



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

**Examiners' Report
June 2016**

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Introduction

This is the third paper completed under the new LCCI specification.

As in the previous exam series, some candidates showed excellent skills in relation to accounting however they demonstrated limited understanding on the theoretical questions.

Over the years, accounting has become more than just completing transactions, it is about understanding the impact those 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 were a small minority of candidates that struggled across all aspects of the paper.

It would have been expected at this level for the majority of candidates to achieve high marks on Question 1 of this paper as it is a progression bookkeeping question from Level 1. However, it was surprising to see candidates achieving low marks on this question when some more advanced questions were gaining full marks.

Question 1

Question 1(a)(i) and (ii) was a simple question asking candidates to identify the errors that would and would not affect the trial balance. The majority of candidates misread the questions and did not answer from the errors listed, they just stated a type of error.

Question 1(b) was answered very well by the majority of candidates however, some candidates lost marks due to not entering an appropriate narrative. The question stated that narratives are required therefore if candidates do not follow this instruction they potentially miss out on 6 marks. Narratives need to be related to the journal and not just copied from the question.

(b) Prepare journal entries to correct all the errors. Narratives are required. (18)

Account	Debit \$	Credit \$
a. Young	180	
Sales		180
Credit sales of \$180 to Young has been omitted.		
b. Buxton	125	
Burton		125
The payment by cheque of \$125 ^{was} posted incorrectly to Burton instead of Buxton's account.		
c. Suspense	98	
Longden		98
A payment from a trade receivable, Longden of 98 was omitted from his account.		
d. Motor vehicle	10 000	
Vehicle expense		10 000
Purchase of a new motor vehicle of \$10 000 had been entered incorrectly to the vehicle expense account.		
e. Postage	65	
Suspense		65
Postage of \$65 by cheque was omitted it in other books except the cash book.		
f. Suspense	150	
Purchases returns		150
Understated purchases returns of \$150		

Question 1(c) asked candidates to state three **other** uses of a journal. The majority of candidates stated *to correct errors*. This was not accepted as they were required to enter other reasons.

(c) State **three** other uses of the journal.

(3)

- 1 written off bad debts ✓
- 2 record the opening entries ✓
- 3 record the ~~total~~ total purchases ○

Question 1(d) was not answered thoroughly. Candidates tend to struggle with written questions and therefore lose valuable marks. The majority of candidates that attempted the question did not achieve any marks and some candidates did not attempt the question. Only a small minority of candidates achieved full marks.

(d) Explain the **going concern** concept.

(2)

~~It is the~~ ^{assumption} ~~assumption~~ that a business ^{is} will still going to continue and earn revenue in the forseeing future. 2



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.



Examiner Tip

Ensure candidates understand the accounting concepts and they also complete journals thoroughly when asked to show a narrative.

Question 2

Question 2(a) was answered reasonably well by the majority of candidates. Marks were given for the correct figures on the correct side and additional marks given for all correct dates and narratives. Some candidates dropped marks for not using the correct date and narrative, however overall, the accounts were entered correctly.

- (a) Prepare the following accounts for year ended 31 March 2016, showing the transfer to the income statement and the balance brought down.

(8)

Rent Account

1 April 2015	Prepaid b/f	\$ 1000	31 Mar 2016	Income statement	\$ 1200
31 Mar 2016	Bank	9000			
31 Mar 2016	Accrued c/f	2000			
		12000			12000

Commission Account

31 Mar 2016	Income statement	\$ 6150	1 Apr 2015	Prepaid b/f	\$ 700
			31 Mar 2016	Bank	5000
			31 Mar 2016	Accrued c/f	450
		6150			6150

Question 2(b) was answered by the majority of candidates however at this level it would have been expected for the majority of candidates to achieve full marks when completing a straight forward income statement.

In Question 2(c) the majority of candidates showed a lack of understanding in relation to the accounting concept and the importance of accounting for accruals. It was a straight forward question where a minority of candidates achieved both marks.

(c) Explain the importance of accounting for the accrual of expenses.

(2)

- The expenses are generating for the profit, it should be recognised when the expense is incurred to make profit.
- If we do not count the accrual expenses, profit would be overstated, it will link to prudence concept, thus hard to liquidate the business.



Examiner Comments

Candidates lost valuable marks in this question through not understanding accounting concepts and the reasons behind accounting decisions.



Examiner Tip

Ensure candidates have practice at theoretical questions as well as numerical. Accounting is now about explaining your findings, not just about doing calculations. Also, ensure they know the correct layout of financial statements.

Question 3

Question 3(a) was well answered by the majority of candidates. The majority of candidates achieved 4 out of 6 marks. The candidates lost marks due to the details used, for instance net profit instead of profit for year.

(a) Complete the following table.

(6)

Ratio	Formula	Calculation
Return on capital employed	$\frac{\text{Net Profit}}{\text{Capital employed}}$	$\frac{120000 - 72000 - 31000}{(46500 - 16500) + (30000 - 8000)} = 0.3$
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{46500}{16500} = 2.8:1$
Gross profit as a percentage of revenue	$\frac{\text{Gross Profit}}{\text{Revenue}} \times 100$	$\frac{120000 - 72000}{120000} \times 100 = 40\%$

On Questions 3(b)(i) and (ii) candidates showed good calculation knowledge when calculating ratios however, they struggled to evaluate the impact based on their calculations and comparisons. It is essential that candidates understand what can happen when evaluating ratios not just how to calculate the ratios.

(ii) Evaluate the impact on the business's cash flow from the results calculated in (b)(i).

(4)

From b)(i) The Account receivables collection period has increased from 84 days in ~~1st~~ 1st March 2015 to 132 days in 29 February 2016, which shows ~~that the~~ ^{the company} can receive money faster from the customers. ~~Contrastingly, the business's cash flow is good as the new money paid back~~ ^{This indicates that} first Contrastingly, the accounts payables payment period has ~~decreased~~ ^{declined} from 72 days to 61 days, showing that the company has the ability to pay the liabilities faster. Moreover, there is a bad impact in that the business has to pay off its liabilities first before receiving money from the trade receivables. The business may ~~be hard to~~ ^{not} have enough money to pay off the liabilities first.

(Total for Question 3 = 14 marks) ✓

**Examiner Comments**

Overall a good attempt by the majority of candidates on the ratio calculations. The evaluation of ratios tends to be answered poorly by the majority of candidates.

**Examiner Tip**

Ensure candidates have a thorough understanding of the impact of ratio analysis and what the ratio tells the business.

Question 4

It was expected that candidates would have achieved strong marks on 4(a), however it was surprising to see many candidates struggling to achieve marks. In 4(b), the control account did not see any candidate achieve full marks mainly due to the narratives used. In Question 4(c) candidates struggled to explain why an allowance for doubtful debt should be made. It is important that candidates understand questions like this and make an attempt to answer them.

- (c) Explain why making an allowance for doubtful debts will ensure that the financial statements show a true and fair view.

(4)

The records of allowance for doubtful debts is due to prudence concept. In the theory, assets and profit should not be overstated. The allowance for debts means the estimation of the trade receivables who can not repay their debts and become insolvent, the debts is irrecoverable, and no longer belong to the business assets. Therefore, the provision for doubtful debts should be record in the book in order to get the real value of the business assets.



Examiner Comments

Candidates did not perform strongly on this question. It was expected that performance would have been better.



Examiner Tip

Candidates must use the correct narratives/descriptors in the control account to achieve full marks. Candidates also need to work on written questions to give them the best chance for achieving marks.

Question 5

The majority of candidates achieved full marks on Question 5(a), showing good understanding of the accounting equation.

(a) Calculate the accumulated fund at 1 January 2015.

(9)

$$\text{Asset} = \text{Liabilities} + \text{Capital}$$

$$\text{Capital} = \text{Asset} - \text{Liabilities}$$

$$\begin{aligned} \text{accumulated fund} &= 6400 + 250 + 2565 + 26300 + 6200 + 4700 - 300 - 4525 \\ &= \$41790 \end{aligned}$$

\therefore The accumulated fund is \$41790.

A good attempt was made by the majority of candidates on Question 5(b). Common areas where marks were not achieved was due to dates being entered incorrectly and the brought down figures on the wrong side.

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

(6)

Subscriptions Account

2015		\$	2015		\$
Jan 1	Bal b/f (Accrual)	250	Jan 1	Bal b/f (Prepayment)	300
Dec 31	Income Statement	11700	Dec 31	Bank	11500
	Bal c/d	250		Bal c/d	400
		\$12200			\$12200
2016			2016		
Jan 1	Bal b/d (Accrual)	400	Jan 1	Bal b/d (Prepayment)	250

The majority of candidates achieved high marks on Question 5(c) with only the exceptional candidate not achieving any.

**Examiner Comments**

Overall this question was answered to a high standard. This may be due to this area being covered in the Sample Assessment Materials (SAMs). Centres need to ensure all topics are covered thoroughly and the SAM is just used as practice.

**Examiner Tip**

Ensure candidates have practice at all areas of the specification to give them best chance of answering the questions.

Paper Summary

- The main 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 Sample Assessment Materials 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.

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