Pearson LCCI

Certificate in Accounting (VRQ)
Level 3

Thursday 9 June 2016
Time: 3 hours

Paper Reference
ASE20104

Complete the details below in block capitals.

Candidate name

Centre Code

Candidate Number

Candidate ID Number

Total Marks

You do not need any other materials.

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 ▶

1/1/1/1

P 5 1 1 2 7 A 0 1 2 4

PEARSON

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.

(i) Providers of external finance

(1)

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(ii) Suppliers

(1)

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(iii) Managers

(1)

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(b) Define the following elements of the accounting equation.

(i) Assets

(2)

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(ii) Liabilities

(2)

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(iii) Equity

(2)

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(c) State **two** advantages and **two** disadvantages of the payback method of investment appraisal.

(4)

Advantages

1 ....

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2 ....

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Disadvantages

1 ....

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2 ....

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Raman is a trainee accounts assistant. His annual performance review is due.

(d) Complete the following table to identify, with a reason, which principle of professional ethics would be compromised in each situation.

(4)

Situation	Principle of professional ethics	Reason
His line manager has asked him to complete a tax return for one of the clients with global businesses.		
Raman is going to interview the candidates for a junior accounts clerk role for which his line manager's son has applied.		

(e) Describe **three** qualitative characteristics of financial statements as outlined in the International Accounting Standards Board Framework (IASB).

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(Total for Question 1 = 23 marks)

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2 Mike, Nick and Osman are in partnership with a profit and loss sharing ratio of 3:2:1

The partnership agreement provided for interest on capital at 10% per annum, and annual salaries of: Mike $24 000 (effective from 1 July 2015), Nick $18 000 and Osman $21 000.

On 1 January 2015 the partners provided the following information:

	Capital account $	**Current account $**
Mike	100 000	4 501 Dr
Nick	75 000	12 500
Osman	50 000	8 650
Mike has loaned the partnership $42 000 at a rate of 12% per annum.		

For the year ended 31 December 2015, profit for the year was $49 650 before the following adjustments:

- Interest on the loan from Mike is outstanding for the last quarter.
- Drawings for the year were:

	Cash $	**Goods $**
Mike	15 000	-
Nick	12 000	4 500
Osman	10 000	-

(a) Calculate the adjusted profit for the year ended 31 December 2015.

(3)

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(b) Prepare the appropriation account for the year ended 31 December 2015.

(6)

Mike, Nick and Osman
Appropriation account for the year ended 31 December 2015

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Turn over

On 31 December 2015 the partnership was taken over by a company who acquired all the net assets of the partnership, except the bank balance of $25 039, for a purchase consideration of $300 000.

The purchase consideration was settled as follows:

- 120 000 ordinary shares of $1 each at $1.50
- 90 000 preference shares of $1 each
- the balance was paid by cheque.

Partners shared the purchase consideration as follows:

- Ordinary shares were distributed equally among the partners.
- Preference shares were distributed in the ratio of their opening capital.

(c) (i) Prepare the partners' current accounts on page 9 for the year ended 31 December 2015 (dates are not required).

(6)

(ii) Prepare the partners' capital accounts on page 9 for the year ended 31 December 2015 (dates are not required).

(12)

Current Accounts

	Mike $	Nick $	Osman $		Mike $	Nick $	Osman $

Capital Accounts

	Mike $	Nick $	Osman $		Mike $	Nick $	Osman $

(Total for Question 2 = 27 marks)

3 Potterson Ltd extracted the following balances at 31 August 2015:

	$
Allowances for doubtful debts	4 598
Carriage inwards	26 000
Carriage outwards	35 450
Discount allowed	2 500
Fixtures and fittings accumulated depreciation	15 000
Fixtures and fittings at cost	40 000
General administration expenses	74 560
General distribution costs	44 970
Irrecoverable debts	3 500
Office buildings at cost	242 000
Loan at 10%	100 000
Machinery accumulated depreciation	56 000
Machinery at cost	80 000
Motor vans accumulated depreciation	24 000
Motor vans at cost	60 000
Opening inventory	46 540
Purchase returns	4 900
Purchases	524 900
Revenue	959 678
Sales returns	9 678
Trade payables	79 850
Trade receivables	65 700
Wages and salaries	92 500
Warehouse rent	17 000

- Depreciation is to be charged as follows:

Non-current assets	**Method**	**Apportionment**
Office buildings	10% straight line	
Motor vans	20% reducing balance	
Machinery	20% reducing balance	administration expenses 75%, distribution costs 25%
Fixtures and fittings	10% straight line	administration expenses 80%, distribution costs 20%

- On 1 June 2015 a motor van, cost $20 000, with accumulated depreciation of $14 600 was sold for $6 000. This has not yet been recorded in the books.
- Legal costs, $8 000, for office buildings acquired on 1 September 2014 were included in general administration expenses.

- The depreciation policy is to charge a full year's depreciation in the year of acquisition and none in the year of disposal.
- Inventory at 31 August 2015 was valued at $64 350.
    - This included damaged goods costing $5 000. These goods can be repaired at an additional cost of $350 and can be sold for $4 250.
    - This also included damaged goods costing $7 250, which are irreparable and unsaleable but can be replaced at a cost of $8 750.
- Wages, and salaries, $7 500, were outstanding. The wages and salaries were shared between administration expenses and distribution costs in the ratio of 80% and 20% respectively.
- Allowances for doubtful debts was to be maintained at 10% of trade receivables.
- The warehouse rent included $1 500 for the quarter ending 30 September 2015.

Prepare the statement of profit or loss for the year ended 31 August 2015.

Potterson Ltd
Statement of profit or loss for the year ended 31 August 2015

(Total for Question 3 = 31 marks)

4 Jason Tan expects his fee income for 2017 to be:

	$
January	40 000
February	50 000
March	24 000
April	20 000
May–December per month	30 000

His clients pay him as follows:

- 80% of the fee after one month and
- 20% after two months.

(a) Prepare a trade receivables budget for three months from 1 March 2017 to 31 May 2017.

(7)

Trade receivables budget for 1 March to 31 May 2017

	March **$**	**April** **$**	**May** **$**
Balance b/f			
Balance c/f			

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Jason Tan provided you with the following information for a client's business, Delt Computer Ltd.

	31 December 2015 $000	31 December 2014 $000
Property, plant and equipment at carrying value	586	480
Inventory	65	45
Trade receivables	87	68
Cash and cash equivalents	(14)	25
Share capital	400	400
Share premium	20	20
Retained earnings	148	140
Trade payables	56	58
Bank loan	100	-

Additional information

The business acquired equipment during the year for $186 000.

The business sold one of the machines for $18 000 with a carrying value of $16 000.

(b) Prepare for Delt Computer Ltd for the year ended 31 December 2015:

(i) a reconciliation of profit for the year to net cash from operating activities

(7)

Delt Computer Ltd
Reconciliation of profit for the year to net cash from operating activities
for the year ended 31 December 2015

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(ii) statement of cash flows.

(4)

Delt Computer Ltd
Statement of cash flows for the year ended 31 December 2015

(Total for Question 4 = 18 marks)

5 Woodbecker Furniture Ltd manufactures chairs for schools. The cost per chair, based on the production of 500 000 chairs, is as follows:

	$
Material	25.00
Labour	35.00
Royalties	15.00
Fixed overheads	20.00
Total cost	95.00

The selling price is based on a 20% mark up.

(a) Calculate:

(i) the selling price of a chair

(1)

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(ii) the number of chairs it has to sell to earn a profit of $1 700 000.

(4)

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On 1 January 2015 Woodbecker Furniture Ltd invested $2 500 000 to acquire 80% of the shares in Goodend Ltd, which specialises in household furniture.

The following information relates to Goodend Ltd:

	31 December 2015 **$000**
Property, plant and equipment at carrying value	1 785
Inventory	650
Trade receivables	487
Cash and cash equivalents	195
Share capital	1 500
Share premium	200
Retained earnings	228
Trade payables	689
Loan at 10%	500

Additional information

- The buildings of Goodend Ltd were fair valued on 1 January 2015 at $1 275 000, which were shown in its books at $785 000.
- The retained earnings on 1 January 2015 were $150 000.

(b) (i) Calculate the value of goodwill arising on consolidation.

(3)

(ii) Calculate the value of non-controlling interest at 31 December 2015.

(2)

Goodend Ltd has applied for a loan for $1 000 000 to buy new machinery.

It provided the bank with the following information:

	31 December 2015	**31 December 2014**
Gross profit margin	35%	23%
Net profit percentage	15%	11%
Trade receivables collection period	30 days	25 days
Trade payables payment period	30 days	40 days
Inventory turnover	9 times	6 times
Current ratio	1.7:1	2.5:1
Quick ratio (acid test)	0.75:1	1.2:1

(c) (i) Analyse the change in the following ratios:

(4)

net profit percentage

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trade payables payment period

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inventory turnover

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quick ratio (acid test).

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(ii) Advise whether the bank would approve the loan.

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(Total for Question 5 = 16 marks)

TOTAL FOR PAPER = 115 MARKS

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