LCCI
International Qualifications

L3

Pearson LCCI Level 3 Certificate in Accounting (VRQ)

(ASE20104)

SAMPLE ASSESSMENT MATERIALS

Issue 3

First teaching from October 2015

Pearson

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Pearson LCCI

Certificate in Accounting (VRQ)

Level 3

Sample assessment material for first teaching
May 2017
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 must have:
Resource Booklet

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 appopriate degree of accuracy.

Information

- The total mark for this paper is 100.
- 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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S 5 8 2 8 1 A 0 1 1 8

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

You will need to use the data on **page 2** in the Resource Booklet to answer parts (a) and (b).

Ashwin started a business on 1 April 2015. He does not have any record of the goods or cash taken for personal use as he does not keep full accounting records.

1 (a) Calculate the following for the year ended 31 March 2016.

(i) Opening equity

(1)

(ii) Profit for the year

(1)

(iii) Closing equity

(3)

(iv) Drawings

(3)

DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA

(v) Trade receivables

(3)

DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA

(b) Prepare the statement of financial position at 31 March 2017.

(6)

Ashwin
Statement of financial position at 31 March 2017

DO NOT WRITE IN THIS AREA

Ashwin is thinking about purchasing a business owned by Mr Smith.

Ashwin knows that his accountant also prepares the financial statements for Mr Smith.

Ashwin has invited his accountant for lunch to discuss the proposed purchase.

(c) Discuss whether his accountant should accept the invitation.

Make reference to the principles of professional ethics in your answer.

You must justify your decision.

(5)

(Total for Question 1 = 22 marks)

You will need to use the data on **page 3 and 4** in the Resource Booklet to answer this question.

2 Prepare the statement of profit or loss for the year ended 31 March 2017.

(21)

Space for your workings.

DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA

Boxton Ltd
Statement of profit or loss for the year ending 31 March 2017

(Total for Question 2 = 21 marks)

You will need to use the data on **page 5** in the Resource Booklet to answer parts (c) (ii) and (d).

3 (a) State **one** difference between financial and management accounting.

(1)

....

....

(b) State **two** purposes of budgeting.

(2)

1 ....

2 ....

Businesses often prepare cash budgets.

(c) (i) State **two** other budgets.

(2)

1 ....

2 ....

(ii) Prepare the cash budget for **each** of the three months from April to June 2017 for Kadem.

Kadem
Cash budget for three months ending 30 June 2017

(6)

(d) Prepare the budgeted statement of profit or loss for Kadem for the three-month period ending 30 June 2017.

(9)

Space for workings.

Kadem
Budgeted statement of profit or loss for the period ending 30 June 2017

(Total for Question 3 = 20 marks)

You will need to use the data on **page 6** in the Resource Booklet to answer part (b).

4 (a) (i) Explain which financial statement of a business, **employees** would be interested in.

(2)

....

....

....

....

(ii) Explain which financial statement of a business, **suppliers** would be interested in.

(2)

....

....

....

....

(iii) State **two** other stakeholders.

(2)

1 ....

2 ....

DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA DO NOT WRITE IN THIS AREA

(b) Calculate the following at 31 December 2016.

(i) Goodwill on consolidation

(6)

(ii) Non-controlling interest

(3)

(c) State how the goodwill will be shown in the statement of financial position.

(i) Goodwill

(1)

(ii) State how non-controlling interest will be shown in the statement of financial position.

(1)

Ladder Ltd wants to issue additional shares.

(d) State **one** difference between rights issues and bonus issues.

(1)

....

....

(Total for Question 4 = 18 marks)

You will need to use the data on **page 7** in the Resource Booklet to answer parts (b) and (c).

5 (a) State **two** methods a business can use to fund the purchase of non-current assets. **(2)**

1 ....

2 ....

Teh Furniture Ltd is considering purchasing Machine **A** to make a new type of chair.

(b) Calculate for Machine **A**.

(i) Net cash flows for each year **(3)**

....

....

....

....

....

....

....

....

....

....

....

(ii) Payback period **(1)**

....

....

(iii) Accounting rate of return

(6)

(iv) Net present value

(2)

Machine **B**, with the same initial cost, was also considered. The results for Machine **B** were:

Net present value at 10% discount factor	Payback period	Accounting rate of return
$101 000	3.2 years	28.20%

(c) Evaluate whether Teh Furniture Ltd should invest in Machine **A** or Machine **B**.

(5)

(Total for Question 5 = 19 marks)

TOTAL FOR PAPER = 100 MARKS

Pearson LCCI

Certificate in Accounting (VRQ)

Level 3

Sample assessment material for first teaching May 2017

Time: 3 hours

Paper Reference

ASE20104

Resource Booklet

Turn over

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Resource for Question 1 – Parts (a) and (b)

Ashwin started a business on 1 April 2015.

He does not have any record of the goods or cash taken for personal use as he does not keep full accounting records.

- On 1 April 2016, this summary of assets and liabilities is provided.

	$
Bank	2 450
Fixtures and fittings (carrying value)	45 000
Inventory	25 000
Other payables-insurance	2 200
Trade payables	22 750
Trade receivables	27 500

- Credit sales during the year were $150 000
- There were no non-current liabilities during the year.
- On 1 July 2016 a motor vehicle was purchased costing $30 000
- Depreciation to be charged at 10% per annum on a straight line basis on all non-current assets.
- Depreciation policy is to charge a full year's depreciation in the year of acquisition and none in the year of disposal.
- On 31 March 2017
    - Profit for the year as a percentage of revenue was 12%
    - Return on capital employed was 20%.
    - Trade receivables collection period was 45 days.
    - Trade payables were $20 000
    - Bank overdraft was $5 000
    - The closing inventory was counted but not valued.
    - There were no other receivables or payables.
- Assume one financial year is **360** days.

Resource for Question 2

The directors of Boxton Ltd have provided the following information for the year ended 31 March 2017.

Ledger accounts	Amount $
10% bank loan	100 000
Allowance for doubtful debts	5 000
Bank loan interest	7 500
Carriage inwards	12 500
Discount received	7 850
General administrative expenses	25 000
General distribution costs	55 000
Insurance	9 000
Inventory at 1 April 2016	45 000
Office equipment accumulated depreciation	35 000
Office equipment at cost	105 000
Purchases	487 500
Revenue	755 250
Tax payable	25 000
Trade receivables	81 500
Wages and salaries	54 780

Additional information

- The following transactions relating to non-current assets have not yet been recorded.
  - On 1 January 2017, office equipment with a carrying value of $12 800 was sold for $9 880
  - 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 on office equipment is to be charged at 20% per annum on a reducing (diminishing) balance basis.
- Bank loan interest was outstanding for the quarter ended 31 March 2017.
- Irrecoverable debts of $1 500 were to be written off.

On 31 March 2017

- Insurance paid included $750 for April 2017.
- Wages and salaries of $5 520 for March 2017 were outstanding.
  - The wages and salaries are distributed in the ratio of 3:2 between administration expenses and distribution costs.
- Inventory was valued at $47 500. It included damaged inventory costing $5 000. The damaged inventory can be sold for $3 250 after repairs at a cost of $750
- Allowance for doubtful debts were to be reduced to $4 000

Resource for Question 3 – Parts (c) (ii) and (d)

Kadem provided the following information.

On 31 March 2017:

- Inventory was valued at $10 000
- Trade receivables were $12 000
- Bank overdraft was $7 750
- Trade payables were $18 000

He forecast:

	April	**May**	**June**
Sales **units**	2 000	2 400	3 000
Selling price $15 per unit			
Purchase **units**	2 200	2 700	3 300
Purchase price $10 per unit			

- 50% of sales are on a cash basis with the remainder paying after one month.
- All purchases are paid after one month.
- Rent will be $1 800 per quarter, paid in equal monthly instalments.
- Operating expenses of $500 per month paid on the last day of the month.
- On 1 April 2017:
    - A motor vehicle costing $50 000 will be bought on hire purchase with monthly payments of $900 for five years. Interest will accrue evenly.
    - The depreciation policy will be to depreciate motor vehicles on a monthly basis at 20% per annum on a straight line basis.
- On 30 June 2017 inventory will be valued at $18 000

Resource for Question 4 – Part (b) (i) – (iv)

Ladder Ltd acquired 80% of the shares of Hammers Ltd on 1 January 2016 for $2 750 000

The following information was provided for Hammers Ltd at 31 December 2016.

	$ 000
Share capital	1 500
Share premium	500
Retained earnings	850
Property, plant and equipment	2 500

Additional information

- There were no further shares issued by Hammers Ltd during the year.
- The retained earnings of Hammers Ltd at the date of acquisition were $550 000
- The fair value of the non-current assets of Hammers Ltd were $750 000 more than the carrying value. This revaluation has not been recorded in the books of Hammers Ltd.

Resource for Question 5 – Parts (b) and (c)

Year	Machine cost $'000	Revenue $'000	Variable costs $'000	Discount factor at 10%
0	290			1.000
1		100	75	0.909
2		230	115	0.826
3		300	150	0.751
4		250	125	0.683
5		200	100	0.621

Additional information

- Maximum period expected to recover the investment back is 4 years.
- The cost of capital is 10%.
- The resale value of the machine will be $25 000 at the end of year five.

Mark Scheme

Sample Assessment Materials

Pearson LCCI Level 3 Certificate in Accounting (VRQ) (ASE20104)

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.

Abbreviation

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 **AO2 (1)**	Mark
1(a)(i)	**Award 1 mark for correct answer.** Opening equity = $75 000 **(1)**	**(1)**
Additional guidance Opening equity = ($25 000 + $45 000 + $27 500 + $2 450 = $99 950) − ($22 750 + $2 200 = $24 850) = $75 000		

Question number	Answer **AO2 (1)**	Mark
1(a)(ii)	**Award 1 mark for correct answer.** Profit for the year = $150 000 × 12% = $18 000 **(1)**	**(1)**

Question number	Answer **AO2 (3)**	Mark
1(a)(iii)	**Award marks as indicated.** Closing equity = $18 000 **(1of from a(ii))** ÷ 20% **(1)** = $90 000 **(1of)**	**(3)**
Additional guidance Correct answer only scores 3 marks.		

Question number	Answer **AO2 (3)**	Mark
1(a)(iv)	**Award marks as indicated.** Drawings = ($75 000 **(from a(i))** + $18 000 **(from a(ii)** = $93 000) **(1of)** - $90 000 **(1of from a(iii))** = $3 000 **(1of)**	**(3)**
Additional guidance Correct answer only scores 3 marks.		

Question number	Answer **AO2 (3)**	Mark
1(a)(v)	**Award marks as indicated.** Trade receivables = $(150 000 ÷ 360) **(1)** × 45 **(1)** = $18 750 **(1of)**	**(3)**
Additional guidance Correct answer only scores 3 marks.		

Question number	Answer **AO2 (6)**	Mark
1(b)	**Award marks for both figures and appropriate narrative in correct format, as indicated.**	**(6)**

Ashwin
Statement of financial position at
31 March 2017

Assets	**$**	**$**	
Non-current assets			
Fixtures and fittings		40 000	**(1)**
Motor vehicle		27 000	**(1)**
		67 000	
Current assets			
Inventory	29 250		**(1of bal fig)**
Trade receivables	18 750		**(1)**
		48 000	
Total assets		115 000	**(1of)**
Equity and liabilities			
Equity			
Opening equity	75 000		
Profit for the year	18 000		
Drawings	(3 000)		
Total equity		90 000	
Current liabilities			
Trade payables	20 000		
Bank overdraft	5 000		
		25 000	**(1)**
Total equity and liabilities		115 000	

Additional guidance
The own figure marks are for calculations from 1(a)(v) used in the correct position.
Total assets mark 1of must be equal to total equity and liabilities.

Question number	Answer **AO3 (4)** and **AO5 (1)**	Mark
1(c)	**Award 1 mark for identification of each principle and 1 mark for linked justification/reasoning up to a maximum of 4 marks.** **Award 1 mark for decision.** **Decision mark can only be awarded if at least one principle is stated and developed.** They should not accept the invitation **(1)** because: the principle of objectivity will be compromised **(1)** because in accepting the invitation, the accountant will not be free from conflict/influence/bias **(1)** the principle of confidentiality will be compromised **(1)** as the accountant should not discuss business or professional information **(1)**	**(5)**

Question number	Answer **AO2 (21)**	Mark
2	**Award marks for both figures and appropriate narrative in correct format as indicated.**	**(21)**

Boxton Ltd
Statement of profit or loss for the year ended 31 March 2017

	$	$
Revenue		755 250 **(1)**
Cost of sales **W1**		(500 000) **(4)**
Gross profit		255 250 **(1of)**
Expenses		
Administrative expenses **W2**	76 440	(76 440) **(8)**
Distribution costs **W3**	79 120	(79 120) **(2)**
Profit from operations		99 690 **(1of)**
Finance costs		(10 000) **(1)**
Profit before tax		89 690 **(1of)**
Tax payable		(25 000) **(1)**
Profit for the year		64 690 **(1of)**

W1

	$	$
Opening inventory	45 000	
Purchases	487 500	
Carriage inwards	12 500 **(1)**	
Closing inventory 47 500 − 5 000 + (3 250 − 750 **(1)**)	(45 000) **(1of)**	500 000 **(1of)**

W2

	$	
General administrative expenses	25 000	
Irrecoverable debts	1 500	**(1for**
Discount received	(7 850)	**both)**
Insurance $(9 000 − 750)	8 250	**(1)**
Allowance for doubtful debts adjustment $(5 000 **−** 4 000)	(1 000)	**(1)**
Loss on disposal $(12 800 − 9 880) =	2 920	**(1)**

Depreciation charge on office equipment $(105 000 – 35 000 = 70 000) - $12 800**(1)** x 20%	11 440	**(1of)**
Wages and salaries $(54 780+5 520) =60300 x3/5	36 180	**(1of)**
	76 440	**(1of)**

W3

	$	
General distribution costs	55 000	
Wages and salaries $(54 780+5 520)=60300 of x2/5	24 120	**(1of)**
	79 120	**(1of)**

Question number	Answer **AO1 (1)**	Mark
3(a)	**Award 1 mark for correct answer from the following:** Financial accounting uses historical information **(1)** Management accounting prepares forecasts **(1)** **Accept any other appropriate response.**	**(1)**

Question number	Answer **AO1 (2)**	Mark
3(b)	**Award 1 mark for each correct answer up to a maximum of 2 marks.** Planning **(1)** Controlling **(1)** Decision making **(1)** **Accept any other appropriate responses.**	**(2)**

Question number	Answer **AO1 (2)**	Mark
3(c)(i)	**Award 1 mark for each correct answer up to a maximum of 2 marks.** Trade receivables **(1)** Trade payables **(1)** Inventory **(1)** **Accept any other appropriate responses.**	**(2)**

Question number	Answer **AO2 (6)**	Mark
3(c)(ii)	**Award 1 mark for correct figure with understandable label as indicated.**	

Kadem - cash budget for three months ending June 2017				
	April $	**May $**	**June $**	
Receipts				
Trade receivables (credit sales)	12 000	15 000	18 000	**(1 for row)**
Cash sales	15 000	18 000	22 500	**(1 for row)**
Total receipts	27 000	33 000	40 500	
Payments				
Trade payables (credit purchases)	18 000	22 000	27 000	**(1 for row)**
Rent	600	600	600	**(1 for all three rows)**
Motor vehicle	900	900	900	
Operating expenses	500	500	500	
Total payments	20 000	24 000	29 000	
Net inflow/(outflow)	7 000	9 000	11 500	
Opening balance	(7 750) **(1)**	(750)	8 250	
Closing balance	(750)	8 250	19 750	**(1of for row)**

(6)

Additional guidance

All figures must be present in the row to award the mark.

Question number	Answer **AO2 (9)**	Mark
3(d)	**Award 1 mark for correct figure with understandable label as indicated.** Kadem Budgeted statement of profit or loss for the period ending 30 June 2017	

	$	**$**	
Revenue		111 000	**(1)**
Cost of sales			
Opening inventory	10 000		
Purchases	82 000		**(1)**
Closing inventory	18 000		
		(74 000)	**(1of)**
Gross profit		37 000	**(1of)**
Expenses			
Rent	1 800		**(1 for both)**
Operating expenses	1 500		
Depreciation	2 500		**(1)**
Interest **W1**	200		**(2of)**
		(6 000)	
Profit for the year		31 000	**(1of)**

W1
900 × 12 × 5 = 54 000
– 50 000 = 4 000 **(1)**
÷ 5 x 3 ÷ 12 = 200 **(1of)**

(9)

Additional guidance
The cost of sales mark must have the opening and closing inventory treated correctly.

Question number	Answer **AO3 (2)**	Mark
4(a)(i)	**Award 1 mark for identification of the financial statement and 1 mark for linked justification/reasoning.** Employees will be interested in statement of profit or loss **(1)** to know the security of their jobs/to know if they will receive a bonus **(1)** **Accept any other appropriate response.**	**(2)**

Question number	Answer **AO3 (2)**	Mark
4(a)(ii)	**Award 1 mark for identification of the financial statement and 1 mark for linked justification/reasoning.** Suppliers will be interested in statement of financial position/cash flows **(1)** to know whether they will get paid for the goods supplied/to decide credit terms **(1)** **Accept any other appropriate response.**	**(2)**

Question number	Answer **AO1 (2)**	Mark
4(a)(iii)	**Award 1 mark for each correct answer up to a maximum of 2 marks.** Owners **(1)** Managers **(1)** Customers **(1)** Government **(1)** Investors **(1)** Providers of external finance **(1)** Competitors **(1)** Local community **(1)** Trade associations **(1)** Trade unions **(1)** **Accept any other appropriate response.**	**(2)**

Question number	Answer **AO2 (6)**	Mark
4(b)(i)	**Award marks as indicated.** **$’000** Purchase consideration 2 750 **(1)** ((1500 + 500 = 2000) **(1)** + 550 **(1)** + 750 **(1)**) × 80% 2 640 **(1of)** Goodwill 110 **(1)**	**(6)**

Additional guidance
Correct answer only scores 6 marks.
The own figure is an incorrect value for net assets at the acquisition date.
Labels are not required for the calculation mark.

Question number	Answer **AO2 (3)**	Mark
4(b)(ii)	**Award marks as indicated.** **$’000** Non-controlling interest (2 850 **(1)** + 750 **(1)**) × 20% **=** 720 **(1of)**	**(3)**

Additional guidance
Correct answer only scores 3 marks.
The own figure is for an incorrect value for net assets at the statement of financial position date.

Question number	Answer **AO1 (1)**	Mark
4(c)(i)	**Award 1 mark for correct answer.** As an intangible asset or non-current asset **(1).**	**(1)**

Question number	Answer **AO1 (1)**	Mark
4(c) (ii)	**Award 1 mark for correct answer.** Equity **(1)**	**(1)**

Question number	Answer **AO1 (1)**	Mark
4(d)	**Award 1 mark for correct answer from the following:** Rights issue to raise finance or bonus issue without raising any finance **(1)** Shareholder does not automatically receive a rights issue or bonus shares are automatically allocated **(1)**	**(1)**

Question number	Answer **AO1 (2)**	Mark
5(a)	**Award 1 mark for each correct answer up to a maximum of 2 marks.** Owners capital/share capital **(1)** Borrowed capital/debentures **(1)** Hire purchase/leasing **(1)** **Accept any other appropriate responses.**	**(2)**

Question number	Answer **AO2 (3)**	Mark
5(b)(i)	**Award marks as indicated.**	**(3)**

Year	**Net Cash flows $'000**	
0	(290)	**(1)**
1	25	
2	115	**(1)**
3	150	
4	125	
5	125	**(1)**
Additional guidance No specific layout required.		

Question number	Answer **AO2 (1)**	Mark
5(b)(ii)	**Award 1 mark as indicated.** 3 years **(1of)**	**(1)**

Additional guidance

Award 1 mark for the correct figure of payback period based on the net cash flows from 5(a)(i).

No specific layout required.

Year	Net cash flows $’000	Cumulative net cash flows $’000	
0	(290)	(290)	
1	25	(265)	
2	115	(150)	
3	150		3 (years) **(1of)**

Question number	Answer **AO2 (6)**	Mark
5(b)(iii)	**Award marks as indicated. Award 1 mark each for net cash flows, depreciations and for all profits for each year.**	

Year	**Net Cash flows $'000**		**Depreciation $'000**		**Profit/(Loss) for the year $'000**	
1	25	**(1 for all)**	53	**(1 for all)**	(28)	**(1 for all)**
2	115		53		62	
3	150		53		97	
4	125		53		72	
5	100		53		47	

or	515 **(1of from 5 (a) (i))**	-	265 **(1)**	=	250 **(1of)**	

Average profit = $250 000/5 = $50 000 **(1of)**
Average investment = ($290 000 + $25 000)/2
= $157 500 **(1)**
Accounting rate of return
= ($50 000/$157 500) × 100 = 31.75% **(1of)**

Mark: **(6)**

Additional guidance

Correct answer only scores 6 marks

$250 000 = 3 marks

$50 000 = 4 marks

No specific layout required.

Question number	Answer **AO2 (2)**	Mark
5(b)(iv)	**Award marks for present values as indicated.**	**(2)**

Year	Net cash flows $'000	Discount factor at 10%	Present values $'000	
0	(290)	1.000	(290)	
1	25	0.909	22.73	**(1 for all 5 years)**
2	115	0.826	94.99	
3	150	0.751	112.65	
4	125	0.683	85.38	
5	125	0.621	77.63	
		Net present value	103.38	**(1of)**

or

(22.73 + 94.99 + 112.65 + 85.38 + 77.63) **(1)** – 290 = 103.38 **(1of)**

Additional guidance

Correct answer only scores 2 marks

Award full marks for the correct figure of net present value.

No specific layout required.

Question number	Answer **AO4 (4)** and **AO5 (1)**	Mark
5(c)	**Award 1 mark for analysis of each method of capital investment appraisal up to a maximum of 4 marks.** **Award 1 mark for decision.** **Decision mark can only be awarded if at least two methods of capital investment have been analysed.** **For example** Both machines have a payback period within the expected payback period of four years **(1)** but the payback period of Machine A is better as it recovers the investment quicker **(1)** The accounting return of both machines is higher than the cost of capital of 10% **(1)** but Machine A is better, maybe profit is higher or average investment is lower **(1of)** Both machines at a 10% discount factor give a positive net present value **(1of)**. Machine A is better than machine B as it has higher net cash inflows before discounting **(1)** Therefore, Teh Furniture Ltd should invest in Machine A **(1)**	**(5)**
Additional guidance Accept the reverse argument for Machine B. Any analysis is based on own figures for Machine A.		

May 2017

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