Pearson LCCI
Level 3 Certificate in Accounting

Model Answers
Series 4 2013 (ASE3012)

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Level 3 Certificate in Accounting
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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.

(1) 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)

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.

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

TOTAL 100 MARKS

Question 1

Syllabus Topic I: Levels 1 and 2 revisited
Syllabus Topic II: Concepts and accounting framework

(a)

King Social Club –
Members' Subscription Account

		£		£	
Opening balance (11 x 80)	1	880	Opening balance (12 x 85)	1,020	1
			Bank {(11 – 2) x 80}	720	2
Income & Exp.{(12 + 820 + 15) x 85}		71,995	Bank (820 x 85)	69,700	1
½ ½ ½ ½			Bank (14 x 90)	1,260	1
			Income & Exp. (2 x 80)	160	1
Closing balance (14 x 90)	1	1,260	Closing balance (15 x 85)	1,275	1
		74,135		74,135	

(11 marks)

(b) **Corrections to the Sales Ledger Control Account balance**

			£	
(1)	Invoice omitted from the books	(Sales)	+ 80	1
(2)	Receipt not entered	(Bank)	- 70	1
(3)	Sales Day Book under added	(Sales)	+ 3,000	1

Corrections to the total of the list of Sales Ledger balances

		£	
(1)	Invoice omitted from the books	+ 80	1
(2)	Receipt credited twice	+ 70	1
(4)	Credit balance omitted	- 60	1

* No penalty for "aliens"

(6 marks)

(c) **Accounting concepts**

"Materiality" requires that the relative size of an item normally determines how it should be recorded. 2

1 for identifying/mentioning "size" , 1 for giving a more detailed explanation

The "Entity" requires that the business be treated as separate from its owners. 2

1 for mentioning "separate"/"separation" , 1 for giving a more detailed explanation

- Materiality would suggest that, though technically a fixed asset, the printer be written off as an expense, because of its relatively low value. 2
  1 for identifying correct concept, 1 for explanation

- Entity would suggest that the cost of the wife's present be treated as drawings, as it is not connected with the business. 2
  1 for identifying correct concept, 1 for explanation
  Also accept "cannot put wife's drawings through business account" (2)

(8 marks)

(Total 25 marks)

Question 2
Syllabus Topic 3: Valuation of fixed assets

(a) **Amount to be included under Fixed Assets**

		£	
List price		300,000	1
Trade discount given (0.10 x 300,000)		(30,000)	1
		270,000	
Electrical installation (38,000 – 8,000)		30,000	2
Pre-production testing		10,000	1
	Unless aliens	310,000	1of

(6 marks)

(b) (i) **Amounts to be included in Profit and Loss Accounts**

2010	£	
Settlement discount received (0.05 x 270,000)	13,500	1
Electrical installation	8,000	1
Staff training	15,000	1
Maintenance (36,000 ÷ 3)	12,000	1
Depreciation $\left\{\frac{(310,000 - 10,000)}{3,000} \times 500\right\}$	50,000	2

2011	£	
Maintenance	12,000	½
Depreciation $\left\{\frac{(310,000 - 10,000)}{3,000} \times 700\right\}$	70,000	2

2012	£	
Maintenance	12,000	½
Depreciation	* 87,500	<5W>

*Working

	£	
Revised 'cost': original (310,000 – 50,000 – 70,000)	190,000	1
upgrade (200,000 x 0.90)	180,000	1
	370,000	
Revised units of output : original (3,000 – 500 – 700)	1,800	1
extra	1,000	1
	2,800	
∴ $\left\{\frac{(370,000 - 20,000)}{2,800} \times 700\right\}$ =	87,500	1
		<5>

(ii) **Amounts to be included in Balance Sheets**

2010	£	
Cost	310,000	½
Accumulated depreciation	(50,000)	1
Net book value	260,000	

2011	£	
Cost	310,000	½
Accumulated depreciation (50,000 + 70,000)	(120,000)	1
Net book value	190,000	

2012	£	
Cost (310,000 + 180,000)	490,000	1
Accumulated depreciation (120,000 + 87,500)	(207,500)	1
	282,500	

(19 marks)

(Total 25 marks)

Question 3

Syllabus Topic 9: Budgetary control
Syllabus Topic 10: Introduction to decision making

(a) **Budgeted total profit**

	£000	£000	
Contract price		10,000	½
Less: depreciation (3,000 – 300)	2,700		1
materials (200 x 5)	1,000		1
wages (150 x 5)	750		1
overheads (300 x 5)	1,500	5,950	1
Profit		4,050	½OF

(5 marks)

(b) **Budgeted annual cash flow forecasts**

	Year 0 £000	Year 1 £000	Year 2 £000	Year 3 £000	Year 4 £000	Year 5 £000	Year 6 £000	
Receipts								
Contract price	-	1,500	1,500	1,500	1,500	1,500	2,500	1*
Residual value	-	-	-	-	-	-	300	1
Working capital	-	-	-	-	-	-	500	½
	-	1,500	1,500	1,500	1,500	1,500	3,300	
Payments								
Machinery	3,000	-	-	-	-	-	-	½
Working capital	500	-	-	-	-	-	-	½
Materials	-	-	200	200	200	200	200	½
Wages	-	150	150	150	150	150	-	½
Overheads	-	-	300	300	300	300	300	½
	3,500	150	650	650	650	650	500	
Opening balance	-	(3,500)	(2,150)	(1,300)	(450)	400	1,250	
Inflow (Outflow)	(3,500)	1,350	850	850	850	850	2,800	1
Closing balance	(3,500)	(2,150)	(1,300)	(450)	400	1,250	4,050	

*** CONTRACT PRICE: ½ mark for correct values for years 1-5 and ½ mark for correct value for year 6**

Presentation 1
(excluding aliens e.g. depreciation)

(7 marks)

(c) **The budgeted accounting rate of return**

$$\frac{\text{Average profit}}{\text{Initial investment}} \times 100 \qquad \frac{\overset{1}{4{,}050 \div 5}}{3{,}000 \; 1} \times \overset{1}{100} = \underline{27\%}$$

OR

$$\frac{\overset{1}{4{,}050 \div 5}}{3{,}500 \; 1} \times \overset{1}{100} = \underline{23\%}$$

(3 marks)

Question 3 continued

(d) **The budgeted net present value**

Year	Cash Flow £000	Discount Factor	NPV £000	
0	(3,500)	1.000	(3,500)	½OF
1	1,350	0.909	1,227	½OF
2	850	0.826	702	½OF
3	850	0.751	638	½OF
4	850	0.683	581	½OF
5	850	0.621	528	½OF
6	2,800	0.565	1,582	½OF
			1,758	½OF

(4 marks)

(e) **Discount rate movement**

(i) Down – the Government is more likely to pay 2

(ii) Up – costs could increase if there is flooding 2

(iii) Down – less opposition, less likelihood of delays. 2

1 for Down/Up + 1 for reason x 3

Special Case: If the candidates answers are (i) Up; (ii) Down; (iii) Up then award 0 marks for part (i) but up to 2 marks for **each of (ii) and (iii)** provided that the reason matches the answer.

(6 marks)

(Total 25 marks)

Question 4
Syllabus Topic 8: Accounting Ratios

(a) **Purchases** 2012

	1		½		½		
Cost of sales	5,614	- Opening stock	921	+ Closing stock	977	=	£5,670

(2 marks)

(b) **Profitability and efficiency ratios**
ACCEPT ANY OF THE FOLLOWING

	2011				2012			
Net profit / Sales	1,247 / 7,826	x 100	=	1 16%	1,126 / 8,173	x 100	=	1 14%
Gross profit / Sales	(7,826 - 5,326) / 7,826	x 100	=	1 32%	(8,173 - 5,614) / 8,173	x 100	=	1 31%
Gross Profit / Cost of Goods Sold	(7,826 – 5,326) / 5,326	x 100	=	1 47%	(8,173 – 5, 614) / 5,614	x 100	=	1 46%
Stock turnover	921 / 5,326	x 365	=	1 63 days	977 / 5,614	x 365	=	1 64 days

1 1

NB: Also accept Stock Turnover as (5,326 ÷ 921) =5.78 times and (5,614÷977)=5.74 times

Debtor's collection	712 / 7,826	x 365	=	33 days	731 / 8,173	x 365	=	33 days

(8 marks)

(c) **Claims by Dover branch**
No, if sales must be made at a mark up of 50% (and some customers receive a small trade discount) then the gross profit to sales must be below 33⅓%.
Up to 3 for explanation.
3

Yes, normal credit terms allow 30 days but those paying within 14 days receive a discount. Therefore an average of 25 days would be possible.
Up to 3 for explanation. 3

(6 marks)

(d) (i) **Earnings per Ordinary Share**

	£	£	
Profit before interest		350,000	½
Less: Bank interest ½ ½ ½	30,000		½
Debenture interest (0.5 x 0.12 x 2,000,000)	120,000		
Preference dividend (0.14 x 1,000,000)	140,000 1	290,000	
		60,000	

1
∴ Earnings per share (60,000 ÷ 3,000,000) = £0.02

(ii) **Price Earnings Ratio**
0.22 ÷ 0.02 = 11.00 times
½ ½of

(iii) **Earnings Yield**

0.02 ÷ 0.22 x 100 = 9.09%

½ of ½of ½

NB: If figures are wrong way round (i.e. 0.22 ÷ 0.02 x 100) then award 1 mark

(7 marks)

(e) **Bank Manager's attitude to debenture issue**

No - the Bank Manager will not be pleased as the company is now more highly geared and the debentures are secured on the company's property. The risk of the Bank's lending to the Company has increased. 2

Also accept "Yes" provided that the reasoning is correct i.e. raising money from issue of debentures means they can repay the overdraft

(2 marks)

(Total 25 marks)

Question 5
Syllabus Topic 6: Accounting for groups of companies

(a) **Amounts for inclusion in the parent company's Balance Sheet**

(i) **Goodwill on acquisition**

			£000	£000
Cost of acquisition	1			600
Less: Ordinary Share capital	1		100	
Retained earnings	1		290	
Fair value adjustment –				
Land (150 – 100)	1		50	
Machinery (100 – 90)	1		10	
160 ÷ 200 = .8	1	x	450	360
				240
Less: Amortisation (4 years out of 8 years) .5 x 240				120
1 1OF				120

(8 marks)

(ii) **Minority interest**

			£000	£000
Ordinary Share capital	½		100	
Retained earnings	½		360	
Fair value adjustment – land	1		50	
40 ÷ 200 = .2	1	x	510	102

(3 marks)

(iii) **Retained earnings**

		£000	£000
Marsh Ltd ½ ½ ½	1		560
Wise Ltd {(360 – 290) x .8}			56
			616
Less: Fair value adjustment written off (10 x .8)	1½	8	
Amortisation of goodwill	1OF	120	128
			488

(5 marks)

(b) **Journal entry**

	Dr £000	Cr £000	
Investment in Wise Ltd	600		1
Bank		600	1
Acquisition of 80% of the Ordinary Shares in Wise Ltd			1

(3 marks)

(c) **Impact of parent company's policies**

(i) Paying 70% of the profit as dividends would have no effect on the annual profits (1) but retained profits would be reduced by the dividends paid (1).

(ii) Writing off goodwill is done in the consolidated accounts. It would have no impact on the annual profits (1) or the retained profits (1).

(iii) Buying from the parent company at a mark up of 100% would affect both annual profits and retained profits (1). The impact would depend on whether or not the purchase price imposed by the parent company was higher or lower than that of other suppliers. (1)

(6 marks)

(Total 25 marks)

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