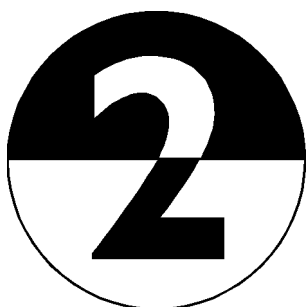


*Certificate in*

# **Book-keeping and Accounts**



*Level 2*

*Series 3 2003*

*(Code 2006)*

**Model Answers**

(UK Accreditation No: 100/1449/4)

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

## **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
- (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 3 2003

### QUESTION 1

The final accounts of Susan Ltd are set out below:

#### Susan Ltd Trading and Profit & Loss Account for the year ended 31 December 2002

|                              | £000         | £000              |
|------------------------------|--------------|-------------------|
| Sales                        |              | 3,917             |
| Less: Cost of Goods Sold     |              |                   |
| Opening Stock                | 218          |                   |
| Purchases                    | <u>2,469</u> |                   |
|                              | 2,687        |                   |
| Less: Closing Stock          | <u>288</u>   | <u>2,399</u>      |
| Gross Profit                 |              | 1,518             |
| Administration Expenses      |              | <u>960</u>        |
| Net profit                   |              | 558               |
| Proposed Dividend            |              | <u>210</u>        |
| Retained profit for the year |              | <u><u>348</u></u> |

#### Susan Ltd Balance Sheet at 31 December 2002

|  | £000       | £000       | £000              |
|--|------------|------------|-------------------|
| Fixed Assets                           |            |            | 510               |
| Current Assets                         |            |            |                   |
| Stock                                  |            | 288        |                   |
| Debtors                                |            | 418        |                   |
| Bank                                   |            | <u>302</u> |                   |
|  |            | 1,008      |                   |
| Amounts due in less than 12 months     |            |            |                   |
| Creditors                              | 310        |            |                   |
| Dividends                              | <u>210</u> | <u>520</u> |                   |
| Net Current Assets                     |            |            | <u>488</u>        |
|  |            |            | <u><u>998</u></u> |
| Called up Share Capital                |            |            |                   |
| Ordinary Shares of £1 each, fully paid |            |            | 400               |
| Profit & Loss                          |            |            | <u>598</u>        |
|  |            |            | <u><u>998</u></u> |

### QUESTION 1 CONTINUED

#### REQUIRED

Copy the following table into your answer book and complete the 3 blank columns. All answers must be to 2 decimal places.

|        | <b>Ratio</b>                      | <b>Formula in words</b> | <b>Detailed Calculation</b> | <b>Answer</b> |
|--------|-----------------------------------|-------------------------|-----------------------------|---------------|
| (1)    | Net Profit to Sales               |                         |                             |               |
| (2)    | Gross Profit to Sales             |                         |                             |               |
| (3)    | Rate of Stock Turnover            |                         |                             |               |
| (4)    | Current Ratio                     |                         |                             |               |
| (5)    | Liquidity Ratio                   |                         |                             |               |
| (6) xx | Sales to Capital Employed         |                         |                             |               |
| (7) xx | ROCE - Return on Capital Employed |                         |                             |               |

xx Use closing capital employed

**(25 marks)**

### Model Answer to Question 1

|     | Ratio                             | Formula in words  | Detailed Calculation             | Answer     |
|-----|-----------------------------------|---|----------------------------------|------------|
| (1) | Net Profit to Sales               | Net profit x 100/sales  | $\frac{558 \times 100}{3,917}$   | 14.25%     |
| (2) | Gross Profit to Sales             | Gross profit x 100/sales  | $\frac{1,518 \times 100}{3,917}$ | 38.75%     |
| (3) | Rate of Stock Turnover            | COGS/Average stock<br>(Average stock=open stock plus close stock/2) | $\frac{2,399}{253}$              | 9.48 times |
| (4) | Current Ratio                     | Current Assets/<br>Current Liabilities                              | $\frac{1,008}{520}$              | 1.94:1     |
| (5) | Liquidity Ratio                   | Current Assets less stock/<br>Current Liabilities                   | $\frac{1,008 - 288}{520}$        | 1.38:1     |
| (6) | Sales to Capital Employed         | Sales/Capital Employed  | $\frac{3,917}{998}$              | 3.92 times |
| (7) | ROCE - Return on Capital Employed | Net Profit x 100/<br>Capital Employed                               | $\frac{558 \times 100}{998}$     | 55.91%     |

## QUESTION 2

The Amy Branch of Amanda Ltd was opened on 1 December 2001 and the branch transactions of Amy are recorded in the Head Office ledgers.

The following information is available for both the Amy Branch and Head Office in respect of the year ended 30 November 2002:

|  | £         |
|--|-----------|
| Goods sent to Amy Branch at cost                       | 425,000   |
| Goods returned to Head Office, by Amy Branch, at cost  | 1,500     |
| Stock at Head Office, 1 December 2001                  | 81,900    |
| Purchases by Head Office                               | 3,250,000 |
| Goods returned by Head Office, to suppliers            | 11,700    |
| Sales by Amy Branch on credit                          | 6,250     |
| Sales by Amy Branch for cash                           | 627,500   |
| Sales by Head Office on credit                         | 15,700    |
| Sales by Head Office for cash                          | 3,025,000 |
| Returns to Head Office by customers                    | 3,900     |
| Bad debts of Amy Branch                                | 150       |
| Expenses of Amy Branch, paid by Head Office            | 55,500    |
| Cash received by Amy Branch, from its credit customers | 5,800     |

At 30 November 2002, the following stock was held, valued at cost:

|             |        |
|-------------|--------|
| Head Office | 65,000 |
| Amy Branch  | 56,000 |

### REQUIRED

Prepare the following accounts in the books of Amanda Limited:

- (a) (i) Amy Branch Stock Account (6 marks)
- (ii) Goods to Amy Branch Account (3 marks)
- (iii) Amy Branch Debtors Account (4 marks)
- (iv) Amy Branch Profit & Loss Account. (4 marks)

**NB - ledger account dates are not required.**

- (b) Prepare the Head Office Trading Account in vertical format for the year ended 30 November 2002.

(8 marks)

**(Total 25 marks)**

**Model Answer to Question 2**

(a) (i)

| <b>Amy Branch Stock Account</b> |                  |                |          |               |                |
|---------------------------------|------------------|----------------|----------|---------------|----------------|
|                                 |                  | £              |          |               | £              |
| 30.11.02                        | Goods to Branch  | 425,000        | 30.11.02 | Returns to HO | 1,500          |
| 30.11.02                        | Gross Profit c/d | 266,250        | 30.11.02 | Cash Sales    | 627,500        |
|                                 |                  |                | 30.11.02 | Credit Sales  | 6,250          |
|                                 |                  |                | 30.11.02 | Stock c/d     | <u>56,000</u>  |
|                                 |                  | <u>691,250</u> |          |               | <u>691,250</u> |
| 1.12.02                         | Stock b/d        | 56,000         |          |               |                |

(ii)

| <b>Goods to Amy Branch Account</b> |              |                |          |              |                |
|------------------------------------|--------------|----------------|----------|--------------|----------------|
|                                    |              | £              |          |              | £              |
| 30.11.02                           | Branch Stock | 1,500          | 30.11.02 | Branch Stock | 425,000        |
| 30.11.02                           | HO Trading   | <u>423,500</u> |          |              |                |
|                                    |              | <u>425,000</u> |          |              | <u>425,000</u> |

(iii)

| <b>Amy Branch Debtors Account</b> |              |              |          |                |              |
|-----------------------------------|--------------|--------------|----------|----------------|--------------|
|                                   |              | £            |          |                | £            |
| 30.11.02                          | Credit Sales | 6,250        | 30.11.02 | Bank           | 5,800        |
|                                   |              |              | 30.11.02 | P & L Bad Debt | 150          |
|                                   |              |              | 30.11.02 | Balance c/d    | <u>300</u>   |
|                                   |              | <u>6,250</u> |          |                | <u>6,250</u> |
| 1.12.02                           | Balance b/d  | 300          |          |                |              |

(iv)

| <b>Amy Branch Profit &amp; Loss Account</b> |                      |                |          |                  |                |
|---|----------------------|----------------|----------|------------------|----------------|
|   |                      | £              |          |                  | £              |
| 30.11.02                                    | Branch Expenses      | 55,500         | 30.11.02 | Gross Profit b/d | 266,250        |
| 30.11.02                                    | Bad Debts            | 150            |          |                  |                |
| 30.11.02                                    | Net Profit, HO P & L | <u>210,600</u> |          |                  |                |
|   |                      | <u>266,250</u> |          |                  | <u>266,250</u> |

**Dates are included for presentation purposes only**

**Model Answer to Question 2 continued**

| <b>Amanda Ltd</b>                          |                |                  |                  |
|--|----------------|------------------|------------------|
| <b>Head Office Trading Account</b>         |                |                  |                  |
| <b>for the year ended 30 November 2002</b> |                |                  |                  |
|  | £              | £                | £                |
| Credit Sales                               |                | 15,700           |                  |
| Cash Sales                                 |                | <u>3,025,000</u> | 3,040,700        |
| <i>Less: Returns</i>                       |                |                  | <u>3,900</u>     |
|  |                |                  | 3,036,800        |
| <br><i>Less: Cost of Goods Sold</i>        |                |                  |                  |
| Opening stock                              |                | 81,900           |                  |
| Purchases                                  | 3,250,000      |                  |                  |
| <i>Less: Goods to branch</i>               | <u>423,500</u> |                  |                  |
|  | 2,826,500      |                  |                  |
| <i>Less Returns</i>                        | <u>11,700</u>  |                  |                  |
|  |                | <u>2,814,800</u> |                  |
|  |                | 2,896,700        |                  |
| <i>Less Closing stock</i>                  |                | <u>65,000</u>    |                  |
|  |                |                  | <u>2,831,700</u> |
| Gross Profit                               |                |                  | 205,100          |

### QUESTION 3

Simon and Adam have a year-end of 30 September, and their depreciation policy is as follows:

|                     |  |
|---------------------|--|
| Motor vehicles      | 25% pa, straight line with no residual value |
| Plant and machinery | 25% pa, reducing balance                     |

Whichever method of calculating depreciation is used, a full year's depreciation is charged when an asset is purchased in the first six months of a financial year. When an asset is purchased in the second six months of a financial year, a half year's depreciation is charged.

No depreciation is charged in the year of sale.

The following were the purchases and sales of fixed assets for the 3 years ended 30 September 2002.

|                     | <b>Date of Purchase</b> | <b>Cost<br/>£</b> | <b>Date of Sale</b> | <b>Sale proceeds<br/>£</b> |
|---------------------|-------------------------|-------------------|---------------------|----------------------------|
| Motor vehicle A     | 1.10.99                 | 20,000            | 11.10.01            | 13,500                     |
| Motor vehicle B     | 21.9.00                 | 24,000            |                     |                            |
| Motor vehicle C     | 31.1.01                 | 28,000            |                     |                            |
| Motor vehicle D     | 11.10.01                | 32,000            |                     |                            |
| Plant & Machinery X | 1.10.99                 | 10,000            |                     |                            |
| Plant & Machinery Y | 1.3.01                  | 15,000            |                     |                            |
| Plant & Machinery Z | 1.10.01                 | 20,025            |                     |                            |

### REQUIRED

Prepare, in the books of Simon and Adam, the following accounts:

- (a) Motor Vehicle Account (5 marks)
- (b) Motor Vehicle Depreciation Account (3 marks)
- (c) Motor Vehicle Provision for Depreciation Account (5 marks)
- (d) Motor Vehicle Disposal Account (4 marks)
- (e) Plant and Machinery Provision for Depreciation Account (4 marks)
- (f) Define the following accounting terms:
  - (i) straight line method of depreciation (2 marks)
  - (ii) reducing balance method of depreciation. (2 marks)

**(Total 25 marks)**

**Model Answer to Question 3**

(a)

| <b>Motor Vehicle Account</b> |                |                     |                |
|------------------------------|----------------|---------------------|----------------|
|                              | £              |                     | £              |
| 1.10.99 Bank - A             | 20,000         | 30.9.00 Balance c/d | 44,000         |
| 21.9.00 Bank - B             | <u>24,000</u>  |                     |                |
|                              | <u>44,000</u>  |                     | <u>44,000</u>  |
|                              | £              |                     | £              |
| 1.10.00 Balance b/d          | 44,000         | 30.9.01 Balance c/d | 72,000         |
| 31.1.01 Bank - C             | <u>28,000</u>  |                     |                |
|                              | <u>72,000</u>  |                     | <u>72,000</u>  |
|                              | £              |                     | £              |
| 1.10.01 Balance b/d          | 72,000         | 11.10.01 Disposal   | 20,000         |
| 11.10.01 Bank - D            | <u>32,000</u>  | 30.9.02 Balance c/d | <u>84,000</u>  |
|                              | <u>104,000</u> |                     | <u>104,000</u> |
|                              |                |                     |                |
| 1.10.02 Balance b/d          | 84,000         |                     |                |

(b)

| <b>Motor Vehicle Depreciation Account</b> |               |                               |               |
|---|---------------|-------------------------------|---------------|
|   | £             |                               | £             |
| 30.9.00 Provision for Depreciation        | <u>8,000</u>  | 30.9.00 Profit & Loss Account | <u>8,000</u>  |
|   | £             |                               | £             |
| 30.9.01 Provision for Depreciation        | <u>18,000</u> | 30.9.01 Profit & Loss Account | <u>18,000</u> |
|   | £             |                               | £             |
| 30.9.02 Provision for Depreciation        | <u>21,000</u> | 30.9.02 Profit & Loss Account | <u>21,000</u> |

(c)

| <b>Motor Vehicles Provision for Depreciation Account</b> |               |                      |               |
|--|---------------|----------------------|---------------|
|  | £             |                      | £             |
| 30.9.00 Balance c/d                                      | <u>8,000</u>  | 30.9.00 Depreciation | <u>8,000</u>  |
|  | £             |                      | £             |
| 30.9.01 Balance c/d                                      | 26,000        | 1.10.00 Balance b/d  | 8,000         |
|  | <u>26,000</u> | 30.9.01 Depreciation | <u>18,000</u> |
|  | £             |                      | <u>26,000</u> |
| 11.10.01 Disposal  | 10,000        | 1.10.01 Balance b/d  | 26,000        |
| 30.9.02 Balance c/d                                      | <u>37,000</u> | 30.9.02 Depreciation | <u>21,000</u> |
|  | <u>47,000</u> |                      | <u>47,000</u> |
|  |               | 1.10.02 Balance b/d  | 37,000        |

**Model Answer to Question 3 continued**

(d) **Motor Vehicle Disposal Account**

|                               | £             |                                     | £             |
|-------------------------------|---------------|-------------------------------------|---------------|
| 11.10.01 Motor Vehicle A      | 20,000        | 11.10.01 Provision for Depreciation | 10,000        |
| 30.9.02 Profit & Loss Account | <u>3,500</u>  | 11.10.01 Bank                       | <u>13,500</u> |
|                               | <u>23,500</u> |                                     | <u>23,500</u> |

(e) **Plant and Machinery Provision for Depreciation Account**

|                     | £             |                      | £             |
|---------------------|---------------|----------------------|---------------|
| 30.9.00 Balance c/d | <u>2,500</u>  | 30.9.00 Depreciation | <u>2,500</u>  |
| 30.9.01 Balance c/d | 8,125         | 1.10.00 Balance b/d  | 2,500         |
|                     | <u>8,125</u>  | 30.9.01 Depreciation | <u>5,625</u>  |
|                     | <u>17,350</u> |                      | <u>8,125</u>  |
| 30.9.02 Balance c/d | 17,350        | 1.10.01 Balance b/d  | 8,125         |
|                     | <u>17,350</u> | 30.9.02 Depreciation | <u>9,225</u>  |
|                     |               |                      | <u>17,350</u> |
|                     |               | 1.10.02 Balance b/d  | 17,350        |

- (f) (i) Straight line method of depreciation
- The same amount of depreciation is allowed each year of the anticipated life of a fixed asset
- (ii) Reducing balance method
- A fixed percentage is written off the reduced balance each year

#### QUESTION 4

Thomas and Sandra are in partnership, sharing profits and losses in the ratio 4:1 respectively. The Balance Sheet of the partnership at 31 December 2002 was as follows:

| <b>Thomas and Sandra</b>                    |              |               |                |
|---|--------------|---------------|----------------|
| <b>Balance Sheet at 31 December 2002</b>    |              |               |                |
| <b>Fixed Assets</b>                         | <b>£</b>     | <b>£</b>      | <b>£</b>       |
| Freehold Premises                           |              | 125,000       |                |
| Motor Vehicles                              |              | 38,000        |                |
| Plant & Machinery                           |              | 40,000        |                |
| Fixtures and Fittings                       |              | <u>12,000</u> |                |
|   |              | 215,000       |                |
| Goodwill                                    |              | <u>20,000</u> | 235,000        |
| <b>Current Assets</b>                       |              |               |                |
| Stock                                       |              | 12,500        |                |
| Debtors                                     |              | 19,000        |                |
| Bank  |              | <u>7,500</u>  |                |
|   |              | 39,000        |                |
| <b>Amounts falling due within 12 months</b> |              |               |                |
| Creditors                                   | 15,000       |               |                |
| Bank Loan (repayable June 2003)             | <u>6,000</u> | <u>21,000</u> |                |
|   |              |               | <u>18,000</u>  |
|   |              |               | <u>253,000</u> |
| <b>Financed by</b>                          |              |               |                |
| Partners' Capital Accounts                  |              |               |                |
|   | Thomas       | 160,000       |                |
|   | Sandra       | <u>90,000</u> | 250,000        |
| Partners' Current Accounts                  |              |               |                |
|   | Thomas       | 1,000         |                |
|   | Sandra       | <u>2,000</u>  | <u>3,000</u>   |
|   |              |               | <u>253,000</u> |

Thomas and Sandra agreed that, from 1 January 2003, profits and losses would be shared in the ratio 3 : 1 respectively. It was also agreed that certain assets would be re-valued.

|                       | <b>£</b> |
|-----------------------|----------|
| Freehold Premises     | 140,000  |
| Motor Vehicles        | 34,000   |
| Fixtures and Fittings | 10,000   |
| Stocks                | 11,900   |
| Goodwill              | 44,000   |

It was further agreed that goodwill should no longer appear as an asset in the partnership books.

#### REQUIRED

Record the above in the books of the partnership by preparing the:

- (a) Revaluation Account (6 marks)
- (b) Partners' Capital Accounts, in columnar format (5 marks)
- (c) Goodwill Account (3 marks)
- (d) Balance Sheet of the revised partnership at 1 January 2003. (11 marks)

**(Total 25 marks)**

**Model Answer to Question 4**

(a)

| <b>Revaluation Account</b> |                       |               |        |                   |               |
|----------------------------|-----------------------|---------------|--------|-------------------|---------------|
|                            |                       | £             |        |                   | £             |
| 1.1.03                     | Motor Vehicles        | 4,000         | 1.1.03 | Freehold Premises | 15,000        |
| 1.1.03                     | Fixtures and fittings | 2,000         | 1.1.03 | Goodwill          | 24,000        |
| 1.1.03                     | Stocks                | 600           |        |                   |               |
| 1.1.03                     | Capital – 4 : 1       |               |        |                   |               |
|                            | Thomas                | 25,920        |        |                   |               |
|                            | Sandra                | <u>6,480</u>  |        |                   |               |
|                            |                       | <u>32,400</u> |        |                   |               |
|                            |                       | <u>39,000</u> |        |                   | <u>39,000</u> |

(b)

| <b>Capital Accounts</b> |         |                |               |        |             |                |               |
|-------------------------|---------|----------------|---------------|--------|-------------|----------------|---------------|
|                         |         | Thomas         | Sandra        |        |             | Thomas         | Sandra        |
|                         |         | £              | £             |        |             | £              | £             |
| 1.1.03                  | G'dwill | 33,000         | 11,000        | 1.1.03 | Balance b/d | 160,000        | 90,000        |
| 1.1.03                  | Bal c/d | <u>152,920</u> | <u>85,480</u> | 1.1.03 | Revaluation | <u>25,920</u>  | <u>6,480</u>  |
|                         |         | <u>185,920</u> | <u>96,480</u> |        |             | <u>185,920</u> | <u>96,480</u> |
|                         |         |                |               | 1.1.03 | Balance b/d | 152,920        | 85,480        |

(c)

| <b>Goodwill</b> |             |               |        |                |               |
|-----------------|-------------|---------------|--------|----------------|---------------|
|                 |             | £             |        |                | £             |
| 1.1.03          | Balance b/d | 20,000        | 1.1.03 | Capital Thomas | 33,000        |
| 1.1.03          | Revaluation | <u>24,000</u> | 1.1.03 | Capital Sandra | <u>11,000</u> |
|                 |             | <u>44,000</u> |        |                | <u>44,000</u> |

**Model Answer to Question 4 continued**

(d)

**Thomas and Sandra  
Balance Sheet at 1 January 2003**

|   | £             | £              |
|---|---------------|----------------|
| <b>Fixed Assets</b>                         |               |                |
| Freehold Premises                           | 140,000       |                |
| Motor Vehicles                              | 34,000        |                |
| Plant & Machinery                           | 40,000        |                |
| Fixtures and Fittings                       | <u>10,000</u> | 224,000        |
| <b>Current Assets</b>                       |               |                |
| Stocks                                      | 11,900        |                |
| Debtors                                     | 19,000        |                |
| Bank  | <u>7,500</u>  |                |
|   | 38,400        |                |
| <b>Amounts falling due within 12 months</b> |               |                |
| Creditors                                   | 15,000        |                |
| Bank Loan                                   | <u>6,000</u>  |                |
| Working Capital                             |               | <u>17,400</u>  |
|   |               | <u>241,400</u> |
| <b>Financed by</b>                          |               |                |
| Partners' Capital Accounts                  |               |                |
| Thomas                                      | 152,920       |                |
| Sandra                                      | <u>85,480</u> | 238,400        |
| Partners' Current Accounts                  |               |                |
| Thomas                                      | 1,000         |                |
| Sandra                                      | <u>2,000</u>  | <u>3,000</u>   |
|   |               | <u>241,400</u> |





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