

Pearson LCCI Level 3 Certificate in Accounting

Model Answers Series 3 2013 (ASE3012)

Level 3 Certificate in Accounting

Series 3 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.

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LCCI IQ SERIES 3 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) Net book values			
(i)	Machinery	17 x 117,300	<u>£1,994,100</u> 1
(ii)	Creditors	117,300 ÷ 2.3	<u>£51,000</u> 1
(iii)	Stock	Stock + debtors = 1.4 x 51,000 = 71,400 Stock = 71,400 ÷ 4	<u>£17,850</u> 2 of
(iv)	Debtors	17,850 x 3	<u>£53,550</u> 1 of

(5 marks)

(b) Corrected net book values			£
(i)	Machinery (as above)		1,994,100 ½ of
	(1) New machinery		80,000 1
	(2) Machinery under recorded		540 1
	(3) Depreciation [(1,994,100 + 540) x 10/6] ÷ 10		<u>(332,440)</u> 2
			<u>1,742,200</u> ½ of
			£
(ii)	Creditors (as above)		51,000 ½ of
	(1) New machinery		80,000 1
	(6) Unrecorded payment		<u>(710)</u> 1
			<u>130,290</u> ½ of
			£
(iii)	Stock (as above)		17,850 ½ of
	(4) Obsolete		<u>(800)</u> 1
			<u>17,050</u> ½ of
			£
(iv)	Debtors (as above)		53,550 ½ of
	(6) Unrecorded receipt		(4,100) 1
	(7) Provision (53,550 – 4,100) ÷ 10		<u>(4,945)</u> 1
			<u>44,505</u> ½ of

(13 marks)

(c) Revised net profit			£
	Draft net profit		517,430 ½
(2)	Difference on Trial Balance		540 1
(3)	Depreciation on machinery		(332,440) 1of
(4)	Obsolete stock		(800) 1
(5)	Bank charges		(730) 1
(7)	Provision for bad debts		(4,945) 1of
(8)	Rent		<u>(3,000)</u> 1
			<u>176,055</u> ½of

(7 marks)

(Total 25 marks)

QUESTION 3

Syllabus Topic: 4 Partnerships

(a) Capital Accounts

2010		Lee	Bell	2010		Lee	Bell
		£	£			£	
Drawings (.20 x 40,000)	1	8,000	8,000	Bank	1	200,000	200,000
Balance c/d	½ of	<u>232,000</u>	<u>232,000</u>	Profit (.20 x 400,000), 1:1	1	<u>40,000</u>	<u>40,000</u>
		<u>240,000</u>	<u>240,000</u>			<u>240,000</u>	<u>240,000</u>
2011				2011			
Drawings (.20 x 57,750)	1	11,550	11,550	Balance b/d		232,000	232,000
Balance c/d	½ of	278,200	283,200	Car	½	-	5,000
		<u>289,750</u>	<u>294,750</u>	Profit (.21 x 550,000), 1:1	1	<u>57,750</u>	<u>57,750</u>
						<u>289,750</u>	<u>294,750</u>
2012				2012			
Goodwill (3.2)	1	180,000	120,000	Balance b/d		278,200	283,200
Drawings (.20 x 60,000/40,000)	1	12,000	8,000	Goodwill (1.1)	1	150,000	150,000
Balance c/f	½ of	<u>296,200</u>	<u>345,200</u>	Profit (.20 x 500,000), 3:2	1	<u>60,000</u>	<u>40,000</u>
		<u>488,200</u>	<u>473,200</u>			<u>488,200</u>	<u>473,200</u>

(11 marks)

- (b) (i) **No** - if Bell works longer hours and in the evenings this should entitle him to a larger share of the profits and **not** a smaller share. **2**
- (ii) **Yes** - if Lee treats more patients he is adding more value to the partnership, justifying an increase in his profit share. **2**
- (iii) **Yes** - Lee has generated more business for the partnership through his non-partnership activities despite being paid separately for these activities. This justifies an increase in his profit share. **2**

Accept 'No' if suitable reason given. For example,

No – Programs on dentists are unlikely to be popular. As he is not putting his television fee into the partnership, he should not be given a higher profit share.

½ mark for Yes/No 1½ for explanation x 3

(6 marks)

(c) Journal entries

	DR	CR	
	£	£	
Bank	200,000		½
Car	8,000		½
Barry - Capital		208,000	½
Goodwill	400,000		½
Lee - Capital (.60 x 400,000)		240,000	½
Bell - Capital (.40 x 400,000)		160,000	½
Lee - Capital (.50 x 400,000)	200,000		½
Bell - Capital (.25 x 400,000)	100,000		½
Barry - Capital (.25 x 400,000)	100,000		½
Goodwill		400,000	½

(5 marks)

(d) Reason for high gross profit

Most of the direct labour is provided by the partners themselves. As these are services, rather than products, material costs will be very low or non-existent. Often fee income is treated as being equal to gross profit. **3**

(3 marks)

(Total 25 marks)

QUESTION 4

Syllabus Topic: 8 Accounting ratios, Syllabus Topic 9: Budgetary Control

(a) Gross profit 2014	£		£	
Sales (6,250 x 100)			625,000	1
Less: Raw materials (625,000 x 0.8 x 0.4)	200,000			1
Direct labour (625,000 x 0.8 x 0.3)	150,000			1
Variable production overheads (625,000 x 0.8 x 0.3)	<u>150,000</u>		<u>500,000</u>	1
Gross profit (625,000 x 0.2)			<u>125,000</u>	1

(5 marks)

(b) Money tied up in stocks plus debtors less creditors	£		£	
Stocks: Raw materials (200,000 x 4 ÷ 52)			15,385	1
Work in progress:				
Raw materials (200,000 x 4 ÷ 52)	15,385			1
Direct labour (150,000 x 0.4 x 4 ÷ 52)	4,615			1
Variable production overheads (150,000 x 0.4 x 4 ÷ 52)	<u>4,615</u>		24,615	1
Finished goods (500,000 x 3 ÷ 52)			28,846	1
Debtors: (625,000 x 6 ÷ 52)			<u>72,115</u>	1
			140,961	
Creditors: (200,000 x 5 ÷ 52)			<u>19,231</u>	1
			<u>121,730</u>	1of

(8 marks)

(c) Annual interest cost (121,730 x 0.1)		£		
			<u>12,173</u>	1of + 1

(2 marks)

(d) Net cost of Managing Director's suggestion
If all debtors pay in 4 weeks instead of 6, debtors will fall by one third and annual interest on this amount will be saved, so:

		£		
Savings (72,115 ÷ 3 x 0.10)			2,404	1of +1
Cost of discount (625,000 x 0.01)			<u>(6,250)</u>	1
Net cost			<u>(3,846)</u>	1of

(4 marks)

- (e) Ways of reducing cash tied up**
 Improve credit control
 Introduce cash sales
 Factor debtors
 Introduce just in time delivery of materials
 Speed up production process
 Delay payment to creditors
 Reduce stock of finished goods
Any 3 reasonable suggestions x 2 (first three suggestions)

(6 marks)

(Total 25 marks)

QUESTION 5

Syllabus Topic 6: Accounting for groups of companies

(a) **Goodwill arising on the acquisition of Smith Ltd**

	£	£	
Cost of investment		200,000	1/2
Less: Share capital	100,000		1/2
Share premium	20,000		1/2
Retained earnings	60,000		1/2
Fair value adjustment	30,000		1
	0.90 x <u>210,000</u>	189,000	1
Goodwill		11,000	

(4 marks)

(b) **Accountant's statement**

- (i) Incorrect (1) the value of goodwill will be reduced (not increased) (1)
- (ii) Correct (1) the group fixed assets will be reported at more realistic values (1)

(4 marks)

(c) (i) **Journal entries in Adams Plc's books**

	Dr £	Cr £	
Keown Plc	60,000		1/2
Sales		60,000	1/2
Purchases (20,000 x 1.2)	24,000		1/2
Keown Plc		24,000	1/2
Stock (0.25 x 24,000)	6,000		1
Cost of goods sold		6,000	1

(ii) **Journal entries in Keown Ltd's books**

	Dr £	Cr £	
Purchases	60,000		1/2
Adams Plc		60,000	1/2
Adams Plc	24,000		1/2
Sales		24,000	1/2
Stock (0.50 x 60,000)	30,000		1
Cost of goods sold		30,000	1

(8 marks)

(d) **Unrealised profit in stock**

- (i) Adams Plc (6,000 x 20 ÷ 120) £ 1,000 **1of +1**
- (ii) Keown Ltd (30,000 x 2 ÷ 3) 20,000 **1of+1**

(4 marks)

(e) **Consolidation Journal entries**

	Dr £	Cr £	
Adams Plc : Consolidated retained earnings	800		1of
Minority interest	200		1of
Consolidated stock		1,000	1of
Keown Ltd : Consolidated retained earnings	20,000		1of
Consolidated stock		20,000	1of

(5 marks)

(Total 25 marks)

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