

Pearson LCCI

Certificate in Bookkeeping and Accounting (VRQ) Level 2

Friday 7 April 2017
Time: 2 hours 30 minutes

Paper Reference
ASE20093

Complete the details below in block capitals.

Candidate name

Centre Code

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Candidate Number

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Candidate ID Number

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You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen
 - pencil can only be used for graphs, charts, diagrams, etc.
- **Fill in the boxes** at the top of this page with your name, candidate number, centre code and your candidate ID number.
- Answer **all** questions.
- Answer the questions in the spaces provided
 - there may be more space than you need.
- Answers should be given to an appropriate degree of accuracy.

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
 - use this as a guide as to how much time to spend on each question.
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- You are advised to show your workings.
- Check your answers if you have time at the end.

Turn over ►

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Answer ALL questions. Write your answers in the spaces provided.

- 1** On 31 March 2017 Katie, a sole trader, provided the following information.

	1 April 2016	31 March 2017
	\$	\$
Trade payables	15 600	16 870
Trade receivables	13 420	14 850
Cash at bank	6 832 Cr	34 093
General expenses prepaid	590	680
Wages owing	1 345	1 605
Inventory	26 800	To be calculated

Summary of cash book

Date	Details	\$	Date	Details	\$
31 March 2017	Trade receivables	122 400	31 March 2017	Trade payables	67 500
	Cash banked	17 375		General expenses	13 130
				Wages	18 220

- Cash from cash sales was banked after the deduction of:
 - General expenses \$520
 - Cash purchases \$675
- Katie received cash discounts of \$1 410 from credit suppliers.
- The business achieves a 40% gross profit margin.



(a) Calculate for the year ended 31 March 2017:

(i) total sales

(6)

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(ii) total purchases.

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(b) Prepare the following accounts for the year ended 31 March 2017. Show any transfers to the income statement, balance the accounts on that date and bring the balance down on 1 April 2017.

(i)

General Expenses Account

(4)

(ii)

Wages Account

(4)

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(10)

(Total for Question 1 = 30 marks)



2 Stokes, Morgan and Ruhee are in partnership.

(a) Explain **two** benefits of forming a partnership.

(4)

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Their partnership agreement states:

	Stokes	Morgan	Ruhee
Profits and losses are shared	40%	40%	20%
Annual salaries	\$32 000		\$24 000
Annual interest			
<ul style="list-style-type: none"> Capital is paid at 5% interest on the opening balance. Drawings are charged at 5% interest on closing balance. The loan to the partnership is paid at 7% interest per annum. 			

On 31 March 2017 the following information was provided.

	Stokes \$	Morgan \$	Ruhee \$
1 April 2016			
Capital account	65 000	65 000	65 000
Current account	18 200	11 360	17 640
Loan to partnership			45 000
For the year ended 31 March 2017			
Drawings	36 500	38 200	28 600
<ul style="list-style-type: none"> Profit for the year before interest was \$194 235 No loan repayments were made in the year 			



(9)



(c) Prepare Ruhee’s current account for the year ended 31 March 2017. Balance the account on 31 March 2017 and bring the balance down on 1 April 2017.

(7)

Ruhee Current Account

(Total for Question 2 = 20 marks)

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3 Willow is a manufacturer of cricket bats.

- (a) Complete the table below with a tick (✓) to show if the item of expenditure is a direct or an indirect cost.

(4)

Item of expenditure	Direct Cost	Indirect Cost
Carriage inwards		
Delivery vehicle depreciation		
Factory supervisor's salary		
Production staff wages		

- (b) State how **each** of the following types of inventory will be **treated** in the financial statements.

(3)

Finished goods

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Work in progress

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Raw materials

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Willow depreciates machinery at a rate of 25% per annum on a reducing (diminishing) balance basis, with a full year's depreciation charged in the year of acquisition and none in the year of disposal.

On 1 April 2016 the total cost of machinery was \$188 500 with accumulated depreciation of \$36 150. This included a machine, purchased on 1 July 2015 costing \$8 600, which was sold on 1 March 2017 for \$6 500

On 1 February 2017 new machinery was purchased costing \$3 200

All purchases and sales of non-current assets were made by cheque.



- (c) Prepare the following ledger accounts for the year ended 31 March 2017, showing any transfers to the income statement. Balance the accounts on that date and bring the balances down on 1 April 2017.

Space for workings

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(i)

Machinery Cost Account

(3)

(ii)

Machinery Disposal Account

(4)



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(iii)

Machinery Accumulated Depreciation Account

(5)

(d) Calculate the carrying value of machinery at 31 March 2017.

(1)

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(Total for Question 3 = 20 marks)

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4 Ewa Ebanks, a sole trader, maintains an allowance for doubtful debts at 2% of trade receivables.

(a) (i) Explain why Ewa maintains an allowance for doubtful debts.

(4)

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(ii) State which accounting concept is being applied when maintaining an allowance for doubtful debts.

(1)

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On 1 January 2016 the trade receivables balance was \$66 800

Included in this balance was James, a credit customer, who owed \$2 200. During the year James paid \$600 by cheque, which was later dishonoured. On 31 December 2016 Ewa wrote off the balance on James's account as an irrecoverable debt.

(b) Prepare James's account at 31 December 2016.

(3)

James Account



On 31 December 2016 the following totals were extracted from the books.

	\$
Cash sales	61 640
Credit sales	180 950
Discount allowed	4 750
Discount received	3 100
Receipts from credit customers	186 160
Returns outwards	400
Transfers to trade payables ledger	1 840

On 31 December 2016 the trade receivables ledger balances were:

	\$
Allen	11 410
Bab	10 420
Edwards	8 610
Phillips	9 490
Stephens	13 470

- (c) Prepare the following accounts for the year ended 31 December 2016 showing any transfers to the income statement. Balance the accounts on that date and bring the balances down on 1 January 2017.

(i) **Trade Receivables Ledger Control Account**

(6)



(ii)

Irrecoverable Debts Account

(2)

(iii)

Allowance For Doubtful Debts Account

(4)

(Total for Question 4 = 20 marks)



- 5 Stump and Bale Ltd buys and sells goods on credit, allowing customers a 30-day credit period.

(a) State **two profitability** ratios.

(2)

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2

Stump and Bale Ltd calculated the following liquidity ratios for 2015 and 2016.

Ratio	2015	2016
Liquid (acid test)	0.8:1	0.7:1
Accounts payables payment period	32 days	28 days
Accounts receivables collection period	60 days	65 days
Current (working capital)	1.9:1	1.6:1

(b) Complete the following table to show the formula for each ratio.

(4)

Ratio	Formula
Liquid (acid test)	
Accounts payables payment period	
Accounts receivables collection period	
Current (working capital)	



To improve liquidity, the company is considering reducing its inventory.

(c) State the effect of having less inventory on the:

(2)

current (working capital) ratio

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liquid (acid test) ratio.

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The company's bank balance has decreased between 2015 and 2016 despite sales remaining constant.

(d) Analyse the ratios provided to explain **one** possible reason for the decrease in the company's bank balance.

(2)

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(Total for Question 5 = 10 marks)

TOTAL FOR PAPER = 100 MARKS





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