Pearson LCCI
Level 3 Certificate in Accounting

Model Answers
Series 2 2013 (ASE3012)

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Level 3 Certificate in Accounting
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.

Pearson provides Model Answers to help candidates gain a general understanding of the standard required. The general standard of model answers is one that would achieve a Distinction grade. Pearson accepts that candidates may offer other answers that could be equally valid.

EDI
LCCI IQ SERIES 2 EXAMINATION 2013
ACCOUNTING
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**

	£	£	
Sales		149,000	½
Cost of goods sold:			
Opening stock {(8,000 ÷ 1.25) + (5,400 x 10 ÷ 9)}	12,400		2
Purchases (80,000 + 50,000)	130,000		1
	142,400		
Closing stock (8,000 + 5,400)	(13,400)	(129,000)	1
Gross profit		20,000	½ of

(5 marks)

(ii) **Expected gross profit on food**

	£	£	
Cost of goods sold:			
Opening stock (8,000 ÷ 1.25)	6,400		1of
Purchases	80,000		½
	86,400		
Closing stock	(8,000)		½
	0.25 x 78,400	19,600	2of

(4 marks)

(iii) **Expected gross profit on drink**

	£	£	
Cost of goods sold:			
Opening stock (5,400 x 10 ÷ 9)	6,000		1of
Purchases	50,000		½
	56,000		
Closing stock	(5,400)		½
	0.30 x 50,600	15,180	2of

(4 marks)

(iv) **Amount recoverable**

	£	£	
Expected gross profit (19,600 + 15,180)	34,780		1of
Actual gross profit	(20,000)		1of
Claim	0.75 x 14,780	11,085	2of

(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: Cash flow statements
Syllabus Topic 8: Companies

(a) **Reconciliation of operating profit with net cash inflow 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 stock {(0.9 x 90) – 80}	(1)	1½
Decrease in debtors {65 – (0.95 x 60)}	8	1½
Increase in creditors	5	1
Net cash inflow from operations (given)	380	½f

(10 marks)

(b) **Hunt Plc**
Cash flow statement for the year ended 31 December 2012 1

	£000	£000	
Net cash inflow from operations		380	1of
Returns on investment and servicing of finance			
Debenture interest (200 x 0.05)		(10)	1
Capital expenditure and financial investment			
Sale of fixed assets	20		1
Purchase of fixed assets	(200)	(180)	1
Equity dividends paid (8 + 5)		(13)	1
Net cash inflow before financing		177	
Financing			
Issue of debentures (200 x 0.9)	180		1
Issue of shares {50 x (0.5 + 0.2)}	35	215	1
Increase in cash		392	1of

(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 Plc**

	£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 stock written off	(15)	1
(7)	No effect	1
Increase in profit	1	1of

(8 marks)

(b) **Effect on profit of Banks Ltd**

	£000	
(1) Unrecorded purchases	(60)	1
Unrecorded closing stock	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) Prepayment	1	1
Decrease in profit	(45)	1of

(9 marks)

(c) **Effect on profit of Ball Plc Group**

	£000	
(1) Stock	30	1
Provision for unrealised profit (30 x 20 ÷ 120)	(5)	1
(2)	No effect	1
(3)	No effect	1
(4) Goodwill amortisation	(20)	1
(5)	No effect	1
(6) Obsolete stock written off	(15)	1
(7) Prepayment	1	1
Decrease in profit	(9)	

(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	1,260	1
	245,070	
Less fixed costs 80,000 + (6 weeks x 3,000)	98,000	1½
Budgeted profit	147,070	

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	2,048	1
	397,926	
Less fixed costs 250,000 + (7 weeks x 3,000)	271,000	1½
	126,926	

(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	2,520	1
		13,860	

(ii) **Average contribution per person attending**
245,070 ÷ 13,860 = 17.6818 — £18 **1of**

(iii) **Break even number attending**
98,000 ÷ 18 — 5,445 **1of**

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	4,095	1
		18,060	

(ii) **Average contribution per person attending**
397,926 ÷ 18,060 = 22.0336 — £22 **1**

(iii) **Break even number attending**
271,000 ÷ 22 = 12,318.1818 — 12,318 **1**

(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
Trading and Profit and Loss Account year ended 31 December 2012

	£	£	
Sales (24,000 x 12 ÷ 1.6)		180,000	1of
Cost of goods sold:			
Opening stock (given)	12,000		1
Purchases (10,737 x 12 ÷ 1.5)	85,896		1of
	97,896		
Closing stock (given)	12,000 1	85,896	
Gross profit		94,104	
Depreciation (0.25 x 83,304)	20,826		1of
Other expenses (0.75 x 83,304)	62,478	83,304	1of
Net profit		10,800	1of

Doyle
Balance Sheet at 31 December 2012

	£	£	£	
Fixed assets (R)			10,320	1of
Current assets				
Stock (given)		12,000		1
Debtors (see **note**)		24,000		1
		36,000		
Current liabilities				
Creditors (see **note**)	10,737			1
Bank overdraft (given)	4,263 1	15,000 1		
Net current assets			21,000	
			31,320	

	£	
Capital		
Opening balance (10,800 x 100 ÷ 40)	27,000	1of
Net profit	10,800	1of
	37,800	
Drawings (10,800 x .60)	6,480	1of
	31,320	

(16 marks)

Note

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

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

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

(b) (i) **Earnings yield**

2011 Share price	= 0.50 x 6.50	= 3.25		½
Earnings yield	= Earnings per share / Market price per share	= 0.50 / 3.25 x 100	= 15.38%	1
2012 Share price	= 0.60 x 6.00	= 3.60		½
Earnings yield	= Earnings per share / Market price per share	= 0.60 / 3.60 x 100	= 16.67%	1

(ii) **Dividend yield**

2011 Dividend	= 0.50 ÷ 4	= 0.125		½
Dividend yield	= Dividend per share / Market price per share	= 0.125 / 3.25 x 100	= 3.85%	1
2012 Dividend	= 0.60 ÷ 5	= 0.12		½
Dividend yield	= Dividend per share / Market price per share	= 0.12 / 3.60 x 100	= 3.33%	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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