



**Pearson LCCI  
Certificate in  
Financial Accounting (VRQ)  
Level 3  
(ASE20097)**

**Examiner's Report  
April 2017**

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# Introduction

Pearson (LCCI) redeveloped the new Level 3 Certificate in Financial Accounting (VRQ) (ASE20097) 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 fundamental accounting principles and concepts that underlie all financial accounting.

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

This assessment covered these topics:

- recording financial transactions
- accounting for incomplete records
- accounting for irrecoverable debts and allowance for doubtful debts
- preparing the financial statements of sole traders, partnerships and limited companies
- interpretation of financial statements.

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

(a) Candidates were required to state two business objectives of a private sector business. This was not well answered with several candidates repeating the example given or providing superficial responses.

(b) Candidates were required to state four types of error that would not be corrected through a suspense account. The majority of candidates were able to state three of the six possible responses.

(c) Candidates were required to describe how inventory is valued according to the accounting standards. The correct response of 'lower of cost and net **realisable** value' was not evident in most scripts.

(d) Candidates were required to explain which accounting concept applies when creating an allowance for doubtful debts and complete computational tasks related to the topic. The correct response of 'prudence' was provided by many candidates but the reason for this was not apparent in most cases. The two computational tasks were better answered with the calculation of the allowance for doubtful debts being well answered.

(e) Candidates were required to respond to a scenario related to the concept of public interest. Overall this was not well answered with many candidates making no attempt at a response.

**Question 2** was a 27-mark question on the topic of incomplete records that guided candidates through a series of tasks including the preparation of a statement of profit and loss for a sole trader. Overall the responses to this question were good indicating that candidates were well prepared for this type of question. The preparation of the control accounts was well done but the cash account provided some issues for candidates with some candidates including extraneous items.

**Question 3** was a 26-mark question that assessed candidates' knowledge of partnership accounts through a series of tasks which were all computational in nature.

(a) The preparation of the partnership appropriation account was well done with many candidates scoring full marks.

(b) The preparation of the current accounts and capital accounts were also well done by most candidates. The most common errors made were to include extraneous items in either or both of the accounts and the incorrect treatment of the goodwill that the partners had agreed not to maintain in the books.

**Question 4** was a 20-mark question that assessed candidates' knowledge of the preparation of a statement of cash flows together with knowledge of the calculation of depreciation.

(a) Although this was a relatively straightforward question, candidates struggled to understand the requirements, which may be due to the format of the table that candidates were required to complete. Many candidates did not attempt this part of the question but where they did the responses were good with no common errors. Candidates need to be prepared to respond to questions in different formats.

(b) Candidates were required to state any six adjustments that are required to reconcile the profit for the year to net cash from operating activities. Overall this was well answered with many candidates scoring full marks. The most common error made by candidates was not being specific in their response, e.g. increase in current assets when the correct response was to indicate which asset, e.g. change in inventory.

(c) Candidates were required to prepare a statement of cash flows from given data. Although there were several good responses, candidates did find this question challenging. The investing activities section provided difficulties 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 5** was a 27-mark question that assessed candidates' knowledge of the interpretation of financial statements using accounting ratios.

(a) Candidates were required to state why a given stakeholder would be interested in the performance of a business within a given category of ratio. Generally this was well done with the efficiency category proving most difficult for candidates to respond to, with vague and superficial responses being provided.

(b) The calculation of all the ratios were well answered by most candidates indicating that they were well prepared for this type of question. The most common error was not providing the correct symbol after the ratio, i.e. %, times etc.

(c) The evaluation of the performance of both businesses did not show much improvement on previous sittings with candidates either not responding or making generic statements that did not address the scenario. Candidates need to be aware that marks are not awarded for saying that one ratio is higher than another, they must develop the point to provide a reason why this is the case.

(d) Candidates were required to state three advantages of the two sole traders forming a partnership. While many candidates were able to state two advantages, the majority were unable to state three and in several instances not being able to state any.

## ***Question 2***



### **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 26 of the available 27 marks. Note how this candidate has produced clear workings.

Prepare the following accounts for the year ended 31 March 2017 and bring the balances down on 1 April 2017. Dates are **not** required.

(i) **Trade Receivables Control Account**

(3)

Details	\$	Details	\$
balance b/d	4550	Bank	114450
Credit Sales	116,000		
		balance c/d	6,100
	<u>120,550</u>		<u>120,550</u>
balance b/d	6,100		

(ii) **Trade Payables Control Account**

(3)

Details	\$	Details	\$
Bank	120,000	balance b/d	2490
		Credit Purchases	120,910
balance b/d	3,400		
	<u>123,400</u>		<u>123,400</u>
		balance b/d	3,400

(iii)

## Cash Account

(4)

Details	\$	Details	\$
balance b/d	₹20	cleaner's wages	2,400
Sales	29,000	Purchases	3,600
	✓	Drawings	5,200
		Bank	11,540
		balance <del>at</del> c/d	480
		Stolen Cash	6,500
	<u>29,720</u>		<u>29,720</u>
balance b/d	480		
	✓		✓

(b) Prepare the statement of profit or loss for the year ended 31 March 2017.

(17)

**Tamana**  
**Statement of profit or loss for the year ended 31 March 2017**

	\$
Revenue	145,000 ✓
Cost of Sales	(116,000) ✓
Gross Profit	29,000
Distribution Costs	(3,500)
Administrative Expenses	(42,070)
Operating Loss	(21,570)
Finance Cost	(-)
Loss before tax	(21,570)
Income tax	(-)
Loss after tax	(21,570) ✓

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Date 2: Sales

Total Sales = 145,000

Date 2: Cost of Sales

Op. Inventory 8,000

Purchases  $\checkmark$  124,000  
(120,900 + 3,000 - 500)

Less: (Closing Inventory) (16,000)

116,000

Date 3: Distribution Expenses

Motor Vehicle Expenses 3,500

Date 4: Administrative Expenses

General Expenses £500

Insurance 5,500

Wages & Salaries (17,500 + 2,400) 19,900  $\checkmark$

Electricity 1,870  $\checkmark$

Rent £750  $\checkmark$

Depreciation (9,000 + 1,500) 3,500  $\checkmark$

Loss on disposal (14,000 - 12,950) 1,050  $\checkmark$

47,070

(Total for Question 2 = 27 marks)

16  
26



P 5 4 2 8 7 A 0 9 2 4

The following response scored 13 of the available 27 marks. The control accounts scored full marks but no marks were awarded for the cash account due to the inclusion of extraneous items and the incorrect treatment of other items. In part (b) workings were shown but these were poorly presented.

- (a) Prepare the following accounts for the year ended 31 March 2017 and bring the balances down on 1 April 2017. Dates are **not** required.

(i) **Trade Receivables Control Account**

(3)

Details	\$	Details	\$
balance b/d	4550	Bank	114450
Revenue	116.000		
		balance c/d	6100
	<u>120550</u>		<u>120550</u>
balance b/d	6100		

(ii) **Trade Payables Control Account**

(3)

Details	\$	Details	\$
Bank	120.000	balance b/d	2490
		Purchases	120910
balance c/d	3400		
	<u>123400</u>		<u>123400</u>
		balance b/d	3400

(iii)

## Cash Account

(4)

Details	\$	Details	\$
balance b/d	2820	Tr. Payables	120.000
Tr. Receivables	114450	Still	6260
Computer	<del>11840</del> 12950	Payments	<del>60000</del> 63740
Capital	30.000		
Good sales	11540	A	
balance d/d	12220		
	<del>183980</del> <del>122490</del>		<del>122490</del>

(b) Prepare the statement of profit or loss for the year ended 31 March 2017.

(17)

**Tamana**  
**Statement of profit or loss for the year ended 31 March 2017**

Revenue	116000 ✓
Cost of sales (Note 2)	(112400)
Gross Profit	3600 ✓
Other Income	✓
Administrative expenses	(60020)
Distribution expenses	✓
Operating Profit	(56420)
Finance Cost	✓
Profit before Tax	(56420)
Income Tax	✓
Profit after Tax	<u>(56420) ✓</u>

### Note 3: Administrative expenses:

General expenses	7500	Electricity	
Insurance	5500	Bank 2240 ✓	SOP L 2470
M. Vehicle expenses	<u>20.000</u>	bledd 230	
Wages & salaries	17500	<u>2470</u>	<u>2470</u>
Electricity	2470	Rent	
Rent	7050	Bank 7500 ✓	SOP L 7050
		bledd 450	
	<u>60020</u>	<u>7500</u>	<u>7500</u>

### Note 2: Cost of sales:

op. inventory / 8000  
 Purchases (120910 - 8000) 120400  
 less cl. inventory (16000) 112400

### Notes:

Cleaners wages	2400
Drawings	510
Purchases	510
Drawings	5200
	<u>11200</u>
	+ <u>11540</u>
Cash sales = 20%	22740 29000
Credit sales = ?	116000 × 180 29.000

~~20 20000~~

~~8000~~

Credit sales = 90960

20 Cash sales = 29000

Still cash sales = 6260

(Total for Question 2 = 27 marks)

13

### ***Question 4 (c)***



#### **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 9 of the available 11 marks. The only marks lost were for the incorrect calculation of the cash and cash equivalents.**

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DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

- (c) Prepare the statement of cash flows for the year ended 31 December 2016, taking into account the information provided on page 14.

(11)

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

	\$000	\$000
Net cash from operating activities		1 100
<u>Cash flow from Investing Activities</u>		
Purchase of PPE (500 + 2750)	(3 250)	4
Proceed on sale of PPE	375	✓
Short-term investments	(10)	A
Cash generated from Investing Activities		(2 885)
<u>Cash flow from Financing Activities</u>		
Issue of shares	2000	✓
Share premium	200	✓
Loan	(25)	✓
Dividends paid	(500)	✓
Cash generated from Financing Activities		1 675
Decrease in Cash & Cash Equivalents for the year		(110)
Cash & Cash Equivalents Previous Year		33
Cash & Cash Equivalents Current Year		(77)

a

(Total for Question 4 = 20 marks)

(14)



P 5 4 2 8 7 A 0 1 7 2 4

The response below has made similar errors and also 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.

- (c) Prepare the statement of cash flows for the year ended 31 December 2016, taking into account the information provided on page 14.

(11)

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

	\$000	\$000
Net cash from operating activities		1 100
<i>cash used in investing activities</i>		
acquire / purchase of plant / property and equipment		6,350 ✓
land & Buildings <sup>29550 - 23200</sup> ( <del>30250 - 22500 - 3025</del> )		(4725) ✓
depreciation (7400 - 8000 - 850)		(1450) X
cash used in investing activities		<u>1,800</u> (6725) ✓ of
<i>cash used in financing activities</i>		
repayment of bank loan	(25) ✓	
issue of shares	200 X	
dividends paid	(500) ✓	(325)
cash used in financing activities		<u>(325) ✓</u>
cash and cash equivalent during the year		
cash and cash at the beginning of the year		20 X
cash and cash at the end of the year		5

5

## Paper Summary

- Candidates must learn the purpose of the accounting concepts and principles of professional ethics and practice and how to relate these to the scenario given.
- Candidates should remember that the creation of goodwill is always shared among the partners in the old profit sharing ratio and elimination of goodwill is always shared among the partners in the new profit sharing ratio.
- Candidates should know that any change in the doubtful debts allowance is shown by debiting or crediting allowance for doubtful debts and the corresponding opposite entry is either by crediting or debiting the allowance for the doubtful debts adjustment account.
- 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 show their workings and use the ledger accounts or format to help themselves to work out the missing information as required.
- Candidates must learn the relevant definitions according to the International Accounting Standards.
- Candidates must use the new terminology.
- Candidates must use the specific terminology/ words for describe and define questions especially where accounting standards or framework is stated in the question.
- To analyse the ratios always state the possible reason for the change by relating it to the information provided rather than stating that the ratios are increased or decreased.

- For evaluation, candidates must support their decision with valid reasons.

## **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>