



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

**Examiners' Report
March 2017**

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Introduction

Pearson (LCCI) redeveloped the new specification at Level 3 Certificate in Accounting (VRQ) (ASE20104) in October 2015 as a part of Finance and Quantitative suite of qualifications from Level 1 to Level 4.

The Pearson LCCI Level 3 Certificate in Accounting (VRQ) gives candidates an overview of the fundamental accounting principles and concepts that underlie all financial accounting. Candidates are introduced to topic areas they are likely to encounter in their working lives in practical, scenario-based situations.

The qualification has been developed to allow candidates to progress to the Pearson LCCI Level 4 Certificate in Financial Accounting (VRQ), which extends and introduces new advanced topic areas in this field.

The assessment is of 115 marks comprising of a total of 5 questions. All the questions are compulsory.

This assessment covered these topics:

- accounting concepts and framework
- recording financial transactions
- preparation of financial statements
- Preparation of accounting records from incomplete records
- Interpretation of financial statements
- budgetary control
- Introduction to decision making

Candidates performed very well on preparation of statement of profit or loss, consolidated statement of financial position, calculation of breakeven point and preparation of cash budget.

To progress to higher levels and to score high grades candidates must demonstrate the underpinning knowledge and understanding of fundamentals by preparing according to the specification and by combining the theory and practice.

Question 1

Majority of the candidates scored above average marks for this question.

Part (a)(i) and (ii) Majority of the candidates stated the accounting concept correctly for the adjustment of the trade receivables by describing how these are recorded in the financial statements for part (ii)

See below an example of (a)(i) and (ii)

Accruals concept / Matching concept ✓

(ii) State how an adjustment for other receivables is treated in each of the financial statements.

(2)

Statement of profit or loss

Other receivables like prepaid expenses, for example are deducted from the amount of expenses for the period

Statement of financial position

Other receivables appear in Current Assets section of Statement of financial position ✓

Part (b) Majority of the candidates described the correct qualitative characteristic of financial reporting correctly under the International Accounting Standards Board (IASB) Framework.

See below an example of (b)

Characteristic	Description
<i>Timeliness</i> ✓	<i>Financial information has to be on time for users to make decisions. If too late disclosed or reported too late, external users won't be able to make informed decision on time.</i>

Part (c)(i)(ii) Majority of the candidates repeated the inventory valuation according to the IAS2 inventories rather than define the each of the elements of IAS2 as required. Only well prepared candidates answered

part (i) relating to the cost and (ii) net realisable value according to the IAS2 Inventories. Where candidates tried, the main mistakes were not including the second element for both definitions such as any additional costs for part (i) and selling expenses for part (ii).

See below an example of (c) (i)(ii)

The cost of inventories is the price that we paid for that inventory at the time of purchase including carriage charged. It is also called ~~purchase~~ purchase price.

Net realisable value is selling price deducting any repairs. If it is lower than cost, must be chosen.

Part (d) Majority of the candidates stated the five adjustments to reconcile the profit for the year to the net cash from the operating activities correctly.

See below an example of (d)

- 1 ~~Profit~~ Profit or Loss on Disposal ✓
- 2 Depreciation of non-current assets ✓
- 3 Increase/Decrease in inventories ✓
- 4 Increase/Decrease in payables ✓
- 5 Increase/Decrease in receivables ✓

Part (e) Majority of the candidates stated what the bonus issue is rather than how these are recorded in the statement of change in equity.

See below an example of (e)

Issue of bonus shares increases the balance of ordinary share capital & decreases the balance of share premium/or retained earnings

Part (f) Majority of the candidates stated two disadvantages of operating a business as part of a franchise.

See below an example of (f)

- 1 The reputation affect the whole chain of franchisee.
If one of the ~~franchisee~~ franchisee ruin the reputation, it affect the business.
- 2 Standardised pricing and operation mode,
may not fit all franchisee. Thus, small flexibility to business.



Examiner Comments

Candidates must read the question requirement twice to understand what is required to write as an answer.

Must use the standard terminology to answer define questions.



Examiner Tip

Pay attention to embolden words in the question.

Question 2

Overall performance on this question was average by majority of the candidates.

Part (a) Majority of the candidates prepare the trading section of statement of profit or loss to calculate the inventory by working out the sales and purchases by preparing the trade receivables and payables accounts. Candidates also labelled the workings.

See below an example of (a)

Kymi and Jami		
Statement of profit or loss for the year ended 31 December 2016		
Revenue ^①	\$	\$ 52,200
Less: Cost of Sales		
Opening Inventory	6,160	
Purchases ^②	36,795	
	42,955	
Less: Closing Inventory	(3,805)	(39,150)
Gross Profit ^③	12	<u>13,050</u>

Part (b) Majority of the candidates calculated the goods stolen by using the information provided and inventory valuation from part (a). Handful candidates struggled to score any marks as they tried to work out the inventory again rather than using the inventory calculated in part (a).

See below an example of (b)

Inventory Stolen
Closing Inventory as per Statement of Profit & Loss -
- Actual (counted) inventory
<u>3,805 - 1,540 = 1,265</u>

Part (c)(i) Majority of the candidates scored full marks. Few candidates made mistakes either by not calculating the depreciation for two years or by labelling the loss with profit.

See below an example of (c)(i)

Disposal A/C			
Motor Vehicle	15000	Bank	6000
		Accumulated Dep'n	5400
		Loss on Disposal	3600
			<u>35000</u>
Dep'n:	15000		
2014: 15000	$15000 \times 20\% = 3000$		
2015:	$(15000 - 3000) \times 20\% = 2400$		
2016:	\$5400 Acc. dep'n		

Part (c)(ii) Only few of the candidates calculated the depreciation charge for the year correctly. Main mistakes were either not taking off the carrying value of the motor vehicle disposed of or adding the new acquisition.

See below an example of (c)(ii)

(3) ✓

$$\begin{aligned}
 &\text{Depreciation charge} \\
 &= \left[31,550 - (\text{Machine already disposed } 15,000 - 5,400) + \text{Machine acquired } 20,000 \right] \\
 &\quad \times 20\% \\
 &= 41,950 \times 20\% \\
 &= \$8,390
 \end{aligned}$$

3 ✓

Part (d) Majority of the candidates did not attempt this question where they tried, the amount of the all the assets were not transferred to the realisation account and profit or loss based on their figures was not split among the partners.

See below an example of (d)

Realisation Account

	Ky \$	Jam \$		Ky \$	Jam \$
① Non Current Asset.	4	33,560	trade payable		1,685
Inventory		2,540	consideration from H Ltd		34,105
trade receivable	✓	4,060	Loss shared to partner	Ky mi (1/2) 2185	✓
				Jam (1/2) 2185	✓ 4,370
		<u>40,160</u>			<u>40,160</u>



Examiner Comments

Candidates must prepare the trade receivables and trade payables by entering the correct amounts for opening and closing balances provided on the correct side of an account.

Candidates must check that the gross profit is correct according to the ratio provided whether it is gross profit margin (based on revenue) or mark up (based on cost of sales)



Examiner Tip

If the inventory is lost then the inventory valuation according to the statement or records must be more than the inventory counted at the year end. If it does not then go back and check your answers for the inventory calculation.

Candidates must transfer all the assets or liabilities as to the realisation account on sale/dissolution of partnership.

Question 3

Majority of the candidates scored average marks on this question.

Majority of the candidates prepared consolidated statement of financial position by showing the workings for the goodwill, retained earnings and non-controlling interest.

Few candidates calculated the goodwill and retained earnings but did not enter in the consolidated statement of financial position. The main mistake by candidates from a few centres was that they added the assets and liabilities of subsidiary to the parent company in proportion of the holding of the shares.

Other mistakes were such as not adding the revaluation of the non-current assets to the consolidated statement of financial position or added share capital and share premium of the subsidiary to the parents' share capital and share premium.

See the example below.

Zxylex plc		
Consolidated statement of financial position at 31 March 2016		
Assets	\$ 000	\$ 000
Non-current assets		
Property, plant and equipment		100,275 ✓
Goodwill		2,711 3
		<u>102,986</u>
Current assets		
Inventories	33,839 ✓	
Trade receivables	16,662 ✓	
Cash and cash equivalents	2,214 ✓	
	<u>52,715</u>	52,715
Total assets		<u>155,701</u>
Equity and liabilities		
Equity		
Share capital	25,000 ✓	
Share premium	12,000 ✓	
Retained earnings	59,401 3	

Total equity		96,401	
Non-controlling interest		9,023	✓
		<u>9,523</u>	
Non-current liabilities			
Bank loan	29,000	✓	
	<u>29,000</u>		29,000
Current liabilities			
Trade payables	15,029	✓	
Tax liability	6,248	✓	
	<u>21,277</u>		21,277
Total liabilities			<u>50,277</u>
Total equity and liabilities			<u>155,701</u> ✓



Examiner Comments

If figures are calculated then must enter these into the main body of the financial statements.

Candidates must show the totals of each section/subsection of the financial statements with a label.

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

Candidates must show the workings for their figures.



Examiner Tip

Equity section items of the subsidiary are not recorded or added to the parent company on consolidation. These are recoded through retained earnings or through non-controlling interest.

Consolidated statement of financial position must balance.

Question 4

Majority of the candidates scored above average marks on this question.

Part (a) Well answered by majority of the candidates. Main mistake was not preparing the cash budget in the required format with the subtotals for the total receipts, payments and showing opening and closing balances.

See below an example of (a)

Bob			
Cash budget for 1 June to 31 August 2017			
	June	July	August
	\$	\$	\$
<i>Receipts.</i>			
Credit sales	23,200	19,200	16,400
Loan	24,000		
	47,200 ✓	19,200 ✓	16,400 ✓
<i>Payments.</i>			
Purchases. Credit purchases.	11,125 ✓	10,308 ✓	10,558 ✓
Credit overheads.	5,807 ✓	5,236 ✓	4,554 ✓
Drawings.	900	800	1,000
Instalments for loan		1,250	1,250
Purchased non-current asset	6,800		
	24,632 ✓	17,594 ✓	17,362 ✓
Surplus / (Deficit)	22,568	1,606	(962)
Balance b/f	(23,000)	(432)	1,174
Balance c/f.	(432)	1,174	212

Part (b) Majority of candidates identified two ways to improve the liquidity position by Bob but were unable to develop how to achieve it for example they stated encourage trade receivables to pay early but did not develop it further by saying offering cash discount.

See below an example of (b)

- 1 Encourage Customers pay within the month of sales or accept cash sales. So Bob could improve the cash inflow and Trade Receivable period. He may offer cash discount to those customers.
- 2 Purchase of Non-current Assets \$6,800 on 1 June 2017, may negotiate for paying by instalments, or delay to July to avoid bank overdraft in June.

Part (c) Majority of the candidates stated correctly the bank manager's interest in Bob's cash budget.

See below an example of (c)

The bank manager want to know whether Bob can paid back the loan or not.

Part (c) Majority of the candidates were unable to calculate the budgeted trade receivables collection period. Where candidates tried either they prepared the trade receivable budget rather than the trade receivable collection period or used the 365 days rather than the days for the three months.

$$\begin{aligned}
 & \text{Receivables at 31 Aug 2017} = 90\% \text{ of July Sales} + 100\% \text{ of Aug. Sales} \\
 & (16,000 \times 90\%) + 20,000 = 23,400 \\
 & \text{Sales for 3 months} = 18,000 + 16,000 + 10,000 = 54,000 \\
 & \left[\frac{23,400}{54,000} \right] \times 3 \text{ months} = 1.28 \text{ months}
 \end{aligned}$$



Examiner Comments

All cash budget figures must have the labels.

There must be a total for each section such as total receipts and total payments.



Examiner Tip

The cash budget format starts with receipts, payments and net cash inflow or outflow, opening balance and finishes with closing balance.

Candidates must identify the point and develop it further to get full marks on explaining questions.

Question 5

Majority of the candidates scored below average marks for this question.

Part (a)(i) and (ii) Majority of candidates calculated the break-even point in units and calculated required number of the units to be sold to achieve the target profit.

See below an example of (a)(i) and (ii)

(a) (i) Calculate the break-even point in units.

(2)

$$\frac{\text{Fixed overheads}}{\text{Contribution cost}} = \frac{25000}{16 - (6 + 5 + 1)} = 6250$$

2

selling price = 16

variable cost = $6 + 5 + 1 = 12$

2

(ii) Calculate the number of bottles that need to be sold to achieve a target profit of \$5000

(2)

$$\frac{\text{Fixed overheads} + \text{Required profit}}{\text{Contribution cost}} = \frac{25000 + 5000}{16 - 12}$$

= 7500

2

2

Part (b)(i) Majority of the candidates struggled to work out the net cash flows for option 1. Main mistakes were either not to take the fixed overheads increase in year three and onwards or not to deduct the initial investment to work out the net present value which indicated lack of understanding of the concept of net present value.

See below an example of (b)(i)

Year	(£) Inflow / (outflow)	Discount rate (10%)	(£) Net present value
0	(350,000)	1.000	(350,000)
1	95,000	0.909	86,355
2	95,000	0.826	78,470
3	92,500	0.751	69,467.50
4	92,500	0.683	63,177.50
Total net present value			52,530

Part (b)(ii) Majority of the candidates spent time calculating the net present value or profit for the option 2 rather than analysing the figures provided or developing their calculations further as the question requirement was to analyse the financial implications of both options.

See below an example of (b)(ii)

Option 2, rent a machine

$$\text{Cost of rent} = 7,000 \times 12 \text{ months} \times 4 \text{ years} = 7,000 \times 12 \times 4 = 336,000 \checkmark$$

The cost of rent would be less expensive than the cost of purchasing the replacement machine in option 1, but will produce less units. ✓

$$\text{Cash flow option 2: year 1} = (\cancel{28,000} \times 16) - (28,000 \times 12) - 25,000 = 87,000$$

$$\text{year 2} = (28,000 \times 16) - (28,000 \times 12) - 25,000 = 87,000$$

$$\text{year 3} = (28,000 \times 16) - (28,000 \times 12) - 27,500 = 84,500$$

$$\text{year 4} = (28,000 \times 16) - (28,000 \times 12) - 27,500 = 84,500$$

Variable cost option 2 = \$12

fixed overhead = similar to option 1.

If the option 1 is adopted, Wade Ltd would have to purchase the machine, there will be a negative present value at the beginning of the project. The company would need cash or other financing to purchase the machine. Instead, option 2, renting a machine doesn't require to pay for all the expenses, it would be easier and less risky to finance because the company could stop renting if it doesn't make a profit. The present value of the purchase is very high in option 1, because the purchase

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price is not discounted
when all inputs are discounted. This is a discounting trap.

Part (b)(iii) Majority of the candidates scored high marks on this part even though they did not score any marks on previous part as they justified their advice based on the information provided.

See below an example of (b)(iii)

(4)

I would recommend to rent a machine.

First of all cause investing in a replacement machine gives a negative net present value.

Another reason \rightarrow business does not have to raise funds to buy the machine, it can pay rent + maintenance monthly.

The difference in production units is rather small & should not influence decision rent or buy.



Examiner Comments

Candidate must use the columns to present the calculations for the net present value to keep them on the track to deduct the initial investment to work out the net present value.



Examiner Tip

Candidates must show the initial investment against the 0 year as a negative figure as this is outflow.

Candidate must read the question requirement carefully to answer the question.

Paper Summary

Candidates demonstrated clear understanding on preparation of financial statements for all types of the organisations such as sole traders and companies. The performance on written question was much better than previous series especially on 'state' questions but need to practice on 'explain' question to develop the identified point further.

The candidates will benefit from the following:

- Candidates must learn and practice the definitions of the key terms according to the accounting standards and framework stated in the specification.
- Candidates must practice and learn the routine entries for the ledger accounts which can help to find the missing figures for incomplete records questions.
- Candidates must practice on analysing the financial information according to the question requirement.
- 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 practice the International Accounting Standards (IAS) terminology and formats to show subtotal and totals including the labels for financial statements.

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>