



Examiner hints and tips:

Pearson LCCI Level 3 Certificate in Accounting (VRQ) ASE20104

1. Candidates must:

- learn the qualitative characteristics as defined by the International Accounting Standards Board Framework and follow the new terminology.
- learn the principles of the professional ethics as stated in the specification and practice how to relate those to the scenarios not just what these principles are.
- learn anything which the business owes to the partners is deducted from the profit for the year such as interest on capital, salaries or commission etc. Anything which partners owe to the business such as interest on drawings is added to the profit for the year. Partner's appropriation account does not include the drawings, which is recorded in the current account only.
- know that the statement of cash flows last two lines and net increase or decrease in the cash and cash equivalent for the year must match with the cash and cash equivalent balances at the beginning and at the end of the year provided in the question.
- make the decision stating the possible reason for change in the ratios rather than just stating the fact that these have increased or decreased over the period.
- ensure that the total assets must match with the total of the equity and liabilities of the statement of financial position and use the new format for the statement of the financial position based on the accounting equation $\text{assets} = \text{equity} + \text{liabilities}$.
- be aware that the accounting rate of return uses profit not net cash flows and Depreciation is deducted from net cash flows to calculate the profits for each year.
- ensure that the total assets match with the total of the equity and liabilities of the consolidated statement of financial position.
- ensure that the total of the total column and the total of the closing balances at the year-end must be equal. Any adjustment to the profit for the year must be shown as a note / (workings) to the statement of change in equity not in the statement itself.
- for ratio analysis state the possible reasons for change in ratios and should look at the impact of one ratio on another.
- 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.
- 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).

- 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.
 - identify the point and develop it further to get full marks on explaining questions and use the specific terminology/words for define, describe and evaluation questions according to the accounting standards and framework.
2. Any expense incurred on acquisition of new non – current assets, prior to its use, is treated as a part of the capital expenditure hence added to the cost of the non-current asset.
 3. Candidates must use the new terminology for the labels for all the items in the financial statements.
 4. Cash drawings are never recorded in the statement of profit or loss. Only goods taken for personal use are recorded or adjusted through purchases for cost of sales
 5. All the expenses for the company accounts are divided into two categories such as administration expenses and distribution costs. Candidates are expected to learn that certain expenses are recorded into these two specific categories such as irrecoverable debts will be included in the administration expenses and delivery charges will be included in distribution costs, until and unless it is stated otherwise.
 6. All financial statements must have the correct headings - practice descriptive questions and base the answers around the scenarios for scenario based questions.
 7. The drawings of goods are taken off from the purchases not from the inventory and added to drawings. As the journal entry for goods taken for personal use is:
 - i. Debit Drawings
 - ii. Credit Purchases
 - Candidates must complete the double entry for all the adjustments by adding the adjustment columns to ensure that the double entry has been completed for each adjustment using the existing ledger accounts provided.
 8. Follow the format of the financial statements provided to prepare the consolidated financial statements to get full marks. Both of the company's figures must be added to prepare the consolidated statements apart from the items with inter-company transactions.
 9. Total of the trial balance columns must balance, hence open up the suspense account to balance it if not balanced.
 10. Cash budget is prepared on cash basis and budgeted statement of profit or loss is prepared based on accrual basis hence it includes non-cash items as well as the revenue and expenses incurred during the period. (Candidates must use the new terminology for the labels for all the entries in the financial statements.)
 11. 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 be 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= $\frac{14060 \times 25\%}{42\ 540} = 3\ 515$)

Summary

Candidates demonstrated clear understanding of recording financial transactions with adjustments at the year end to prepare the financial statements including consolidated (financial statements for partnership, calculations for goodwill on consolidation, retained earnings, non-controlling interest on consolidation and preparation of cash budget) and different methods of capital investment decision preparation of inventory budget and calculation of net present value as a method for capital investment.

The candidates will benefit from the following:

- Candidates must learn and practice the definitions of the key terms according to the accounting standards stated in the specification.
- Candidates must learn and practice the scenario based questions on the principles of professional ethics according to the specification.
- Candidates must revise the purpose of the current account and capital account.
- Candidates must learn the difference between capital and revenue expenditure.
- Candidates must learn and practice the layouts for financial statements such as statement of profit or loss especially for company accounts, statement of financial position and statement of cash flows.
- Candidates must practice analysing financial information.
- Candidates must learn and practice the International Accounting Standards (IAS) terminology and formats.
- Candidates must practice on goodwill entries for partnership.
- Candidates must practice and learn to calculate the profit on revaluation or realisation for partnership accounts.
- Candidates must practice journal entries for the adjustments and business transaction and then recording these in adjustment columns of extended trial balance.
- Candidates must show their workings with reference number such as W1, W2 etc on the lined pages of the question paper.
- Candidates must show subtotal and totals including the labels for financial statements.
- Candidates must practise journal entries for the adjustments and business transaction and then record these in adjustment columns of extended trial balance.