Pearson LCCI

Certificate in Accounting (VRQ)

Level 3

Wednesday 9 November 2016

Time: 3 hours

Paper Reference

ASE20104

Complete the details below in block capitals.

Candidate name

Centre Code

Candidate Number

Candidate ID Number

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen
  – *pencil can only be used for graphs, charts, diagrams, etc.*
- **Fill in the boxes** at the top of this page with your name, candidate number, centre code and your candidate ID number.
- Answer **all** questions.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*
- You must show your workings.

Information

- The total mark for this paper is 115.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

1/1/1/1/1/1/1

P 5 1 7 0 2 A 0 1 2 4

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Answer ALL questions. Write your answers in the spaces provided.

1 (a) State **one** reason why each of the following stakeholders may be interested in the financial statements of a business.

(i) Suppliers

(1)

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(ii) Competitors

(1)

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(iii) Trade unions

(1)

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(b) State **two** differences between financial accounting and management accounting.

(2)

1 ....

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2 ....

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(c) Two of the qualitative characteristics of financial reporting under the International Accounting Standards Board (IASB) framework are relevance and faithful representation.

Define:

(i) relevance

(1)

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(ii) faithful representation.

(1)

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(d) State **two** advantages and **two** disadvantages of trading as a limited company.

(4)

Advantages

1 ....

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2 ....

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Disadvantages

1 ....

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2 ....

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(e) State **three** reasons why a business may prepare a budget.

(3)

1 ....

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2 ....

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3 ....

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(f) The following budgeted information is available for April 2017:

	$
Selling price per unit	80
Variable cost per unit	45
Total fixed costs	35 000

Calculate the break-even point in terms of **revenue** for April 2017.

(3)

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(g) (i) State **two** accounting concepts that are applied when depreciating non-current assets.

(2)

1 ....

2 ....

(ii) State which account would be **debited** and which account would be **credited** when recording depreciation of a non-current asset at the year end.

(2)

Debit

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Credit

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(Total for Question 1 = 21 marks)

2 Zoe and Eric have been in partnership for some time running a retail business.

(a) Complete the trial balance columns on pages 8 and 9. Show any difference in an appropriate account.

(3)

The following information was available at 30 September 2016:

- On 1 January 2016 annual insurance of $1 200 was paid.
- The charge for rent was $18 000 per annum.
- The value of closing inventory had increased by 10% during the year.
- Inventory included goods valued at a cost of $7 500 that were damaged and could not be sold at the usual mark-up of 100%. The goods could be sold for $8 000 if repair costs of $2 000 were incurred.
- A trade receivable owing $5 500 was unable to pay his debt. This was to be written off.
- The allowance for doubtful debts was to be maintained at 2% of trade receivables.
- Depreciation on non-current assets was to be charged as follows:

Fixtures and fittings	10% per annum straight line method
Motor vehicles	20% per annum reducing (diminishing) balance method

- A payment of $200 for general expenses had been debited to both general expenses and wages and salaries. The credit entry had been posted correctly.

(b) Complete the adjustments columns on pages 8 and 9.

(18)

(c) Complete the statement of profit or loss columns on pages 8 and 9.

(9)

You may use this page for your workings.

Zoe and Eric – Extended trial balance at 30 September 2016

Ledgers	Balance	Trial balance		Adjustments		Statement of Profit or Loss	
	$	Debit $	Credit $	Debit $	Credit $	Debit $	Credit $
Allowance for doubtful debts	280						
Capital account – Zoe	15 000						
Capital account – Eric	15 000						
Cash and cash equivalents	2 352						
Current account – Zoe	3 250						
Current account – Eric	(750)						
Fixtures and fittings – accumulated depreciation	18 000						
Fixtures and fittings – cost	30 000						
General expenses	13 250						
Insurance	1 500						
Inventory – 1 October 2015	35 000						
Motor vehicles – accumulated depreciation	12 000						
Motor vehicles – cost	40 000						

Purchases	75 328						
Rent payable	15 000						
Revenue	160 900						
Trade payables control	28 350						
Trade receivables control	21 500						
Wages and salaries	18 300						
Total							

(d) Zoe and Eric are planning to purchase a new building but are not sure how to account for its decrease in value over the coming years.

(i) Explain why Zoe and Eric have used the chosen methods to depreciate their existing non-current assets.

(3)

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(ii) State, with a reason, which would be the most appropriate method to depreciate the new building.

(2)

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(Total for Question 2 = 35 marks)

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3 Flake Ltd acquired 75% of the share capital of Whirl Ltd on 1 October 2015.

During the year ended 30 September 2016 Whirl Ltd sold inventory, that had cost $8 000, to Flake Ltd at a mark-up of 60%. Flake Ltd had sold all of this inventory by 30 September 2016.

The statements of profit or loss for the two companies for the year ended 30 September 2016 are shown below.

	Flake Ltd	**Whirl Ltd**
	$	**$**
Revenue	145 500	69 500
Cost of sales	(64 000)	(31 750)
Gross profit	81 500	37 750
Distribution costs	(18 600)	(9 850)
Administrative expenses	(21 300)	(8 325)
Profit from operations	41 600	19 575
Finance costs	(6 000)	(2 000)
Profit before tax	35 600	17 575
Tax	(7 120)	(3 515)
Profit for the year	28 480	14 060

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(a) Prepare a consolidated statement of profit or loss for Flake Ltd for the year ended 30 September 2016.

(11)

Flake Ltd
Consolidated statement of profit or loss
for the year ended 30 September 2016

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(b) Complete the following table to show the gross profit percentage and net profit percentage (using profit from operations).

Give your answers to **two** decimal places.

(6)

Ratios	**Flake Ltd**	**Whirl Ltd**	**Flake Ltd (consolidated)**
Gross profit percentage			
Net profit percentage			

(Total for Question 3 = 17 marks)

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4 The directors of Shamima plc have prepared the statements of financial position for the years ended 30 September 2015 and 2016.

Statement of financial position at 30 September

	2016	**2015**
	$	**$**
Assets		
Non-current assets		
Property, plant and equipment	187 950	125 650
Current assets		
Inventory	23 892	21 378
Trade receivables	15 522	14 327
Cash and cash equivalents	10 859	4 819
	50 273	40 524
Total assets	238 223	166 174
Equity and liabilities		
Share capital – ordinary shares of $1 each	90 000	60 000
Share premium	30 000	15 000
Retained earnings	48 421	15 273
Total equity	168 421	90 273
Non-current liabilities		
Bank loan	50 000	60 000
Current liabilities		
Trade payables	19 802	15 901
Total liabilities	69 802	75 901
Total equity and liabilities	238 223	166 174

During the year ended 30 September 2016, property was acquired at a cost of $120 000

Equipment that had originally cost $70 000 and had been depreciated by $40 000 was sold for $35 000

There were no other acquisitions or disposals of non-current assets during the year.

There is no depreciation charge in the year of acquisition.

(a) Prepare a reconciliation of profit for the year to net cash from operating activities for the year ended 30 September 2016.

(10)

Shamima plc
Reconciliation of profit for the year to net cash from operating activities for the year ended 30 September 2016

(b) Prepare a statement of cash flows for the year ended 30 September 2016.

(8)

Shamima plc
Statement of cash flows for the year ended 30 September 2016

(Total for Question 4 = 18 marks)

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5 Naheeda is considering investing in a new machine. There are two machines that would be suitable, Machine A and Machine B. Both have a life span of 4 years with no residual value.

The following information is available for Machine A:

- Purchase cost $60 000
- Revenue in year 1 $25 000
- Revenue increases by 10% in year 2, by a further 10% in year 3 and falls by 20% in year 4
- Running costs for years 1–4 $5 000 per annum
- Cost of capital 10%

(a) Calculate for Machine A the:

(i) net cash inflow for **each** of the four years

(4)

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(ii) payback period

(2)

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(iii) accounting rate of return

(6)

QUESTION 5(a) CONTINUES ON THE NEXT PAGE.

(iv) net present value.

Discount factors (10%)

Year	1	0.909
	2	0.826
	3	0.751
	4	0.683

(6)

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Additional information for Machine B:

Payback period	3 years 1.6 months
Accounting rate of return	18.8%
Net present value	$15 857

(b) Advise Naheeda, giving reasons, which machine she should buy.

(6)

(Total for Question 5 = 24 marks)

TOTAL FOR PAPER = 115 MARKS

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