



Mark Scheme

January 2017
Results

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

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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	AO1(2)	Mark
1(a)	<p>Award 1 mark for each characteristic. E.g.</p> <ul style="list-style-type: none"> • They prepare different set of statements to trading businesses - such as income and expenditure account (1) • Income is exempt from tax (1) • They are to serve the society/help people (1) • Not interested in profit (0) <p>Accept other valid responses.</p>	(2)

Question Number	AO1(2)	Mark
1(b)	<p>Award 1 mark for each identified situation as indicated.</p> <ul style="list-style-type: none"> • When it is planned that the business is going to close down/cease trading in the near future (generally within the next 12 months) (1). • When a shortage of cash flow makes it certain that the business or part of the business will stop operating (due to non-payment of debts) (1). 	(2)

Question Number	AO1(2) & AO3(2)	Mark
1(c)	<p>Award 1 mark for identifying the limitations and 1 mark for development E.g.</p> <ul style="list-style-type: none"> • The financial statements are based on historical data (1) and therefore may not reflect the ability of the business to meet its current and future commitments (1). • Financial statements only include financial data (1) non-financial factors (e.g. reputation, quality of work force, location, future order book, etc.) cannot be considered by the loan provider (1). 	(4)

Question Number	AO1(3)	Mark
1(d)(i)	<p>Award 1 mark for identifying each type of error.</p> <p>Error 1 Error of principle (1)</p> <p>Error 2 Error of commission (1)</p> <p>Error 3 Error of reversal (1)</p>	(3)

Question Number	AO3(3)	Mark
1(d)(ii)	<p>Award 1 mark for describing how each error affects equity.</p> <p>Error 1 It will reduce the equity (as the gross profit will be reduced). (1)</p> <p>Error 2 This error would not affect the equity (as the profit would not be affected). (1)</p> <p>Error 3 This error will reduce equity (as the sales will be reduced which will reduce the profit). (1)</p>	(3)

TOTAL FOR QUESTION 1 – 14 MARKS

Question Number	AO2(28)	Mark																																																																																							
2	<p>Award marks as indicated for correct figures and labels.</p> <p style="text-align: center;">Demitri Conostas Statement of profit or loss for the year ended 31 August 2016</p> <table border="1"> <thead> <tr> <th></th><th style="text-align: right;">\$</th><th style="text-align: right;">\$</th></tr> </thead> <tbody> <tr> <td>Revenue</td><td></td><td style="text-align: right;">416 000 (1)</td></tr> <tr> <td>Cost of sales</td><td></td><td></td></tr> <tr> <td>Opening inventory</td><td style="text-align: right;">35 000 (1)</td><td></td></tr> <tr> <td>Purchases</td><td style="text-align: right;">296 000 (1)</td><td></td></tr> <tr> <td>Purchase returns</td><td style="text-align: right;">(5 800) (1)</td><td></td></tr> <tr> <td>Carriage inwards</td><td style="text-align: right;">4 430 (1)</td><td></td></tr> <tr> <td>Drawings</td><td style="text-align: right;">(400) (1)</td><td></td></tr> <tr> <td>Repairs</td><td style="text-align: right;">(130) (1)</td><td></td></tr> <tr> <td>Wages</td><td style="text-align: right;">21 000 (1)</td><td></td></tr> <tr> <td>Closing inventory W1</td><td style="text-align: right;">(48 000) (3)</td><td style="text-align: right;">(302 100) (1of)</td></tr> <tr> <td>Gross profit</td><td></td><td style="text-align: right;">113 900 (1of)</td></tr> <tr> <td>Other income</td><td></td><td></td></tr> <tr> <td>Discount received</td><td></td><td style="text-align: right;">3 200 (1)</td></tr> <tr> <td>Expenses</td><td></td><td></td></tr> <tr> <td>Allowance for doubtful debts adjustment</td><td style="text-align: right;">4 000 (1)</td><td></td></tr> <tr> <td>Carriage outwards</td><td style="text-align: right;">6 000 (1)</td><td></td></tr> <tr> <td>Depreciation: Fixtures and fittings</td><td style="text-align: right;">1 000 (1)</td><td></td></tr> <tr> <td>Depreciation: Office furniture</td><td style="text-align: right;">3 438 (1)</td><td></td></tr> <tr> <td>Discount allowed</td><td style="text-align: right;">4 800 (1)</td><td></td></tr> <tr> <td>Heating and lighting</td><td style="text-align: right;">3 600 (1)</td><td></td></tr> <tr> <td>Insurance</td><td style="text-align: right;">8 800 (1)</td><td></td></tr> <tr> <td>Irrecoverable debts</td><td style="text-align: right;">2 600 (1)</td><td></td></tr> <tr> <td>Loss on disposal</td><td style="text-align: right;">120 (1)</td><td></td></tr> <tr> <td>Rent</td><td style="text-align: right;">8 750 (1)</td><td></td></tr> <tr> <td>Repairs and renewals</td><td style="text-align: right;">1 700 (1)</td><td></td></tr> <tr> <td>Wages and salaries</td><td style="text-align: right;">28 450 (1)</td><td></td></tr> <tr> <td></td><td></td><td style="text-align: right;">73 258 (1of)</td></tr> <tr> <td>Profit for the year</td><td></td><td style="text-align: right;">43 842 (1)</td></tr> </tbody> </table> <p>W1 - Closing inventory $\\$(49\ 650 - 5\ 000(1) + (3\ 750 - 400)1) = (48\ 000)$ (1of figure + label)</p>		\$	\$	Revenue		416 000 (1)	Cost of sales			Opening inventory	35 000 (1)		Purchases	296 000 (1)		Purchase returns	(5 800) (1)		Carriage inwards	4 430 (1)		Drawings	(400) (1)		Repairs	(130) (1)		Wages	21 000 (1)		Closing inventory W1	(48 000) (3)	(302 100) (1of)	Gross profit		113 900 (1of)	Other income			Discount received		3 200 (1)	Expenses			Allowance for doubtful debts adjustment	4 000 (1)		Carriage outwards	6 000 (1)		Depreciation: Fixtures and fittings	1 000 (1)		Depreciation: Office furniture	3 438 (1)		Discount allowed	4 800 (1)		Heating and lighting	3 600 (1)		Insurance	8 800 (1)		Irrecoverable debts	2 600 (1)		Loss on disposal	120 (1)		Rent	8 750 (1)		Repairs and renewals	1 700 (1)		Wages and salaries	28 450 (1)				73 258 (1of)	Profit for the year		43 842 (1)	(28)
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TOTAL FOR QUESTION 2 – 28 MARKS

Question Number	AO2(18)	Mark																																																												
3(a)	<p>Award marks as indicated for figures only. Award 1 mark for all correct narratives throughout.</p> <p style="text-align: center;">Perry, Qazim and Rowan Profit or loss appropriation account for the year ended 31 December 2016</p> <table><tr><th>Details</th><th>1 January - 30 June 2016</th><th>1 July - 31 December 2016</th><th>Total</th></tr><tr><td>Profit for the year</td><td>41 000</td><td>41 000</td><td>82 000 (1 for row)</td></tr><tr><td colspan="4">Interest on capital</td></tr><tr><td>Perry</td><td>(2 500) (1)</td><td>(10 000) (1)</td><td>(12 500) (1 of all 3)</td></tr><tr><td>Qazim</td><td>(1 250) (1)</td><td>(5 000) (1)</td><td>(6 250)</td></tr><tr><td>Rowan</td><td>(1 250) (1)</td><td>(5 000) (1)</td><td>(6 250)</td></tr><tr><td colspan="4">Salaries</td></tr><tr><td>Perry</td><td>(5 000) (1 all 3)</td><td>(12 000) (1 all 3)</td><td>(17 000) (1 of all 3)</td></tr><tr><td>Qazim</td><td>(10 000)</td><td>(12 000)</td><td>(22 000)</td></tr><tr><td>Rowan</td><td>(12 000)</td><td>(12 000)</td><td>(24 000)</td></tr><tr><td>Profit(loss) available for distribution</td><td>9 000 (1 of)</td><td>(15 000) (1 of)</td><td>(6 000) (1 of)</td></tr><tr><td>Perry</td><td>3 000 (1 of all 3)</td><td>(7 500) (1 of all 3)</td><td>(4 500) (1 of all 3)</td></tr><tr><td>Qazim</td><td>3 000</td><td>(3 750)</td><td>(750)</td></tr><tr><td>Rowan</td><td>3 000</td><td>(3 750)</td><td>(750)</td></tr><tr><td></td><td></td><td></td><td>(6 000)</td></tr></table>	Details	1 January - 30 June 2016	1 July - 31 December 2016	Total	Profit for the year	41 000	41 000	82 000 (1 for row)	Interest on capital				Perry	(2 500) (1)	(10 000) (1)	(12 500) (1 of all 3)	Qazim	(1 250) (1)	(5 000) (1)	(6 250)	Rowan	(1 250) (1)	(5 000) (1)	(6 250)	Salaries				Perry	(5 000) (1 all 3)	(12 000) (1 all 3)	(17 000) (1 of all 3)	Qazim	(10 000)	(12 000)	(22 000)	Rowan	(12 000)	(12 000)	(24 000)	Profit(loss) available for distribution	9 000 (1 of)	(15 000) (1 of)	(6 000) (1 of)	Perry	3 000 (1 of all 3)	(7 500) (1 of all 3)	(4 500) (1 of all 3)	Qazim	3 000	(3 750)	(750)	Rowan	3 000	(3 750)	(750)				(6 000)	(18)
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Rowan	3 000	(3 750)	(750)																																																											
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Question Number	AO2(9)							Mark	
3(b)	Award marks as indicated.								
	Capital Accounts								
	Details	Perry \$	Qazim \$	Rowan \$	Details	Perry \$	Qazim \$		Rowan \$
	Goodwill (1 all 3)	30 000	15 000	15 000	Balance b/d (1 all 3)	100 000	50 000		50 000
	Motor vehicle (1)	30 000			Bank (1 all 3)	100 000	50 000		50 000
	Balance c/d	185 000	130 000	130 000	Goodwill (1 all 3)	20 000	20 000		20 000
					Revaluation (1)	25 000	25 000		25 000
		245 000	145 000	145 000		245 000	145 000		145 000
					Balance b/d (1 all 3)	185 000	130 000		130 000
								(9)	

TOTAL FOR QUESTION 3 – 27 MARKS

Question Number	AO2(3)	Mark																								
4(a) (i)	<p>Award marks for both details and amount in combination and as indicated.</p> <p style="text-align: center;">Cash account</p> <table><tr><th></th><th>\$</th><th></th><th>\$</th></tr><tr><td>Balance b/d</td><td>450</td><td>Drawings</td><td>10 400</td></tr><tr><td>Cash Sales</td><td>12 000 (1of)</td><td>Rent (1 both entries)</td><td>1 500</td></tr><tr><td></td><td></td><td>Balance c/d</td><td>550</td></tr><tr><td></td><td>12 450</td><td></td><td>12 450</td></tr><tr><td>Balance b/d (1 both balances)</td><td>550</td><td></td><td></td></tr></table>		\$		\$	Balance b/d	450	Drawings	10 400	Cash Sales	12 000 (1of)	Rent (1 both entries)	1 500			Balance c/d	550		12 450		12 450	Balance b/d (1 both balances)	550			(3)
	\$		\$																							
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Question Number	AO2(4)	Mark																																
4(a) (ii)	<p>Award marks for both details and amount in combination and as indicated.</p> <p style="text-align: center;">Bank account</p> <table><tr><th></th><th>\$</th><th></th><th>\$</th></tr><tr><td>Balance b/d</td><td>4 000</td><td>Wages and salaries</td><td>25 000</td></tr><tr><td>Trade receivables</td><td>141 000 (1)</td><td>Rent (1 all 3 entries)</td><td>4 000</td></tr><tr><td></td><td></td><td>General expenses</td><td>12 000</td></tr><tr><td></td><td></td><td>Trade payables (1of)</td><td>96 000</td></tr><tr><td></td><td></td><td>Balance c/d</td><td>8 000</td></tr><tr><td></td><td>145 000</td><td></td><td>145 000</td></tr><tr><td>Balance b/d (1 both balances)</td><td>8 000</td><td></td><td></td></tr></table>		\$		\$	Balance b/d	4 000	Wages and salaries	25 000	Trade receivables	141 000 (1)	Rent (1 all 3 entries)	4 000			General expenses	12 000			Trade payables (1of)	96 000			Balance c/d	8 000		145 000		145 000	Balance b/d (1 both balances)	8 000			(4)
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Question Number	AO2(6)	Mark																											
4(b)	<p>Award marks as indicated.</p> <p style="text-align: center;">Georgious Trading section of the statement of profit or loss for the year ended 31 December 2016</p> <table border="1"> <thead> <tr> <th></th><th style="text-align: center;">\$</th><th style="text-align: center;">\$</th></tr> </thead> <tbody> <tr> <td>Revenue</td><td></td><td style="text-align: right;">176 000 (1)</td></tr> <tr> <td>Cost of sales</td><td></td><td></td></tr> <tr> <td>Opening inventory</td><td style="text-align: right;">21 400</td><td></td></tr> <tr> <td>Purchases</td><td style="text-align: right;">137 375 (1of)</td><td></td></tr> <tr> <td>Drawings</td><td style="text-align: right;">(375) (1)</td><td></td></tr> <tr> <td>Closing inventory</td><td style="text-align: right;">(26 400) (1for both balances of inventory)</td><td></td></tr> <tr> <td></td><td></td><td style="text-align: right;">(132 000) (1of)</td></tr> <tr> <td>Gross profit</td><td></td><td style="text-align: right;">44 000 (1)</td></tr> </tbody> </table>		\$	\$	Revenue		176 000 (1)	Cost of sales			Opening inventory	21 400		Purchases	137 375 (1of)		Drawings	(375) (1)		Closing inventory	(26 400) (1for both balances of inventory)				(132 000) (1of)	Gross profit		44 000 (1)	(6)
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Question Number	AO2(4)	Mark																								
4(c)(i)	<p>Award marks for both details and amount in combination and as indicated.</p> <p style="text-align: center;">Trade receivables control account</p> <table><tr><th>Details</th><th>\$</th><th>Details</th><th>\$</th></tr><tr><td>Balance b/d</td><td>11 450</td><td>Bank</td><td>141 000 (1)</td></tr><tr><td>Sales*</td><td>164 000 (1of)</td><td>Discount allowed</td><td>3 000 (1)</td></tr><tr><td></td><td></td><td>Balance c/d</td><td>31 450</td></tr><tr><td></td><td>175 450</td><td></td><td>175 450</td></tr><tr><td>Balance b/d (1of both balances)</td><td>31 450</td><td></td><td></td></tr></table>	Details	\$	Details	\$	Balance b/d	11 450	Bank	141 000 (1)	Sales*	164 000 (1of)	Discount allowed	3 000 (1)			Balance c/d	31 450		175 450		175 450	Balance b/d (1of both balances)	31 450			(4)
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Question Number	AO2(3)	Mark																				
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		Balance b/d (1of both balances)	68 875																			

Question Number	AO2(10)	Mark																																																																				
4(d)	<p>Award marks as indicated.</p> <p style="text-align: center;">Georgious</p> <p style="text-align: center;">Statement of financial position at</p> <p style="text-align: center;">31 December 2016</p> <table><tr><th>Assets</th><th>\$</th><th>\$</th><th>\$</th></tr><tr><td>Non-current assets</td><td>Cost</td><td>Accumulated depreciation</td><td>Carrying value</td></tr><tr><td>Fixtures and fittings</td><td>50 000</td><td>5 000 (1)</td><td>45 000 (1)</td></tr><tr><td>Current assets</td><td></td><td></td><td></td></tr><tr><td>Inventory</td><td></td><td>26 400</td><td></td></tr><tr><td>Trade receivables (from c i)</td><td></td><td>31 450 (1of)</td><td></td></tr><tr><td>Bank</td><td></td><td>8 000</td><td></td></tr><tr><td>Cash</td><td></td><td>550</td><td>66 400 (1of)</td></tr><tr><td>Total assets</td><td></td><td></td><td><u>111 400</u></td></tr><tr><td>Equity and liabilities</td><td></td><td></td><td></td></tr><tr><td>Equity</td><td></td><td></td><td></td></tr><tr><td>Equity</td><td></td><td>60 000 (1)</td><td></td></tr><tr><td>Loss for the year</td><td></td><td>(6 700) (1)</td><td></td></tr><tr><td>Drawings</td><td></td><td>(10 775) (1)</td><td>42 525 (1of)</td></tr><tr><td>Current liabilities</td><td></td><td></td><td></td></tr><tr><td>Trade payables (from c ii)</td><td></td><td></td><td>68 875 (1of)</td></tr><tr><td>Total equity and liabilities</td><td></td><td></td><td><u>111 400</u> (1of only if equal to total assets)</td></tr></table>	Assets	\$	\$	\$	Non-current assets	Cost	Accumulated depreciation	Carrying value	Fixtures and fittings	50 000	5 000 (1)	45 000 (1)	Current assets				Inventory		26 400		Trade receivables (from c i)		31 450 (1of)		Bank		8 000		Cash		550	66 400 (1of)	Total assets			<u>111 400</u>	Equity and liabilities				Equity				Equity		60 000 (1)		Loss for the year		(6 700) (1)		Drawings		(10 775) (1)	42 525 (1of)	Current liabilities				Trade payables (from c ii)			68 875 (1of)	Total equity and liabilities			<u>111 400</u> (1of only if equal to total assets)	(10)
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TOTAL FOR QUESTION 4 – 30 MARKS

Question Number	AO1(6)	Mark														
5(a)(i)	Award 1 mark for each correct formula.															
	<table><tr><th>Ratios</th><th>Formula</th></tr><tr><td>Gross profit margin</td><td>(gross profit / revenue)x 100 (1)</td></tr><tr><td>Net profit margin</td><td>(profit for the year/ revenue)x 100 (1)</td></tr><tr><td>Return on capital employed</td><td>(profit for the year / capital employed)x 100(1) OR Profit before interest and tax / capital employed x 100 (1)</td></tr><tr><td>Current ratio</td><td>Current assets / current liabilities (1)</td></tr><tr><td>Quick ratio (acid test)</td><td>(Current assets-inventory) / current liabilities(1)</td></tr><tr><td>Inventory turnover</td><td>Cost of sales/average inventory (1) OR (Average inventory / cost of sales) x 365 (1)</td></tr></table>		Ratios	Formula	Gross profit margin	(gross profit / revenue)x 100 (1)	Net profit margin	(profit for the year/ revenue)x 100 (1)	Return on capital employed	(profit for the year / capital employed)x 100 (1) OR Profit before interest and tax / capital employed x 100 (1)	Current ratio	Current assets / current liabilities (1)	Quick ratio (acid test)	(Current assets-inventory) / current liabilities (1)	Inventory turnover	Cost of sales/average inventory (1) OR (Average inventory / cost of sales) x 365 (1)
	Ratios		Formula													
	Gross profit margin		(gross profit / revenue)x 100 (1)													
	Net profit margin		(profit for the year/ revenue)x 100 (1)													
	Return on capital employed		(profit for the year / capital employed)x 100 (1) OR Profit before interest and tax / capital employed x 100 (1)													
	Current ratio		Current assets / current liabilities (1)													
	Quick ratio (acid test)		(Current assets-inventory) / current liabilities (1)													
Inventory turnover	Cost of sales/average inventory (1) OR (Average inventory / cost of sales) x 365 (1)															

Question Number	AO1(2)	Mark
5(a)(ii)	Award 1 mark for each correct ratio. Award marks for formulas. <ul style="list-style-type: none"> • Trade receivables (collection) period (1) • Trade payables (payment) period (1) 	(2)

Question Number	AO4(6)	Mark
5(a)(iii)	<p>Award 1 mark for each ratio.</p> <p>E.g Gross profit margin for Mr Smith's business was better due to better control over cost of sales or selling price charged was higher compared to Mrs Campana's business (1).</p> <p>Net profit margin for Mrs Campana's business was better due to better control over her operating expenses (1).</p> <p>Return on capital employed for Mrs Campana's business was better due to higher net profit margin or lower capital employed for her business (1).</p> <p>Current ratio for Mr Smith's business was better as it was higher than the standard of 2:1 while Mrs Campana 's business was lower (1).</p> <p>Quick ratio (acid test) for Mrs Campana's business was better as it was closer to the standard of 1:1 (1).</p> <p>Inventory turnover for Mrs Campana's business was better, may be due to lower selling price charged which explains lower gross profit margin or due to easy terms of credit offered to customers (1).</p> <p>Accept other valid responses.</p>	(6)

Question Number	AO5 (2)	Mark
5(b)	<p>Award 2 marks for justification of business chosen.</p> <p>E.g. Mrs Campana's business is a better prospective purchase because</p> <ul style="list-style-type: none"> • it gave the better profitability indicating she is managing her expenses efficiently (1) • her liquidity ratios were also better as they were closer to the standards (1). <p>OR Mr Smith's business is a better prospective purchase because</p> <ul style="list-style-type: none"> • the gross profit margin is higher than Mrs Campana's indicating higher selling price or lower cost price (1) • his liquidity ratios indicate a stronger ability to pay his short term debts from his liquid assets (1). 	(2)

TOTAL FOR QUESTION 5 – 16 MARKS

TOTAL FOR PAPER =115 MARKS