended 31 December 2003**

Sales		3,175
Less: returns		<u>61</u>
		3,114
Transfer from Manufacturing Account	2,079	
Purchases	320	
Carriage	<u>9</u>	
	329	
Less: returns	<u>7</u>	
	<u>322</u>	
	2,401	
Less stock finished goods (330 + 38)	<u>368</u>	
Cost of goods sold		<u>2,033</u>
Gross profit		<u>1,081</u>

(c)

$$\frac{330,000}{110} \times 10 = 30,000$$

#### QUESTION 4

Harry Hurricane is a sole trader, whose financial year ended on 30 June 2003.

Hurricane produced a trial balance at 30 June 2003, which balanced.

At a later date, he discovered the following errors:

- (1) An amount of £950, for rent receivable, had been credited to the bank account, and debited to rent receivable account.
- (2) A cash payment of £75 for printing and stationery had been completely omitted from the books.
- (3) A credit purchase of goods for £100 from Snow had been entered in error in the account of Glacier.
- (4) The insurance account had been debited with £340 instead of the correct figure of £430, and the telephone account had been debited with £540 instead of the correct figure of £450.
- (5) The purchase of petrol for £60 had been debited to the Motor Vehicle Account.
- (6) A cash sale of £1,100 had been entered in the books as £2,100.
- (7) The purchase of a garage for £7,500, for Hurricane's home, had been debited to Factory Buildings account.

#### REQUIRED

- (a) Identify the types of error in items 1 to 7 above. (7 marks)
- (b) Prepare journal entries to correct items 1 to 7 above. Narratives are **not** required. (14 marks)
- (c) Give examples of **4** types of errors that will cause the trial balance NOT to balance. (4 marks)

**(Total 25 marks)**

**Model Answer to Question 4**

(a)

- (1) Reversal of Entry
- (2) Omission
- (3) Commission
- (4) Compensating
- (5) Principle
- (6) Original Entry
- (7) Principle

(b)	(1)	Bank		1,900	
			Rent Receivable		1,900
	(2)	Printing and Stationery		75	
			Cash		75
	(3)	Glacier		100	
			Snow		100
	(4)	Insurance		90	
			Telephone		90
	(5)	Motor Vehicle Expenses		60	
			Motor Vehicle Account		60
	(6)	Cash Sales		1,000	
			Cash/Bank		1,000
	(7)	Hurricane, Drawings Account		7,500	
			Factory Buildings Account		7,500

- (c)
- (1) Posting 2 debits, or credits, in the ledger instead of one debit and one credit
  - (2) Posting the correct debit entry to a ledger account, but posting a different amount on the credit entry
  - (3) Posting only the debit, or credit entry, and not completing the double entry
  - (4) Bringing a balance forward incorrectly
  - (5) Omitting, or incorrectly extracting, a balance when preparing the trial balance



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