

Mark Scheme (Results)

Series 2 2014

Pearson LCCI Level 3

Certificate in Accounting (IAS) (ASE3902)

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**LCCI IQ SERIES 2 EXAMINATION 2014  
ACCOUNTING (IAS)  
LEVEL 3  
MARKING SCHEME**

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

**TOTAL 100 MARKS**

**QUESTION 1**

**SYLLABUS TOPIC 3: Valuation of non-current assets**

(a)	<b>(i) Straight line method</b>		\$	
	2014, 2015, 2016 and 2017 $(50,000 - 6,480)/4$		10,880	1
	<b>(ii) Reducing balance method</b>		\$	
	2014 $50,000 \times .40$		20,000	½
	2015 $(50,000 - 20,000) \times .40$		12,000	½
	2016 $(50,000 - 20,000 - 12,000) \times .40$		7,200	½
	2017 $(50,000 - 20,000 - 12,000 - 7,200) \times .40$		4,320	½
	<b>(iii) Sum of the years digits method</b>		\$	
	2014 $(50,000 - 6,480) \times 4/(4 + 3 + 2 + 1)$		17,408	1
	2015 $(50,000 - 6,480) \times 3/(4 + 3 + 2 + 1)$		13,056	½ OF
	2016 $(50,000 - 6,480) \times 2/(4 + 3 + 2 + 1)$		8,704	½ OF
	2017 $(50,000 - 6,480) \times 1/(4 + 3 + 2 + 1)$		4,352	½ OF
	<b>(iv) Machine hour method</b>			
	Total hours - 2014	4,000		½
	2015 $(4,000 \times .8)$	3,200		½
	2016 $(3,200 \times .8)$	2,560		½
	2017 $(2,560 \times .8)$	<u>2,048</u>		½
		<u>11,808</u>		
			\$	
	2014 $(50,000 - 6,480) \times 4,000/11,808$		14,743	1
	2015 $(50,000 - 6,480) \times 3,200/11,808$		11,794	½ OF
	2016 $(50,000 - 6,480) \times 2,560/11,808$		9,435	½ OF
	2017 $(50,000 - 6,480) \times 2,048/11,808$		7,548	½ OF

(10 marks)

**QUESTION 1 Continued**

(b) **Appropriate method**

Machine hours method because it reflects both usage and a (probable) reduction in market value over the computer system's useful life due to technological obsolescence.

1 for machine hour method, 2 for reason, 2 max for reducing balance method/SYD,  
0 for straight line method.

(3 marks)

(c) **Division of \$345,000**

Item	Total \$	Cost of Land and buildings \$		Expenses \$	
Purchase of land	200,000	200,000	½	-	
Legal fees (75%, 25%)	30,000	22,500	1	7,500	½
Site clearance	10,000	10,000	½	-	
Building materials	40,000	40,000	½	-	
Labour – specially hired	25,000	25,000	½	-	
own labour (8:2)	20,000	16,000	1	4,000	½
compensation	2,000	-		2,000	½
Annual insurance premium	3,000	-		3,000	½
Electrical installation	4,000	4,000	½	-	
Provision of water	2,000	2,000	½	-	
Costs of flooding - redecoration	2,700	-		2,700	½
repairs	<u>6,300</u>	<u>2,500</u>	½	<u>3,800</u>	1
	<u>345,000</u>	<u>322,000</u>		<u>23,000</u>	

Presentation 1

(10 marks)

(d) **Items not depreciated**

Purchase of land 1

Legal fees relating to land purchase 1

(2 marks)

**(TOTAL 25 marks)**

QUESTION 2

SYLLABUS TOPIC 9: Budgetary control

**Lamb**  
**Cash budget for the year ending 31 December 2014**

(a)	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
	\$	\$	\$	\$	
<b>Receipts</b>					
Cash sales (W1)	1,900	2,850	2,850	3,325	<2>
Trade receivables (W2)	195,000	192,500	212,500	205,000	<4>
Sale of non-current assets	-	3,000	-	-	1
	<u>196,900</u>	<u>198,350</u>	<u>215,350</u>	<u>208,325</u>	
			No depreciation		1
<b>Payments</b>					
Cash purchases (W3)	1,840	2,760	2,300	920	<4>
Trade payables	144,000	146,000	176,000	186,000	1
Wages	30,000	30,000	30,000	30,000	½
Sundry expenses	1,500	1,500	1,500	1,500	½
	<u>177,340</u>	<u>180,260</u>	<u>209,800</u>	<u>218,420</u>	
<b>Surplus/Deficit</b>	19,560	18,090	5,550	(10,095)	
Opening balance	<u>(2,000)</u>	<u>17,560</u>	<u>35,650</u>	<u>41,200</u>	1
<b>Closing balance</b>	<u>17,560</u>	<u>35,650</u>	<u>41,200</u>	<u>31,105</u>	

Presentation 2  
(17 marks)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
W1	2,000 X .95 = 1,900	3,000 X .95 = 2,850	3,000 X .95 = 2,850	3,500 X .95 = 3,325	½ <2>
W2	75% x quarter of sale 25% x quarter after sale <u>195,000</u>	142,500 ½ <u>50,000</u> ½ <u>192,500</u>	165,000 ½ <u>47,500</u> ½ <u>212,500</u>	150,000 ½ <u>55,000</u> ½ <u>205,000</u>	½ <4>
W3	1,800 x 10/9 = 2,000 x .92 = 1,840	2,700 x 10/9 = 3,000 x .92 = 2,760	2,250 x 10/9 = 2,500 x .92 = 2,300	900 x 10/9 = 1,000 x .92 = 920	½ ½ ½ <4>

**Question 2 continued**

(b) Possible answers include:

Increase discounts for cash revenue  
- additional expense

Delay payments to trade payables  
- loss of discounts; refusal to supply

Reduce inventory  
- risk of inventory shortages; revenue falls because of lack of choice

Reduce wages  
- alienation of workforce

Reduce credit period/discount allowed to customers  
- loss of revenue etc.

1 mark each way + 1 mark each disadvantage x 4

(8 marks)

**(TOTAL 25 marks)**

**QUESTION 3**

**SYLLABUS TOPIC 1: Levels 1 and 2 revisited**

(a) (i)

<b>Hick</b>		<b>Bank Account</b>	
<b>Year ended 31 March 2014</b>			
	\$		\$
Capital	16,500 ½	Lease	10,000 ½
Receivables	25,700 ½	Drawings (90 x 52)	4,680 1
		Electrical equipment	7,000 ½
		Electricity	1,047
		Motor expenses	1,326
		General expenses	317
		Trade purchases	11,600 ½
		Drawings (holiday)	700 ½
		Closing balance (R)	<u>5,530</u>
	<u>42,200</u>		<u>42,200</u>

(ii)

<b>Hick</b>		<b>Income Statement</b>	
<b>Year ended 31 March 2014</b>			
	\$		\$
Sales			34,800 ½
Cost of goods sold: Purchases	11,600 ½		
Closing inventory	<u>420 ½</u>		<u>11,180</u>
<b>Gross Profit</b>			23,620
Accounting fee	250 ½		
Electricity (1,047 + 323)	1,370 1		
Motor expenses	1,326 ½		
General expenses {317 + (.30 x 3,420)}	1,343 1½		
Bad debts [.10 (34,800 – 3,420 – 25,700)]	568 2		
Depreciation: Lease (10,000/10)	1,000 ½		
Equipment (7,000/5)	1,400 ½		
Car (3,000/10)	<u>300 ½</u>		<u>7,557</u>
<b>Net Profit</b>			<u>16,063</u>

(13 marks)

**QUESTION 3 Continued**

(b)

**Hick  
Statement of Financial Position  
at 31 December 2014**

	Cost	Accumulated depreciation	Net book value	
<b>Non-current assets</b>	\$	\$	\$	
Lease	10,000	1,000	9,000	½
Equipment	7,000	1,400	5,600	½
Car	<u>3,000</u>	<u>300</u>	<u>2,700</u>	½
	<u>20,000</u>	<u>2,700</u>	17,300	
 <b>Current assets</b>				
Inventory		420		½
Receivables (34,800 – 3,420 – 25,700)	5,680			½
<b>Less</b> Provision	<u>568</u>	5,112		½ OF
Bank ((a) (i))		<u>5,530</u>		½ OF
			11,062	
<b>Total Assets</b>			<u>28,362</u>	
			\$	
<b>Capital</b>				
Capital introduced (16,500 + 3,000)			19,500	1
<b>Add</b> Net profit			<u>16,063</u>	½ OF
			35,563	
<b>Less</b> Drawings [4,680 + 700 + (.7 x 3,420)]			<u>7,774</u>	2
<b>Current liabilities</b>			27,789	
Accruals (250 + 323)			<u>573</u>	1
<b>Total equity and liabilities</b>			<u>28,362</u>	

(8 marks)

(c) **Employing part-time book-keeper**

**Advantages**

- Enables Hick to concentrate on running the business
- Reduces fees paid to accountant
- Enables better credit control
- Enables better budgeting etc.

Any 3 x1

**Disadvantages**

- Costs of employing book-keeper
- If part-time may not be available when needed etc.

Any 1 x 1

(4 marks)

**(TOTAL 25 marks)**



**QUESTION 4**

**SYLLABUS TOPIC 6: Accounting for groups of companies**  
**SYLLABUS TOPIC 11: Concepts and accounting framework**

(a)	(i) <b>Goodwill arising on acquisition</b>		\$	\$	
	Purchase price			320,000	½
	<b>Less:</b> Share capital	100,000	½		
	Retained earnings	<u>150,000</u>	½		
		80% x	<u>250,000</u>	½	<u>200,000</u>
	Goodwill				<u>120,000</u>
	(ii) <b>Consolidated retained earnings</b>			\$	
	Lloyd			500,000	½
	Cork [80% (220,000 – 150,000)]			<u>56,000</u>	1½
				556,000	
	Goodwill impaired (120,000/10)			<u>12,000</u>	1
	Retained earnings			<u>544,000</u>	

(5 marks)

(b)

**Lloyd plc**  
**Consolidated Income Statement**  
**year ended 31 December 2013**

		\$	
Revenue (170,000 – 20,000)		150,000	1
Cost of sales [(75% x 90,000) + 80% (170,000 – 90,000) – 20,000 + (50% x 20,000 x 25%)]		<u>114,000</u>	4½
<b>Gross profit</b>		36,000	
Operating expenses [7,800 + 10% (170,000 – 90,000)]		<u>15,800</u>	1
		20,200	
Goodwill impaired		<u>12,000</u>	10F
<b>Profit for the period</b>		<u>8,200</u>	
Profit attributable to:			
Owners of the parent		6,600	1 ½ OF
Non-controlling interest [20% x 10% (170,000 – 90,000)]		<u>1,600</u>	2
		<u>8,200</u>	

(11 marks)

(c)	<b>Memorandum journal entry</b>	DR	CR	
		\$	\$	
	Retained earnings (70% x 3,000)	2,100		1
	Non-controlling interest (30% x 3,000)	900		1
	Inventory (60,000 x 20% x 25%)		3,000	2
	Elimination of unrealised profit in inventory			1

(5 marks)

**QUESTION 4 Continued**

- (d) **Evidence relating to not being a going concern**  
 Non-current assets fully depreciated and not replaced  
 Unpaid loan interest  
 Unpaid preferred dividends  
 Net current liabilities  
 Falling revenue and increased inventory  
 Loans not repaid on time  
 Share issues undersubscribed etc.  
 Any 4 x 1 each

(4 marks)

**(TOTAL 25 marks)**

**QUESTION 5**

**SYLLABUS TOPIC 8: Accounting ratios**

(a) (i) **Net profit for 2013**  
 $10\% \times \$800,000 = \underline{\$80,000}$  1

(ii) **Inventory at 1 January 2013**

		\$		\$
Revenue				800,000
Cost of goods sold :	Opening inventory (R)	60,000	10F	
	Purchases	<u>500,000</u>	½	
		560,000		
	Closing inventory	<u>80,000</u>	½	<u>480,000</u>
Gross profit (40% x 800,000)				<u>320,000</u> 1

(iii) **Current liabilities at 31 December 2013**

$$\frac{80,000 + \text{Receivables} + \text{Bank}}{\text{Current Liabilities}} \times \frac{1}{2} - \frac{\text{Receivables} + \text{Bank}}{\text{Current Liabilities}} \times \frac{1}{2} = 1.5 - 1.0$$

$$\therefore \frac{80,000}{\text{Current Liabilities}} = 0.5 \therefore \text{Current Liabilities} = \underline{\$160,000}$$
 1

(7 marks)

(b) **Comments by clerk**

(1) This is incorrect. The lower the percentage difference between gross profit to revenue and net profit to revenue the better (1). But further investigation (e.g. comparisons with budgets) would be necessary to determine whether costs were “under control” (1).

1 for choice with reasoning + 2 for reasoning

(2) This is incorrect. The acid test ratio shows (in this case) that current assets excluding inventory equal current liabilities (1). Unless receivables also pay up “immediately” payables could not be paid “immediately” (1).

1 for choice with reasoning + 2 for reasoning

(6 marks)

**QUESTION 5 Continued**

**(c) Revised ratios**

- (i) **Gross profit to revenue**  
$$\frac{320,000 - 800 + 900}{800,000 + 900} \times 100 = \underline{39.97\%}$$
$$= \frac{320,100}{800,900} \times 100$$
- (ii) **Net profit to revenue**  
$$\frac{80,000 - 300 - 800 - 200 - 600 + 900 + 320 + 80}{800,000 + 900} \times 100 = \underline{9.91\%}$$
$$= \frac{79,400}{800,900} \times 100$$
- (iii) **Current**  
$$\frac{240,000 - 800 - 200 - 600 + 900 + 320 + 80}{160,000 + 300} = \underline{1.50 : 1}$$
$$= \frac{239,700}{160,300}$$
- (iv) **Acid test**  
$$\frac{160,000 - 200 - 600 + 900 + 320 + 80}{160,000 + 300} = \underline{1.00 : 1}$$
$$= \frac{160,500}{160,300}$$

½ for each correct adjustment x 24

(12 marks)

**(TOTAL 25 marks)**

