

LCCI Financial & Quantitative Qualifications

Q&A Follow-up



Pearson LCCI Level 3 Certificate in Accounting

- 1. Will consolidated negative goodwill be examined?*
Candidates will not be examined on negative goodwill.
- 2. Will impairment of goodwill be examined?*
This is not examined at L3 but could be assessed at L4. At L4, it would be deducted from non-current assets and consolidated reserves.
- 3. What formula should be used to calculate Annual Rate of Return (investment appraisal method)?*
The formula for calculating ARR is $ARR = \text{average profit} / \text{average investment}$
The formula for calculating average investment is:
$$\text{Av investment} = (\text{initial investment} + \text{scrap value}) / 2$$

When the scrap value is zero then the average investment is:
$$(\text{initial investment} + 0) / 2$$
- 4. Is margin of safety examinable under Break Even?*
Yes, margin of safety may be examined under Break Even.
- 5. Will stock sold at a profit from the holding company to the subsidiary be examined?*
This will not be examined at L3 but may be examined at L4.
- 6. Should a revaluation reserve be shown separately under the Equity and Reserves section or added on to profit figure?*
A revaluation reserve should be shown as a separate entry.
- 7. Will learners be expected to produce a Statement of Profit or Loss using marginal and absorption costing?*
No, learners will not be expected to produce a full SOPL but must know how to use both techniques to calculate profit, contribution or as part of a decision making question.
- 8. Will learners be examined on unrealised profit on inventory?*
This topic will not be examined at L3 but may be assessed at L4.
- 9. Could the acquisition of a subsidiary part way through an accounting period be examined?*
No, acquisition part way through an accounting period will not be examined.
- 10. Can both ordinary shares and preference shares be redeemable and irredeemable?*
Only preference shares can be redeemable or irredeemable.
- 11. For the topic of dissolution, could learners be examined about the books of the new business - the buyer's books?*
This will not be examined at L3 but may be examined at L4.

12. *Should preference share capital be included in the calculation of the ratio for 'return on shareholders' funds'?*
 Preference shares as part of the ratio 'return on shareholders' funds' will not be examined at L3.
 At L4, the formula for return on shareholders' funds is:

$$\frac{[(\text{profit for the year after tax} - \text{preference dividends}) / \text{shareholders' funds}] \times 100\%}{}$$
13. *A limited company acquires a partnership: if the price paid is more than the net asset value (NAV), it will be recorded as goodwill. How is it recorded if the NAV is greater than the price paid?*
 If the NAV > price paid, it will be recorded as negative goodwill. Negative goodwill is recorded in the Statement of Profit or Loss.
14. *Are loan notes the same as debentures?*
 Effectively, they are interchangeable. The main difference is that a loan note is secured against an asset.
15. *Will OAR (overhead absorption rates) be examined? If so, will it include over and under absorption?*
 No, OARs (including over and under absorption) will not be examined.
16. *Are dividends proposed but approved by shareholders examinable?*
 There are no appropriation accounts examined in this qualification. Dividends, whether proposed or agreed, should be detailed in the notes for the Statement. Only dividends paid will be shown in the SOCIE.
17. *Is negative goodwill examinable and if so, how should learners treat it?*
 Negative goodwill and amortisation are not examined at Level 3, but are at Level 4. Negative goodwill would be recorded in the SOPL.
18. *Is a revaluation loss offset against reserves?*
 A revaluation loss is a loss. It is set off against any existing revaluation reserve. If one does not exist, it is recorded as a loss in the Statement of Profit or Loss.
19. *What aspects of decision making will be examined under marginal costing/absorption costing?*
 Learners need to know the advantages and disadvantages of both methods and the application of both costing methods for decision making; special order; make or buy and discontinuation. There will not be questions on OARs, apportionment or limiting factor. Questions will not ask students to prepare a SOPL using either marginal or absorption costing methods.

Pearson LCCI General Questions

1. *Have all of the textbooks been published?*
 All planned textbooks are now available except the textbook for Business Statistics.