Pearson LCCI

Certificate in Accounting (VRQ)

Level 3

Wednesday 6 July 2016
Time: 3 hours

Paper Reference
ASE20104

Complete the details below in block capitals.

Candidate name

Centre Code

Candidate Number

Candidate ID Number

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.*
- 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.

Turn over ▶

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PEARSON

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

1 (a) State **three** differences between financial accounting and management accounting.

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(b) Explain how the accruals concept is applied in the preparation of financial statements.

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(c) Prepare a template showing the components in a statement of cash flows.

(7)

You are a financial controller for a construction company.

You have received a request from a competitor for a trade reference for one of your customers.

(d) Explain, by referring to the relevant principles of professional ethics, what you would do in this situation.

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(Total for Question 1 = 21 marks)

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2 Christine Beckham trades in designer clothing and accessories.
On 30 April 2016 the following transactions had not yet been recorded.

During the year Christine provided from her own resources:

inventory costing \$10 800

a computer costing \$2 500 to be used in the business.

In addition, she took a designer bag costing \$3 000 for personal use.

The depreciation policy is to charge a full year's depreciation in the year of acquisition and none in the year of disposal.

The depreciation is to be charged:

Fixtures and fittings	10% on cost
Computers	20% on carrying value
Land and buildings	10% on cost (land cost \$100 000)

On 23 March 2016 she sold a computer, purchased on 1 January 2014, cost \$2 000, for \$825.

At year ended 30 April 2016:

Insurance included a payment on 1 January 2016 of \$6 000. This related to the six-month period ended 30 June 2016.

Commission received of \$2 700 was outstanding for the quarter ended 30 June 2016.

There were irrecoverable debts of \$8 000. These are to be written off.

The allowance for doubtful debts was to be maintained at 10% of trade receivables.

The following errors were identified:

- Delivery charges of \$500 had been recorded in carriage inwards.
- Cleaner's wages of \$600 had been recorded twice in general expenses.
- A cash sale of \$5 000 for a dress had been debited to both bank and sales.

Christine valued her inventory at \$96 000. This had been marked up by 20%.

- This included damaged inventory costing \$6 000. This could be sold for \$4 800 after repairs costing \$600.

Complete the adjustment columns of the extended trial balance at 30 April 2016.

Christine Beckham – Extended Trial Balance at 30 April 2016				
	Trial Balance		**Adjustments**	
Account	**Debit $**	**Credit $**	**Debit $**	**Credit $**
Administrative expenses	250 000			
Allowance for doubtful debts		11 245		
Bank	73 000			
Carriage inwards	7 585			
Carriage outwards	11 515			
Commission received		77 545		
Computers – accumulated depreciation		14 850		
Computers at cost	25 000			
Equity at 1 May 2015		375 000		
Fixtures and fittings – accumulated depreciation		45 000		
Fixtures and fittings at cost	90 000			
General expenses	72 540			
Insurance	60 000			
Inventory at 1 May 2015	85 000			
Land and buildings at cost	250 000			
Land and buildings – accumulated depreciation		75 000		
Purchases	460 600			
Revenue		695 000		
Suspense		10 600		

EXTENDED TRIAL BALANCE CONTINUES ON THE NEXT PAGE.

	Trial Balance		Adjustments	
Account	**Debit $**	**Credit $**	**Debit $**	**Credit $**
Trade payables		175 500		
Trade receivables	94 500			
Total	1 479 740	1 479 740		

(Total for Question 2 = 22 marks)

3 On 1 May 2015 Portable Tech Ltd acquired 800 000 shares of Wong Phones Ltd at $1.65 each. The following balances were extracted from Wong Phones Ltd's statement of financial position at that date.

Equity	**$000**
$1 ordinary shares	1 000
Share premium	200
Revaluation reserve	50
Retained earnings	175

At the date of acquisition, the fair value of the factory was $120 000 more than the carrying value shown in the books.

(a) Calculate the value of goodwill at acquisition.

(4)

The statements of profit or loss for Portable Tech Ltd and Wong Phones Ltd for the year ended 30 April 2016 were as follows:

	Portable Tech Ltd $	Wong Phones Ltd $
Revenue	780	400
Cost of sales	(450)	(250)
Gross profit	330	150
Administrative expenses	(120)	(75)
Distribution costs	(90)	(40)
Dividends from Wong Phones Ltd	45	–
Profit from operations	165	35
Finance costs	(15)	(7)
Profit for the year before tax	150	28
Taxation	(12)	(6)
Profit for the year after tax	138	22

Additional information

- During the year Wong Phones Ltd sold microchips to Portable Tech Ltd for $150 000 with an original cost of $75 000.
- At the end of the year all the microchips were sold by Portable Tech Ltd.

(b) Prepare the consolidated statement of profit or loss for the year ended 30 April 2016.

(8)

Portable Tech Ltd
Consolidated statement of profit or loss for the year ended 30 April 2016

Portable Tech Ltd is planning to buy mobile phones from Wong Phones Ltd, costing $120 each. The mobile phones would have a selling price of $150.

Budgeted purchases and sales for the first four months are as follows:

	June	July	August	September
Purchases	1 500	1 500	1 800	1 500
Sales	1 250	1 650	1 750	1 600

(c) (i) Prepare the inventory budget for the four months ending 30 September 2016.

(4)

Inventory budget for the four months ending 30 September 2016

(ii) Calculate the value of inventory at 30 September 2016.

(1)

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(iii) State the formula to calculate the inventory §.

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(Total for Question 3 = 18 marks)

4 On 31 March 2016 Mohammed Latif and Xing Woo merged their businesses to form a partnership sharing profit and losses equally. They agreed to have $200 000 as a capital in total for each partner to start the new partnership.

On 31 March 2016 the extracts from their statements of financial position were:

	Mohammed Latif **$**	Xing Woo **$**
Buildings	40 000	60 000
Machinery	25 000	35 000
Motor vehicle	15 000	20 000
Inventory	2 500	4 000
Trade receivables	15 000	18 500
Bank	4 550	1 850
Trade payables	7 500	8 900

The assets and liabilities of both businesses were taken at the value recorded in the statement of financial position at 31 March 2016 except the following:

	Mohammed Latif	Xing Woo
Buildings	Revalued at $80 000	Revalued at $120 000
Machinery and motor vehicle	Additional depreciation of $5 500 and $3 000 respectively	Additional depreciation of $7 500 and $4 550 respectively
Trade receivables	Valued at 90% of the amount outstanding	Valued at 90% of the amount outstanding
Goodwill	Valued at $20 000	Valued at $35 000

Both partners agreed not to maintain goodwill in the partnership books.

(a) Prepare the partners' capital accounts to record all these transactions.

(16)

Capital Accounts

	Mohammed Latif $	Xing Woo $		Mohammed Latif $	Xing Woo $

You may use the following space for workings.

(b) Prepare the statement of financial position at 1 April 2016.

(8)

Mohammed Latif and Xing Woo
Statement of financial position at 1 April 2016

(Total for Question 4 = 24 marks)

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5 Derek Sugar is considering investing $270 000 in one of the following two projects.

Profit for the year	Project 1	Project 2	Discount factors at 10% cost of capital
	$	$	$
1	40 000	20 000	0.909
2	52 000	60 000	0.826
3	70 000	78 000	0.756
4	66 000	70 000	0.683
5	24 000	70 000	0.621
Residual Value	40 000	20 000	

Additional information

- All receipts and payments will take place at the end of the year. Each project will last five years.
- Profit accrues evenly throughout each year.
- The depreciation is charged on a straight line basis.

(a) Calculate for each project the:

(i) payback period

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(ii) net present value

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(iii) average rate of return.

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(b) (i) Analyse the results from (a).

(6)

(ii) Advise, with a reason, which project would be most suitable.

(2)

Project

Reason

(Total for Question 5 = 30 marks)

TOTAL FOR PAPER = 115 MARKS

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