



Mark Scheme

Sample Assessment Materials

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

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Pearson LCCI

Level 3 Certificate in Accounting (VRQ)

Examination Paper

Sample assessment material for first teaching October 2015
Time: 3 hours

You do not need any other materials.

Total Marks 115

Instructions

- Use black ink or ball-point pen.
- **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.

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

1

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

(3)

Investors

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Employees

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Customers

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(b) Explain how depreciation is an application of the accrual concept.

(2)

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(c) State **three** methods of funding the purchase of non-current assets.

(3)

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3.....

(d) Explain, from the owner's perspective, **one** advantage and **one** disadvantage of a private limited company in **comparison** to a sole trader.

(4)

Advantage

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Disadvantage

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(e) Describe, in the context of professional ethics, the fundamental principle of **confidentiality**.

(2)

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(f) Describe **three** qualitative characteristics of financial reporting under the International Accounting Standards Board (IASB) Framework.

(6)

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(Total for Question 1 = 20 marks)

Mr Murad Ali runs a wholesale business called 'Soft Furnishing'. His trainee accountant has prepared an extended trial balance as at 31 March 2015.

He has provided you with the following additional information to be accounted for at the year end.

- Closing inventory is valued at \$ 85 925. The replacement cost is \$ 125 000. The inventory can only be sold for \$ 100 000 after an additional cost of \$ 33 750.
- Irrecoverable debts are \$ 6 500 and allowance for doubtful debts needs to be 10% of the remaining trade receivables.
- The business policy is to charge a full year's depreciation in the year of acquisition and none in the year of disposal.
- Depreciation is charged for non-current assets as follows:

Fixtures and fittings	5% straight line basis
Motor vehicles	10% reducing balance basis
- A motor vehicle, which was originally bought for \$ 25 000 on 1 January 2012, has been sold during the year for \$ 10 500.
- Goods for personal use with a cost price of \$ 2 500 have been debited to drawings and credited to a revenue account.
- The commission received included \$ 450 per month for the quarter ended 30 June 2015.
- The rent paid is \$ 4 500, outstanding for the quarter ending 30 April 2015.

(a) Record adjustments and corrections in the adjustment columns of the extended trial balance.

(15)

(b) Complete the statement of profit or loss and the statement of financial position columns of the extended trial balance.

(13)

You may use this page for your workings.



The page contains 23 horizontal dotted lines spaced evenly down the page, providing a template for working out solutions to mathematical problems.

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Soft Furnishing - extended trial balance as at 31 March 2015.

Account name	Trial balance		Adjustments	
	Debit \$	Credit \$	Debit \$	Credit \$
Accumulated depreciation - fixtures and fittings		17 500		
Accumulated depreciation - motor vehicle		35 000		
Allowance for doubtful debts		14 000		
Cash and cash equivalent	5 450			
Commission received		7 975		
Drawings	2 500			
Equity		165 000		
Fixtures and fittings at cost	75 000			
General expense	25 000			
Inventory at 1 January 2014	66 500			
Motor vehicle at cost	90 000			
Purchase	135 375			
Rent	29 500			
Revenue		293 250		
Telephone	15 600			
Trade payables control		95 350		
Trade receivables control	112 500			
Wages	70 650			
Total	628 075	628 075		

Statement of profit or loss		Statement of financial position	
Debit \$	Credit \$	Debit \$	Credit \$

(Total for Question 2 = 28 marks)

3

Andy, Steven and Terry are in partnership sharing profit or losses in the ratio of 3:2:1 respectively.

Their partnership agreement provided for interest on capital at 5% and salaries for Andy of \$ 14 000 per annum and Steven \$ 12 000 per annum.

The partners provided the following information on 1 July 2014.

	\$
Machinery	180 000
Motor vehicles	60 000
Inventory	30 000
Trade receivables	18 000
Cash at bank	4 000
Loan from Steven at 8% per annum	25 000
Trade payables	9 000
Capitals:	
Andy	125 000
Steven	75 000
Terry	50 000
Current accounts:	
Andy	4 000 (Debit)
Steven	5 000
Terry	7 000

For the year ended 30 June 2015:

Profit for the year was \$ 58 000.

Drawings were:

	\$
Andy	19 000
Steven	9 000
Terry	6 500

On 30 June 2015 the partners decided to sell the business to Paperson Limited for \$ 350 000. The company took over the net assets of the partnership at 30 June 2015, except the bank balance of \$ 15 500.

The company settled the purchase consideration as follows:

120 000 ordinary shares of \$ 1 each at \$ 1.50 fully paid

90 000 preference shares of \$ 1 each fully paid.

The balance was settled through cheque payment by the company.

The partners decided to divide the shares in Paperson Limited in the ratio of their capital at the start of the year.

The partners also decided to pay in or withdraw the money from the bank account as appropriate to close the accounts.

(a) Prepare the statement of profit and loss appropriation account for the year ended 30 June 2015.

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(b) Prepare the partners' current accounts for the year ended 30 June 2015. Date columns are not required.

(6)

Partner's current accounts

(c) Prepare the partners' capital accounts for the year ended 30 June 2015. Date columns are not required.

(14)

Partner's capital accounts

Use this space for your workings.

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(Total for Question 3 = 27 marks)

Eastern Airlines plc acquired 80% shares of Southern Holidays plc on 1 September 2014. The statements of financial position of both companies are as follows.

Statement of financial position as at 30 August 2015

	Eastern Airlines plc \$ 000	Southern Holidays plc \$ 000
Non-current assets		
Property plant and equipment	24 265	2 000
Investment in Southern Holidays plc	<u>2 735</u>	<u> </u>
	<u>27 000</u>	<u>2 000</u>
Current assets		
Inventories	10 000	750
Trade receivables	4 750	250
Cash and cash equivalents	<u>750</u>	<u>175</u>
	15 500	1 175
Total assets	<u>42 500</u>	<u>3 175</u>
Equity and liabilities		
Equity		
Share capital	2 500	1 500
Share premium	1 000	500
Retained earnings	<u>15 000</u>	<u>825</u>
Total equity	<u>18 500</u>	<u>2 825</u>
Non-current liabilities		
Loan	21 000	
Current liabilities		
Trade payables	2 000	250
Tax	<u>1 000</u>	<u>100</u>
Total liabilities	<u>24 000</u>	<u>350</u>
Total equity and liabilities	<u>42 500</u>	<u>3 175</u>

Additional information as follows.

- The share capital of both companies consists of ordinary shares of \$ 1 each. There have been no changes to the balance of share capital and share premium during the year. Both companies did not pay or declare dividends during the year.
- The retained earnings of Southern Holidays plc was \$ 450 000 on 1 September 2014.
- The fair value of the property, plant and equipment of Southern Holidays plc at 1 September 2014 was \$ 2 500 000 as compared with the carrying value of \$ 2 000 000. The revaluation has not been reflected in Southern Holidays plc books and the company has not accounted for depreciation.
- There is no impairment of the goodwill during the year.

5

Toyto Limited manufactures toys for all ages. The latest toys are remote control cars. The company provided you with the following information relating to the cost of one car based on the production of 100 000 cars:

	\$
Material	3.50
Labour	5.50
Patent design	<u>1.50</u>
	10.50
Fixed factory overheads	<u>2.50</u>
Total cost	<u>13.00</u>

A toy car is sold for \$ 15.50.

(a)

(i) State the formula for the breakeven point.

(1)

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(ii) Calculate the number of toy cars to be sold to break even.

(2)

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Toytou Ltd submitted a loan application for \$ 80 000 with the following information to the bank.

Ratios	30 June 2014	30 June 2015
Gross profit margin	20%	35%
Net profit margin	15%	18%
Current ratio	2.7:1	1.95:1
Quick ratio (acid test ratio)	1.5:1	1:1

(b) Analyse the liquidity ratios and suggest whether or not the loan application will be approved.

(5)

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Toytou Ltd is considering two capital expenditure projects.

Both projects are expected to last for five years.

The net present value for project 1 is \$ 43 055.

Additional information for project 2 is as follows.

	\$
Initial investment	90 000
Profit for year 1	25 000
Profit for year 2	30 000
Profit for year 3	20 000
Profit for year 4	15 000
Profit / (loss) for year 5	(5 000)
Estimated scrap value	10 000

Depreciation is charged on a straight line basis.

Toytou Ltd estimates the cost of capital at 10% per annum. The discount factors at 10% are as follows:

Year 1	0.909
Year 2	0.826
Year 3	0.751
Year 4	0.683
Year 5	0.621

(c)

(i) Calculate the net present value for project 2.

(8)

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(ii) Explain which project you would recommend to Toytou Ltd.

(2)

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(d) State **one** advantage and **one** disadvantage of using net present value as a method for investment appraisal.

(2)

Advantage
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Disadvantage
.....

(Total for Question 5 = 20 marks)

TOTAL FOR PAPER = 115 MARKS



Mark Scheme

Sample Assessment Materials

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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.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.
- Where marks are awarded for own figure answers, these marks can only be awarded if evidence of how the candidate arrived at their values has been provided (their workings).
- If candidate's fail to provide their workings when instructed in the paper, it may not be possible to achieve all marks associated with the question, even if the final answer is correct.
- For calculation questions full marks can be awarded where correct answer is seen with no workings shown, unless question states that candidate must provide workings.

Abbreviations

of **Own Figure rule**

Accuracy marks can be awarded where the candidate's answer does not match the mark scheme, though is accurate based on their valid method.

cao **Correct Answer Only rule**

Accuracy marks will only be awarded if the candidate's answer is correct, and in line with the mark scheme.

Question Number	Answer (AO1) 3	Mark
1 (a)	1 mark for one reason for each stakeholder.	(3)
<p>Investors are interested in financial statements to assess the risk, return and growth (1) of their investment.</p> <p>Employees are interested in financial statements to assess the stability of their jobs and future opportunities (1) within the organisation.</p> <p>Customers are interested in financial statements to assess the availability of products and services in the future (1).</p> <p>Any other reasonable responses are acceptable.</p>		

Question Number	Answer (AO1) 2	Mark
1 (b)	1 mark for defining depreciation 1 mark for connecting with the accruals concept.	(2)
<p>Depreciation is charged to spread the cost of an asset over its economic useful life (1) to match with the income generated by using that asset according to the accrual concept (1)</p>		

Question Number	Answer (AO1) 3	Mark
1 (c)	1 mark for each point.	(3)
<p>Owners capital (1) Bank loan (1) Hire purchase/lease (1)</p> <p>Any other appropriate methods of funding the purchase of non-current assets.</p>		

Question Number	Answer (AO1) 2 (AO3) 2	Mark
1 (d)	1 mark for each advantage and disadvantage and 1 mark for each comparison with sole trader.	(4)
<p>Advantage - owners of private limited companies are liable for business debts up to the amount of the money invested in business (1) compared to the sole traders where the personal property can be used to pay off the business debts (1).</p> <p>Disadvantage - private limited companies have to follow certain rules and regulations in terms of filing the accounts (1) but sole trade businesses don't have to file the accounts (1).</p> <p>Any other reasonable responses are acceptable.</p>		

Question Number	Answer (AO1) 2	Mark
1 (e)	1 mark for recognising confidentiality of information within a business and 1 mark for recognising that information may not be disclosed to third parties.	(2)
<p>For example:</p> <p>The fundamental principle of confidentiality means an individual respects the confidentiality of the information acquired as a result of professional and business relationships (1) and should not disclose any such information to third parties without proper authority unless there is a legal or professional right or duty to disclose (1).</p>		

Question Number	Answer (AO1) 3 and (AO3) 3	Mark
1 (f)	1 mark for each identified characteristic, (max 3) and 1 mark for each description, (max 3).	(6)
<p>Relevance (1) - information is relevant for its users. It is material enough to make decisions (1).</p> <p>Faithful representation (1) - financial information must be based on transactions and must be neutral, complete and free from errors (1).</p> <p>Comparability (1) - financial statements can be compared with previous years (1).</p> <p>Any other reasonable responses are acceptable.</p>		

(Total for Question 1 = 20 marks)

Question Number	Answer (AO2) 28	Mark
2 (a)	1 mark for each correct figure, label and position as indicated.	(15)
2 (b)	1 mark for each correct figure, label and position as indicated.	(13)

**Soft Furnishings
extended trial balance as at 31 March 2015**

Account name	Trial balance		Adjustments		Statement of profit or loss		Statement of financial position	
	Debit \$	Credit \$	Debit \$	Credit \$	Debit \$	Credit \$	Debit \$	Credit \$
Accumulated depreciation – fixtures and fittings		17 500		3 750 (1 for both entries)				21 250 (1of)
Accumulated depreciation – motor vehicle		35 000	6 775 (1 for figure and 1 for correct position=2)	3 677.50 (1 for both entries)				31 902.50 (1of)
Allowance for doubtful debts		14 000	3 400 (1 for figure and 1 for both entries=2)					10 600 (1of)
Cash and cash equivalent	5 450		10 500 (1)				15 950 (1of)	

Commission received		7 975	1 350 (1)			6 625 (1of)		
Drawings	2 500						2 500	
Equity		165 000						165 000
Fixtures and fittings at cost	75 000						75 000	
General expense	25 000				25 000			
Inventory at 1 January 2014	66 500				66 500			
Motor vehicle at cost	90 000			25 000 (1)			65 000 (1of)	
Purchase	135 375			2 500 (1 for both entries)	132 875 (1of)			
Rent	29 500		3 000 (1)		32 500 (1of)			
Revenue		293 250	2 500			290 750		
Telephone	15 600				15 600			
Trade payables		95 350						75 350
Trade receivables	112 500			6 500 (1 for both entries)			106 000 (1)	
Wages	70 650				70 650			
Depreciation charge for the year			7 427.50		7427.50			
Irrecoverable debts			6 500		6 500			
Allowance for doubtful debts-adjustment				3 400		3 400 (1)		

Closing inventory-SOPL				66 250 (1 for figure 1 for both entries labelled correctly=2)		66 250		
Closing inventory-SFP			66 250				66 250	
Disposal (Loss)			7 725		7 725 (1of)			
Other payables-commission received & rent				4 350 (1)				4 350 (1)
Profit for the year								2247.50 (1 both profit figures to be same and if the totals are correct in both columns)
Total	628 075	628 075	115 427.50	115 427.50	367 025	367 025	330 700	330 700
			Marks = 15		Marks = 5		Marks = 8	

(Total for Question 2 = 28 marks)

Question Number	Answer (AO2) 7	Mark
3 (a)	Award marks as indicated.	(7)

Profit or loss appropriation account for the year ended 30 June 2015	
	\$
Profit for the year before appropriation	58 000
Less	
Interest on capital	
Andy \$ 125 000 * 5% = \$ 6 250 (1)	
Steven \$ 75 000 * 5% = \$ 3 750 (1)	
Terry \$ 50 000 * 5% = \$ 2 500 (1)	12 500
Salary	
Andy \$ 14 000	
Steven \$ 12 000	26 000 (1)
Profit available for distribution	<u>19 500</u>
Profit share	
Andy \$ 19 500 * 3/6 =	9 750 (1)
Steven \$ 19 500 * 2/6 =	6 500 (1)
Terry \$ 19 500 * 1/6 =	3 250 (1)
	19 500

Question Number	Answer (AO2) 6	Mark
3 (b)	Award marks as indicated.	(6)

Partner's current accounts

Details	Andy \$	Steven \$	Terry \$	Details	Andy \$	Steven \$	Terry \$
Balance b/d	4 000			Balance b/d (1 for all)		5 000	7 000
Drawings (1 for all)	19 000	9 000	6 500	Interest on capital (1 for all)	6 250	3 750	2 500
				Salary (1 for both)	14 000	12 000	
Balance c/d	7 000	18 250	6 250	Profit share (1of for all)	9 750	6 500	3 250
	30 000	27 250	12 750		30 000	27 250	12 750

Question Number	Answer (AO2) 14	Mark
3 (c)	Award marks as indicated.	(14)

Partner's capital accounts

Details	Andy \$	Steven \$	Terry \$	Details	Andy \$	Steven \$	Terry \$
Preference shares	45 000 (1)	27 000 (1)	18 000 (1)	Balance b/d (1 for all)	125 000	75 000	50 000
Ordinary shares	90 000 (1)	54 000 (1)	36 000 (1)	Current account (1of for all)	7 000	18 250	6 250
Bank	39 000 (1of)	40 250 (1of)	16 250 (1of)	Profit on realisation	42 000 (1)	28 000 (1)	14 000 (1)
	174 000	121 250	70 250		174 000	121 250	70 250

Total for Question 3 = 27 marks

Question Number	Answer (AO2) 20	Mark
4	1 mark for each item as indicated. Split of marks shown in workings.	(20)

Workings:

Parent holding Subsidiary = 80% Non-controlling interest = 20%

Net assets	At acquisition	Post-acquisition	Total
	\$ 000	\$ 000	
Share capital	1 500		1 500
Share premium	500		500
Retained earnings	450	375	825
Revaluation reserve	500		500
Total	2 950	375	3 325

	\$ 000
Purchase consideration	2 735
Less 80% * net assets at acquisition 2 950 (1)	<u>2 360</u> (1)
Goodwill	375 (1)

	\$ 000
Non-controlling interest 20% * 3 325 (1)	665 (1)

	\$ 000
100% of parents retained earnings	15 000 (1)
Parent's share of subsidiary's retained earnings 80% * (825-450) = 80% * 375 (1)	300 (1)
Total retained earnings	15 300 (1)

The marks awarded for workings are carried forward into the consolidated statement of financial position as at 31 August 2015.

Consolidated statement of financial position as at 31 August 2015

	\$ 000	\$ 000
Non-current assets		
Goodwill		375 (3)
Property, plant and equipment		<u>26 765</u> (1)
		27 140
Current assets		
Inventories	10 750 (1)	
Trade receivables	5 000 (1)	
Cash and cash equivalents	<u>925</u> (1)	
		16 675
Total assets		<u>43 815</u> (1)
Equity and liabilities		
Equity		
Share capital		2 500 (1)
Share premium		1 000 (1)
Retained earnings		<u>15 300</u> (4)
Equity attributable to holders of parent		18 800 (1)
Non-controlling interest		665 (2)
Non-current liabilities		
Loan		21 000 (1)
Current liabilities		
Trade payables	2 250 (1)	
Tax	<u>1 100</u> (1)	
		<u>3 350</u>
Total liabilities		24 350
Total equity and liabilities		<u>43 815</u>

The distribution of multiple marks is shown in the workings.

Total for Question 4 = 20 marks

Question Number	Answer (AO1) 1	Mark
5 (a) (i)	1 mark for correct formulae.	(1)
Break even sales = fixed cost / contribution (selling price – variable cost) per car (1)		

Question Number	Answer (AO1) 1 (AO2) 2	Mark
5 (a) (ii)	2 marks for correct calculations.	(2)
$= \$ 250\,000 / \$ (15.50 - 10.50) (1)$ $= \$ 250\,000 / \$ 5.00 = 50\,000 \text{ cars } (1)$		

Question Number	Answer (AO4) 4 (AO5) 1	Mark
5 (b)	1 mark for analysing the ratios and 1 mark for development, (max 2) for each ratio and 1 mark for loan approval suggestion.	(5)
<p>The current ratio has improved in 2015 compared to 2014 as it is closer to the ideal ratio of 2:1 (1). Although in 2014 the business had sufficient current assets to pay off the current liabilities but had too much capital tied up in the current assets (1).</p> <p>The quick ratio has also improved in 2015 compared to 2014. It meets the ideal ratio of 1:1 (1). The business will be able to meet its current liabilities easily in 2015 excluding the inventories (1).</p> <p>The bank will approve the loan application (1) as the profitability ratios and liquidity ratios have improved.</p>		

Question Number	Answer (AO2) 8		Mark
5 (c) (i)	1 mark for calculating the depreciation correctly and adding to the profit to work out the cash flows for the project for each year, 1 mark for year 5 cash flows and 6 marks for net present value.		(8)
		Project 2	
Year	Discount factor	Cash flows	Net present value
		\$	\$
0	1	(90 000)	(90 000)
1	0.909	41 000 (1 for all cash flows calculated correctly)	37 269 (1of)
2	0.826	46 000	37 996 (1of)
3	0.751	36 000	27 036 (1of)
4	0.683	31 000	21 173 (1of)
5	0.621	21 000 (1)	13 041 (1of)
Net present value			46 515 (1of)

Question Number	Answer (AO4) 1 (AO5) 1	Mark
5 (c) (ii)	1 mark for description of reason and 1 mark for explanation of why the project is chosen No marks for recommendation without explanation.	(2)
Project 2 will be recommended as it gives a higher positive net present value (1) compared to project 1. (1)		

Question Number	Answer (AO1) 2	Mark
5 (d)	1 mark for one advantage and 1 mark for one disadvantage.	(2)
<p>Advantage - net present value takes time value of the money into account by discounting the cash flows (1).</p> <p>Disadvantage - net present value uses the business cost of capital, which may change in future (1).</p> <p>Any other reasonable responses are acceptable.</p>		

(Total for Question 5 - 20 marks)

TOTAL FOR PAPER = 115 MARKS