



**Pearson LCCI  
Bookkeeping and Accounting  
(VRQ) Level 2  
(ASE20093)**

**Examiners' Report  
December 2016**

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## Introduction

There were areas of this paper that were not answered as expected. Areas such as double entry bookkeeping and business documentation are areas that are covered in both Level 1 and Level 2.

Centres must ensure that candidates entering at Level 2 have the underpinning knowledge of the Level 1 syllabus, as this level is an extension from Level 1. This sitting emphasised the fact that some candidates did not have the prior knowledge needed in order to complete the Level 2 successfully.

As mentioned in previous reports, accounting is no longer about calculating and preparing financial data, it is about understanding the impact these transactions can have on different areas of a business. Candidates need to understand why the transactions take place and what the transactions mean. Throughout the paper, some candidates answered the numerical tasks to a high standard although there was a small minority of candidates who struggled across all aspects of the paper.

Some areas of this paper were surprisingly challenging to candidates and many candidates either did not attempt these areas or they scored very few marks.

Overall, the quality of answers given throughout this exam lacked the clarity or precision necessary.

## Question 1

Question 1(a) was a test of the candidates' knowledge on the general ledger. However, very few scored marks on this as they answered the question based on the general journal not the general ledger.

To show the other ~~acc~~ accounts, ~~a~~ except receivables account and payables account, such as real, expense and income accounts.

In Question 1(b) the source documents and books of original entry once again challenged candidates. It was disappointing to see this as this is knowledge candidates should already have if entering straight in at level 2. This question should have been straightforward, however, very few scored more than 2 marks on this.

Transaction	Source document	Book of original entry
Goods sold on credit	Sales invoice	Sales day book
Goods returned to a credit supplier	Purchase Return invoice 0	Purchase Return day book ✓
Payment sent in the post to a credit supplier	Bank's cheque (invoice) ✓	General Journal Cash Book ✓
Rent paid by direct debit	Rent expense invoice 0	General Journal 0
Payment from a trade receivable	Bank's cheque (invoice) 0	Cash Book General Journal ✓
Purchase of a motor vehicle on credit	Purchases invoice ✓	Purchases Day Book 0

Question 1(c) related to the statement of account for a customer. This question was poorly answered; prior knowledge should have allowed candidates to gain full marks. It was surprising to see that candidates clearly did not know what the use of this document was for. At Level 2, this should have been a 2-mark question that the majority of candidates could answer.

To explain the credit customers about the transactions, such as credit sales, sales returns and discount allowed, for one month.  
To check the balance of payments and receipts between supplier and customer.

Question 1(d) was a double entry question where candidates should have debited the subsidiary accounts and on 30 June debited the control total and credited the sales account total. Very few candidates achieved full marks on this and just filled in numerous boxes rather than implementing their knowledge of the double entry system.



#### **Examiner Comments**

This area of the specification is an area where it is expected that most candidates would achieve good marks. It is essential that a thorough understanding of double entry bookkeeping is maintained. Overall, it is disappointing to see the lack of knowledge and understanding shown in this area of the exam.



#### **Examiner Tip**

Ensure candidates have a thorough understanding of business documents and the books of prime/original entry. It is imperative for all accounting studies that candidates understand the process of double entry bookkeeping in order to be successful. Therefore, centres need to ensure all these areas are covered and the candidates understand them before entering into the exam.

If candidates are entering at this level ensure you give them a Level 1 paper to check they have the skills and knowledge expected before commencing Level 2.

## Question 2

In Question 2(a) the sales ledger control account was answered well by the majority of candidates. Some candidates did not achieve full marks as the details used were incorrect. However, many achieved 9 marks and showed they understand how to prepare the control account.

Date	Details	£	Date	Details	£
<u>1 Nov</u> 2015	Balance b/d	22 560	<u>1 Nov</u> 2015	Balance b/d	1828
<u>31 Oct</u> 2016	<del>Balance</del> Credit Sales (Sales Day Book)	19 083	<u>31 Oct</u> 2016	Contra (Journal)	920
<u>31 Oct</u> 2016	Dishonoured Cheque (Cash Book)	1 950	<u>31 Oct</u> 2016	Discount Allowed (Cash Book)	1500
<u>31 Oct</u> 2016	Interest charged to trade receivables	550	<u>31 Oct</u> 2016	Irrecoverable Debts written off (Journal)	1 950
			<u>31 Oct</u> 2016	Receipts from trade receivables (Cash Book)	18 100
			<u>31 Oct</u> 2016	Returns Inwards (Returns Inwards Day Book)	1 245
<u>31 Oct</u> 2016	Balance c/d	175	<u>31 Oct</u> 2016	Balance c/d	18 775
		44 818			44 818
<u>1 Nov</u> 2016	Balance b/d	18 775	<u>1 Nov</u> 2016	Balance b/d	175

Question 2(b) - very few candidates understand the reconciliation between the control account and the sales ledger. Candidates just tended to add together the subsidiary balances which meant they did not achieve any marks. The reconciliation statement is the total of the subsidiary accounts and the control accounts. Candidates ignored the credit balance on the control and therefore did not identify a difference. This showed lack of understanding as to why there may be a credit balance as well as debit balance on the control account.

Sum of balances from trade receivables control A/c <sup>(1877+175)</sup>	\$	\$
		18 950
Balances from Receivables Ledger - T Smythe	5633	
- F Forde	175	
- S Ford	7296	
- S Hanno	4671	
- A H	1000	(18 775)
Difference /		175

Question 2(c)(i)- candidates were unable to answer this as they did not have the knowledge of Question 2(b), which linked to this question. They could not identify the reason being the credit balance on the control account as I believe they did not look back at their previous answers to give a reason as to why this may have occurred.

The difference may have occurred in trade receivables at 31 October 2016 - Credit side \$ 175.

Question 2(c)(ii) - this question was for candidates to explain what procedures should be followed if there is an imbalance. This was testing the candidates' knowledge of how double entry works as well as why the control is used to check the data from other accounts (i.e. subsidiary accounts). It was expected that candidates be able to show some understanding of this, however, very few did. It is important that candidates don't just practise how to prepare a control account but also understand why it is used and what to do if it does not reconcile.

For reconciliation of the subsidiary ledger and trade receivables control account, Scarlett should check the balance drawn up. As error or difference may be occurred there.

**Examiner Comments**

The control account was prepared to a high standard, however, the knowledge and understanding of why things may not balance and the reasons behind it was poor. Candidates should know this level of information and not just be able to calculate and prepare.

**Examiner Tip**

Centres need to teach the theory behind every calculation and preparation of accounts and financial statements. Explaining to candidates why this is done and the effect it has on financial information. Also, if items do not balance what could be the reasons behind it and how candidates would rectify it.



### Question 3

Question 3(a) (preparation of the income statement) was answered very well by the majority of candidates. However, candidates lost marks due to using the incorrect terminology. For instance, Net profit as a label is not acceptable and has never been accepted at this level; Profit for the year is the label that will give candidates the extra marks. Overall, a pleasing attempt.

	\$	\$
Revenue		80 000
C-) <u>Cost of sales</u>		
Opening Inventory		
C+) Purchases	70 000	
C-) Closing Inventory	(6 000)	
Cost of Sales (WN-1)		(64 000)
Gross Profit		16 000
C+) <u>Incomes</u>		
Discount Received	130	130
C-) <u>Expenses</u>		
Rent (2200 - 520)	21 680	
Telephone bill (700 + 150)	2 850	
Irrecoverable debt written off	200	
Allowance for doubtful debt (4200 - 200 × 2%)	80	
Depreciation on Motor vehicles (5200 × 20%)	1040	
Bank Interest Paid	120	
Insurance	900	
Light and Heat	1440	(6310)
Profit for the year		9820

On Questions 3(b)(i), (ii) and (iii), some candidates clearly understood the going concern concept, with the majority gaining at least 1 mark but they then struggled with the consistency and materiality concept. Concepts are tested across many levels and, therefore, candidates need to understand all these concepts and not just memorise the odd one.

(i) Going concern

(2)

Going concern concept implies that the business will continue in operation for the foreseeable future.

(ii) Consistency

(2)

To maintain consistency, the presentation and classification of items in the financial statements should stay the same from one period to the next.

(iii) Materiality

(2)

In preparing the accounts, it is important to decide what is material and what is not. A matter is material if its misstatement would influence the decision for the account users.

**Examiner Comments**

It was expected that the majority of candidates would complete the appropriation account correctly. Especially as this has been commented on before from other sittings.

**Examiner Tip**

Ensure candidates understand the adjustments made in relation to the partners and the impact on the profit for year. Check they understand how this is shown in the appropriation section of the income statement.

## Question 4

Questions 4(a), (b) and (c) - overall an excellent attempt at this question. It was pleasing to see that candidates showed a clear understanding of the dissolution of a partnership with many candidates gaining 20+ marks. Marks were not achieved for incorrect details but overall a good attempt.

**Realisation Account**

Date	Details	\$	Date	Details	\$
20 Sep 2016	Premises A/c	90 000	20 Sep 2016	Bank A/c (Premises)	98 000
20 Sep 2016	Furniture & Fittings A/c	2 400	20 Sep 2016	Bank A/c (Inventory)	5 000
20 Sep 2016	Motor Vehicle A/c	6 000	20 Sep 2016	Bank A/c (Furniture & Fittings)	14 000
20 Sep 2016	Inventory A/c	6 200	20 Sep 2016	Bank A/c (Receivables)	8 000
20 Sep 2016	Trade Receivables A/c	9 000	20 Sep 2016	Capital A/c - Barry	6 000
20 Sep 2016	Bank A/c (Dissolution Cost)	600			
	Profit on Realisation (60:40)	4 200			
	Paul \$ 2 520				
	Barry \$ 1 680				
		118 400			118 400

### Bank Account

Date	Details	£	Date	Details	£
<u>30 Sep</u> 2016	Balance b/d	1800	<u>30 Sep</u> 2016	Payables Alc	6000
<u>30 Sep</u> 2016	Realisation Alc (Premises)	98000	<u>30 Sep</u> 2016	Realisation Alc (Dissolution cost)	600
<u>30 Sep</u> 2016	Transf Realisation Alc (Inventory)	5000	<u>30 Sep</u> 2016	Capital Alc - Paul	52520
<u>30 Sep</u> 2016	Realisation Alc (Furniture & Fittings)	1400	<u>30 Sep</u> 2016	Capital Alc - Barry	56080
<u>30 Sep</u> 2016	Realisation Alc (Receivables)	8000			
<u>30 Sep</u> 2016	Capital Alc - Barry	1000			
		<del>115200</del>			<del>115200</del>
		115200			115200

### Capital Account – Paul

Date	Details	\$	Date	Details	\$
			20 Sep 2016	Balance b/d	50 000
20 Sep 2016	Bank A/c	52 520	20 Sep 2016	Profit on Realisation	2520
		52 520			52 520

### Capital Account – Barry

Date	Details	\$	Date	Details	\$
20 Sep 2016	Realisation A/c	6 000	20 Sep 2016	Balance b/d	59 400
20 Sep 2016	Bank A/c	56 080	20 Sep 2016	Profit on Realisation	1 680
			20 Sep 2016	Bank A/c	1 000
		62 080			62 080

(Total for Question 4 = 30 marks)

Working Note

### Payables Account

Date	Details	\$	Date	Details	\$
20 Sep 2016	Bank A/c	6 000	20 Sep 2016	Balance b/d	6 000
		6 000			6 000

**Examiner Comments**

This area of the paper was attempted by the majority of candidates and excellent understanding was shown by most. However, details of the accounts must be correct in order to achieve full marks.

**Examiner Tip**

Ensure candidates balance the accounts correctly in order to calculate the profit/loss on realisation and the capital from the bank account. If the account did not add up correctly, candidates lost the marks distributed between partners.



## Question 5

Question 5(a) - excellent knowledge shown in relation to the manufacturing account. Same candidates did not achieve marks for the apportionment of the rent and insurance as they entered in the full amount and some did not achieve the cost of goods manufactured as they entered royalties into the wrong section. But, overall, a pleasing attempt.

**Rodeo Products Ltd**  
**Manufacturing account for the year ending 31 July 2016**

	\$	\$
Opening Inventory of Raw Materials		6 000
(+) Purchases of Raw Materials	87 000	
(+) Freight & Carriage Inwards	1800	88 800
(-) Closing Inventory of Raw Materials		(10 500)
Cost of raw materials consumed (Direct Materials)		1 84 300
Direct Labour		42 600
Direct Expenses	<del>1 400</del>	1 400
Prime Cost		1 128 300
(+) <u>Production Overheads</u>		
Indirect Labour ( $29\,400 \times 60\%$ )	17 640	
Factory Rent ( $14\,800 \times 60\%$ )	8 880	
Insurance ( $2\,650 - 1\,000$ )	1 650	
Factory Power	8 900	
Factory Consumables	4 350	
Depreciation Charge on Factory plant & machinery	5 200	
General Factory Expenses	4 230	50 550
(+) Opening Work in progress	4 500	
(-) Closing Work in progress	(5 200)	(7 000)
Production cost of goods completed c/d		1 178 150



Questions 5(b)(i) and (ii) - answers were disappointing as a lot of candidates could not explain the direct and indirect costs of a manufacturing business. This should have been a question where they gained the majority of the marks. Candidates need to understand the terminology used in order to answer the written elements of the exams.

Direct costs are the costs that can be traced specifically to the items being manufactured. As an example, from Rodea Products Ltd, we can find \$84,800 for direct materials, \$42,600 for direct labour and \$1400 for direct expenses.



#### **Examiner Comments**

Overall a pleasing attempt. Candidates show good understanding of preparing financial statements. However, they need to also show an understanding through written elements of the exam.



#### **Examiner Tip**

When teaching, give candidates key terms and ask them to write down how they would explain what they mean. This type of exercise should be embedded in each lesson to cover previous lesson skills, which, in turn, will ensure that candidates understand what has been covered so far in the syllabus. It is important that written questions are tested as much as calculation and preparation questions.

## **Paper Summary**

To conclude, the areas of weakness identified throughout the paper relate to the written tasks. It is, therefore, recommended that candidates and centres practise the written elements, as well as the numerical elements of the syllabus.

It has also identified that candidates need a thorough understanding of double entry bookkeeping before attempting the exam.

This exam paper has shown that examiners can ask part or full questions in order to examine understanding of bookkeeping.

Ensure the SAMs are used only as part of a revision exercise and not as a study guide.

Centres must make sure all the syllabus is taught and understood before entering candidates into the exam.

## Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>