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

Examiner's Report
April 2017

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Introduction

Pearson (LCCI) redeveloped the new Level 3 Certificate in Accounting (VRQ) (ASE20104) specification in January 2015 as a part of the Finance and Quantitative suite of qualifications from Level 1 to Level 4, assessed for the first time in November 2015.

The purpose of this qualification is to provide candidates with an overview of the basic principles underlying the recording of financial transactions; the ability to prepare and interpret accounts for sole traders, partnerships, limited companies and groups of companies in accordance with basic accounting conventions and current accounting practice and the ability to apply the principles of decision.

The assessment is of 115 marks comprising a total of five questions. All the questions are compulsory.

This assessment covered these topics:

- accounting concepts and framework
- recording financial transactions
- preparation of an extended trial balance
- preparation of financial statements
- interpretation of financial statements
- introduction to decision making.

Question 1 was a 15-mark question that required candidates to complete a selection of tasks which were discursive in nature.

(a) Candidates were required to complete a table to identify either stakeholders or their interest in the financial statements of a business. This was well answered with candidates being awarded full or nearly full marks.

(b) Candidates were required to explain two accounting concepts that are applied when charging depreciation. The majority of candidates were able to name the two concepts but were less able to explain them in the correct context.

(c) Candidates were required to state two purposes of a partnership agreement. This was not well answered with many candidates providing the content of the agreement rather than the purpose, which was to avoid disputes in the future. Candidates need to take time to read the requirement of each question carefully.

(d) Candidates were required to state three advantages of limited liability companies in comparison to sole traders. Most candidates found this challenging with responses not being developed enough to gain any marks. Where candidates identified that limited liability is an advantage they did not develop their response adequately.

Question 2 was a 30-mark question on the topic of incomplete records, which guided candidates through a series of tasks including the preparation of ledger accounts relating to the purchase and disposal of non-current assets, valuation of inventory, and the preparation of an extract of an extended trial balance. Overall the responses to this question were good indicating that candidates were well prepared for this type of question. The preparation of the ledger accounts was well done but the calculation of the correct inventory value proved difficult for many candidates with an incorrect valuation being given. In the majority of cases, candidates were able to produce a fully correct response to the extended trial balance with the calculation of the rent and insurance proving more challenging for weaker candidates.

Question 3 was a 25-mark question that assessed candidates' knowledge of the preparation of a statement of cash flows to include the reconciliation of profit for the year to net cash from operating activities.

This type of question has been asked several times before but overall responses were disappointing. The investing activities section provided difficult for candidates with marks not being awarded where workings were not shown as required in all questions. In addition, the calculation of cash and cash equivalents often omitted the short-term investments for which candidates lost valuable marks.

Question 4 was a 16-mark question that assessed candidates' knowledge of the preparation of a consolidated statement of financial position and required candidates to state the names of four accounting ratios.

(a) Although this was a relatively straightforward, question candidates struggled to understand the requirements with the most common errors being in the calculation of the non-controlling interest and goodwill.

(b) Candidates were required to state two profitability and two liquidity ratios, which they were able to do scoring full marks. The most common error was to confuse which ratio belonged to which category.

Question 5 was a 29-mark question that assessed candidates' knowledge of investment appraisal and how to analyse the results of their calculations.

(a) Candidates were required to calculate the profit for a given situation and then advise the business which option they should choose. While the calculation was well done by most candidates, there was a noticeable lack of candidates who were able to offer suitable advice to the business on which option to choose, with several candidates not attempting this part of the question.

(b) Candidates were required to calculate the net present value for two machines. The most common error here was in the calculation of the initial cash flows, which candidates were required to do in order to calculate the net present value. However, where the cash flows were incorrect candidates did receive credit for the calculation of the net present values using their own figures. As with other questions, candidates need to show clear workings in order to be awarded the marks available.

The discursive parts of the question were poorly answered, again with many candidates not attempting them, however most candidates were able to identify one other method of capital investment appraisal.

Question 3

Examiner Comments

Candidates are advised to always show full and clear workings.

Examiner Tip

Remember to present your work neatly.

An excellent response is shown below, which has gained 23 of the available 25 marks. Note how this candidate has produced clear workings.

DO NOT WRITE IN THIS AREA

(a) Prepare the reconciliation of profit for the year to net cash from operating activities for the year ended 31 December 2016.

(16)

Nanodeas Ltd
Reconciliation of profit for the year to net cash from operating activities for the year ended 31 December 2016

	$	$
Profit From Operation		25300
Adjustment For :		
Depreciation (339500 + 100 000 − 20480 − 24950 + 120 000 − Depreciation = 489850)	24220 ~~19100~~	
Loss On Disposal Of Equipment (20480 − 14500)	5980	
Profit On Disposal Of Machine (25000 − 24950)	(50)	30150 ~~25030~~
Operating Cash Flow Before Movement In Working Capital		55450 ~~50330~~
Increase In Receivable (33450 − 22000)	(11450)	
Decrease In Inventory (29750 − 34000)	4250	
Increase In Payable (34450 − 30 000)	4450	(2750)
Net cash Flow From Operating Activities.		52700 ~~47580~~

16

~~Equipment Sold: $~~

~~Cost at 31 Jan 2013 40000~~

~~NBV at 31 Dec 2013 (40000×0.8) (32000)~~

Equipment Sold : $

Cost at 31 Jan 2013 40000

NBV at 31 Dec 2013 (40 000×0.8) 32000

NBV at 31 Dec 2014 (~~40 000~~ 32000×0.8) 25600

NBV at 31 Dec 2015 (25600×0.8) 20480

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

P 5 4 3 3 6 A 0 1 0 2 0

(b) Prepare the statement of cash flows for the year ended 31 December 2016.

(9)

Nanodeas Ltd
Statement of cash flows for the year ended 31 December 2016

	$	$
Net Cash Flow From Operating Activities		52700 ~~47580~~
Cash Flow From Investing Activities		
Sale of Equipment ~~and Machine (14500 +~~	14500	
Purchase Of New Machine (120 000 – 25000)	(95000)	
Short – Term Investment (5000 – 1700)	(3300)	
Net Cash Flow In Investing Activities		(83800)
		(31100) ~~(36220)~~
Cash Flow From ~~Investing~~ Financing Activities		
Issue of Share (150 000 – 100 000) + (30 000 – 20 000)	60 000	
Repayment On Bank Loan (150 000 – 120 000)	(30 000)	
Dividends Pay	(15000)	
Net Cash Flow In Financing Activities		15000
Net Decrease In Cash For The Year		(16100)
(+) Cash At The Beginning Of The Year		2500
Cash At The End Of The Year		(13600)

A

7

(Total for Question 3 = 25 marks)

23

11

Turn over

P 5 4 3 3 6 A 0 1 1 2 0

The following response scored 4 of the available 25 marks. The candidate has lost marks through the use of incorrect formats, lack of correct labels, and the lack of a full set of workings, which may have provided some marks.

(a) Prepare the reconciliation of profit for the year to net cash from operating activities for the year ended 31 December 2016.

(16)

Nanodeas Ltd
Reconciliation of profit for the year to net cash from operating activities
for the year ended 31 December 2016

	$
~~Actv~~ operating profit	25,300
Depreciation charge (489850 × 80%) − 489,850 + 24000	122,462.5
~~Loss on sales of equipment 40000 − (40000×20%) (32000×20%) − (25600×20%)~~	
Increase in stock (29750 − 34000)	(4250)
Decrease in trade receivable (22000 − 33450)	(11450)
Increase in trade payable (34450 − 30000)	4450
160812.5	~~136812.5~~

(b) Prepare the statement of cash flows for the year ended 31 December 2016.

(9)

Nanodeas Ltd
Statement of cash flows for the year ended 31 December 2016

	$	$
Net cash inflow from operation activities		160,812.5 ~~136,612.5~~
~~invest and~~		
investment ~~and servicing of financ~~		
Capital expenditure and financial investment		
Acquise of machine (-120000+100000)	($20,000)	
profit on disposal of equipment (40000 - 40000 x 20% - ~~$~~ 32000 x 20% - 256000 x 20% - 145000)	5980	
profit on disposal of machine	50	
(~~65000~~ 25000 - 24950)		~~(13970)~~
Net cash outflow from capital expenditure and financial investment		($13970)
Equity dividend paid (15000 - 12000)		(15000)
Bank loan (~~120000 - 150000~~)		$30000
short-term investment (5000 - 1700)		(3300)
Financing:		
Issue Ordinary share (150000 - 100000)	50,000	
Share premium (30000 - 20000)	10,000	~~60,000~~
Net cash inflow from Financing		60,000

(Total for Question 3 = 25 marks)

Question 4 (a)

Examiner Comments

Be prepared to prepare full statements of cash flows.

Examiner Tip

Ensure that you show full and clear workings.

An excellent response is shown below with this candidate scoring 8 of the available 12 marks. This candidate has provided full workings to support their answers and has been rewarded accordingly.

(a) Prepare a consolidated statement of financial position for Pan Ltd and its subsidiary Soup Ltd at 31 December 2016.

(12)

Pan Ltd Group
Consolidated statement of financial position at 31 December 2016

	$	$
Non Current Assets		
~~Non Current Assets~~ Goodwill [(14000×1.60) - (28700×70%)]		2310
Property, plant and Equipment At carrying value (37600 + 39700)		77300
Current Assets		
Inventory (5000 + 2500)	7500	
Trade Receivables (13500 + 6700)	20200 ~~1250~~	
Cash and Cash Equivalents (1500 + 800)	2300	30000
Total Asset		109610 ~~107300~~
Current Liabilities		
Trade Payables (10000 + 16500)		(26500)
Net Assets		83110 ~~80800~~
~~$~~ $1 Ordinary Share Capital	50000	
Share Premium	5000	
General Reserve (7500 + 2500)	10000	
Consolidated Retained Earning	8900	
Minority Interest	9210	
		83110

3
3
8

Consolidated Retained Earning	$
Parent's Company Balance (2500 + 5000)	7500
Parent's Share of subsidiary Post Acquisition Earning (70% × 2000)	1400
	8900

Minority Interest	$
Share Capital	20000
Share Premium	2000
Pre-acquisition Earning	1700
Post-acquisition Earning	2000
Fair-Value Adjustment (39700 - 34700)	5000
	30700

Minority Interest = 30700 × 30% = 9210

The response below scoring 4 out of the available 12 marks has been unable to present correct calculations for some of the items but, where appropriate, has been awarded marks for their own figures where workings have been shown.

(a) Prepare a consolidated statement of financial position for Pan Ltd and its subsidiary Soup Ltd at 31 December 2016.

(12)

Pan Ltd Group
Consolidated statement of financial position at 31 December 2016

	$	$
Non-Current Asset		
Property, plant and equipment at carrying value (37600+34700)		72300 / 72400
Investment of Soup Ltd. (14000 X $1.6)		~~22400~~
~~Goodwill (14000 X1.6 − (20000 + 2000 + 1700) X 0.7 + 39700)~~ ~~+2500~~		~~8630~~
		94700
Current Assets		
Inventory (5000+ 2500)	7500	
Trade receivable (13500 +6700)	20,200	
Cash and cash equivalents (1500+ 800)	2300	
	30,000	
Less: Current - Liabilities		
Trade payable (10000 +16500)	26500	~~26500~~
~~WC~~ working capital		3500
		89800
Equity:		
$1 Ordinary share capital		50,000
Share premium		5000
Profit for the year ended 31 Dec 2016 (5000 + 300)		OF 5300
Retained earning at 1 Jan 2016		2500
General reserve		7500
Goodwill (14000 X $1.6 − (20000+2000+2500+1700) X 0.7)		5670
~~Minority Interest (20000+2000+1700+2500) X 0.3~~		7860

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Question 5 (a) (ii)

Examiner Comments

Be prepared to present responses that provide both sides of an argument.

Examiner Tip

Ensure that your response is logical and coherent.

An excellent response is shown below with this candidate scoring all 6 of the available marks.

(ii) Advise, with reasons, which option should be adopted during the first year of production.

(6)

Option 1 should be adopted during the first year of production. In Year 1, the company does not know the actual sales will made in that year, although the profit for two option is the same, but it is only the company's estimation to make a sales of 1000 units per months. If the sales does not reach the expections, the company will have a serious loss if it using option 2 because the fixed overhead of option 2 is higher than option 1. It is a constant expenses every month eventhough the company has reduce it production units. Other than that, option 1 will reach breakeven point after it sells 8400 units of dress, it is less than option 2 which the risk of making loss reduces. Using option 1, the total cost of production can covered by lower sales.

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This response provided no work that was worthy of any marks, providing superficial comments that did not respond to the scenario given.

(ii) Advise, with reasons, which option should be adopted during the first year of production.

(6)

For Option 1, net profit of each dresses is $0.9 that means production of 9334 piece dress will meet break-even point.

For Option 2, net profit of each dresses is $0.9, ~~should~~ should product 1000 ~~pie~~ pcs dress to meet break-even point.

Option 1 is more profitability.

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Paper Summary

- Candidates must learn and practise using the definitions of the key terms according to the accounting standards stated in the specification.

- Candidates must learn the relevant definitions according to the International Accounting Standards.

- Candidates must use the new terminology for the labels for all the items in the financial statements.

- Candidates must use the specific terminology/ words for describe and define questions especially where accounting standards or framework is stated in the question.

- Candidates must show their workings and use the ledger accounts or format to help themselves to work out the missing information as required.

- Candidates must show their workings with reference number, such as W1, W2 etc., on the lined pages of the question paper.

- Candidates must learn and practise the layouts for financial statements, such as statement of profit or loss, especially for company accounts, statement of financial position and statement of cash flows.

- Candidates must remember that all financial statements must have the correct headings - practise descriptive questions and base the answers around the scenarios for scenario-based questions.

- Candidates must know that the statement of cash flows last two lines and net increase or decrease in the cash and cash equivalent for the year must match with the cash and cash equivalent balances at the beginning and end of the year provided in the question.

- Candidates must follow the format of the financial statements provided to prepare the consolidated financial statements to get full marks. The figures of both companies must be added to prepare the consolidated statements, apart from the items with inter-company transactions.

- Candidates must ensure that the total assets match with the total of the equity and liabilities of the consolidated statement of financial position.

- Candidates must remember that depreciation is deducted from net cash flows to calculate the profits for each year.

- Candidates must present their calculations in an organised manner such as a table. Use correct formulae for accounting rate of return, express payback period (year/months or as required), accounting rate of return (%) and net present values ($). For an evaluation at the end candidates must justify the reason/s for the decision.

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Grade Boundaries

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