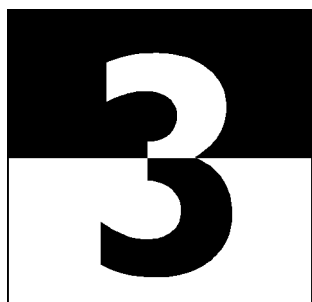


*Certificate in*

# **Accounting**



*Level 3*

*Series 4 2003*

*(Code 3001)*

## **Model Answers**



# **Certificate in Accounting Level 3**

## **Series 4 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 4 2003

### SECTION A

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

#### QUESTION 1

George, Mary and Susan were in partnership sharing profits in the ratio 2 : 2 : 1 respectively after paying Susan a salary of £8,000 per year.

In the year ended 31 March 2003 the partnership made a profit of £48,000 assumed to accrue evenly throughout the year.

Mary has taken no part in the partnership from 1 January 2003. Accordingly it was agreed that the profit for the year ended 31 March 2003 should be shared as per the partnership agreement up to 31 December 2002 and from 1 January 2003 to 31 March 2003, divided equally between George and Susan. Susan's salary ceased at 31 December 2002.

On 1 April 2003 George and Susan formed a company, Surge Ltd, to take over all the assets and liabilities of the partnership at book value. Mary received a cash payment of £8,500. The remainder of the amount owing to her, including £7,500 for her 40% share of the goodwill, was recorded as a loan to the company at 10% interest per annum. George and Susan took ordinary shares at par value of £0.50 equal to their total capitals at 31 March 2003 after adjusting for goodwill on the basis of the original partnership agreement. Goodwill was to remain unrecorded. A sum of £12,000 was to be raised by issuing ordinary shares at a premium of 10p per share on 1 April 2003.

The following balances were in the partnership books at 31 March 2003, **before allocating the profit of £48,000**:

		£
Capital:	George	31,500
	Mary	27,000
	Susan	21,750

The partners did not keep separate current accounts.

Drawings:	George	9,500
	Mary	10,500
	Susan	8,500

Bank balance at 31 March 2003 was an overdraft of £1,200.

#### REQUIRED

- (a) Calculate the number of shares issued to George and Susan and the amount of the loan from Mary. (14 marks)
- (b) Show the capital section of Surge Ltd's Balance Sheet at 1 April 2003 and the Company's bank balance at that date. (6 marks)
- (Total 20 marks)**

## SECTION A

### Model Answer for Question 1

(a)	£	George £	Mary £	Susan £
Capital balances		31,500	27,000	21,750
Profit 9 months to 31 December 2002 (.75 x 48,000)	36,000			
Salary 9 months to 31 December 2002 (.75 x 8,000)	6,000			6,000
Profit distribution (2 : 2 : 1)	<u>30,000</u>	12,000	12,000	6,000
Profit 3 months to 31 March 2002 (.25 x 48,000) (1 : 0 : 1)	12,000	<u>6,000</u>	<u>—</u>	<u>6,000</u>
		49,500	39,000	39,750
Drawings		<u>9,500</u>	<u>10,500</u>	<u>8,500</u>
		40,000	28,500	31,250
Goodwill (2 : 2 : 1)		<u>7,500</u>	<u>7,500</u>	<u>3,750</u>
		47,500	36,000	35,000
Goodwill written-off (2 : 1)		<u>12,500</u>	<u>—</u>	<u>6,250</u>
		35,000	36,000	28,750
Bank		<u>—</u>	<u>8,500</u>	<u>—</u>
		<u>35,000</u>	<u>27,500</u>	<u>28,750</u>
Shares taken at 50p		70,000		57,500

Mary's loan is £27,500

### Surge Ltd

(b) Capital & Reserves	£
Ordinary Shares £0.50	
$(70,000 + 57,500 + 12,000/.6) \times .5$	73,750
Share premium	
$(12,000 - (.5 \times 12,000/.6))$	<u>2,000</u>
	<u>75,750</u>
	£
Bank Balance $(12,000 - 1,200 - 8,500)$	<u>2,300</u>

(Total 20 marks)

## QUESTION 2

Merchandise Ltd depreciates machinery at 25% per annum using the reducing balance method. A full year's depreciation is provided in the year of acquisition and no provision is made in the year of sale. The company's year end is 31 March.

- (1) On 1 April 2000 the balance on Machinery Account was £450,000 and the balance on Provision for Depreciation of Machinery Account was £145,600.
- (2) On 1 July 2000 a machine was purchased at a cost of £40,000.
- (3) On 1 February 2001 Merchandise Ltd purchased a machine for £55,000 but received a trade in allowance of £6,500 on an old machine. The old machine had cost £22,000 on 1 August 1997.
- (4) On 1 May 2001 Merchandise Ltd scrapped a machine purchased on 1 January 1996 for £16,000. The scrap value was equal to the cost of removing the machine.

### REQUIRED

**In respect of Merchandise Ltd show the following accounts (accurate to the nearest £) for each of the 2 years ended 31 March 2001 and 31 March 2002:**

- |  |                         |
|--|-------------------------|
| <b>(a) Machinery at cost</b>                       | (5 marks)               |
| <b>(b) Provision for depreciation of machinery</b> | (11 marks)              |
| <b>(c) Machinery disposal.</b>                     | (4 marks)               |
|  | <b>(Total 20 marks)</b> |

## Model Answer to Question 2

(a)

### Machinery at Cost Account

		£			£
1 April 2000	Balance	450,000			
1 July 2000	Bank	40,000			
1 Feb 2001	Disposal	6,500	1 Feb 2001	Disposal	22,000
1 Feb 2001	Bank	<u>48,500</u>	31 Mar 2001	Balance c/d	<u>523,000</u>
		<u>545,000</u>			<u>545,000</u>
1 April 2001	Balance b/d	523,000	1 May 2001	Disposal	16,000
		<u>523,000</u>	31 Mar 2002	Balance c/f	<u>507,000</u>
					<u>523,000</u>

(b)

### Provision for Depreciation of Machinery Account

		£			£
1 Feb 2001	Disposal [1]	12,719	1 April 2000	Balance	145,600
31 Mar 2001	Balance c/d	<u>230,411</u>	31 Mar 2001	P & L [2]	<u>97,530</u>
		<u>243,130</u>			<u>243,130</u>
1 April 2001	Disposal [3]	13,152	1 April 2001	Balance b/d	230,411
31 Mar 2002	Balance c/f	<u>289,694</u>	31 Mar 2002	P & L [4]	<u>72,435</u>
		<u>302,846</u>			<u>302,846</u>

(c)

### Machinery Disposal Account

		£			£
1 Feb 2001	Machinery	22,000	1 Feb 2001	Machinery	6,500
		<u>22,000</u>	1 Feb 2001	Depreciation [1]	12,719
			31 Mar 2001	P & L	<u>2,781</u>
					<u>22,000</u>
1 May 2001	Machinery	16,000	1 May 2001	Depreciation	13,152
		<u>16,000</u>	31 Mar 2002	P & L	<u>2,848</u>
					<u>16,000</u>

### Workings

[1]  $22,000 - (22,000 \times .75 \times .75 \times .75)$

[2]  $0.25(523,000 + 12,719 - 145,600)$

[3]  $16,000 - (16,000 \times .75 \times .75 \times .75 \times .75 \times .75 \times .75)$

[4]  $.25(507,000 + 13,152 - 230,411)$

## SECTION B

(Answer any THREE questions from Section B)

### QUESTION 3

Publish plc is a holding company with two subsidiaries, Books Ltd and Mags Ltd.

The Balance Sheets of the three companies at 31 March 2003 were as follows:

<b>Publish plc</b>	<b>Cost £000</b>	<b>Depreciation £000</b>	<b>Net £000</b>
<b>Fixed assets</b>			
Freehold Office	<u>850</u>	<u>85</u>	765
<b>Investments</b>			
360,000 shares in Books Ltd	450		
450,000 shares in Mags Ltd	<u>380</u>		830
<b>Current assets</b>			
Debtors: Books Ltd	25		
Others	<u>45</u>	70	
<b>Liabilities: amounts due within 1 year</b>			
Creditors Mags Ltd	8		
Other	20		
Bank Overdraft	<u>32</u>	<u>60</u>	
<b>Net current assets</b>			<u>10</u>
			<u>1,605</u>
<b>Capital and reserves</b>			
£1 Ordinary Shares		1,000	
Retained earnings		<u>605</u>	<u>1,605</u>

	<b>Books Ltd</b>			<b>Mags Ltd</b>		
	<b>Cost £000</b>	<b>Dprn £000</b>	<b>Net £000</b>	<b>Cost £000</b>	<b>Dprn £000</b>	<b>Net £000</b>
<b>Fixed assets</b>						
Land and Buildings	210	45	165	320	60	260
Machinery	<u>950</u>	<u>360</u>	<u>590</u>	<u>870</u>	<u>600</u>	<u>270</u>
	<u>1,160</u>	<u>405</u>	755	<u>1,190</u>	<u>660</u>	530
<b>Current assets</b>						
Stock	85			90		
Debtors	80			60		
Bank	—	165		<u>12</u>	162	
<b>Liabilities: amounts due within 1 year</b>						
Creditors	45			40		
Bank overdraft	<u>45</u>	<u>90</u>		—	40	
<b>Net current assets</b>			<u>75</u>	—	<u>40</u>	<u>122</u>
			<u>830</u>			<u>652</u>
<b>Capital and reserves</b>						
£1 Ordinary Shares			600			600
Retained earnings			<u>230</u>			<u>52</u>
			<u>830</u>			<u>652</u>

Publish plc purchased the shares in Books Ltd on 1 June 2002 when retained earnings were £100,000.

**SECTION B CONTINUED**

**QUESTION 3 CONTINUED**

Publish plc bought the shares in Mags Ltd on 1 January 2003 when there were retained losses of £120,000.

Goodwill arising on consolidation is to be written off evenly over five years. A full year is to be written off in the year to 31 March 2003.

**REQUIRED**

**Prepare the Consolidated Balance Sheet of Publish plc and its subsidiaries at 31 March 2003.**

**(20 marks)**

### Model Answer to Question 3

#### Preliminary Calculations

##### Goodwill

	Books Ltd			Mags Ltd	
	£000	£000		£000	£000
Cost		450			380
Capital	600			600	
Reserve	<u>100</u>			<u>(120)</u>	
(360/600)	700	<u>420</u>	(450/600)	480	<u>360</u>
Goodwill		30			20
Written-off (30 x 1/5)		<u>6</u>	(20 x 1/5)		<u>4</u>
To Balance Sheet		24			16
		<u>(24)</u>			<u>24</u>
		<u>0</u>			<u>40</u>

##### Retained Profits

	£000
Publish plc	605
Books Ltd (.6 x (230 – 100))	78
Mags Ltd (.75 x (52 + 120))	<u>129</u>
Less	812
Goodwill written off (5 + 1)	<u>10</u>
	<u>802</u>

##### Minority Interest

Books Ltd (.40 x 830)	332
Mags Ltd (.25 x 652)	<u>163</u>
	<u>495</u>

#### Consolidated Balance Sheet for Publish plc at 31 March 2003

	£000	£000	£000
Fixed assets	Cost	Depreciation	Net
Land and Buildings	1,380	190	1,190
Machinery	<u>1,820</u>	<u>960</u>	<u>860</u>
	<u>3,200</u>	<u>1,150</u>	2,050
<b>Goodwill</b>			<u>40</u>
			2,090
<b>Current assets</b>			
Stock (85 + 90)	175		
Debtors (45 + 80 + 60 – 8)	177		
Bank	<u>12</u>	364	
<b>Liabilities: Amounts due within one year</b>			
Creditors (20 + 45 – 25 + 40)	80		
Bank overdraft (32 + 45)	<u>77</u>	<u>157</u>	
<b>Net current assets</b>			<u>207</u>
			<u>2,297</u>
			<b>£000</b>
<b>Capital and reserves</b>			
Ordinary Shares £1			1,000
Retained profits			<u>802</u>
			1,802
<b>Minority Interest</b>			<u>495</u>
			<u>2,297</u>

#### QUESTION 4

Margreaves plc has an authorised share capital of 20,000,000 £0.50 Ordinary Shares and 400,000 £1 9% Preference Shares.

The Company's Balance Sheet at 31 March 2003 included the following amounts:

	<b>£</b>
Issued Share Capital: 12,000,000 £0.50 Ordinary Shares	6,000,000
300,000 £1 9% Preference Shares	300,000
Share premium	500,000
Retained earnings	750,000
12% Debentures	800,000

On 1 April 2003 it was decided to carry out the following transactions in the order given below:

- (1) Make a one for three Ordinary Share rights issue at a premium of £0.125 payable in full at issue.
- (2) Make a bonus (capitalisation) issue of one Ordinary Share for every 10 Ordinary Shares then held.
- (3) Issue the remaining Preference Shares at par, 40% payable on application and 60% on allotment.
- (4) Redeem the Debentures at a premium of 10%.

The rights issue was fully subscribed and applications were received for 120,000 Preference Shares. A pro rata allocation of Preference Shares was made and surplus application money retained as part payment of the amounts due on allotment. All allotment money was received.

Share issue costs amounted to £85,000.

Margreaves plc recorded the above transactions making maximum use of the share premium.

#### REQUIRED

- (a) **Prepare Journal entries (without narratives) to record transactions (1) to (4) above.**  
(12 marks)
- (b) **Show the Capital and Reserves section of Margreaves plc's Balance Sheet after recording all the above information. You should include the authorised share capital.**  
(8 marks)

**(Total 20 marks)**

**Model Answer to Question 4**

(a) Journal	<b>£000</b>	<b>£000</b>
(1) Bank (1/3 x 12,000 x .625)	2,500	
Ordinary Share Capital		2,000
Share Premium		500
(2) Share Premium [(0.1) x (6,000 + 2,000)]	800	
Ordinary Share Capital		800
(3) Bank (.4 x 120)	48	
Application and Allotment		48
Bank (400 – 300 – 48)	52	
Application and Allotment		52
Application and Allotment	100	
Preference Share Capital		100
(4) Debentures	800	
Share Premium (.10 x 800)	80	
Bank		880

(b) Capital and Reserves Section of Balance Sheet **£000**

**Authorised Share Capital**

20,000,000 Ordinary Shares £0.50	10,000
400,000 £1 9% Preference shares	<u>400</u>

**Capital and Reserves**

17,600,000 £0.50 Ordinary Shares	8,800
400,000 £1 9% Preference shares	400
Share Premium (500 + 500 – 800 – 80 – 85)	35
Retained Earnings	<u>750</u>
	<u><b>9,985</b></u>

## SECTION B CONTINUED

### QUESTION 5

XYZ Ltd had the following Balance Sheet at 31 March 2003:

<b>Fixed assets</b>	<b>Cost £000</b>	<b>Depreciation £000</b>	<b>Net £000</b>
Land and Buildings	750	15	735
Machinery	<u>700</u>	<u>250</u>	<u>450</u>
	<u>1,450</u>	<u>265</u>	1,185
<b>Current assets</b>			
Stock	325		
Debtors	450		
Bank	<u>120</u>	895	
<b>Liabilities: Amounts due within 1 year</b>			
Creditors		<u>375</u>	
<b>Net current assets</b>			<u>520</u> <u>1,705</u>
<b>Capital and reserves</b>			<b>£000</b>
£1 Ordinary Shares			1,500
Retained earnings			<u>205</u>
			<u>1,705</u>

XYZ Ltd is considering two **alternative** ways of increasing profit:

All sales are made on credit.

- (1) Giving debtors 2 months to pay instead of the current 1 month. This would increase sales by 10% in volume without any change in the current pricing policy of adding a mark up of 25% on production cost. This would not require any additional machinery and the relationship between stock and cost of goods sold and between creditors and purchases would remain the same. Working capital would remain at £520,000 and interest on any bank overdraft required would be at 15% per annum.
- (2) Borrowing £500,000 at an annual rate of interest of 10% and investing this in cost saving machinery. This would result in the mark up on production cost rising to 30% without any change in selling price. The volume of sales and purchases would remain as at present. Again working capital would remain at £520,000 and stock debtors and creditor terms would be unaltered. The machinery would have a life span of 6 years and a scrap value of £2,000.

### REQUIRED

- (a) Calculate for each alternative the effect on annual gross profit. (7 marks)
- (b) Calculate for each alternative the revised bank balance after implementation. (7 marks)
- (c) Advise XYZ Ltd as to which alternative should be adopted giving reasons for your answer. (6 marks)

NB Calculations should be made to the nearest £1,000.

**(Total 20 marks)**

### Model Answer to Question 5

(a) (1) Increase in gross profit	<b>£000</b>	<b>£000</b>
		<u>108</u>
(2) Increase in gross profit		
(30/130 x 12 x 450) – (25/125 x 12 x 450)		
= 1,246 – 1,080		<u>166</u>

(b) (1) Bank Balance		
Stock (325 x 1.1)		357.5
Debtors (450 x 2 x 1.1)		<u>990.0</u>
		1,347.5
Creditors (375 x 1.1)	412.5	
Bank (R)	<u>415.0</u>	<u>827.5</u>
Working Capital		<u>520.0</u>

(2) As working capital, stock, creditors and debtors are to be the same, the bank balance should remain at £120,000.

(c) (1) Assuming an overdraft of £415,000 for the entire year (an exaggeration as it would build up to this) the increase in net profit would be:

$$108,000 - (415,000 \times .15) = \underline{\underline{£45,750}}$$

(2) Increase in net profit:

$$166,000 - (.10 \times 500,000) = \underline{\underline{£116,000}}$$

Depreciation should not be deducted as it would be a manufacturing cost (and thus already included in the calculation of revised gross profit).

This would indicate that option (2) is the better choice.

## SECTION B CONTINUED

### QUESTION 6

The Ashcote Sports Club had the following Balance Sheet at 31 March 2002:

	£	£	£
Premises at cost			35,000
Equipment at cost		18,500	
Less Depreciation to date		<u>7,200</u>	<u>11,300</u>
			46,300
Bar stock	3,150		
Subscriptions in arrears	240		
Cash at bank	<u>350</u>	3,740	
Bar creditor	2,250		
Subscriptions in advance	<u>170</u>	<u>2,420</u>	<u>1,320</u>
			47,620
Less Bank loan at 15%			<u>15,000</u>
			<u>32,620</u>
Accumulated fund			<u>32,620</u>

Following is the summarised Bank Account for the year ended 31 March 2003:

	£	£
Balance at bank 1 April 2002		350
Subscriptions received	6,870	
Bar takings	15,170	
Fund raising	3,040	
Sale of equipment	<u>400</u>	<u>25,480</u>
		25,830
Paid to bar creditor	11,120	
Bar Steward's wages	3,250	
Purchase of equipment	2,400	
Repairs to club premises	1,650	
Secretarial expenses	2,140	
Travel to matches	640	
Costs of fund raising	835	
Loan interest	2,250	
Light, heat and power	<u>870</u>	<u>25,155</u>
Balance at bank 31 March 2003		<u>675</u>

The following additional information is available:

- (1) At 31 March 2003 bar stock had a cost price of £3,240 and the bar creditor was owed £1,980.
- (2) The subscriptions for the year ending 31 March 2002 had been £80 per member and the arrears were all included in the subscriptions received.
- (3) Subscriptions for the year ending 31 March 2003 were £85 per member. The Club has 80 members.
- (4) Equipment is depreciated at 20% per annum using the reducing balance method, based on the equipment held at the year end. The equipment sold during the year ending 31 March 2003 was purchased in April 1998 at a cost of £1,200.

**QUESTION 6 CONTINUED**

**REQUIRED**

**Prepare for Ashcote Sports Club the following:**

- (a) Bar Trading Account for the year ended 31 March 2003** (5 marks)
- (b) Income and Expenditure Account for the year ended 31 March 2003** (9 marks)
- (c) Balance Sheet at 31 March 2003.** (6 marks)

**Note: Make all calculations to the nearest £.**

**(Total 20 marks)**

**Model Answer to Question 6**

(a)

<b>Ashcote Sports Club Bar Trading Account</b>		
	£	£
Sales		15,170
Opening stock	3,150	
Purchases (11,120 – 2,250 + 1,980)	<u>10,850</u>	
	14,000	
Less Closing Stock	<u>3,240</u>	<u>10,760</u>
Gross profit		4,410
Less Steward's wages		<u>3,250</u>
Net profit		<u>1,160</u>

(b)

<b>Ashcote Sports Club Income and Expenditure Account</b>			
	£		£
Repairs	1,650	Subscription Income (80 x 85)	6,800
Secretarial	2,140	Bar profit	1,160
Travel	640	Fund raising (3,040 – 835)	2,205
Light, heat and power	870		
Loan interest	2,250		
Loss on equipment sold	<b>[1]</b> 92		
Depreciation of equipment	<b>[2]</b> <u>2,642</u>	Loss for year (R)	<u>119</u>
	<u>10,284</u>		<u>10,284</u>

**[1]**  $(1,200 \times .8 \times .8 \times .8 \times .8) - 400 = 492 - 400 = 92$

**[2]**  $.20 (11,300 + 2,400 - 492) = .20 \times 13,208 = 2,642$

(c)

<b>Ashcote Sports Club Balance Sheet at 31 March 2003</b>			
	£	£	£
Premises at cost			35,000
Equipment at cost (18,500 + 2,400 – 1,200)		19,700	
Less			
Depreciation to date (7,200 – 708 + 2,642)		<u>9,134</u>	<u>10,566</u>
			45,566
Stock at bar	3,240		
Cash at bank	<u>675</u>	3,915	
Less Bar creditors		<u>1,980</u>	<u>1,935</u>
			47,501
Less Bank loan			<u>15,000</u>
			<u>32,501</u>
Accumulated fund at 31 march 2002			32,620
Less Deficit			<u>119</u>
			<u>32,501</u>

Note

- (1) There are no subscriptions in advance or in arrears  $(6,870 - 240 + 170 = 6,800)$   
 (2) Loan interest has been fully paid  $(.15 \times 15,000 = 2,250)$



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