



Mark Scheme

Series 4 2014
Results

Pearson LCCI Level 3 Certificate in
Accounting (ASE3012)

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Where more than the specified number of questions have been attempted, mark the questions in the order stated on the front cover by the candidate, or else the order provided, if not stated on the cover.

QUESTION 1
SYLLABUS TOPIC 8 : Accounting ratios
SYLLABUS TOPIC 2 : Valuation of stocks

(a) **Calculations**

- (i) $400,000 \times 5\% = \underline{\pounds 20,000}$ **1**
- (ii) $\frac{20,000}{360,000} \times 100 = \underline{5.56\%}$ **1of**
- (iii) $\frac{45,000}{360,000} \times 365$ **1** = 45.63 days
- (iv) $\frac{70,000}{\text{Purchases}} \times 365 = 90$ **1** ∴ Purchases = £283,889
- (v) $\frac{\text{Current assets}}{70,000} = 1.2$ **1of** ∴ Current assets = £84,000
- (vi) $\frac{84,000 - 8,000}{70,000}$ **1of** = 1.09:1

(9 marks)

(b) **Explanations**

- (i) **yes** **1** – cash purchases could explain the difference between expected (higher) purchases and credit purchases. **1**
- (ii) **no** **1** – in the calculations above if the creditors' settlement period was more than 90 days credit purchases would work out at an even lower figure/the creditor's settlement period is not relevant to the calculation of purchases. **1**
- (iii) Yes/No must match a valid statement
Yes **1** If wages are included the cost of goods would be much higher and purchases would not look low in relation to sales **1**

(6 marks)

(c) **Missing figures**

	Units	Cost per unit £	Total cost £
Opening balance	2,400	2.50 (A) 1	6,000
Purchases	<u>700</u>	2.80 (B) 1	<u>1,960</u> (C) 1
	3,100		7,960
Issue	<u>800</u>	2.50 (D) 1	<u>2,000</u> (E) 1
	2,300		5,960 (F) 1
Purchase	<u>400</u> (G) 1	2.90	<u>1,160</u>
	2,700 (H) ½		7,120 (I) ½
Purchase	<u>500</u>	3.00 (J) 1	<u>1,500</u>
	<u>3,200</u> (K) ½		<u>8,620</u> (L) ½

(10 marks)
(TOTAL 25 marks)

QUESTION 2

SYLLABUS TOPIC 9 : Budgetary control

SYLLABUS TOPIC 10 : Introduction to decision making

(a)	Total profit on contract	£	£
	Revenue (to city)		
	360 (days) x 5 (years) x 2 (journeys) x 10 (miles)		
	x 4 (trains) x 8 (wagons) x £10		11,520,000
	<i>½ mark for each factor in calculation (max 3 marks)</i>		
	Revenue (to seaport)		
	as above except x 2 (wagons) =	11,520,000 x ¼	<u>2,880,000</u> <i>1of</i>
			14,400,000
	Less : running costs		
	360 (days) ½ x 5 (years) ½ x 4 (journeys) ½ x		
	10 (miles)½ x 4 (trains) ½ x £5 ½	1,440,000	
	fee to railway company	3,000,000	<i>1</i>
	railway engines		
	(500,000 x 4) <i>1</i> – (80,000 x 4) <i>1</i>	1,680,000	
	wagons		
	(100,000 x 40) <i>1</i> + (5,000 x 40) <i>1</i>	<u>4,200,000</u>	<u>10,320,000</u>
	Profit		<u>4,080,000</u>
			<i>omitting track maintenance 1</i>
			<i>(13 marks)</i>

(b)	Net present value of contract	Discount	Present
		Factor	Value
			£
	Y 0 (3,000,000 ½ + 2,000,000 <i>1</i> + 4,000,000 <i>1</i> + 80,000 ½)	1.000	(9,080,000)
	Y 1-5 (14,400,000 ½ of – 1,440,000 ½ of) / 5 ½	3.790 ½	9,823,680
	Y 5 320,000 <i>1</i> – 200,000 ½ + 80,000 ½	0.621 <i>1</i>	<u>124,200</u>
	Net present value		<u>867,880</u>

(8 marks)

(c)

Suggestions

- (i) This will be valid only if total revenue is increased *1* i.e. it could fall. *1*
Accept other valid alternatives

- (ii) This will be valid if the loss of revenue *1* from when more than eight wagons would be used does not exceed the saving from purchasing fewer wagons *1* i.e. eight is only an average number.
Accept other valid alternatives

(4 marks)
(TOTAL 25 marks)

QUESTION 3

SYLLABUS TOPIC 1 : Levels 1 and 2 revisited

SYLLABUS TOPIC 7 : Cash flow statements

(a)

Sales Ledger Control Account			
	£		£
Opening balance	460,000	½	Discount allowed
Sales	3,200,000	½	64,000
Bad debt recovered	875	1	(3,200,000 x 2%)
			Bank
			3,169,400
			Bank
			875
			Bad debts
			8,600
			Closing balance
			<u>418,000</u>
			<u>3,660,875</u>
	<u>3,660,875</u>		<u>3,660,875</u>

Provision for Bad Debts Account			
	£		£
Closing balance	16,720		Opening balance
(418,000 ½ of x 4% ½)			13,800
			1
			(460,000 x 3%)
			Bad debts
			<u>2,920</u>
			½ of
			<u>16,720</u>
	<u>16,720</u>		<u>16,720</u>

No penalties for aliens
(7 marks)

(b) **Bad debts expense**

	£
Bad debts written off	8,600
Increase in provision	2,920
Bad debts recovered	(875)
	<u>10,645</u>

No penalties for aliens
(3 marks)

(c) **Explanation of terminology**
 Bad debts written off are those specific debts which are expected never to be paid. **1**

A provision for doubtful debts may happen in light of experience **1** It is an estimate of value of current debts which may not be paid. **1**

(3 marks)

Question 3 continued

(d)	Amount to be shown in respect of debtors	£
	Opening debtors (460,000 $\frac{1}{2}$ - 13,800 1OF)	446,200
	Closing debtors (418,000 $\frac{1}{2}$ OF – 16,720 1OF)	<u>401,280</u>
	Decrease in debtors	<u>44,920</u> 1of

(4 marks)

(e) **Explanation of treatment**

The original debt must be reinstated **1** and the cash received recorded against it in the individual debtor's account. **1** Thereby a full record will be kept. The amount will therefore appear on both sides of the Sales Ledger Control Account. **1**

(3 marks)

(f)	Amounts to be shown in respect of fixed assets	£
	Depreciation 10% $\frac{1}{2}$ x (4,100,000 $\frac{1}{2}$ + 470,000 $\frac{1}{2}$ - 170,000 $\frac{1}{2}$)	440,000
	Loss on disposal	30,000 1
	Purchases	470,000 1
	Sales (50,000 – 30,000)	20,000 1

(5 marks)

(TOTAL 25 marks)

QUESTION 4
SYLLABUS TOPIC 5 : Companies
SYLLABUS TOPIC 8 : Accounting ratios

- (a) (i) **Rate of interest on debentures**

$$\frac{50,000}{500,000} \times 100 = \underline{10\%} \quad 1$$
- (ii) **Dividend payable on each preference share**

$$\frac{6,000}{2 \times 60,000} = \underline{\pounds 0.05} \quad 1$$
- (iii) **Ordinary dividend yield**

$$\frac{30,000}{2.50} \div 400,000 \times 100 = \underline{3\%} \quad 1$$
- (iv) **Ordinary dividend cover**

$$\frac{45,000 + 30,000}{30,000} = \underline{2.50 \text{ times}} \quad 1$$
- (v) **Price earnings ratio**

$$\frac{2.50}{75,000 \div 400,000} = \underline{13.33 \text{ times}} \quad 1$$
- (vi) **Ordinary shareholders' funds**
- | | £000 | |
|---------------------|------------|---|
| Ordinary shares | 400 | ½ |
| Share premium | 90 | ½ |
| Revaluation reserve | 40 | ½ |
| Retained earnings | <u>180</u> | ½ |
| | <u>710</u> | |

No penalties for aliens
(10 marks)

- (b) **Information for 2013**
- | | £000 | |
|---|------|---|
| Debenture interest (50,000 x .50) | 25 | 1 |
| Dividends : preference {(120,000 – 40,000) x .05} | 4 | 1 |
| : ordinary {(400,000x0.06) ½+ (100,000 x .06) ½} | 30 | |
| Retained earnings for the year | 60 | ½ |
| Ordinary shares (£1.00 each) (400,000 + 100,000) | 500 | 1 |
| Preference shares (£0.50 each) {(120,000 – 40,000) x .50} | 40 | 1 |
| Share premium (90,000 + 25,000) | 115 | 1 |
| Revaluation reserve | 40 | ½ |
| Retained earnings (180,000½ + 60,000½) | 240 | |
| Debentures (500,000 x .50) | 250 | 1 |

(9 marks)

Question 4 continued

(c) **Price earnings ratio 2013**

$$\frac{2.60 \frac{1}{2}}{(60,000 \frac{1}{2} + 30,000 \frac{1}{2} \text{of}) \div 500,000 \frac{1}{2}} = \underline{14.44 \text{ times}}$$

(2 marks)

(d) **Difference between ordinary shares and preference shares**

Up to 2 marks for each difference

Preference dividends are fixed **1**, ordinary dividends are not. **1**

Preference dividends are paid at a fixed rate **1** whereas ordinary shareholders depend on profit. **1**

Ordinary shareholders are entitled to vote at meetings of the company **1**

whereas preference shareholders are not normally allowed to vote etc. **1**

any 2 x 2 (4 marks)

(TOTAL 25 marks)

QUESTION 5
SYLLABUS TOPIC 4 : Partnerships

(a)

	Capital Accounts			
	Moxon	White	Moxon	White
	£	£	£	£
Drawings	6,000 $\frac{1}{2}$	4,000 $\frac{1}{2}$	Opening balance	40,000 $\frac{1}{2}$ 30,000 $\frac{1}{2}$
Ordinary shares (3:2)	45,000 $\frac{1}{2}$	30,000 $\frac{1}{2}$	Salary (6,000 $\frac{1}{2}$ x 0.5 $\frac{1}{2}$)	3,000 -
Preference shares (3:2)	15,000 $\frac{1}{2}$	10,000 $\frac{1}{2}$	Profit (3:2) W1	27,000 <2> 18,000 <2>
Bank (R)	<u>28,000</u> $\frac{1}{2}$ OF	<u>20,000</u> $\frac{1}{2}$ OF	Goodwill (3:2)	<u>24,000</u> $\frac{1}{2}$ 16,000 $\frac{1}{2}$
	<u>94,000</u>	<u>64,000</u>		<u>94,000</u> 64,000

		W1 Income Statement	
		£	£
Sales			250,000
Less cost of sales :	Opening stock	15,000	
	Purchases	<u>120,000</u>	
		135,000	
	Closing stock	<u>(28,000)</u>	<u>107,000</u>
Gross profit			143,000 1
Less expenses :	Rent	12,000	
	Wages	45,500	
	Postage and stationery	18,000	
	Motor expenses	<u>19,500</u>	<u>95,000</u> 1
Net profit			48,000
Less salary Moxon (6,000 x 0.50)			<u>3,000</u> 1 of
			45,000
Less profit shares :	Moxon (60%)	27,000 $\frac{1}{2}$ OF	
	White (40%)	<u>18,000</u> $\frac{1}{2}$ OF	
	<u>45,000</u>		

<4>

(11 marks)

Question 5 continued

(b) Retained profit of Such Ltd at 31 March 2014

	£		£	
Gross profit (60% x 370,000)			222,000	1
Less expenses: rent (12,000 ÷ 6 x 9)	18,000	1		
wages (45,500 x 1.2)	54,600	1		
postage and stationery				
18,000 ÷ 6 = 3,000				
(3,000x9) 1 + (500x9)1 =	31,500			
motor expenses				
19,500 ÷ 6 = 3,250				
(3,250x9) 1 – (500 x 9) 1 =	24,750			
goodwill amortisation				
(40,000 ÷ 5) ½ x (9 ÷ 12) ½ =	<u>6,000</u>		<u>134,850</u>	
			87,150	
Less dividends: preference (25,000 x 10%)1 x (9 ÷ 12) ½	1,875			
ordinary (50,000 x 0.10)	<u>5,000</u>	1	<u>6,875</u>	
Retained profit			<u>80,275</u>	½OF

(11 marks)

(c) Description of difference

1 mark for each valid point, max 2 for either type of salary described

Partners' salaries are treated as appropriations of profit 1 and therefore not part of the calculation of net profit. 1

Directors' salaries are treated as expenses of the business. 1

(3 marks)

(TOTAL 25 marks)