

Pearson LCCI

Certificate in Financial Accounting (VRQ) Level 3

Thursday 6 April 2017
Time: 3 hours

Paper Reference
ASE20097

Complete the details below in block capitals.

Candidate name

Centre Code

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Candidate Number

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Candidate ID Number

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You do not need any other materials.

Total Marks

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 appropriate degree of accuracy.

Information

- The total mark for this paper is 115.
- 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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Answer ALL questions. Write your answers in the spaces provided.

- 1** (a) State **two** business objectives of a private sector business. An example has been provided.

(2)

Business objectives	
1	<i>Earning profit</i>
2	
3	

- (b) State **four** types of error that would not be corrected through a suspense account.

(4)

- 1
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- (c) Describe how inventory is valued according to the accounting standards.

(1)

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- (d) (i) Explain which accounting concept applies when creating an allowance for doubtful debts.

(2)

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On 1 April 2016 a business had trade receivables of \$85 000 and an allowance for doubtful debts of \$4 250

On 31 March 2017 the business had trade receivables of \$75 750. This included a debt of \$750 that needs to be written off due to bankruptcy.

The owner has decided to maintain the allowance for doubtful debts at 5% of the trade receivables.

- (ii) Calculate the amount of the allowance for doubtful debts to be shown in the statement of financial position at 31 March 2017.

(2)

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- (iii) Prepare the journal entry to show the adjustment in the financial statements for the allowance for doubtful debts at 31 March 2017. A narrative is **not** required.

(2)

Account name	Debit \$	Credit \$



Tim, an assistant accountant in a paint factory, has raised concerns regarding chemical waste disposed of in a river.

Tim's line manager explained that it is costly to dispose of the chemical waste safely.

(e) Explain Tim's responsibility under the concept of public interest.

(2)

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(Total for Question 1 = 15 marks)

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- 2 Tamana owns a retail business and does not keep a full set of accounting records. She was able to provide the following information.

	31 March 2017	1 April 2016
	\$	\$
Bank	12 700 Cr	2 100
Cash	480	720
Electricity accrued	230	600
Fixtures and fittings (carrying value)	12 000	13 500
Inventory	16 000	8 000
Computers (carrying value)	-	14 000
Motor vehicle (carrying value)	18 000	-
Rent prepaid	450	700
Trade payables control	3 400	2 490
Trade receivables control	6 100	4 550

The bank summary for the year ended 31 March 2017 was as follows.

Receipts	\$	Payments	\$
Additional capital	30 000	General expenses	7 500
Computers	12 950	Insurance	5 500
Trade receivables	114 450	Motor vehicle	20 000
Cash banked	11 540	Motor vehicle expenses	3 500
		Wages and salaries	17 500
		Trade payables	120 000
		Electricity	2 240
		Rent	7 500



- Cash sales banked during the year were after accounting for:

Cleaner's wages	\$2 400
Purchases	\$3 600
Drawings	\$5 200

- Goods costing \$510 were taken for personal use.
- Goods are sold at a gross profit of 25% on cost.
- Cash sales are 20% of total sales.
- Tamana suspected that one of the employees was stealing cash from the till but was not sure how much. The theft was not covered by insurance.

- (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	\$

(ii) **Trade Payables Control Account**

(3)

Details	\$	Details	\$



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(iii)

Cash Account

(4)

Details	\$	Details	\$

(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

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(Total for Question 2 = 27 marks)



- 3 Roma, Sam and Tyla were in partnership sharing profit and losses in the ratio of 2:1:1 respectively.

The partnership agreement provided interest on capital at 12% per annum and annual salaries of \$24 000 for each partner.

The partners provided the following information.

On 1 July 2015

- The capital and current account balances were as follows:

Partners	Capital Account \$	Current Account \$
Roma	150 000	15 000
Sam	100 000	4 000
Tyla	50 000	3 000

On 30 June 2016

- Roma retired from the partnership. She left \$100 000 of her capital as a loan at a rate of 15% interest per annum. The remaining balance was paid to her by a cheque on 30 June 2016.
- Goodwill was valued at \$30 000 and the partners agreed not to maintain goodwill in the books.
- The non-current assets were revalued as follows:
 - premises were valued at \$50 000 more than the carrying value
 - fixtures and fittings were valued at \$5 000 more than the carrying value
 - motor vehicles were valued at \$11 000 less than the carrying value.
- Sam and Tyla continued the partnership with profit and losses shared in the ratio of 1:1. Their salaries were revised to \$27 000 per annum for each partner.
- The drawings for the year were:

Roma	\$25 000
Sam	\$14 000
Tyla	\$17 000
- The profit for the year before the appropriation was \$84 000



(8)

[illegible]

(i) Current accounts

(7)

(ii) Capital accounts

(11)





Current Accounts

Details	Roma \$	Sam \$	Tyla \$	Details	Roma \$	Sam \$	Tyla \$

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Capital Accounts

Details	Roma \$	Sam \$	Tyla \$	Details	Roma \$	Sam \$	Tyla \$

(Total for Question 3 = 26 marks)



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4 Toon Ltd provided the following information for the year ended 31 December 2016.

- Their depreciation policy is to charge a full year's depreciation in the year of acquisition and none in the year of disposal.
 - The depreciation was to be charged as follows:

Buildings	10% per annum using the straight line method
Machinery	10% per annum using the reducing (diminishing) balance method
Motor vehicles	20% per annum using the reducing (diminishing) balance method.
 - Land costing \$15 000 000 has been revalued at \$20 000 000 during the year.
 - On 30 November 2016 a machine, which was originally purchased costing \$600 000, was sold for \$375 000 and had accumulated depreciation of \$250 000
 - There were no other disposals during the year.
- (a) Complete the following table to show the accumulated depreciation charged for the year ended 31 December 2016.

(3)

	31 December 2016	31 December 2015
	\$000	\$000
Land and buildings–cost	30 250	22 500
Land and buildings–accumulated depreciation		3 000
Machinery–cost	7 400	8 000
Machinery–accumulated depreciation		5 200
Motor vehicles–cost	2 000	1 500
Motor vehicles–accumulated depreciation		600



(b) State any **six** adjustments that are required to reconcile the profit for the year to net cash from operating activities.

(6)

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Toon Ltd
Statements of financial position

	31 December 2016 \$000	1 January 2016 \$000
Assets		
Non-current assets		
Property, plant and equipment	29 550	23 200
Current assets		
Inventory	400	275
Trade receivables	972	450
Short-term investments	55	45
Bank	-	13
Cash in hand	5	20
	1 432	803
Total assets	30 982	24 003
Equity and liabilities		
Equity		
\$1 ordinary shares	20 000	18 000
Share premium	2 000	1 800
Revaluation reserve	5 000	-
Retained earnings	2 906	2 594
Total equity	29 906	22 394
Non-current liabilities		
Bank loan	100	125
Current liabilities		
Trade payables	894	1 484
Bank overdraft	82	-
Total liabilities	1 076	1 609
Total equity and liabilities	30 982	24 003

- During the year the dividends of \$500 000 were paid.

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- (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

(Total for Question 4 = 20 marks)



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- 5 (a) State **one** reason why **each** stakeholder is interested in the performance of the business according to the following categories of ratio.

(3)

Stakeholder	Category of ratio	Reason
Employees	Profitability	
Suppliers	Liquidity	
Competitors	Efficiency	

The following information related to two online clothing businesses for the year ended 31 March 2017.

	Timola	Jamini
	\$	\$
Bank	7 500	10 000
Drawings	8 000	5 000
Equity at 1 April 2016	50 000	40 000
Expenses	5 000	10 000
Inventory 1 April 2016	80 000	95 000
31 March 2017	70 000	75 000
Purchases	150 000	120 000
Revenue	180 000	160 000
Trade payables	25 000	15 000
Trade receivables	50 000	60 000

Additional information

- All purchases and sales are on credit.
- The agreed credit terms for credit purchases and sales are 60 days.



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(b) Calculate the following ratios for Jamini's business. Give your answers to two decimal places.

(12)

	Timola	Jamini
Gross profit percentage (margin)	11.11%	
Net profit percentage (margin)	8.33%	
Return on capital employed	26.32%	
Current ratio	5.10:1	
Quick(acid test)ratio	2.30:1	
Trade receivables collection period	102 days	
Trade payables payment period	61 days	
Inventory turnover	2.13 times	



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(c) Evaluate the performance of both businesses according to the following categories.

(i) Profitability

(3)

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(ii) Liquidity

(3)

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(iii) Efficiency

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(d) State **three** advantages to Timola and Jamini of joining together to form a business partnership.

(3)

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(Total for Question 5 = 27 marks)

TOTAL FOR PAPER = 115 MARKS



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