

Pearson LCCI Level 3 Certificate in Accounting (IAS)

Model Answers Series 2 2013 (ASE3902)

Level 3 Certificate in Accounting (IAS)

Series 2 2013

How to use this booklet

Model Answers have been developed to offer additional information and guidance to Centres, teachers and candidates as they prepare for LCCI International Qualifications. 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.

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EDI
LCCI IQ SERIES 2 EXAMINATION 2013
ACCOUNTING IAS
LEVEL 3
MARKING SCHEME

DISTINCTION MARK 75%
MERIT MARK 60%
PASS MARK 50%

TOTAL 100 MARKS

QUESTION 1
Syllabus Topic 1: Levels 1 and 2 revisited

(a)	(i)	Actual gross profit	\$	\$	
		Revenue		149,000	1/2
		Cost of goods sold:			
		Opening inventory $\{(8,000 \div 1.25) + (5,400 \times 10 \div 9)\}$	12,400		2
		Purchases (80,000 + 50,000)	<u>130,000</u>		1
			142,400		
		Closing inventory (8,000 + 5,400)	<u>(13,400)</u>	(129,000)	1
		Gross profit		<u>20,000</u>	1/2 of
					(5 marks)
	(ii)	Expected gross profit on food	\$	\$	
		Cost of goods sold:			
		Opening inventory (8,000 \div 1.25)	6,400		1 of
		Purchases	<u>80,000</u>		1/2
			86,400		
		Closing inventory	<u>(8,000)</u>		1/2
		0.25 x	<u>78,400</u>	19,600	2 of
					(4 marks)
	(iii)	Expected gross profit on drink	\$	\$	
		Cost of goods sold:			
		Opening inventory (5,400 \times 10 \div 9)	6,000		1 of
		Purchases	<u>50,000</u>		1/2
			56,000		
		Closing inventory	<u>(5,400)</u>		1/2
		0.30 x	<u>50,600</u>	15,180	2 of
					(4 marks)
	(iv)	Amount recoverable	\$	\$	
		Expected gross profit (19,600 + 15,180)	34,780		1 of
		Actual gross profit	<u>(20,000)</u>		1 of
		Claim	0.75 x <u>14,780</u>	<u>11,085</u>	2 of
					(4 marks)

(b) **Matters suggested**

- (i) No (1) – this would mean sales (and therefore actual gross profit) have been understated. To recognise this would reduce the claim. (1)
- (ii) No (1) – undervaluing closing stocks would cause an increase in cost of goods sold and reduce actual gross profit by 100% of the under valuation. Though expected profit would also be reduced it would be by much less. To recognise this would reduce the claim. (1)
- (iii) No (1) – increasing the expected gross profit percentage increases the expected gross profit. To recognise this would reduce the claim. (1)
- (iv) Yes (1) – reducing the expected mark up reduces the expected gross profit. To recognise this would increase the claim. (1)

1 mark for Yes/No x4, 1 mark for explanation x4

(8 marks)

(Total 25 marks)

QUESTION 2

Syllabus Topic 7: Statements of Cash Flows

Syllabus Topic 8: Companies

(a) **Reconciliation of profit for the year with the cash generated from operations**

	\$000
Operating profit (R)	268 1of
Depreciation {700 + 200 – (80 – 50) – 800}	70 2
Loss on sale (80 – 50 – 20)	10 1½
Discount on debentures (200 x 0.10)	20 1
Increase in inventory {(0.9 x 90) – 80}	(1) 1½
Decrease in receivables {65 – (0.95 x 60)}	8 1½
Increase in payables	<u>5</u> 1
Cash generated from operations	<u><u>380</u></u> ½f

(10 marks)

(b) **Hunt**

Statement of Cash Flows for the year ended 31 December 2012

	\$	\$
Cash generated from operations		380 1
Debenture interest (200 x 0.05)		<u>(10)</u> 1
Net cash flow from operating activities		<u>370</u>
Cash flow from investing activities		
Sale of non-current assets	20	1
Purchase of non-current assets	<u>(200)</u>	1
Net cash used in investing activities		(180)
Cash flows from financing activities		
Dividends paid (8 + 5)		(13) 1
Issue of debentures (200 x 0.9)	180	1
Issue of shares {50 x (0.5 + 0.2)}	<u>35</u>	1
Net cash used in financing activities		<u>202</u>
Net increase in cash		<u><u>392</u></u> 1of

Presentation **1**

(9 marks)

(c) **Issues raised by shareholders**

- (i) Shareholders cannot be “forced to buy further shares” and can normally sell their rights. The company could make a bonus (capitalisation) issue, to increase the share capital by the same amount, provided the reserves were sufficient. However, rights issues raise further cash for a company, bonus issues do not.

The shareholder is only **partly right 3**

- (ii) The discount on the issue of debentures should be considered with the rate of interest on them as part of the “package” designed to make the loan sufficiently attractive overall. The issue price of shares (nominal value plus premium) is usually related to their current market value. Most rights issues are pitched at a price below current (and anticipated) market price. No shareholder would take up shares at an issue price above market price.

The shareholder is **wrong 3**

Up to 2 marks for discussion, 1 mark for conclusion x 2

(6 marks)

(Total 25 marks)

QUESTION 3

Syllabus Topic 6: Accounting for groups of companies

(a) Effect on profit of Ball	\$000
(1)	No effect 1
(2)	No effect 1
(3) Administrative charges	7 1
(4)	No effect 1
(5) Bad debts wrongly charged	9 1
(6) Obsolete inventory written off	(15) 1
(7)	<u>No effect</u> 1
Increase in profit	<u>1</u> 1of

(8 marks)

(b) Effect on profit of Banks	\$000
(1) Unrecorded purchases	(60) 1
Unrecorded closing inventory	30 1
(2)	No effect 1
(3) Administrative charges	(7) 1
(4)	No effect 1
(5) Bad debts wrongly charged	(9) 1
(6)	No effect 1
(7) Other receivables	1 1
Decrease in profit	<u>(45)</u> 1of

(9 marks)

(c) Effect on profit of Ball Group	\$000
(1) Inventory	30 1
Provision for unrealised profit (30 x 20 ÷ 120)	(5) 1
(2)	No effect 1
(3)	No effect 1
(4) Goodwill impairment	(20) 1
(5)	No effect 1
(6) Obsolete inventory written off	(15) 1
(7) Other receivables	1 1
Decrease in profit	<u>(9)</u>

(8 marks)

(Total 25 marks)

QUESTION 4

Syllabus Topic 9: Budgetary control

Syllabus Topic 10: Introduction to decision making

(a) **Budgeted profit**

Option 1

	\$	
Contribution from evening shows		
300 seats x .90 capacity x 6 weeks x 7 shows x \$20 x .85	192,780	1½
Contribution from afternoon shows		
300 seats x .70 capacity x 6 weeks x 2 shows x \$20 x .90	45,360	1½
Contribution from restaurant - evenings		
300 seats x .90 capacity x 6 weeks x 7 shows x \$0.50 contribution	5,670	1
Contribution from restaurant - afternoons		
300 seats x .70 capacity x 6 weeks x 2 shows x \$0.50 contribution	<u>1,260</u>	1
	245,070	
Less fixed costs 80,000 + (6 weeks x 3,000)	<u>98,000</u>	1½
Budgeted profit	<u>147,070</u>	

Option 2

	\$	
Contribution from evening shows		
300 seats x .95 capacity x 7 weeks x 7 shows x \$25 x .85	296,757	1½
Contribution from afternoon shows		
300 seats x .65 capacity x 7 weeks x 3 shows x \$25 x .90	92,138	1½
Contribution from restaurant - evenings		
300 seats x .95 capacity x 7 weeks x 7 shows x \$0.50 contribution	6,983	1
Contribution from restaurant - afternoons		
300 seats x .65 capacity x 7 weeks x 3 shows x \$0.50 contribution	<u>2,048</u>	1
	397,926	
Less fixed costs 250,000 + (7 weeks x 3,000)	<u>271,000</u>	1½
	<u>126,926</u>	

(13 marks)

(b) **Calculations Option 1**

(i) **Expected total attendance**

Evenings	300 seats x .90 capacity x 6 weeks x 7 days	11,340	1
Afternoons	300 seats x .70 capacity x 6 weeks x 2 days	<u>2,520</u>	1
		<u>13,860</u>	

(ii) **Average contribution per person attending**

245,070 ÷ 13,860 = 17.6818	<u>\$18</u>	1of
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(iii) **Break even number attending**

98,000 ÷ 18	<u>5,445</u>	1of
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Calculations Option 2

(i) **Expected total attendance**

Evenings	300 seats x .95 capacity x 7 weeks x 7 days	13,965	1
Afternoons	300 seats x .65 capacity x 7 weeks x 3 days	<u>4,095</u>	1
		<u>18,060</u>	

(ii) **Average contribution per person attending**

397,926 ÷ 18,060 = 22.0336	<u>\$22</u>	1
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(iii) **Break even number attending**

271,000 ÷ 22 = 12,318.1818	<u>12,318</u>	1
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(8 marks)

(c) **Supporter's objections**

The \$170,000 is the increase in the total wage bill. Although the television personality will demand a high wage a significant part of the increase will be paid to local actors for the extra week's work and the extra afternoon performances. Objection however is mostly valid. **2**

The television personality will presumably only be able to take one part in the play so only one local actor would not be employed. Objection therefore only partly valid. **2**

Up to 1 mark for discussion of each objection and 1 mark for conclusion, x2

(4 marks)

(Total 25 marks)

QUESTION 5

Syllabus Topic 8: Accounting ratios

(a)

**Doyle
Income Statement year ended 31 December 2012**

	\$	\$	
Revenue (24,000 x 12 ÷ 1.6)		180,000	1of
Cost of goods sold:			
Opening inventory (given)	12,000		1
Purchases (10,737 x 12 ÷ 1.5)	<u>85,896</u>		1of
	97,896		1
Closing inventory (given)	<u>12,000</u>	85,896	
Gross profit		94,104	
Depreciation (0.25 x 83,304)	20,826		1of
Other expenses (0.75 x 83,304)	<u>62,478</u>	83,304	1of
Net profit		<u>10,800</u>	1of

**Doyle
Statement of Financial Position at 31 December 2012**

	\$	\$	\$	
Non-current assets (R)			10,320	1of
Current assets				
Inventory (given)		12,000		1
Receivables (see note)		<u>24,000</u>		1
			36,000	
Total assets			<u>46,320</u>	
			\$	
Capital				
Opening balance (10,800 x 100 ÷ 40)			27,000	1of
Net profit			<u>10,800</u>	1of
			37,800	
Drawings (10,800 x .60)			<u>6,480</u>	1of
			<u>31,320</u>	½of
Current liabilities				
Payables see note)	10,737			1
Bank overdraft (given)	<u>4,263</u>			1
			15,000	
Total equity and liabilities			<u>46,320</u>	½of

(16 marks)

Note

$$\frac{12,000 + \text{Receivables}}{4,263 + \text{Payables}} - \frac{\text{Receivables}}{4,263 + \text{Payables}} = 2.4 - 1.6$$

$$\frac{12,000}{4,263 + \text{Payables}} = 0.8 \qquad \text{Payables} = \underline{\$10,737}$$

$$\frac{\text{Receivables}}{4,263 + 10,737} = 1.6 \qquad \text{Receivables} = \underline{\$24,000}$$

QUESTION 5 CONTINUED

(b)	(i)	Earnings yield				
		2011 Share price	= 0.50 x 6.50	= 3.25		$\frac{1}{2}$
		Earnings yield	= $\frac{\text{Earnings per share}}{\text{Market price per share}}$	= $\frac{0.50}{3.25} \times 100$	= <u>15.38%</u>	1
		2012 Share price	= 0.60 x 6.00	= 3.60		$\frac{1}{2}$
		Earnings yield	= $\frac{\text{Earnings per share}}{\text{Market price per share}}$	= $\frac{0.60}{3.60} \times 100$	= <u>16.67%</u>	1
	(ii)	Dividend yield				
		2011 Dividend	= 0.50 ÷ 4	= 0.125		$\frac{1}{2}$
		Dividend yield	= $\frac{\text{Dividend per share}}{\text{Market price per share}}$	= $\frac{0.125}{3.25} \times 100$	= 3.85%	1
		2012 Dividend	= 0.60 ÷ 5	= 0.12		$\frac{1}{2}$
		Dividend yield	= $\frac{\text{Dividend per share}}{\text{Market price per share}}$	= $\frac{0.12}{3.60} \times 100$	= <u>3.33%</u>	1

(6 marks)

(c) **Significance of price earnings ratio**

This relates price per share (determined by expected future earnings and dividends) to current earnings per share. (1) So the higher the ratio the more highly regarded the company. (1) It is also considered to be a good basis for comparing different companies and the same company over time.(1)

(3 marks)

(Total 25 marks)

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