



Mark Scheme

Series 4 2014  
**Results**

Pearson LCCI Level 3  
Certificate in Accounting (ASE3902)

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## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Where more than the specified number of questions have been attempted, mark the questions in the order stated on the front cover by the candidate, or else the order provided, if not stated on the cover.

## QUESTION 1

### SYLLABUS TOPIC 8 : Accounting ratios

### SYLLABUS TOPIC 2 : Valuation of inventories

#### (a) Calculations

- (i)  $400,000 \times 5\% = \underline{\$20,000}$  **1**
- (ii)  $\frac{20,000}{360,000} \times 100 = \underline{5.56\%}$  **1OF**
- (iii)  $\frac{45,000}{360,000} \times 365 = \underline{45.63 \text{ days}}$
- (iv)  $\frac{70,000}{\text{Purchases}} \times 365 = 90$  **1**  $\therefore$  Purchases =  $\underline{\$283,889}$
- (v)  $\frac{\text{Current assets}}{70,000} = 1.2$  **1of**  $\therefore$  Current assets =  $\underline{\$84,000}$
- (vi)  $\frac{84,000 - 8,000}{70,000} = \underline{1.09:1}$  **1of – top line**

Marks are given for method not answer on iii- vi

(9 marks)

#### (b) Explanations

- (i) **yes** **1** – cash purchases could explain the difference between expected (higher) purchases and credit purchases. **1**
- (ii) **no** **1** – in the calculations above if the payables' settlement period was more than 90 days credit purchases would work out at an even lower figure. /the payable's settlement period is not relevant to the calculation of purchases. **1**
- (iii) "Yes/No" must match a correct reason

If wages are included the cost of goods would be much higher and purchases would not look low in relation to sales, therefore, **yes**

(6 marks)

**Question 1 continued**

(c) **Missing figures**

|                 | Units              | Cost per unit<br>\$ | Total cost<br>\$   |
|-----------------|--------------------|---------------------|--------------------|
| Opening balance | 2,400              | 2.50 (A) 1          | 6,000              |
| Purchases       | <u>700</u>         | 2.80 (B) 1          | <u>1,960</u> (C) 1 |
|                 | 3,100              |                     | 7,960              |
| Issue           | <u>800</u>         | 2.50 (D) 1          | <u>2,000</u> (E) 1 |
|                 | 2,300              |                     | 5,960 (F) 1        |
| Purchase        | <u>400</u> (G) 1   | 2.90                | <u>1,160</u>       |
|                 | 2,700 (H) ½        |                     | 7,120 (I) ½        |
| Purchase        | <u>500</u>         | 3.00 (J) 1          | <u>1,500</u>       |
|                 | <u>3,200</u> (K) ½ |                     | <u>8,620</u> (L) ½ |

(10 marks)

(TOTAL 25 marks)

**QUESTION 2**

**SYLLABUS TOPIC 9 : Budgetary control**

**SYLLABUS TOPIC 10 : Introduction to decision making**

|     |  |                  |                   |                                     |
|-----|--|------------------|-------------------|-------------------------------------|
| (a) | <b>Total profit on contract</b>                          | \$               | \$                |                                     |
|     | Revenue (to city)  |                  |                   |                                     |
|     | 360 (days) x 5 (years) x 2 (journeys) x 10 (miles)       |                  |                   |                                     |
|     | x 4 (trains) x 8 (wagons) x \$10                         |                  | 11,520,000        | 3                                   |
|     | <i>½ mark for each factor in calculation max 3 marks</i> |                  |                   |                                     |
|     | Revenue (to seaport)                                     |                  |                   |                                     |
|     | as above except x 2 (wagons) =                           | 11,520,000 x ¼   | <u>2,880,000</u>  | <b>1OF</b>                          |
|     |  |                  | 14,400,000        |                                     |
|     | <b>Less :</b> running costs                              |                  |                   |                                     |
|     | 360 (days) ½ x 5 (years) ½ x 4 (journeys) ½ x            |                  |                   |                                     |
|     | 10 (miles) ½ x 4 (trains) ½ x \$5½                       | 1,440,000        |                   |                                     |
|     | fee to railway company                                   | 3,000,000        |                   | 1                                   |
|     | railway engines  |                  |                   |                                     |
|     | (500,000 x 4)1 – (80,000 x 4) 1                          | 1,680,000        |                   |                                     |
|     | wagons   |                  |                   |                                     |
|     | (100,000 x 40)1 + (5,000 x 40) 1                         | <u>4,200,000</u> | <u>10,320,000</u> |                                     |
|     | <b>Profit</b>  |                  | <u>4,080,000</u>  |                                     |
|     |  |                  |                   | <i>omitting track maintenance 1</i> |

(13 marks)

|     |  |                            |                                 |
|-----|--|----------------------------|---------------------------------|
| (b) | <b>Net present value of contract</b>                           | <b>Discount<br/>Factor</b> | <b>Present<br/>Value<br/>\$</b> |
|     | Y 0 (3,000,000 1/2 + 2,000,0001 + 4,000,0001 + 80,000 ½ )1.000 |                            | (9,080,000)                     |
|     | Y 1-5 (14,400,0001/2of – 1,440,0001/2of)/51/2                  | 3.790 1/2                  | 9,823,680                       |
|     | Y 5 320,000 1 – 200,000 ½ + 80,000 1/2                         | 0.621 1                    | <u>124,200</u>                  |
|     | <b>Net present value</b>                                       |                            | <u>867,880</u>                  |

(8 marks)

- (c) **Suggestions**
- (i) This will be valid only if total revenue is increased 1 i.e. it could fall. 1  
*Accept other valid alternatives*
  - (ii) This will be valid if the loss of revenue 1 from when more than eight wagons would be used does not exceed the saving from purchasing fewer wagons 1 i.e. eight is only an average number.  
*Accept other valid alternatives*

(4 marks)

(TOTAL 25 marks)

**QUESTION 3**

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

**SYLLABUS TOPIC 7 : Statements of cash flow**

(a)

| <b>Sales Ledger Control Account</b> |                  |   |                  |
|-------------------------------------|------------------|---|------------------|
|                                     | \$               |   | \$               |
| Opening balance                     | 460,000          | ½ | Discount allowed |
| Sales                               | 3,200,000        | ½ | 64,000           |
| Bad debt recovered                  | 875              | 1 | (3,200,000 x 2%) |
|                                     |                  |   | Bank             |
|                                     |                  |   | 3,169,400        |
|                                     |                  |   | 875              |
|                                     |                  |   | ½                |
|                                     |                  |   | Bad debts        |
|                                     |                  |   | 8,600            |
|                                     |                  |   | ½                |
|                                     | <u>3,660,875</u> |   | Closing balance  |
|                                     |                  |   | <u>418,000</u>   |
|                                     |                  |   | <u>3,660,875</u> |

| <b>Allowance for Doubtful Debts Account</b> |               |   |                 |
|---|---------------|---|-----------------|
|   | \$            |   | \$              |
| Closing balance                             | 16,720        | 1 | Opening balance |
| (418,000 ½ of x 4% ½)                       |               |   | 13,800          |
|   |               |   | 1               |
|   |               |   | (460,000 x 3%)  |
|   |               |   | Bad debts       |
|   |               |   | <u>2,920</u>    |
|   |               |   | ½ of            |
|   | <u>16,720</u> |   | <u>16,720</u>   |

No penalties for aliens

(7 marks)

(b) **Bad debts expense**

|                       |               |      |
|-----------------------|---------------|------|
| Bad debts written off | 8,600         | 1    |
| Increase in allowance | 2,920         | 1 OF |
| Bad debts recovered   | <u>(875)</u>  | 1    |
|                       | <u>10,645</u> |      |

No penalties for aliens

(3 marks)

(c) **Explanation of terminology**

Bad debts written off are those specific debts which are expected never to be paid. **1**

An allowance for doubtful debts may happen in light of experience **1** it is an estimate of value of current debts which may not be paid. **1**

(3 marks)

**Question 3 continued**

|     |  |                                 |
|-----|--|---------------------------------|
| (d) | <b>Amount to be shown in respect of receivables</b>                        | <b>\$</b>                       |
|     | Opening receivables (460,000 $\frac{1}{2}$ - 13,800 <b>1OF</b> )           | 446,200                         |
|     | Closing receivables (418,000 $\frac{1}{2}$ <b>OF</b> – 16,720 <b>1OF</b> ) | <u>401,280</u>                  |
|     | Decrease in receivables  | <u><u>44,920</u></u> <b>1OF</b> |

(4 marks)

(e) **Explanation of treatment**

The original debt must be reinstated **1** and the cash received recorded against it in the individual receivables' account. **1** Thereby a full record will be kept. The amount will therefore appear on both sides of the Sales Ledger Control Account. **1**

(3 marks)

|     |   |                  |
|-----|---|------------------|
| (f) | <b>Amounts to be shown in respect of non-current assets</b>   | <b>\$</b>        |
|     | Depreciation 10% $\frac{1}{2}$ x (4,100,000 $\frac{1}{2}$ + 470,000 $\frac{1}{2}$ - 170,000 $\frac{1}{2}$ ) | 440,000          |
|     | Loss on disposal  | 30,000 <b>1</b>  |
|     | Purchases   | 470,000 <b>1</b> |
|     | Sales (50,000 – 30,000)   | 20,000 <b>1</b>  |

(5 marks)

(TOTAL 25 marks)



**QUESTION 4**

**SYLLABUS TOPIC 5 : Companies**

**SYLLABUS TOPIC 8 : Accounting ratios**

(a) (i) **Rate of interest on debentures**

$$\frac{50,000 \times 100}{500,000} = \underline{10\%} \quad 1$$

(ii) **Dividend payable on each preferred share**

$$\frac{6,000}{2 \times 60,000} = \underline{\$0.05} \quad 1$$

(iii) **Ordinary dividend yield**

$$\frac{30,000 \div 400,000 \times 100}{2.50} = \underline{3\%} \quad 1$$

(iv) **Ordinary dividend cover**

$$\frac{45,000 + 30,000}{30,000} = \underline{2.50 \text{ times}} \quad 1$$

(v) **Price earnings ratio**

$$\frac{2.50}{75,000 \div 400,000} = \underline{13.33 \text{ times}} \quad 1$$

(vi) **Ordinary shareholders' funds**

|                     | <b>\$000</b> |   |
|---------------------|--------------|---|
| Ordinary shares     | 400          | ½ |
| Share premium       | 90           | ½ |
| Revaluation reserve | 40           | ½ |
| Retained earnings   | <u>180</u>   | ½ |
|                     | <u>710</u>   |   |

No penalties for aliens

(10 marks)

(b) **Information for 2013**

|   | <b>\$000</b> |   |
|---|--------------|---|
| Debenture interest (50,000 x .50)                         | 25           | 1 |
| Dividends : preferred {(120,000 – 40,000) x .05}          | 4            | 1 |
| : ordinary {(400,000x0.06)1/2 + (100,000 x .06)1/2}       | 30           | 1 |
| Retained earnings for the year                            | 60           | ½ |
| Ordinary shares (\$1.00 each) (400,000 + 100,000)         | 500          | 1 |
| Preferred shares (\$0.50 each) {(120,000 – 40,000) x .50} | 40           | 1 |
| Share premium (90,000 + 25,000)                           | 115          | 1 |
| Revaluation reserve                                       | 40           | ½ |
| Retained earnings (180,0001/2 + 60,0001/2)                | 240          | 1 |
| Debentures (500,000 x .50)                                | 250          | 1 |

(9 marks)

**Question 4 continued**

(c) **Price earnings ratio 2013**

$$\frac{2.60 \frac{1}{2}}{(60,000 \frac{1}{2} + 30,000 \frac{1}{2} \text{ of}) / 500,000 \frac{1}{2}} = \underline{\underline{14.44 \text{ times}}}$$

(2 marks)

(d) **Difference between ordinary shares and preferred shares**

**Up to 2 marks for each difference**

Preferred dividends are fixed **1**, ordinary dividends are not. **1**

Preferred dividends are paid at a fixed rate **1** whereas ordinary shareholders depend on profit. **1**

Ordinary shareholders are entitled to vote at meetings of the company **1** whereas preferred shareholders are not normally allowed to vote etc. **1**

any 2 x 2 (4 marks)

(TOTAL 25 marks)

**QUESTION 5**

**SYLLABUS TOPIC 4 : Partnerships**

(a)

| <b>Capital Accounts</b> |               |     |               |               |                 |
|-------------------------|---------------|-----|---------------|---------------|-----------------|
|                         | <b>Moxon</b>  |     | <b>White</b>  |               |                 |
|                         | \$            |     | \$            | <b>Moxon</b>  | <b>White</b>    |
|                         |               |     |               | \$            | \$              |
| Drawings                | 6,000         | ½   | 4,000         | ½             | Opening balance |
| Ordinary shares (3:2)   | 45,000        | ½   | 30,000        | ½             | 40,000          |
|                         |               |     |               |               | 30,000          |
|                         |               |     |               |               | ½               |
| Preferred shares (3:2)  | 15,000        | ½   | 10,000        | ½             | Profit (3:2) W1 |
| Bank (R)                | <u>28,000</u> | ½OF | <u>20,000</u> | ½OF           | 27,000<2>       |
|                         |               |     |               |               | 18,000<2>       |
|                         | <u>94,000</u> |     | <u>64,000</u> |               | Goodwill (3:2)  |
|                         |               |     |               | <u>24,000</u> | ½               |
|                         |               |     |               | <u>16,000</u> | ½               |
|                         |               |     |               | <u>94,000</u> | <u>64,000</u>   |

**W1 Income Statement**

|   |                        | \$              | \$             |
|---|------------------------|-----------------|----------------|
| Sales                                   |                        |                 | 250,000        |
| <b>Less cost of sales :</b>             | Opening inventory      | 15,000          |                |
|   | Purchases              | <u>120,000</u>  |                |
|   |                        | 135,000         |                |
|   | Closing inventory      | <u>(28,000)</u> | <u>107,000</u> |
| Gross profit                            |                        |                 | 143,000        |
| <b>Less expenses :</b>                  | Rent                   | 12,000          |                |
|   | Wages                  | 45,500          |                |
|   | Postage and stationery | 18,000          |                |
|   | Motor expenses         | <u>19,500</u>   | <u>95,000</u>  |
|   |                        |                 | 48,000         |
| Net profit                              |                        |                 |                |
| <b>Less salary Moxon (6,000 x 0.50)</b> |                        |                 | <u>3,000</u>   |
|   |                        |                 | 45,000         |
| <b>Less profit shares :</b>             | Moxon (60%)            | 27,000          | ½OF            |
|   | White (40%)            | <u>18,000</u>   | ½OF            |
|   |                        |                 | <u>45,000</u>  |

<4>

(11 marks)

**Question 5 continued**

**(b) Retained profit of Such Ltd at 31 March 2014**

|  | \$           |   | \$             |     |
|--|--------------|---|----------------|-----|
| Gross profit (60% x 370,000)   |              |   | 222,000        | 1   |
| <b>Less expenses:</b> rent (12,000 ÷ 6 x 9)                              | 18,000       | 1 |                |     |
| wages (45,500 x 1.2)   | 54,600       | 1 |                |     |
| postage and stationery<br>18,000 ÷ 6 = 3,000<br>(3,000x9) 1 + (500x9)1 = | 31,500       |   |                |     |
| motor expenses<br>19,500 ÷ 6 = 3,250<br>(3,250x9) 1 – (500 x 9) 1 =      | 24,750       |   |                |     |
| goodwill impairment<br>(40,000 ÷ 5)1/2 x (9 ÷ 12)1/2 =                   | <u>6,000</u> |   | <u>134,850</u> |     |
|  |              |   | 87,150         |     |
| <b>Less dividends:</b> preferred (25,000 x 10%)1 x (9 ÷ 12)1/2           | 1,875        |   |                |     |
| ordinary (50,000 x 0.10)   | <u>5,000</u> | 1 | <u>6,875</u>   |     |
| Retained profit  |              |   | <u>80,275</u>  | ½OF |

(11 marks)

**(c) Description of difference**

1 mark for each valid point, max 2 for either type of salary

Partners' salaries are treated as appropriations of profit 1 and therefore not part of the calculation of net profit. 1

Directors' salaries are treated as expenses of the business. 1

(3 marks)

(TOTAL 25 marks)