



Pearson LCCI Level 3 Certificate in Financial Accounting (VRQ) (ASE20097)

SAMPLE ASSESSMENT MATERIALS

Issue 2

For first teaching from September 2015

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This sample assessment material is Issue 2. Key changes are sidlined in the document. We will inform centres of any changes to this issue. The latest issue can be found on our website, qualifications.pearson.com

Acknowledgements

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Pearson LCCI

Level 3 Certificate in Financial Accounting (VRQ)

Examination Paper

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

Paper Reference

ASE20097

Complete the details below in block capitals.

Candidate name

Centre Code

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Candidate Number

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Candidate ID Number

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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.*
- Answers should be given to an appropriate degree of accuracy.

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.
- You are advised to show your workings.
- Check your answers if you have time at the end.

Turn over ►

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PEARSON

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

- 1** (a) State **two** differences between financial accounting and management accounting. (2)

1

2

- (b) Explain how an allowance for doubtful debts is an application of the prudence concept. (3)

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- (c) Describe **one** advantage and **one** disadvantage of being a sole trader **compared** against being in partnership. (4)

Advantage

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Disadvantage

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(d) Define the concept of limited liability.

(1)

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(e) State which principle of professional ethics might be compromised in these situations.

(2)

Situation	Principle of professional ethics
The accounts assistant has told you that he is going to telephone in sick tomorrow as he is going to attend a wedding reception.	
You have been asked to interview candidates for a payroll assistant's job at your company and you know that your nephew has applied for the job.	

(f) Define the concept of public interest.

(1)

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(6)

4

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- 2 Mr Smith bought machinery for his business on 1 January 2011 for \$300 000. He sold one of the machines, which was originally bought for \$40 000, for \$14 000 on 1 November 2013. On 25 April 2014 he bought another machine for \$50 000.

He charges 20% depreciation on machinery using the reducing balance method. His policy is to charge a full year's depreciation in the year of acquisition and none in the year of disposal.

The business's accounting period ends on 30 April each year.

- (a) Prepare the following accounts for the period ending 30 April 2014, bringing the balances down as necessary on 1 May 2014.

Use this space for your workings:

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(i) Machinery Cost Account

(3)

(ii) Accumulated Depreciation – Machinery Account

(6)

(iii) Disposal Account

(4)

The motor vehicle MV052 is on the non-current assets register but was not found during the physical check of assets.

(b) State **two** reasons why it is important for Mr Smith to maintain an up-to-date non-current asset register.

(2)

1

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2

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(c) Explain the reason for charging depreciation on non-current assets, referring to the relevant accounting concept.

(3)

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Mr Smith provided the following information relating to the rent received and motor vehicle expenses accounts.

Balances at 1 May 2013:

Account	Amount
Rent received	Prepayment \$955
Motor vehicle expenses	Accruals \$450

Bank summary during the year:

Rent received during the year was \$24 545. This included the rent received of \$2 000 from one of the tenants for the four months to 31 July 2014.

Motor vehicle expenses paid during the year were \$15 550. In May 2014, the motor vehicle expenses of \$600 were paid relating to April 2014.

(d) Prepare the following accounts for the period ending 30 April 2014, bringing the balances down as necessary on 1 May 2014.

(i) Rent Received Account

(4)

(ii) Motor Vehicle Expenses Account

(4)

(Total for Question 2 = 26 marks)

3 Mr Ahmad runs a wholesale business called 'Major Supplies'. His trainee accountant has prepared an extended trial balance as at 31 December 2014. Mr Ahmad has noticed that it does not balance. He has provided additional information:

- The closing inventory is valued at \$65 480. This includes goods worth \$5 480 that were damaged by fire and cannot be sold. It also includes partially damaged goods worth \$12 000, which can be sold at \$7 240 after being repaired at an additional cost of \$2 000.
- The irrecoverable debts are \$950 and allowance for doubtful debts needs to be 7% of the remaining trade receivables.
- The disposal proceeds of \$3 000 for the motor vehicle has not been recorded in the disposal account.
- Goods for personal use of \$2 460 have been debited to the general expense account although the credit entry has been recorded correctly.
- Wages for the truck driver have been recorded in the general expense account as \$540 instead of \$450.
- A cash sale total of \$7 800 (sales tax is 20%) has been recorded only in the cash book.
- Telephone expenses of \$5 400 were recorded twice in the telephone expense account.

The purchase day book totals should be as follows:

	Net \$	Sales tax \$	Total \$
Total	3 000	600	3 600

However, the totals have been recorded as:

Purchase a/c \$2 400 DR
 Sales tax a/c \$600 DR
 Trade payables \$3 000 CR

(a) Record adjustments and corrections in the adjustments columns of the extended trial balance, on pages 14 and 15.

(15)

(b) Complete the statement of profit or loss and the statement of financial position columns of the extended trial balance, on pages 14 and 15.

(11)

Use this space for your workings:

Area with horizontal dotted lines for working space.

Major Supplies-Extended Trial Balance as at 31 December 2014.

Account name	Trial Balance		Adjustments	
	Debit \$	Credit \$	Debit \$	Credit \$
Accumulated depreciation – fixtures and fittings		7 200		
Accumulated depreciation – motor vehicle		31 200		
Allowance for doubtful debts		6 000		
Bank	2 460			
Capital		55 380		
Depreciation expense for the year	18 000			
Disposal	1 600			
Fixtures and fittings at cost	12 800			
General expense	19 980			
Inventory at 1 January 2014	46 565			
Motor vehicle at cost	43 000			
Purchase	94 375			
Rent		7 500		
Revenue		189 750		
Sales Tax		9 000		
Suspense		16 290		
Telephone	11 840			
Trade payables control		60 200		
Trade receivables control	80 950			
Wages	50 950			
Total	382 520	382 520		

[illegible]

4 Amu and Ben are partners in A&B Partnership, a business trading in mobile phones.

The net profit for the year ending 31 March 2014 is \$45 000.

The following information relates to their partnership agreement:

- The profit sharing ratio between Amu and Ben is 1:2 respectively.
- Capital introduced:
 - Amu \$50 000
 - Ben \$100 000

Each partner is entitled to 10% interest on capital.

- The full-time salary for a partner is \$12 000 per annum for 36 hours per week.

Amu works for A&B Partnership on a full time basis.

Ben started working for the partnership on 1 October 2013. He works on a part-time basis for 18 hours per week.

Additional information:

- The drawings for the year are:
 - Amu \$5 000
 - Ben \$1 000

There is no interest on drawings.

Amu provided additional funds of \$40 000 as a loan to the partnership on 1 September 2013.

Current account balances are:

- Amu \$500
- Ben \$1 000 (debit)

(3)

(b) Prepare current accounts for both partners, the date columns are not required.

(6)

Partner's Current Account

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You have been given the ledger balances relating to the partnership for the year ended 31 March 2014.

Ledger Accounts	\$
Accumulated depreciation Motor Vehicle - 1 April 2013	12 500
Accumulated depreciation Premises - 1 April 2013	45 000
Allowance for doubtful debts	3 500
Bank (credit balance)	5 750
Closing inventory	73 600
Depreciation charge for the year - motor vehicle	2 500
Depreciation charge for the year - premises	15 000
Motor vehicle at cost	60 000
Other payables	5 000
Other receivables	3 600
Premises at cost	160 000
Sales tax	4 350
Trade payables control account	24 600
Trade receivables control account	49 500

(c) Prepare the statement of financial position as at 31 March 2014 using the ledger balances, information on page 19 and your answer to 4(b).

(12)

Statement of financial position as at 31 March 2014

[illegible]

(Total for Question 4 = 21 marks)

- 5 You have started working as an assistant manager for Mr Wong's business, which specialises in manufacturing domestic goods.

Mr Wong has provided you with extracts from the statement of profit or loss and the statement of financial position for the last two years.

Extract from Statement of Profit or Loss

	31 December 2014 \$	31 December 2013 \$
Revenue	475 000	400 000
Cost of sales	225 000	160 000
Expenses	195 000	178 000

Extract from Statement of Financial Position

	31 December 2014 \$	31 December 2013 \$
Premises (carrying value)	95 000	100 000
Plant and machinery (carrying value)	90 000	80 000
Closing inventory	40 000	30 000
Trade receivables	22 000	14 000
Bank	5 000	18 000
Trade payables	25 000	30 000
Long term loan	10 000	50 000

The closing inventory for the year ended 31 December 2012 was \$25 000.

All sales and purchases are on normal credit terms of 30 days.

(a) Calculate the ratios in the table, for each year:

(10)

Ratios	31 December 2014	31 December 2013
Current ratio		
Quick ratio (acid test ratio)		
Trade receivables collection period		
Trade payables payment period		
Inventory turnover		

Mr Wong has also provided you with the following additional information:

- The depreciation policy is to charge a full year's depreciation in the year of purchase and none in the year of disposal.
 - The business charges \$5 000 fixed depreciation on premises.
 - The depreciation policy for plant and machinery is to charge 10% using the reducing balance method.
 - The business purchased additional plant and machinery for \$20 000 on 1 November 2014.
 - There were no disposals during the year.
- (b) Prepare the statement to reconcile the profit for the year from operating activities to net cash flow from operating activities, for the year ended 31 December 2014.

(5)

Use this space for your workings:

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Reconciliation statement

Details	\$
Profit for the year from operating activities	
Net cash flow from operating activities	

Mr Wong wishes to fund this through a bank loan of \$100 000.

(8)

(Total for Question 5 = 23 marks)

TOTAL FOR PAPER = 115 MARKS



Mark Scheme

Sample Assessment Materials

Pearson LCCI
Level 3 Certificate in Financial Accounting
(VRQ) (ASE20097)

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 candidates' 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 candidates' answer is correct, and in line with the mark scheme.

Question Number	Answer (AO1) 2	Mark
1 (a)	<p>1 mark for each correct difference, for example:</p> <p>Financial accounting has to comply with rules and regulations</p> <p>Financial accounting is based on historical information.</p> <p>Management accounting provides information for internal purposes only</p> <p>Management accounting is based on future events.</p>	(2)

Question Number	Answer (AO1) 1 (AO3) 2	Mark
1 (b)	<p>1 mark for defining the allowance for doubtful debts, 2 marks for connecting with the prudence concept.</p> <p>Allowance for doubtful debts is an estimate by business of likely percentage of its trade receivables, which may become irrecoverable (1) during any accounting period. The increase in allowance for doubtful debts is recorded as an expense (1) in the statement of profit or loss and is deducted from trade receivables (1) in the statement of financial position. It is an application of prudence concept because it states that when business is in doubt, business accounts should report conservative/ lower figure for profit (1) and valuation of assets (1).</p>	(3)

Question Number	Answer (AO1) 2, (AO3) 2	Mark
1 (c)	<p>2 marks for advantage and 2 marks for disadvantage, there must be a comparison of sole trader with partnership.</p> <p>Advantage - all the profits are taken by the sole trader (1) unlike partnership where the profits are shared (1) among the other partners.</p> <p>Disadvantage - knowledge and skills are limited in sole trader as it is only one person (1) partnership comprises of more than one person, it provides an opportunity to share knowledge and skills (1).</p>	(4)

Question Number	Answer (AO1) 1	Mark
1 (d)	<p>1 mark for defining the concept of limited liability.</p> <p>The concept of limited liability means the liability of the owners of the business is limited to a certain amount for business debts by law (1). It is normally the amount of the money invested in business.</p>	(1)

Question Number	Answer (AO2) 2	Mark						
1 (e)	1 mark for stating the correct principle of professional ethic according to the scenario.							
	<table><tr><th>Scenario</th><th>Principle of professional ethics</th></tr><tr><td>The accounts assistant has told you that he is going to telephone in sick tomorrow as he is going to attend a wedding reception.</td><td>Honesty (1)</td></tr><tr><td>You have been asked to interview candidates for a payroll assistant's job at your company and you know that your nephew has applied for the job.</td><td>Objectivity (1)</td></tr></table>		Scenario	Principle of professional ethics	The accounts assistant has told you that he is going to telephone in sick tomorrow as he is going to attend a wedding reception.	Honesty (1)	You have been asked to interview candidates for a payroll assistant's job at your company and you know that your nephew has applied for the job.	Objectivity (1)
	Scenario		Principle of professional ethics					
	The accounts assistant has told you that he is going to telephone in sick tomorrow as he is going to attend a wedding reception.		Honesty (1)					
You have been asked to interview candidates for a payroll assistant's job at your company and you know that your nephew has applied for the job.	Objectivity (1)							

Question Number	Answer (AO1) 1	Mark
1 (f)	<p>1 mark for stating the correct definition</p> <p>To report any information that will affect the public at large and that would be otherwise treated as confidential.</p>	(1)

Question Number	Answer (AO1) 6	Mark
1 (g)	<p>1 mark for each identified characteristic and 1 mark each for expansion, for example:</p> <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>Verifiability (1) - the financial information should have supporting evidence to verify the information (1).</p> <p>Timeliness (1) - the financial information must be in time to aid its users to make decisions (1).</p> <p>Understandable (1) - for users to understand the financial information it must be presented in a clear and concise manner. (1)</p>	(6)

(Total for Question 1 = 19 marks)

Question	Answer (AO2) 13	Mark																																																																											
<p>2 (a) 1 mark for each correct figure, label, date and position as indicated except for balances at the end (1 mark for both balance c/d and for bringing the balances down)</p> <p>3 marks for opening balance for accumulated depreciation.</p> <p>(i) Machinery cost account</p> <table><tr><th>Date</th><th>Details</th><th>\$</th><th>Date</th><th>Details</th><th>\$</th></tr><tr><td>1/5/13</td><td>Balance b/d</td><td>300 000</td><td>1/11/13</td><td>Disposal (1)</td><td>40 000</td></tr><tr><td>25/4/14</td><td>Bank (1)</td><td>50 000</td><td>30/4/14</td><td>Balance c/d (1for both)</td><td>310 000</td></tr><tr><td></td><td></td><td><u>350 000</u></td><td></td><td></td><td><u>350 000</u></td></tr><tr><td>1/5/14</td><td>Balance b/d</td><td>310 000</td><td></td><td></td><td></td></tr></table> <p>Workings:</p> <table><tr><th>Accounting period</th><th></th><th>Amount \$</th></tr><tr><td>01/05/10-30/04/11</td><td>$300000 \times 20\% =$</td><td>60 000 (1)</td></tr><tr><td>01/05/11-30/04/12</td><td>$(300000 - 60000) \times 20\%$</td><td>48 000 (1)</td></tr><tr><td>01/05/12-30/04/13</td><td>$(300000 - 60000 - 48000) \times 20\%$</td><td><u>38 400 (1)</u></td></tr><tr><td></td><td></td><td><u>146 400</u></td></tr></table> <p>(ii) Accumulated depreciation - machinery account</p> <table><tr><th>Date</th><th>Details</th><th>\$</th><th>Date</th><th>Details</th><th>\$</th></tr><tr><td>1/11/13</td><td>Disposal (1)</td><td>19 520</td><td>1/5/13</td><td>Balance b/d (3)</td><td>146 400</td></tr><tr><td>30/4/14</td><td>Balance c/d (1 for both)</td><td>16 504</td><td></td><td>Depreciation expense (1)</td><td>36 624</td></tr><tr><td></td><td></td><td><u>18 024</u></td><td></td><td></td><td><u>183 024</u></td></tr><tr><td></td><td></td><td></td><td>1/5/14</td><td>Balance b/d</td><td>163 504</td></tr></table>		Date	Details	\$	Date	Details	\$	1/5/13	Balance b/d	300 000	1/11/13	Disposal (1)	40 000	25/4/14	Bank (1)	50 000	30/4/14	Balance c/d (1for both)	310 000			<u>350 000</u>			<u>350 000</u>	1/5/14	Balance b/d	310 000				Accounting period		Amount \$	01/05/10-30/04/11	$300000 \times 20\% =$	60 000 (1)	01/05/11-30/04/12	$(300000 - 60000) \times 20\%$	48 000 (1)	01/05/12-30/04/13	$(300000 - 60000 - 48000) \times 20\%$	<u>38 400 (1)</u>			<u>146 400</u>	Date	Details	\$	Date	Details	\$	1/11/13	Disposal (1)	19 520	1/5/13	Balance b/d (3)	146 400	30/4/14	Balance c/d (1 for both)	16 504		Depreciation expense (1)	36 624			<u>18 024</u>			<u>183 024</u>				1/5/14	Balance b/d	163 504	(3)
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Question	Answer (AO2) 13					Mark
(iii) Disposal account						(4)
Date	Details	\$	Date	Details	\$	
1/11/13	Machinery cost a/c (1)	40 000	1/11/13	Accumulated depreciation-machinery (1)	19 520	
			1/11/13	Bank a/c (1)	14 000	
			30/4/14	SOPL (1)	6 480	
		<u>40 000</u>			<u>40 000</u>	
						(13)

Question Number	Answer (AO1) 2	Mark
2 (b)	<p>1 mark for each correct reason, maximum 2 marks</p> <p>To reconcile the non-current asset register with physical count of assets (1)</p> <p>To identify how the non-current assets were financed (1)</p>	(2)

Question Number	Answer (AO1) 2 (AO3)1	Mark
2 (c)	<p>2 marks for reason for depreciation and 1 mark for concept.</p> <p>Depreciation is charged to spread the cost of an asset over its economic useful life (1) to match depreciation expense with income generated by using that asset (1) hence it is an application of accrual/matching concept (1).</p>	(3)

Question	Answer (AO2) 8	Mark																														
2 (d) 1 mark for each correct figure, label, date and position except for balances at the end (1 mark for both balance c/d and for bringing the balances down)																																
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Date	Details	\$	Date	Details	\$																											
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		<u>16 150</u>			<u>16 150</u>																											
			1/5/14	Balance b/d	600																											

(8)

(Total for Question 2 = 26 marks)

Question	Answer (AO2) 26	Mark
3a	Award 1 mark for each correct figure, label and position as indicated.	
3b	Award 1 mark for each correct figure, label and position as indicated.	(15)
	Workings	(11)
	Closing inventory = \$ 65 480-\$5 480 (1) - \$12 000 + (\$7 240-\$2 000) (1) = \$53 240 (1)	
	Suspense= \$3 000+\$90 + \$7 800 + \$5 400=\$16 290	
	General Expense = \$2 460 + \$540 = \$3000	
	Allowance for doubtful debts adjustment= \$6 000-(((\$89 950-\$950)*7%)= \$400	

Major Supplies
Extended trial balance as at 31st December 2014

Account Name	Trial Balance		Adjustments		Statement of Profit or Loss		Statement of Financial Position	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
	\$	\$	\$	\$	\$	\$	\$	\$
Accumulated depreciation- fixture and fittings		7 200						7 200
Accumulated depreciation-motor vehicle		31 200						31 200
Allowance for doubtful debts			400 (1 mark for both entries with correct label, position and 1 mark for amount)					5 600 (1of)
Bank	2 460						2 460	
Capital		55 380						55 380

Trade receivables control	80 950			950				80 000 (1of)	
Wages	50 950					51 400 (1of)			
Closing inventory-SOPL				53 240			53 240		
Closing inventory-SFP								53 240	
Irrecoverable receivables (debts)									
Allowance for doubtful debts-adjustment				400					
Drawings								2 460	

Question	Answer (AO2) 3	Mark
4(a) 1 mark for both figures for both partners.		
		\$
Profit for the year before appropriation		45 000
Less		
Interest on capital		
Amu $\$50\,000 \times 10\% = \$5\,000$		
Ben $\$100\,000 \times 10\% = \$10\,000$		15 000 (1)
Salary		
Amu \$12 000		
Ben $(\$12\,000 \times 6/12) \times 1/2 = \$3\,000$		15 000 (1)
Profit available for distribution		<u>15 000</u>
Profit Share		
Amu $\$15\,000 \times 1/3 =$		\$5 000
Ben $\$15\,000 \times 2/3 =$		\$10 000 (1)
		15 000
		(3)

Question Number	Answer (AO2)6	Mark																																										
4(b)	<p>1 mark for both figures, for both partners. 1 mark for both balance carried down and balance brought forward</p> <p>Partner's current account</p> <table><tr><th>Details</th><th>Amu \$</th><th>Ben \$</th><th>Details</th><th>Amu \$</th><th>Ben \$</th></tr><tr><td>Bal b/d</td><td></td><td>1 000</td><td>Bal b/d (1 for both)</td><td>500</td><td></td></tr><tr><td>Drawings (1 for both)</td><td>5 000</td><td>1 000</td><td>Interest on capital (1 for both)</td><td>5 000</td><td>10 000</td></tr><tr><td></td><td></td><td></td><td>Salary (1 for both)</td><td>12 000</td><td>3 000</td></tr><tr><td>Bal c/d(1 for both)</td><td>17 500</td><td>21 000</td><td>Profit share (1 for both)</td><td>5 000</td><td>10 000</td></tr><tr><td></td><td>22 500</td><td>23 000</td><td></td><td>22 500</td><td>23 000</td></tr><tr><td></td><td></td><td></td><td>Bal b/d</td><td>17 500</td><td>21 000</td></tr></table>	Details	Amu \$	Ben \$	Details	Amu \$	Ben \$	Bal b/d		1 000	Bal b/d (1 for both)	500		Drawings (1 for both)	5 000	1 000	Interest on capital (1 for both)	5 000	10 000				Salary (1 for both)	12 000	3 000	Bal c/d(1 for both)	17 500	21 000	Profit share (1 for both)	5 000	10 000		22 500	23 000		22 500	23 000				Bal b/d	17 500	21 000	(6)
Details	Amu \$	Ben \$	Details	Amu \$	Ben \$																																							
Bal b/d		1 000	Bal b/d (1 for both)	500																																								
Drawings (1 for both)	5 000	1 000	Interest on capital (1 for both)	5 000	10 000																																							
			Salary (1 for both)	12 000	3 000																																							
Bal c/d(1 for both)	17 500	21 000	Profit share (1 for both)	5 000	10 000																																							
	22 500	23 000		22 500	23 000																																							
			Bal b/d	17 500	21 000																																							

Question	Answer (AO2) 12			Mark
4(c) 1 mark for each item as indicated.				
A&B Partnership				
Statement of financial position as at 31 March 2014				
	\$	\$	\$	
Non- current assets	Cost	Accumulated Depreciation	Carrying Value	
Premises	160 000	60 000 (1cf)	100 000 (1of)	
Motor vehicle	60 000	15 000 (1cf)	<u>45 000</u> (1of)	
			145 000	
Current assets				
Inventory	73 600	(1cfs for both)		
Other receivables	3 600			
Trade receivables (\$49 500-\$3 500)	46 000 (1of)		123 200	
Total assets	(1 for both total assets and total equity & liabilities)		<u>268 200</u>	
Equity & liabilities				
	Amu	Ben		
Capital accounts	50 000	100 000	150 000	
Current accounts	17 500	21 000	38 500	
	67 500 (1of)	121 000 (1of)	188 500 (1of)	
Long term liabilities- Amu's loan			(1cf)40 000	
Current Liabilities				
Trade payables	24 600	(1cfs for all three)		
Sales tax	4 350			
Other payables	5 000			

Bank	(1cf) 5 750		<u>39 700</u>	(12)
Total equity & liabilities			<u>268 200</u>	

(Total for Question 4 = 21 marks)

Question	Answer (AO2) 10	Mark									
5 (a) 1 mark for each ratio for each year.											
Ratios	31 December 2014	31 December 2013									
Current ratio	67 000: 25 000 = 2.68:1 (1)	62 000: 30 000 = 2.07:1 (1)									
Quick ratio (Acid test ratio)	(67 000-40 000): 25 000 = 27 000:25 000 = 1.08:1 (1)	(62 000-30 000): 30 000 = 32 000:30 000 = 1.07:1 (1)									
Trade receivables collection period	(22 000/475 000)*365 = 17 days (1)	(14 000/400 000)*365 = 13 days (1)									
Trade payable payment period*	(25 000/235 000)*365 = 39 days (1)	(30 000/165 000)*365 = 67 days (1)									
Inventory turnover*	225 000/35 000 = 6.43 times (1)	160 000/27 500 = 5.82 times (1)									
*Workings <table> <tr> <td></td><td>31 December 2014</td><td>31 December 2013</td></tr> <tr> <td>Purchases</td><td>\$(225 000 - 30 000 + 40 000) = \$235 000</td><td>\$(160 000 - 25 000 + 30 000) = \$165 000</td></tr> <tr> <td>Average inventory</td><td>\$(30 000 + 40 000)/2 = \$35 000</td><td>\$(25 000 + 30 000)/2 = \$27 500</td></tr> </table>			31 December 2014	31 December 2013	Purchases	\$(225 000 - 30 000 + 40 000) = \$235 000	\$(160 000 - 25 000 + 30 000) = \$165 000	Average inventory	\$(30 000 + 40 000)/2 = \$35 000	\$(25 000 + 30 000)/2 = \$27 500	(10)
	31 December 2014	31 December 2013									
Purchases	\$(225 000 - 30 000 + 40 000) = \$235 000	\$(160 000 - 25 000 + 30 000) = \$165 000									
Average inventory	\$(30 000 + 40 000)/2 = \$35 000	\$(25 000 + 30 000)/2 = \$27 500									

Question	Answer (AO2) 5	Mark														
5 (b) 2 marks for depreciation, 1 mark for each working capital figure and 1 mark for net cash from operating activities.																
<table><tr><th>Details</th><th>\$</th></tr><tr><td>Profit for the year from operating activities</td><td>55 000</td></tr><tr><td>Depreciation charge for the year \$(5 000 (1) + 10 000 (1)*)</td><td>15 000 (2)</td></tr><tr><td>Increase in inventory</td><td>[10 000)]</td></tr><tr><td>Increase in trade receivables</td><td>[(8 000) (1 for both)]</td></tr><tr><td>Decrease in trade payables</td><td>(5 000) (1)</td></tr><tr><td>Net cash from operating activities</td><td>47 000 (1)</td></tr></table>			Details	\$	Profit for the year from operating activities	55 000	Depreciation charge for the year \$(5 000 (1) + 10 000 (1)*)	15 000 (2)	Increase in inventory	[10 000)]	Increase in trade receivables	[(8 000) (1 for both)]	Decrease in trade payables	(5 000) (1)	Net cash from operating activities	47 000 (1)
Details	\$															
Profit for the year from operating activities	55 000															
Depreciation charge for the year \$(5 000 (1) + 10 000 (1)*)	15 000 (2)															
Increase in inventory	[10 000)]															
Increase in trade receivables	[(8 000) (1 for both)]															
Decrease in trade payables	(5 000) (1)															
Net cash from operating activities	47 000 (1)															
*Workings																
(\$80 000*10%)+(\$20 000*10%)=\$8 000+\$2 000=\$10 000																

(5)

Question Number	Answer (AO4) 6, (AO5) 2	Mark
5 (c)	<p>1 mark for analysing each ratio and 1 mark for development- maximum of 2 marks for each ratio (maximum of three ratios). 1 mark for overall assessment.</p> <p>Current ratio has improved slightly (1). The ratio was better in the previous year as it was close to the standard ratio of 2:1 (1). In 2014 the ratio is more than the ideal ratio, which means that the business is not utilising its current assets efficiently.</p> <p>Quick ratio (acid test ratio) has not changed much (1). It is very close to the ideal ratio of 1:1(1) for both years.</p> <p>Trade receivables collection period has deteriorated (1) as the receivables are taking longer to pay than the previous year. Extra days of credit might have been given as an incentive to improve the sales (1). The customers are still paying within the normal credit period of 30 days (1) and payments are collected from customers before the payments to suppliers (1).</p> <p>Trade payables payment period has a negative impact on cash flow (1) as the payment days have decreased from the previous year and are much closer to the normal credit period of 30 days. It could be because of incentives offered for early payment (1) and will help to improve working relationships with suppliers (1) to have better credit terms in future (1). Business is collecting money from the receivables before it is making payment to payables (1), which is better for business to improve the cash flow position.</p> <p>Inventory turnover - the inventory has improved compared to last year (1). It could be due to the relaxed terms of credit to customers to improve the sales (1).</p> <p>The business is in a strong position to obtain the loan as the Business has a strong liquidity position and has repaid the loan of \$40 000 during the year (2).</p>	(8)

(Total for Question 5 – 23 marks)

September 2015

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