



**Pearson LCCI
Certificate in Accounting
(VRQ) Level 3
(ASE20104)**

**Examiners' Report
November 2016**

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Introduction

Pearson (LCCI) redeveloped the new specification at Level 3 Certificate in Accounting (VRQ) (ASE20104) in October 2015 as a part of Finance and Quantitative suite of qualifications from Level 1 to Level 4.

The Pearson LCCI Level 3 Certificate in Accounting (VRQ) gives candidates an overview of the fundamental accounting principles and concepts that underlie all financial accounting. Candidates are introduced to topic areas they are likely to encounter in their working lives in practical, scenario-based situations.

The qualification has been developed to allow candidates to progress to the Pearson LCCI Level 4 Certificate in Financial Accounting (VRQ), which extends and introduces new advanced topic areas in this field.

The assessment is of 115 marks comprising of a total of 5 questions. All the questions are compulsory.

This assessment covered these topics:

- accounting concepts and framework
- recording financial transactions
- Preparation of an extended trial balance
- preparation of financial statements
- interpretation of financial statements
- budgetary control
- Introduction to decision making

Candidates performed very well on preparation of extended trial balance with adjustment and statement of profit or loss columns, consolidated statement of profit or loss, reconciliation of profit to net cash from operating activities, statement of cash flows, calculation of breakeven point and calculations for payback period, accounting rate of return and net present value for the capital investment appraisal.

To progression to higher levels and to score high grades candidates must demonstrate the underpinning knowledge and understanding of fundamentals relating to financial and management accounting. This can be achieved by preparing candidates according to the specification and by combining the theory and practice.

Question 1

Majority of the candidates scored below average marks for this question.

Part (a)(i-iii) Majority of the candidates stated the interests of the suppliers and competitors but struggled with the trade unions interests.

See below an example of (a)(i-iii)

(i) Suppliers

(1)

They are concerned with the ability of the company to pay for the
good supplied.

(ii) Competitors

(1)

Would like to compare trading result.

(iii) Trade unions

(1)

To ensure their members are protected.

Part (b) Candidates were unable to state two differences between the financial accounting and management accounting , where candidates made an effort, they stated only one either financial accounting or management accounting.

See below an example of (b)

1 Financial accounting is to present the financial information to external stakeholders,
management accounting to present information for internal purpose to help in day to
day activities.

2 Financial accounting is based on past information, management accounting is based on
current and future information.

Part (c) only well prepared candidates were able to define the qualitative characteristics provided (relevance and faithful representation) according to the International Accounting Standards Board Framework.

See below an example of (c)

(i) relevance

(1)

Information that has the ability to influence decision.

(ii) faithful representation.

(1)

Financial information must be based on transaction and must be neutral, complete and free from error.

Part (d) was not answered very well as expected. Majority of candidates were able to state only one advantage and one disadvantage of trading as a limited company.

Part (e) was not answered very well. Majority of the candidates stated the reasons for the cash budget to know inflows and out flows rather than the reasons for a business to prepare a budget.

Part (f) was answered very well by majority of the candidates.

See below an example of (f)

$$\begin{aligned} \text{Contribution per unit} &= \$80 - \$45 \\ &= \$35 \end{aligned}$$

$$\begin{aligned} \text{Break-even point in terms of revenue} &= \frac{\text{Fixed costs}}{\text{contribution per unit}} \times \text{selling price} \\ &= \frac{\$35000}{\$35} \times \$80 = \$80000 \end{aligned}$$

Part (g)(i) and (ii) Majority of the candidates were able to state the concepts and entries correctly relating to the depreciation on non-current assets. But few candidates were unable to record the journal entry to record the depreciation on non-current assets.

See below an example of (g)(i and ii)

1 Accruals concept.....

2 Consistency concept.....

Debit

..... Depreciation account

Credit

..... Accumulated depreciation account



Examiner Comments

Candidates must practice on theory behind the accounting procedures and practices.



Examiner Tip

Candidates must state both sides to get the credit for the difference /comparison questions.
Candidates must use the specific terminology/words for define and describe questions according to the accounting standards and framework.

Question 2

Overall performance on this question was average by majority of the candidates.

Part (a) Trial balance columns of the extended trial balance was completed by opening the suspense account to balance the trial balance.

Part (b) Majority of the candidates were able to complete the adjustment columns by completing the journal entries relating to the transactions provided in the question. Main mistakes were not recording the entries correctly in the right cell/row and not labelling the closing inventory entries with the labels such as statement of financial position (SOFP) and statement of profit or loss (SOPL) to show the debit and credit entry.

Part (c) on statement of profit or loss was answered well by majority of the candidates by using the trial balance and adjustment columns correctly. Main mistakes were not to balance the statement of profit or loss columns to calculate the profit for the year and including the closing balance for allowance for doubtful debts, other payables (accruals-rent payables) and other receivables (prepayments-insurance) in these two columns for the statement of profit or loss.

Part (d)(i) and (ii) was not answered very well by majority of the candidates. Candidates were expected to explain the reason/s for using the specific method for charging depreciation according to the type of the non-current assets provided, according to how the non-current assets depreciate(decrease) in their value due to their usage in business.



Examiner Comments

Candidates must use the existing accounting names provided for the journals in the adjustment columns provided and open up new ones only.

Candidates must start the closing inventory entries with correct labels and figures to get the full credit.

Change in the allowance for doubtful is always through allowance for doubtful adjustment account. The allowance for doubtful debts account provided in the list is to show the closing balance for the statement of the financial position columns.

Candidates must use the new terminology for the labels for all the entries.

**Examiner Tip**

Candidates must ensure that the total of the trial balance, adjustment columns and statement of profit or loss (and if there is statement of financial position columns) must balance.

To balance the trial balance, open up the suspense account.

The statement of the profit or loss will have the difference as either the profit for the year or loss for the year.

Statement of profit or loss should have only the revenue and expenses (the assets and liabilities are recorded in the statement of financial position columns only).

Question 3

Majority of the candidates scored above average marks on this question.

Part (a) on consolidated statement of profit or loss was answered well by majority of candidates by adjusting the revenue and cost of sales for the inter-company adjustment after taking into account the mark-up of 60%. Main mistakes were not labelling the figures correctly such as profit for the year, profit attributable to equity holders of the parent and non-controlling interest after calculating the profit for the year.

See below an example of (a)

Flake Ltd	
Consolidated statement of profit or loss	
for the year ended 30 September 2016	
Revenue [$\$145,500 + \$69,500 - (\$8,000 \times 1.6)$]	✓✓ 201,200
Cost of sales [$\$64,000 + \$31,750 - (\$8,000 \times 1.6)$]	✓✓ (82,950)
Gross profit	✓ 119,250
Distribution costs ($\$18,600 + \$9,850$)	(28,450)
Administrative expenses ($\$21,300 + \$8,325$)	✓ (29,625)
Profit from operations	61,175
Finance costs ($\$6,000 + \$2,000$)	✓ (8,000)
Profit before tax	53,175
Tax ($\$7,120 + \$3,515$)	✓ (10,635)
Profit for the year	✓ 42,540
Profit attributable to:	
Equity holders of Flake Ltd	✓ 39,025
Non-controlling interest ($\$14,060 \times 0.25$)	✓ 3,515
	42,540

Part (b) Candidates were unable to calculate the net profit percentage using the profit from the operations despite the fact it was clearly stated

in the question. Candidates also had problem stating the answers to two decimal places as required in the question.

See below an example of (b)

Ratios	Flake Ltd	Whirl Ltd	Flake Ltd (consolidated)
Gross profit percentage	$\frac{\$81,500}{\$145,500} \times 100 = 56.01\%$	$\frac{\$37,750}{\$69,500} \times 100 = 54.32\%$	$\frac{\$119,250}{\$202,200} \times 100 = 58.98\%$
Net profit percentage	$\frac{\$41,600}{\$145,500} \times 100 = 28.59\%$	$\frac{\$19,575}{\$69,500} \times 100 = 28.17\%$	$\frac{\$61,175}{\$202,200} \times 100 = 30.25\%$



Examiner Comments

Candidates must use the new terminology for the labels for all the items in the financial statements.
 Candidates must show the split of the profit between the equity holders of the parent and non-controlling interest after calculating the profit for the year.
 Candidates must use the instruction provided for the ratio calculations.



Examiner Tip

Follow the format for financial statements including the labels, subtotal and total according to the financial statements given in the question.

After calculating the profit for the year, the consolidated statement of profit or loss must have the split of profit as follows:

	\$
Profit attributable to	
Equity holders of the parent (Balancing figure=	39 025)
Non-controlling interest (always the profit of the subsidiary	
x% for non- controlling interest=	<u>14060x 25%=3 515)</u>
	42 540

Question 4

Majority of the candidates scored above average marks on this question.

Part (a) Well answered by majority of the candidates. The reconciliation of the profit for the year to the net cash from operating activities was prepared by showing workings for the depreciation and profit on disposal and after treating the working capital adjustments correctly. Main mistakes were not labelling the profit for the year and net cash from operating activities.

See below an example of (a)

Shamima plc		
Reconciliation of profit for the year to net cash from operating activities for the year ended 30 September 2016		
	\$	\$
Profit for the year (before adjustment)		
(48421 - 15273)		33148 ✓
Add: Depreciation		27700 ✓✓
[125650 + 20000 - (70000 - 40000) - 187950]		60848
Less: Profit on disposal of equipment		(5000) ✓
Prof Operating profit before working & capital changes		+5848
Increase on Inventory (23892 - 21378)	(2514) ✓	
Increase on trade receivables	(1195) ✓	
Decrease on trade payables	3901 ✓	192
operating profit from		
Net cash flows from operating activities		<u>56040</u> ✓

Part (b) Candidates prepared statement of cash flows by showing the individual items for investing and financing activities and bringing the net cash flow from operating activities from part (a). Main mistakes were not labelling the subtotal figures correctly and showing the net increase in cash and cash equivalents correctly.

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

	\$	£
Net cash from operating activities		56,040
Cash flows from investing activities		
Acquisition of property	(120,000)	
Sale of equipment	<u>35,000</u>	
Net cash used in investing activities		(85,000)
Cash flows from financing activities		
Issue of share [(£90,000 + \$30,000) - (£60,000 + \$15,000)]	45,000	
Repayment of bank loan (\$60,000 - \$50,000)	<u>(10,000)</u>	
Net cash from financing activities		<u>35,000</u>
Net increase in cash and cash equivalents		6,040
Cash and cash equivalents at the beginning of the year		<u>4,819</u>
Cash and cash equivalents at the end of the year		<u><u>10,859</u></u>



Examiner Comments

Candidates must use a correct label for all the transactions recorded and sub totals for all the financial statements.



Examiner Tip

Last two rows of statement of cash flows must end with the cash and cash equivalents at the beginning of the year and at the end of the year with the figures provided.

Candidates must not change these figures.

Candidates must ensure that the net increase or decrease in cash and cash equivalents during the year must be equal to the difference in the cash and cash equivalent at the beginning and at the end of the year.

Question 5

Majority of the candidates scored above average marks for this question.

Part (a)(i) Majority of the candidates calculated the net cash inflows for each of the four years by adjusting the revenue for each of the years as required. Main mistakes were relating to the revenue of the third and fourth year.

See below an example of (a)(i)

Years	
1	$\$ 25\,000 - \$ 5\,000 = \$ 20\,000$
2	$(\$ 25\,000 \times 110\%) - \$ 5\,000 = \$ 22\,500$
3	$(\$ 27\,500 \times 110\%) - \$ 5\,000 = \$ 25\,250$
4	$(\$ 30\,250 \times 80\%) - \$ 5\,000 = \$ 19\,200$

Part (a)(ii) Majority of the candidates had problem with calculating the payback period correctly based on their figures from a (i).

See below an example of (a)(ii)

Year	Cash flow (\$)	Cumulative cash flow (\$)
0	(60,000)	(60,000)
1	20,000	(40,000)
2	22,500	(17,500)
3	25,250	7,750

$$\text{Payback period} = 2 \text{ years} + \left[\frac{\$17,500}{\$25,250} \times 12 \right]$$

$$= 2 \text{ years } 8.3 \text{ months}$$

2

Part (a)(iii) Majority of the candidates calculated the profit after adjusting the depreciation for the year but had problem working out the average

cost of investment. But performance was better on accounting rate of return compared to previous series.

Part (a)(iv) Majority of the candidates calculated the net present value by deducting the initial investment correctly and presented the information in a table.

See below an example of (a)(iv)

Years	Cash inflows/ (outflows)	Discount factor	NPV
0	(\$ 60 000)	1.000	(\$ 60 000)
1	\$ 20 000	0.909	\$ 18 180
2	\$ 22 500	0.826	\$ 18 585
3	\$ 25 250	0.751	\$ 18 962.75
4	\$ 19 200	0.683	\$ 13 113.60
			<u>\$ 8 841.35</u>

Net present value for Machine A = \$ 8 841.35

Part (b) Candidates stated the obvious facts to choose the specific machine by stating payback period, accounting rate of return and net present value higher or lower rather than analysing these and majority of the candidates were unable to choose one particular method of capital investment appraisal to use to make the decision.

See below an example of (b)

She should buy the machine B. Although the payback period for machine A is better than the machine B, but this method ignores the cash flows after the payback period and ignores the time value for cash flows. The accounting rate of return and net present value for machine B is better than the machine A. Machine B gives the highest accounting rate of return and highest net present value.



Examiner Comments

Candidates must follow the instructions given in the question to calculate the cash inflows and outflows.

Candidates must present their calculations in an organised manner such as a table.

Candidates must develop beyond the obvious facts to get the higher credit for analysis and evaluation questions.



Examiner Tip

Candidates must present their calculations in an organised manner such as a table.

Use correct formulae for accounting rate of return.

Express payback period (year/months or as required), accounting rate of return (%) and net present values (\$) correctly.

For an evaluation at the end candidates must justify the reason/s for the decision.

Paper Summary

Candidates demonstrated clear understanding on preparation of financial statements including consolidated and different methods of capital investment decision.

The candidates will benefit from the following:

- Candidates must learn and practice the definitions of the key terms according to the accounting standards and framework stated in the specification.
- Candidates must practice journal entries for the adjustments and business transaction and then recording these in adjustment columns of extended trial balance.
- Candidates must practice on analysing the financial information.
- Candidates must show their workings with reference number such as W1, W2 etc on the lined pages of the question paper.
- Candidates must learn and practice the International Accounting Standards (IAS) terminology and formats to show subtotal and totals including the labels for financial statements.

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