

Mark Scheme (Results)

Series 2 2014

Pearson LCCI Level 3
Certificate in Accounting (ASE3012)

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

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

TOTAL 100 MARKS

QUESTION 1

SYLLABUS TOPIC 3: Valuation of fixed assets

| | | | |
|-----|--|--------|------|
| (a) | (i) Straight line method | £ | |
| | 2014, 2015, 2016 and 2017 $(50,000 - 6,480)/4$ | 10,880 | 1 |
| | (ii) Reducing balance method | £ | |
| | 2014 50,000 X .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 |
| | (iii) Sum of the years digits method | £ | |
| | 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 |
| | (iv) Machine hour method | | |
| | 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 (1) because it reflects both usage (1) and a (probable) reduction in market value over the computer system's useful life due to technological obsolescence (1).

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 Ltd
Cash budget for the year ending 31 December 2014

| (a) | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | |
|------------------------|----------------|----------------|-----------------|----------------|-----|
| | £ | £ | £ | £ | |
| Receipts | | | | | |
| Cash sales (W1) | 1,900 | 2,850 | 2,850 | 3,325 | <2> |
| Trade debtors (W2) | 195,000 | 192,500 | 212,500 | 205,000 | <4> |
| Sale of fixed assets | - | <u>3,000</u> | - | - | 1 |
| | <u>196,900</u> | <u>198,350</u> | <u>215,350</u> | <u>208,325</u> | |
| | | | No depreciation | | 1 |
| Payments | | | | | |
| Cash purchases (W3) | 1,840 | 2,760 | 2,300 | 920 | <4> |
| Trade creditors | 144,000 | 146,000 | 176,000 | 186,000 | 1 |
| Wages | 30,000 | 30,000 | 30,000 | 30,000 | ½ |
| Sundry expenses | <u>1,500</u> | <u>1,500</u> | <u>1,500</u> | <u>1,500</u> | ½ |
| | <u>177,340</u> | <u>180,260</u> | <u>209,800</u> | <u>218,420</u> | |
| Surplus/Deficit | 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 |
| Closing balance | <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 <u>50,000</u> 192,500 | 165,000 <u>47,500</u> 212,500 | 150,000 <u>55,000</u> 205,000 | 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 <4> |

Question 2 continued

(b) Possible answers include:

Increase discounts for cash sales
- additional expense

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

Reduce stock
- risk of stock shortages; sales fall because of lack of choice

Reduce wages
- alienation of workforce

Reduce credit period/discount allowed to customers
- loss of sales

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)

| Hick | | | | | |
|---------------------------------|---------------|---|----------------------|---------------|-----|
| Bank Account | | | | | |
| Year ended 31 March 2014 | | | | | |
| | £ | | £ | | |
| Capital | 16,500 | ½ | Lease | 10,000 | ½ |
| Debtors | 25,700 | ½ | Drawings (90 x 52) | 4,680 | 1 |
| | | | Electrical equipment | 7,000 | ½ |
| | | | Electricity | 1,047 | } ½ |
| | | | 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)

| Hick | | | | | |
|--|------------|----|---------------|---|--|
| Trading and Profit and Loss Account | | | | | |
| Year ended 31 March 2014 | | | | | |
| | £ | | £ | | |
| Sales | | | 34,800 | ½ | |
| Cost of goods sold: Purchases | 11,600 | ½ | | | |
| Closing stock | <u>420</u> | ½ | <u>11,180</u> | | |
| Gross Profit | | | 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</u> | ½ | <u>7,557</u> | | |
| Net Profit | | | <u>16,063</u> | | |

(13 marks)

QUESTION 3 Continued

(b)

**Hick
Balance Sheet
at 31 December 2014**

| | Cost | Accumulated depreciation | Net book value | |
|---|---------------|--------------------------|----------------|------|
| | £ | £ | £ | |
| Fixed assets | | | | |
| 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 | |
| Current assets | | | | |
| Stock | | 420 | | ½ |
| Debtors (34,800 – 3,420 – 25,700) | 5,680 | | | ½ |
| Less Provision | <u>568</u> | 5,112 | | ½ OF |
| Bank ((a) (i)) | | <u>5,530</u> | | ½ OF |
| | | 11,062 | | |
| Less Current liabilities | | | | |
| Accruals (250 + 323) | | <u>573</u> | 1 | |
| | | | <u>10,489</u> | |
| | | | <u>27,789</u> | |
| | | | £ | |
| Capital | | | | |
| Capital introduced (16,500 + 3,000) | | | 19,500 | 1 |
| Add Net profit | | | <u>16,063</u> | ½ OF |
| | | | 35,563 | |
| Less Drawings [4,680 + 700 + (.7 x 3,420)] | | | <u>7,774</u> | 2 |
| | | | <u>27,789</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 x 1

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) Goodwill arising on acquisition | £ | £ | |
| | Purchase price | | 320,000 | ½ |
| | Less: Share capital | 100,000 | | ½ |
| | Retained earnings | <u>150,000</u> | | ½ |
| | | 80% x | <u>250,000</u> | ½ |
| | Goodwill | | <u>200,000</u> | |
| | | | <u>120,000</u> | |
| | (ii) Consolidated retained earnings | | £ | |
| | Lloyd plc | | 500,000 | ½ |
| | Cork Ltd [80% (220,000 – 150,000)] | | <u>56,000</u> | 1½ |
| | | | 556,000 | |
| | Goodwill written off (120,000/10) | | <u>12,000</u> | 1 |
| | Retained earnings | | <u>544,000</u> | |

(5 marks)

(b)

Lloyd plc
Consolidated Trading, Profit and Loss
and Appropriation Account
year ended 31 December 2013

| | | | |
|---|--|----------------|-----|
| | | £ | |
| Sales (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 |
| Gross profit | | 36,000 | |
| Operating expenses [7,800 + 10% (170,000 – 90,000)] | | <u>15,800</u> | 1 |
| | | 20,200 | |
| Goodwill written off | | <u>12,000</u> | 1OF |
| Net profit | | 8,200 | |
| Minority interest [20% x 10% (170,000 – 90,000)] | | <u>1,600</u> | 2 |
| Profit before dividends | | 6,600 | |
| Dividends paid | | <u>4,000</u> | 1F |
| Retained earnings for year | | 2,600 | |
| Retained earnings brought forward | | <u>544,000</u> | ½OF |
| Retained earnings carried forward | | <u>546,600</u> | |

(11 marks)

| | | | | |
|-----|---|-------|-------|---|
| (c) | Memorandum journal entry | DR | CR | |
| | | £ | £ | |
| | Retained earnings (70% x 3,000) | 2,100 | | 1 |
| | Minority interest (30% x 3,000) | 900 | | 1 |
| | Stock (60,000 x 20% x 25%) | | 3,000 | 2 |
| | Elimination of unrealised profit in stock | | | 1 |

(5 marks)

QUESTION 4 Continued

(d) **Evidence relating to not being a going concern**

- Fixed assets fully depreciated and not replaced
 - Unpaid loan interest
 - Unpaid preference dividends
 - Net current liabilities
 - Falling sales and increased stocks
 - 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**

$$10\% \times \text{£}800,000 = \underline{\underline{\text{£}80,000}} \quad 1$$

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

| | £ | | £ |
|------------------------------|----------------|-----|------------------|
| Sales | | | 800,000 |
| Cost of goods sold : | | | |
| Opening Stock (R) | 60,000 | 10F | |
| Purchases | <u>500,000</u> | ½ | |
| | 560,000 | | |
| Closing stock | <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**

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

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

(7 marks)

(b) **Comments by clerk**

(1) This is incorrect (1). The lower the percentage difference between gross profit to sales and net profit to sales 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 (1). The acid test ratio shows (in this case) that current assets excluding stock equal current liabilities (1). Unless debtors also pay up “immediately” creditors 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 sales**
$$\frac{320,000 - 800 + 900}{800,000 + 900} \times 100 = \underline{39.97\%}$$
$$= \frac{320,100}{800,900} \times 100$$
- (ii) **Net profit to sales**
$$\frac{80,000 - 300 - 800 - 200 - 600 + 900 + 320 + 80}{800,000 + 900} \times 100 = \underline{9.91\%}$$
$$= \frac{79,400}{800,900} \times 100$$
- (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)

