

*Certificate in*

# **Book-keeping and Accounts**



*Level 2*

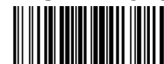
*Series 4 2003*

*(Code 2006)*

**Model Answers**

(UK Accreditation No: 100/1449/4)

ASP M 1575





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

## **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
- (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 4 2003

### QUESTION 1

At 30 September 2002, the following balances were extracted from the books of Mersey Limited.

	£	
Sales Ledger Control	97,472	Dr
Sales Ledger Control	361	Cr
Purchase Ledger Control	490	Dr
Purchase Ledger Control	86,311	Cr

The following is a summary of transactions that took place in the month of October 2002

	£
Sales on credit	48,817
Cash sales	8,615
Purchases on credit	56,113
Cash purchases	6,187
Credit sales returns	888
Credit purchases returns	999
Cash sales returns	251
Dishonoured cheque from credit sale customer	777
Cash refund to credit customer	300
Discounts allowed	666
Discounts received	555
Interest charged to debtor on overdue account	200
Receipts from debtors	51,382
Payments to creditors	79,313
Bad debt written off	400

At 31 October 2002, there was a credit balance on the Sales Ledger Control Account of £631, and a debit balance on the Purchase Ledger Control Account of £940.

### REQUIRED

In the books of Mersey Limited, prepare the following accounts at 31 October 2002:

(a) Sales Ledger Control Account (13 marks)

(b) Purchase Ledger Control Account. (9 marks)

The balance on the Provision for Doubtful Debts Account at 31 October 2002 was £1,890.

### REQUIRED

(c) A Balance Sheet extract to show Trade Debtors at 31 October 2002. (3 marks)

**(Total 25 marks)**

**Model Answer to Question 1**

(a) **Sales Ledger Control Account**

		£			£
30.9.02	Balance b/d	97,472	30.9.02	Balance b/d	361
31.10.02	Credit Sales	48,817	31.10.02	Bank	51,382
31.10.02	Bank - Dishonoured chq	777	31.10.02	Discount allowed	666
31.10.02	Refund to debtor	300	31.10.02	Bad Debt	400
31.10.02	Interest	200	31.10.02	Sales returns	888
31.10.02	Balance c/d	631	31.10.02	Balance c/d	<u>94,500</u>
		<u>148,197</u>			<u>148,197</u>
1.11.02	Balance b/d	94,500	1.11.02	Balance b/d	631

(b) **Purchase Ledger Control Account**

		£			£
30.9.02	Balance b/d	490	30.9.02	Balance b/d	86,311
31.10.02	Bank	79,313	31.10.02	Purchases	56,113
31.10.02	Discount received	555	31.10.02	Balance c/d	940
31.10.02	Purchase return	999			
31.10.02	Balance c/d	62,007			
		<u>143,364</u>			<u>143,364</u>
1.11.02	Balance b/d	940	1.11.02	Balance b/d	62,007

(c) **Mersey Ltd**  
**Balance Sheet extract at 31 October 2002**

<b>Current Assets</b>	£	£
Debtors (94,500 + 940)	95,440	
Less provision	<u>1,890</u>	93,550

## QUESTION 2

Rhine and Danube Ltd has a Head Office located at Rhine and a branch at Danube. The financial year end is 30 September.

All branch transactions are recorded in the Head Office books. Branch sales are all on credit, and any cash received by Danube is remitted to Rhine on a daily basis.

All purchases are made by Rhine, and invoiced to Danube at cost plus 25%, which is the agreed selling price.

The following information is taken from the Head Office books at 30 September 2002:

Balances at 1 October 2001

	£
Branch debtors	581,000
Branch stock at selling price	523,450
Branch adjustment account	104,690

The following is a summary of transactions that took place in the year to 30 September 2002:

	£
Branch sales	1,370,000
Payments by branch debtors	1,510,000
Goods invoiced by Head Office to branch	1,375,000
Discounts allowed to branch debtors	41,000
Goods returned by branch – at selling price	21,250
Goods returned by branch customers	12,800

Stock at branch at 30 September 2002, at selling price, was £430,000.

### REQUIRED

In the Head Office books, prepare the following accounts at 30 September 2002:

- (a) Danube Branch Stock (9 marks)
  - (b) Danube Branch Stock Adjustment (7 marks)
  - (c) Goods to Danube Branch (4 marks)
  - (d) Danube Branch Debtors. (5 marks)
- (Total 25 marks)**

**Model Answer to Question 2**

(a) **Danube Branch Stock Account**

		£			£
1.10.01	Balance b/d	523,450	30.9.02	Branch Drs sales	1,370,000
30.9.02	Goods to branch	1,100,000	30.9.02	Goods to Branch	17,000
30.9.02	Branch adjustment	275,000	30.9.02	Branch Adjustment	4,250
30.9.02	Branch debtor – returns	12,800	30.9.02	Branch stock loss	72,000
			30.9.02	Branch stock adj	18,000
			30.9.02	Balance c/d	<u>430,000</u>
		<u>1,911,250</u>			<u>1,911,250</u>
1.10.02	Balance b/d	430,000			

(b) **Danube Branch Stock Adjustment Account**

		£			£
30.9.02	Branch stock returns	4,250	1.10.01	Balance b/d	104,690
30.9.02	Branch stock loss	18,000	30.9.02	Branch stock	275,000
30.9.02	P & L Account	[1] 271,440			
30.9.02	Balance c/d	<u>86,000</u>			
		<u>379,690</u>			<u>379,690</u>
			1.10.02	Balance b/d	86,000

[1] P & L is sales less returns - £1,370,000 - £12,800 = £1,357,200 @ 20% or 1/5 margin = £271,440

(c) **Goods to Branch Account**

		£			£
30.9.02	Branch stock	17,000	30.9.02	Branch stock	1,100,000
30.9.02	HO Trading	<u>1,083,000</u>			
		<u>1,100,000</u>			<u>1,100,000</u>

(d) **Branch Debtors Account**

		£			£
1.10.01	Balance b/d	581,000	30.9.02	Bank	1,510,000
30.9.02	Branch stock - sales	1,370,000	30.9.02	Discount allowed	41,000
			30.9.02	Returns	12,800
			30.9.02	Balance c/d	<u>387,200</u>
		<u>1,951,000</u>			<u>1,951,000</u>
1.10.02	Balance b/d	387,200			

### QUESTION 3

Fred Tyne is a sole trader, who commenced business on 1 January 2002. Proper accounting records were not maintained during the first year.

On 1 January 2002, Tyne opened a business bank account by depositing £10,000, and he also transferred personal assets to the business at the following valuations:

	£
Motor vehicle	15,000
Fixtures and fittings	2,500

On 1 July 2002, Tyne borrowed £6,000 for a twelve month period from Tom Wear, and this sum was deposited in the business bank account on that date. Tyne agreed to pay £300 interest on 1 January 2003 in respect of the loan period 1 July to 31 December 2002.

The summary of the bank account for the year ended 31 December 2002 is as follows:

Receipts	£
Own deposit	10,000
Loan, Wear	6,000
Bankings from customers	61,000
Payments	£
Rent	4,000
Staff wages	16,000
Purchases for resale	31,000
Advertising	950
Printing and stationery	400
Insurance	1,200
Postage	50
Motor and travel	4,100
Bank charges	250

During the year, Tyne did not pay all receipts into the bank. Tyne used the non-banked receipts as follows:

	£
Drawings	11,000
Sundry expenses	876
Cash purchases	1,111

The following information has also been made available:

- (1) Motor vehicle to be depreciated at 20% per annum
- (2) Fixtures and fittings to be depreciated at 10% per annum
- (3) Bad debts of £300 were written off during the year
- (4) Stock at 31 December 2002 is valued at £2,222 cost
- (5) Trade creditors are owed £3,100 at 31 December 2002
- (6) Trade debtors owe £6,100 at 31 December 2002
- (7) Cash in hand at 31 December 2002 amounts to £69.

### QUESTION 3 CONTINUED

#### REQUIRED

Prepare in the books of Fred Tyne

- (a) a Trading and Profit & Loss Account for the year ended 31 December 2002 (11 marks)
- (b) the Balance Sheet at 31 December 2002. (14 marks)

**(Total 25 marks)**

**NB - All workings to be shown**

#### Model Answer to Question 3

(a)

**Fred Tyne  
Trading and Profit & Loss Account  
for the year ended 31 December 2002**

	£		£
Sales		[1]	80,456
Cost of sales			
Purchases	[2] 35,211		
Less closing stock	<u>2,222</u>		<u>32,989</u>
<b>Gross Profit</b>			<b>47,467</b>
Wages	16,000		
Rent	4,000		
Advertising	950		
Printing and stationery	400		
Insurance	1,200		
Postage	50		
Motor and travel	4,100		
Bank charges	250		
Sundry expenses	876		
Depreciation F & F	250		
Depreciation motor vehicle	3,000		
Bad debt	300		
Loan Interest	<u>300</u>		<u>31,676</u>
<b>Net Profit</b>			<b><u>15,791</u></b>

**Model Answer to Question 3 continued**

(b)

**Fred Tyne  
Balance Sheet at 31 December 2002**

<b>Fixed Assets</b>	<b>Cost</b>	<b>Acc Depc'n</b>	<b>Net</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Motor vehicle	15,000	3,000	12,000
Fixtures and fittings	<u>2,500</u>	<u>250</u>	<u>2,250</u>
	<u>17,500</u>	<u>3,250</u>	14,250
<b>Current Assets</b>			
Stock	2,222		
Debtors	6,100		
Bank	19,050		
Cash	<u>69</u>		
	27,441		
<b>Current Liabilities</b>			
Creditors	3,100		
Loan	6,000		
Loan Interest	<u>300</u>		
	<u>9,400</u>		
<b>Working Capital</b>			<u>18,041</u>
			<u>32,291</u>
<b>Capital</b>			
Opening capital		[3]	27,500
Add: Net profit			<u>15,791</u>
			43,291
Less drawings			<u>11,000</u>
			<u>32,291</u>

**Workings**

	<b>£</b>
[1] Sales	
	61,000
	11,000
	876
	1,111
	300
	69
	<u>6,100</u>
	<u>80,456</u>

Workings must be shown to get marks

	<b>£</b>
[2] Purchases	
	31,000
	3,100
	1,111
	<u>35,211</u>

Capital:

	<b>£</b>
[3] Cash	10,000
Vehicle	15,000
Fixtures	<u>2,500</u>
	27,500

#### QUESTION 4

Thames and Severn are in partnership sharing profits and losses in the ratio 2 : 3 respectively. The following Trial Balance was extracted from the partnership books at 31 December 2002:

	Dr £	Cr £
Freehold premises	300,000	
Motor vehicles, at cost	50,000	
Fixtures and fittings, at cost	18,000	
Plant and machinery, at cost	80,000	
Capital – Thames 1 January 2002		209,000
Capital – Severn 1 January 2002		163,000
Drawings – Thames	19,700	
Drawings – Severn	38,500	
Rent	28,000	
Salaries	101,000	
Carriage In	4,700	
Carriage Out	8,950	
Returns In	9,500	
Purchases	609,000	
Sales		1,005,000
Insurance	9,300	
Light and heat	7,800	
Trade debtors	126,000	
Trade creditors		91,000
General office expenses	15,350	
Motor vehicle expenses	9,900	
Bad debts	1,800	
Provision for doubtful debts 1 January 2002		3,700
Discounts received		1,800
Discounts allowed	8,300	
Interest on bank loan	3,750	
Bank loan		75,000
Cash at bank	66,950	
Telephone expenses	8,000	
Stock 1 January 2002	67,900	
Provision for Depreciation 1 January 2002		
Motor vehicles		10,000
Plant and machinery		30,300
Fixtures and fittings		3,600
	<u>1,592,400</u>	<u>1,592,400</u>

#### QUESTION 4 CONTINUED

The following additional information has been made available in respect of the year ended 31 December 2002:

(1) Depreciation is to be provided at the following rates using the straight line method:

Fixtures and fittings	10% pa
Plant and machinery	15% pa
Motor vehicles	20% pa

(2) The Provision for Doubtful Debts is to be adjusted to 2% of debtors.

(3) Thames is to receive a salary of £25,000.

(4) The partners are to receive interest at the rate of 5% per annum based on the balance on their Capital Accounts at 1 January 2002.

(5) Closing stock was valued at £58,900.

(6) There were no balances on the partners' current accounts at 1 January 2002.

(7) Accrued charges at 31 December 2002 were:

Salaries	1,000
Interest on loan	3,750
Motor vehicle expenses	600
Telephone	550
Light and heat	450

(8) The prepayments at 31 December 2002:

Rent	4,000
Insurance	50

#### REQUIRED

Prepare, in the books of the partnership:

(a) the Trading, Profit & Loss Account and Appropriation Account for the year ended 31 December 2002

(20 marks)

(b) the partners' current accounts, in columnar format, in respect of the year ended 31 December 2002.

(5 marks)

**(Total 25 marks)**

**Model Answer to Question 4**

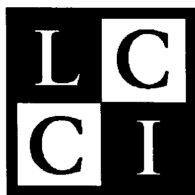
(a)

<b>Thames and Severn</b>			
<b>Trading, Profit &amp; Loss and Appropriation Account</b>			
<b>for the year ended 31 December 2002</b>			
	£	£	£
Sales			1,005,000
Less: Returns			<u>9,500</u>
			995,500
Less: Cost of Goods Sold			
Opening stock	67,900		
Purchases	609,000		
Carriage In	<u>4,700</u>		
		681,600	
Less: Closing stock		<u>58,900</u>	622,700
Gross Profit			372,800
Discount received		<u>1,800</u>	
Provision for doubtful debts (3,700-2,520)		1,180	<u>2,980</u>
			375,780
Less: Expenses			
Rent (28,000 - 4,000)		24,000	
Salaries (101,000 + 1,000)		102,000	
Insurance (9,300 - 50)		9,250	
Light and Heat (7,800 + 450)		8,250	
General Office Expenses		15,350	
Telephones (8,000 + 550)		8,550	
Bad debts		1,800	
Motor Vehicle Expenses (9,900 + 600)		10,500	
Carriage out		8,950	
Discount allowed		8,300	
Loan interest (3,750 + 3,750)		7,500	
Depreciation: Motor Vehicles		10,000	
Plant Machinery		12,000	
Fixtures and Fittings		<u>1,800</u>	
			<u>228,250</u>
Net Profit			147,530
Less:			
Salary - Thames		25,000	
Interest on Capital			
Thames (209,000 @ 5%)	10,450		
Severn (163,000 @ 5%)	<u>8,150</u>	18,600	<u>43,600</u>
			103,930
Share of profit			
Thames 103,930 @ 40%		41,572	
Severn 103,930 @ 60%		<u>62,358</u>	<u>103,930</u>
			<u><u>NIL</u></u>

(b)

<b>Thames &amp; Severn - Current Accounts</b>					
	Thames	Severn		Thames	Severn
	£	£		£	£
			Interest on Capital	10,450	8,150
Drawings	19,700	38,500	Salary	25,000	—
Bal c/d	<u>57,322</u>	<u>32,008</u>	Profit	41,572	62,358
	<u>77,022</u>	<u>70,508</u>		<u>77,022</u>	<u>70,508</u>
			Bal b/d	<u>57,322</u>	<u>32,008</u>





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