



**EXAMINATIONS
BOARD**

Certificate in
Book-keeping



Level 1

Series 3 2003

(Code 1006)

Model Answers

(UK Accreditation No: 100/1448/2)

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Certificate in Book-keeping Level 1

Series 3 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 Book-keeping Level 1

Series 3 2003

QUESTION 1

On the 1 May 2003, Ken Barlow had the following Ledger Account balances:

Purchase Ledger		£	General Ledger		£
A Barnes		2,500 Cr	Purchases		70,008
G Penny		600 Cr	Returns outwards		3,800
F Time		1,450 Cr			
M Wardle		150 Dr			

Ken Barlow made the following credit purchases during May 2003:

Date	Purchased from	List price	Trade discount
		£	
5 May	M Wardle	850	10%
8 May	G Penny	600	30%
14 May	F Time	1,640	20%
22 May	A Barnes	2,800	15%
23 May	F Time	400	7.5%
25 May	M Wardle	1,950	20%
29 May	A Barnes	620	10%

The following returns outwards were made during May 2003:

Date	Returned to	List price	Original purchase date
		£	
9 May	G Penny	50	8 May
12 May	M Wardle	180	5 May
17 May	F Time	710	14 May
31 May	A Barnes	200	29 May

On 31 May 2003, Ken Barlow paid cheques to his creditors in full settlement of the amount owing at 1 May 2003. A Barnes allowed a cash discount of 3% and F Time allowed a cash discount of 2%.

REQUIRED

Prepare, in the books of Ken Barlow:

- (a) the Purchases and Returns Outwards Day Books for May (7 marks)
- (b) the accounts of A Barnes, G Penny, F Time and M Wardle duly balanced at 31 May (14 marks)
- (c) the Purchases Account and the Returns Outwards Account duly balanced at 31 May. (4 marks)

(Total 25 marks)

Model Answer to Question 1

(a)

Purchases Day Book

Date	Details	£
May		
5	M Wardle	765
8	G Penny	420
14	F Time	1,312
22	A Barnes	2,380
23	F Time	370
25	M Wardle	1,560
29	A Barnes	558
	To Purchases Account	<u>7,365</u>

Returns Outwards Day Book

Date	Details	£
May		
9	G Penny	35
12	M Wardle	162
17	F Time	568
31	A Barnes	180
	To Returns Outwards Account	<u>945</u>

Model Answer to Question 1 continued

(b)

A Barnes

2003	£	2003	£
31 May Returns outwards	180	1 May Balance b/d	2,500
31 May Bank	2,425	22 May Purchases	2,380
Discount received	75	29 May Purchases	558
Balance c/d	<u>2,758</u>		
	<u>5,438</u>		<u>5,438</u>
		1 Jun Bal b/d	2,758

G Penny

2003	£	2003	£
9 May Returns outwards	35	1 May Balance b/d	600
31 May Bank	600	8 May Purchases	420
31 May Balance c/d	<u>385</u>		
	<u>1,020</u>		<u>1,020</u>
		1 Jun Balance b/d	385

F Time

2003	£	2003	£
17 May Returns outwards	568	1 May Balance b/d	1,450
31 May Bank	1,421	14 May Purchases	1,312
Discount received	29	23 May Purchases	370
Balance c/d	<u>1,114</u>		
	<u>3,132</u>		<u>3,132</u>
		1 Jun Bal b/d	1,114

M Wardle

2003	£	2003	£
1 May Balance b/d	150	5 May Purchases	765
12 May Returns outwards	162	25 May Purchases	1,560
31 May Balance c/d	<u>2,013</u>		
	<u>2,325</u>		<u>2,325</u>
		1 Jun Balance b/d	2,013

Model Answer for Question 1 continued

(c)

Purchases Account			
2003	£	2003	£
1 May Balance b/d	70,008	31 May Balance c/d	77,373
31 May Total for month	<u>7,365</u> <u>77,373</u>		<u>77,373</u>
1 Jun Balance b/d	77,373		

Returns Outwards Account			
2003	£	2003	£
31 May Balance c/d	4,745	1 May Balance b/d	3,800
	<u>4,745</u>	31 May Total for month	<u>945</u> <u>4,745</u>
		1 Jun Balance b/d	4,745

QUESTION 2

Peter Grimes commenced trading as an electrical retailer on 1 April 2002. At 31 March 2003, he wished to value his stock-in-trade and provided the following information:

Stock Item: **Washing machines**
Number in stock: 70
Cost price: £150
Selling price: Was £300 but reduced to £250 in February 2003

Stock Item: **Refrigerators**
Number in stock 15
Cost price: £165
Selling price: £200 but 5 refrigerators required repairs costing £60 each

Stock Item: **Televisions**
Number in stock 35
Cost price: £110
Selling Price: £180 but the recent launch of a new design will mean a reduction in selling price of 50%

REQUIRED

(a) Calculate the value of Peter Grimes' stock-in-trade at 31 March 2003.

(11 marks)

Peter provided the following additional information for the year ended 31 March 2003:

Sales	£72,000 (including a delivery van sold for £3,000)
Purchases	£65,950 (including cost of new delivery van £15,000)
Returns inwards	£2,200
Returns outwards	£1,500
Carriage out	£800
Carriage in	£550

On 1 December 2002, Peter took three washing machines belonging to the business and gave them away to friends as presents. No entries were made in the business records.

REQUIRED

(b) Prepare a journal entry to record the transaction involving the three washing machines. A suitable narrative is required.

(5 marks)

(c) Prepare the Trading Account of Peter Grimes for the year ended 31 March 2003.

(9 marks)

(Total 25 marks)

Model Answer to Question 2

(a)

Stock Valuation at 31 March 2003		£
Washing machines:	70 x £150	10,500
Refrigerators:	10 x £165	1,650
	5 x (£200 – £60)	700
Televisions:	35 x (£180 – £90)	<u>3,150</u>
		<u><u>16,000</u></u>

(b)

Journal Entry			
		Dr	Cr
		£	£
31 March 2003	Drawings – Peter Grimes	450	
	Purchases		450
	Goods taken by Peter Grimes for his own use		

(c)

Peter Grimes			
Trading Account for the year ended 31 March 2003			
	£		£
Sales (72,000 – 3,000)			69,000
Less: Returns in			<u>2,200</u>
Less: Cost of Sales			66,800
Purchases (65,950 – 450 – 15,000)	50,500		
Add: Carriage in	<u>550</u>		
	51,050		
Less: Returns out	<u>1,500</u>		
	49,550		
Closing stock	<u>16,000</u>		
Gross Profit			<u><u>33,550</u></u>
			<u><u>33,250</u></u>

QUESTION 3

At 30 April 2003, the following Trial Balance was extracted from the books of Nigella Worthington:

	Dr £	Cr £
Bank	8,600	
Cash	410	
Office equipment at cost	11,600	
Provision for depreciation of office equipment		5,800
Wages	23,300	
Purchases and sales	67,200	113,400
Carriage inwards	315	
Rent paid	3,600	
Motor vehicles at cost	9,725	
Provision for depreciation of motor vehicles		1,945
Rates	560	
Returns inwards and outwards	2,835	1,050
Stationery	1,640	
Discount allowed and discount received	2,000	1,400
Drawings	19,500	
Stock – 1 May 2002	10,750	
Light and heat	1,370	
Capital		46,310
Debtors and creditors	<u>18,900</u>	<u>12,400</u>
	<u>182,305</u>	<u>182,305</u>

The following errors were subsequently discovered:

- (1) A cash sale for £800 had been debited to the Sales Account and credited to the Cash Account.
- (2) Purchases included £5,000 in respect of office equipment acquired for use in the business in December 2003. Depreciation is not provided on assets in the year of acquisition if they are purchased after 30 June.
- (3) A cheque for rent paid of £300 had been completely omitted from the books.
- (4) Discounts Received of £500 had been credited to the Stationery Account.
- (5) A credit sale of £250 had been entered in the sales day book as £520.
- (6) Nigella had taken £1,000 in cash from the business which had been debited to her Capital Account.
- (7) A wages accrual of £900 at 30 April 2002 had been brought forward in the Stationery Account at 1 May 2002.

REQUIRED

- (a) A revised Trial Balance at 30 April 2003 after correcting the above errors. (16 marks)
- (b) Name the type of book-keeping error committed in each of items (1) to (5) above. A different type of error applies in each case. (5 marks)
- (c) Give examples of **2** errors that would affect the agreement of a Trial Balance. (4 marks)

(Total 25 marks)

Model Answer to Question 3

(a)

Nigella Worthington
Revised Trial Balance at 30 April 2003

	Dr £	Cr £
Bank	8,300	
Cash	2,010	
Office equipment – cost	16,600	
Provision for depreciation – office equipment		5,800
Wages	22,400	
Purchases and sales	62,200	114,730
Carriage inwards	315	
Rent	3,900	
Motor vehicles – cost	9,725	
Provision for depreciation – motor vehicles		1,945
Rates	560	
Returns inwards and outwards	2,835	1,050
Stationery	3,040	
Discount allowed and received	2,000	1,900
Drawings	20,500	
Stock – 1 May 2002	10,750	
Light and heat	1,370	
Capital		47,310
Debtors and creditors	18,630	12,400
	<u>185,135</u>	<u>185,135</u>

Workings:

Sales 113,400	Cash 410	Purchases 67,200
(1) 1,600	(1) <u>1,600</u>	(2) <u>-5,000</u>
	<u>2,010</u>	<u>62,200</u>
(5) <u>-270</u>		
<u>114,730</u>		

Office Equipment 11,600	Rent 3,600	Bank 8,600
(2) <u>5,000</u> **	(3) <u>300</u>	(3) <u>-300</u>
<u>16,600</u>	<u>3,900</u>	<u>8,300</u>

Discounts Received 1,400	Stationery 1,640	Debtors 18,900
(4) <u>500</u>	(4) 500	(5) <u>-270</u>
<u>1,900</u>	(7) <u>900</u>	<u>18,630</u>
	<u>3,040</u>	

Capital 46,310	Drawings 19,500	Wages 23,300
(6) <u>1,000</u>	(6) <u>1,000</u>	(7) <u>-900</u>
<u>47,310</u>	<u>20,500</u>	<u>22,400</u>

Model Answer to Question 3 continued

** The question comments that the office equipment was purchased with the intention of using it from December 2003. The depreciation policy of Nigella Worthington states that "depreciation is not provided on assets in the year of acquisition if they are purchased after 30 June". The question neither provides the date of acquisition nor does it state the depreciation method used by Nigella Worthington. Candidates were not, therefore, expected to provide for depreciation in respect of the year ended 30 April 2003.

(b)	Item	Type of Error
	(1)	Reversal
	(2)	Principle
	(3)	Omission
	(4)	Commission/Mispost
	(5)	Original Entry/Transcription

- (c)
- Incorrect addition when balancing an account
 - Omitting a balance from the Trial Balance
 - Incorrect addition of the Trial Balance

QUESTION 4

At 31 December 2001, the end of his financial year, Ron Ashman had trade debtors amounting to £35,600. Acting on the advice of his accountant, Ron created a provision for doubtful debts equivalent to 3% of debtors at 31 December 2001.

The following transactions relating to Ron Ashman's debtors took place during 2002:

- (1) A debt of £410 due from M Peters and brought forward on 1 January, was written off on 5 March.
- (2) On 19 May, D Sutch paid 25% of his £900 account balance brought down on 1 January. The remaining balance was written off on the same date.
- (3) On 8 August, J Ryan paid £190 in respect of a debt previously written off in June 2001.
- (4) On 20 December, M Peters paid £150 in respect of his debt written off earlier in the year.

On 31 December 2002, debtors amounted to £30,700. The provision for doubtful debts was reduced to 2% of debtors.

REQUIRED

- (a) In the books of Ron Ashman, prepare the following accounts in respect of the year ended 31 December 2002, showing, where appropriate, any transfers to Profit & Loss:
- (i) M Peters
 - (ii) D Sutch
 - (iii) J Ryan
 - (iv) Bad debts
 - (v) Bad debts recovered
 - (vi) Provision for doubtful debts.

(21 marks)

Ron Ashman recently paid a visit to his accountant but was confused by some of the terms and expressions that his accountant used.

REQUIRED

- (b) Briefly explain what is meant by **each** of the following terms and give an example of each:

- (i) Real Accounts (2 marks)
- (ii) Nominal Accounts. (2 marks)

(Total 25 marks)

Model Answer to Question 4

(a) (i)

M Peters			
2002	£	2002	£
1 Jan Balance b/d	<u>410</u>	5 Mar Bad debts	<u>410</u>
20 Dec Bad debts	<u>150</u>	20 Dec Bank	<u>150</u>

(ii)

D Sutch			
2002	£	2002	£
1 Jan Balance b/d	<u>900</u>	19 May Bank	225
		19 May Bad debts	<u>675</u>
			<u>900</u>

(iii)

J Ryan			
2002	£	2002	£
8 Aug Bad debts Recovered	190	8 Aug Bank	190

(iv)

Bad debts			
2002	£	2002	£
5 Mar M Peters	410	8 Aug M Peters	150
19 May D Sutch	<u>675</u>	31 Dec Profit & Loss	<u>935</u>
	<u>1,085</u>		<u>1,085</u>

(v)

Bad debts recovered			
2002	£	2002	£
31 Dec Profit & Loss	<u>190</u>	20 Dec J Ryan	<u>190</u>

(vi)

Provision for doubtful debts			
2002	£	2002	£
31 Dec Profit & Loss	454	1 Jan Balance b/d *	1,068
31 Dec Balance c/d **	<u>614</u>		<u>1,068</u>
	<u>1,068</u>		<u>1,068</u>
		2003	
		1 Jan Balance b/d	614

Calculation of doubtful debts provision

*	1 Jan 02	£35,600 x 3% =	£1,068
**	31 Dec	£30,700 x 2% =	£614

Model Answer to Question 4 continued

(b)

(i) **Real Accounts:** The accounts of assets owned by the business

Example: Premises Account

(ii) **Nominal Accounts:** The various income and expense accounts of the business

Example: Rent Account



**EXAMINATIONS
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