

Mark Scheme (Results)

Series 3 2014

Pearson LCCI Level 3
ACCOUNTING

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

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

TOTAL 100 MARKS

**Question 1
SYLLABUS TOPIC 2: Valuation of Stocks**

(a) Managing Director's suggestion

- | | |
|-----------------------------------------------------------------------------------|---|
| No – the suggestion is not acceptable. | 1 |
| (1) The suggestion may seem prudent but stock should also be measured accurately. | 1 |
| (2) Substantial changes can take place in five days. | 1 |
| (3) Expense would indeed be saved but accuracy would be sacrificed. | 1 |

(4 marks)

(b) Adjustments to stocktaking cost

	£	£	
Cost at 5 February 2014		480,317	1
Add: Sales	11,520		
Sales returns	<u>(456)</u>		
$100/120 \times 11,064$		<u>9,220</u>	4
		489,537	
Less: Purchases	17,256		
Purchase returns	<u>(384)</u>		
Cost at 31 January 2014		<u>472,665</u>	2

(7 marks)

(c) (i) Corrected balance on Stock Account

	£	
Uncorrected balance	490,200	
(2) Unrecorded purchase	<u>470</u>	1 of
	490,670	
(2) Unrecorded sale ($100/120 \times 480$)	<u>(400)</u>	1½
	490,270	
(4) Item entered at selling price ($20/100 \times 700$)	<u>(140)</u>	1½
	490,130	
(5) Obsolete stock	<u>(500)</u>	1
	489,630	
(7) Wrongly recorded item [$300 + (100/120 \times 300)$]	<u>550</u>	2
Corrected balance	<u>490,180</u>	

(7 marks)

Question 1 Continued

	£	
(ii) Corrected cost of stock derived from stocktaking		
Adjusted cost from (b)	472,665	1of
(1) Stock sheet included twice	<u>(7,100)</u>	1
	465,565	
(1) Stock sheet omitted	<u>350</u>	1
	465,915	
(3) Items wrongly valued $\{(500 \times 5) - (5 \times 5)\}$	<u>(2,475)</u>	2
	463,440	
(5) Obsolete items	<u>(250)</u>	1
	463,190	
(6) Fixed asset	<u>(400)</u>	1
Corrected cost	<u>462,790</u>	

(7 marks)

(Total 25 marks)

Question 2

SYLLABUS TOPIC 1: Levels 1 and 2 Revisited

SYLLABUS TOPIC 9: Budgeting Control

(a)

Cook
Trading and Profit and Loss Account
year ended December 31 2013

	£000		£000	
Sales (91 x 100/7)			1,300	1
Cost of goods sold :				
opening stock	33	½		
purchases (R)	<u>979</u>	10F		
	1,012			
closing stock	<u>(37)</u>	½	<u>975</u>	
Gross profit (1,300 x .25)			325	1of
Expenses (R)			<u>234</u>	10F
Net profit			<u>91</u>	1

(6 marks)

(b) **Depreciation rate 2014**

$$\left(\frac{198 - 160}{380} \right) \times 100 = 10\%$$

(2 marks)

(c) **Items for cash budget 2014**

(i) Receipts from sales:

			£000	
Sales (112 x 100/7)			1,600	2
Opening debtors			51	1
Closing debtors			<u>(68)</u>	1
			<u>1,583</u>	

(4 marks)

(ii) Payments to trade creditors:

			£000	
Cost of goods sold (75% x 1,600)			1,200	1+1of
Opening stock			(37)	1
Closing stock			<u>53</u>	1
Purchases			1,216	
Opening creditors			27	1
Closing creditors			<u>(32)</u>	1
			<u>1,211</u>	

(6 marks)

Question 2 Continued

	£000	
(iii) Payments for expenses:		
Expenses [(25% - 7%) x 1,600]	288	2
Opening creditors	9	1
Closing creditors	(11)	1
Depreciation (non-cash expense)	<u>(38)</u>	1
	<u>248</u>	

(5 marks)

	£000	
(iv) Payments for fixed assets:		
Closing fixed assets	455	1
Opening fixed assets	<u>(380)</u>	1
	<u>75</u>	

(2 marks)

(Total 25 marks)

Question 3

SYLLABUS TOPIC 6: Accounting for Groups of Companies

	£	
(a) Investment in Smith plc		
Ordinary shares (80% x 100,000)	80,000	1
Retained earnings (80% x 60,000)	48,000	1
Fair value adjustment [80% x (180,000 – 160,000)]	16,000	2
Goodwill	<u>80,000</u>	1
∴ Amount paid	<u>224,000</u>	

(5 marks)

(b) Memorandum journal entries	Dr		Cr	
	£		£	
1. Retained profit (20% x 80,000)	16,000	1½		
Goodwill			16,000	1
2. Retained profit [80% x 10% x (180,000 – 160,000)]	1,600	2		
Minority interest [20% x 10% (180,000 – 160,000)]	400	2		
Provision for depreciation			2,000	1
3. Creditors	30,000	½		
Debtors			30,000	½
4. Creditors	20,000	½		
Debtors			20,000	½
5. Retained profit [0.5 x (80,000 – 40,000)]	20,000	1½		
Consolidated stock			20,000	1
6. Retained profit [80% x 1/3 (35,000 – 20,000)]	4,000	2		
Minority interest [20% x 1/3 (35,000 – 20,000)]	1,000	2		
Consolidated stock			5,000	1
7. Retained profit (80% x 12,000)	9,600	1		
Minority interest (20% x 12,000)	2,400	1		
Accrued expenses			12,000	1

(20 marks)

(TOTAL 25 marks)

Question 4

SYLLABUS TOPIC 4: Partnerships

(a)

Capital Accounts									
	Gower	Lever	Bell	Knott		Gower	Lever	Bell	Knott
	£	£	£	£		£	£	£	£
Goodwill (3:2)	36,000	24,000	-	1	Op.balance	20,000	20,000	12,000	½
Vehicle	-	-	2,000	½	Goodwill	24,000	24,000	12,000	1
Bank	-	-	22,000	of ½ (2:2:1)					
Cl.balance	<u>8,000</u>	<u>20,000</u>	<u>-</u>						
	<u>44,000</u>	<u>44,000</u>	<u>24,000</u>			<u>44,000</u>	<u>44,000</u>	<u>24,000</u>	
Goodwill (2:2:1)	40,000	40,000		20,000	1	Op.balance	8,000	20,000	½ of
						Bank	-	-	40,000
Cl.balance	<u>28,000</u>	<u>20,000</u>	<u>20,000</u>		Goodwill	60,000	40,000		- 1
					(5x20)(3:2)				
	<u>68,000</u>	<u>60,000</u>	<u>40,000</u>			<u>68,000</u>	<u>60,000</u>	<u>40,000</u>	
					Op.balance	28,000	20,000		20,000

(7 marks)

(b)

Current Accounts									
	Gower	Lever	Bell	Knott		Gower	Lever	Bell	Knott
	£	£	£	£		£	£	£	£
Op.balance	-	12,000	-	½	Op.balance	3,000	-	1,000	½
Bank	-	-	3,960	of ½	Interest W1	250	250	150	1
Cl.balance	<u>9,170</u>	<u>-</u>	<u>-</u>		Salary W1	900	600	300	1
					Profit W1	5,020	5,020	2,510	1
	<u>9,170</u>	<u>12,000</u>	<u>3,960</u>		Cl.balance	<u>-</u>	<u>6,130</u>	<u>-</u>	
						<u>9,170</u>	<u>12,000</u>	<u>3,960</u>	
Op.balance	-	6,130		of ½	Op.balance	9,170	-		½ of
					Interest W2	160	400		1 of
Cl.balance	<u>25,994</u>	<u>7,046</u>			Salary W2	2,000	3,000		1
					Profit W2	14,664	9,776		1 of
	<u>25,994</u>	<u>13,176</u>				<u>25,994</u>	<u>13,176</u>		
					Op.balance	25,994	7,046		-½ of
Cl.balance	<u>32,190</u>	<u>12,782</u>		3,068	Interest W3	560	400		400 1 of
					Salary W3	900	600		300 1
	<u>32,190</u>	<u>12,782</u>		<u>3,068</u>	Profit W3	4,736	4,736		2,368 1 of
						<u>32,190</u>	<u>12,782</u>		<u>3,068</u>

(12 marks)

Question 4 Continued

W1 Appropriation account 1 January to 31 March

			£	£
Net profit (20% x 300,000 x .25)				15,000
Less: Interest on capital	G	(5% x 20,000 x 0.25)	250	
	L	(5% x 20,000 x 0.25)	250	
	B	(5% x 12,000 x 0.25)	150	
Salaries	G	(3,600 x 0.25)	900	
	L	(2,400 x 0.25)	600	
	B	(1,200 x 0.25)	<u>300</u>	<u>2,450</u>
				12,550
Balance	G	(0.4 x 12,550)	5,020	
	L	(0.4 x 12,550)	5,020	
	B	(0.2 x 12,550)	<u>2,510</u>	<u>12,550</u>

W2 Appropriation account 1 April to 30 September

			£	£
Net profit (20% x 300,000 x 0.50)				30,000
Less: Interest on capital	G	(4% x 8,000 x 0.5)	160	
	L	(4% x 20,000 x 0.5)	400	
Salaries	G	(4,000 x 0.5)	2,000	
	L	(6,000 x 0.5)	<u>3,000</u>	<u>5,560</u>
				24,440
Balance	G	(0.6 x 24,440)	14,664	
	L	(0.4 x 24,440)	<u>9,776</u>	<u>24,440</u>

W3 Appropriation account 1 October to 31 December

			£	£
Net profit (20% x 300,000 x 0.25)				15,000
Less: Interest on capital	G	(8% x 28,000 x 0.25)	560	
	L	(8% x 20,000 x 0.25)	400	
	K	(8% x 20,000 x 0.25)	400	
Salaries	G	(3,600 x 0.25)	900	
	L	(2,400 x 0.25)	600	
	K	(1,200 x 0.25)	<u>300</u>	<u>3,160</u>
				11,840
Balance	G	(0.4 x 11,840)	4,736	
	L	(0.4 x 11,840)	4,736	
	K	(0.2 x 11,840)	<u>2,368</u>	<u>11,840</u>

Question 4 continued

(c) Observations by student

- (1) It would appear that drawings have been omitted (1). However the only calculations that need to be 'reworked' would be the amount payable to Bell in respect of his current account balance and the other balances on the current accounts (1).

It would also suggest other mistakes may have been made (1).

1 mark per valid point – maximum 3

Question 4 Continued

- (2) It does indeed seem unfair to allow interest on a capital account when a current account has a debit balance (1).

This situation will be made worse when the drawings are recorded (1).

Charging interest on debit balances is a valid solution all though charging interest on drawings would prevent the situation arising (1).

In any case, charging interest would need to be included in the partnership agreement (1).

The book-keeping would be more complicated (1).

1 mark per valid point – maximum 3

(6 marks)

(Total 25 marks)

Question 5

SYLLABUS TOPIC 1: Levels 1 and 2 Revisited

(a) Journal entries	Dr £	Cr £	
(1) Sales Ledger Control Account	400		1
Sales		400	1
(2) Bank Charges	37		½
Bank		37	½
(4) Purchase Ledger Control Account	257		1
Sales Ledger Control Account		257	1
(7) Bad Debts	84		1
Sales Ledger Control Account		84	1
(8) Sales Ledger Control Account (756 – 657)	99		1
Sales		99	1

(9 marks)

Question 5 continued

(b)	Adjustments to bank statement balance	£	
	Balance per statement	(14,200)	
	(3) Unpresented cheques	(723)	1
	(3) Unrecorded deposits	214	1
	(5) Bank error	<u>(74)</u>	1
		<u>(14,783)</u>	
			(3 marks)

(c)	Net change to sales ledger balances	£	
	(4) Contras (2 x 257)	(514)	1
	(6) Debit balance on wrong side (2 x 75)	150	1
	(7) Bad debt	(84)	½
	(8) Incorrect invoice (756 – 657)	99	1
	(9) Discount allowed on wrong side (2 x 27)	<u>(54)</u>	1
		<u>(403)</u>	½OF
			(5 marks)

(d)	Net change to profit	£	
	(1) Additional revenue – sales	400	½
	(2) Additional expense – bank charges	(37)	1
	(7) Additional expense – bad debt	(84)	1
	(8) Additional revenue – sales (756 – 657)	<u>99</u>	1
		<u>378</u>	½of
			(4 marks)

(e) **Standing order**
 An instruction to a bank(1) to pay specific amounts (1) on particular dates (1). For example, paying monthly rent or an annual subscription.
 3 for explanation + 1 for example
 Any relevant example accepted (4 marks)

(Total 25 marks)

