Pearson LCCI

Certificate in Accounting (VRQ)

Level 3

Thursday 6 April 2017
Time: 3 hours

Paper Reference
ASE20104

Complete the details below in block capitals.

Candidate name

Centre Code

Candidate Number

Candidate ID Number

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.*
- You must show your workings.

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.
- Check your answers if you have time at the end.

Turn over ▶

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Pearson

Answer ALL questions. Write your answers in the spaces provided.

1 (a) Complete the following table to **identify the stakeholders** and **their interest** in the financial statements of a business. The first one has been completed as an example.

(6)

Stakeholders	**Interest**
Suppliers	***To ensure that they will receive payment for goods supplied.***
Investors	
Customers	
Employees	
	To ensure the correct amount of tax is paid.
	To assess a loan application.
	To assess the performance of a rival business.

(b) Explain **two** accounting concepts that are applied when charging depreciation.

(4)

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(c) State **two** purposes of a partnership agreement.

(2)

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(d) State **three** advantages of private limited companies (Ltd) in comparison to sole traders.

(3)

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(Total for Question 1 = 15 marks)

2 On 1 January 2013 Rahim purchased machinery costing $40 000 by cheque.

On 30 June 2016, all the machinery was traded in and a trade in allowance of $6 500 was received against the purchase of new machinery costing $50 000. The balance was paid by cheque.

Depreciation is charged at 40% per annum using the reducing (diminishing) balance method.

The depreciation policy is to charge a full year's depreciation in the year of acquisition and none in the year of disposal.

(a) Prepare the following accounts for the year ended 31 January 2017. Balance the accounts on that date and bring the balance down to 1 February 2017.

(i)

Machinery Cost Account

(5)

(ii)

Machinery Accumulated Depreciation Account

(7)

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(iii)

Disposal Account

(4)

Rahim also owns a flower shop. He sells roses in bunches of 10.

- Roses remain fresh (shelf life) for 10 days.
- The cost price of one bunch of roses is \$12
- The selling price of one bunch with:
  - 10 days shelf life is \$20
  - 7 days shelf life is \$15
  - 3 days shelf life is \$10

On 31 January 2017 inventory consisted of:

Shelf life	**Number of bunches**
10 days	60
7 days	40
3 days	50

(b) (i) Calculate the value of the inventory of roses on 31 January 2017.

(4)

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(ii) Rahim had incorrectly valued the inventory at $2 250.

Describe the effect on Rahim's gross profit if he uses the value you calculated in (i) instead.

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On 31 January 2017 the following transactions had not been processed.

- Irrecoverable debts of $1 350
- An allowance for doubtful debts was to be maintained at 8% of trade receivables.
- Insurance of $600 for the four months ending 31 March 2017 was outstanding.
- Rent included $1 500 for the six months ending 31 May 2017.

(c) Complete the adjustment columns for these four transactions for the year ended 31 January 2017.

(8)

Rahim
Extract of extended trial balance at 31 January 2017

Ledgers	**Trial balance**		**Adjustments**	
	Debit $	**Credit $**	**Debit $**	**Credit $**
Allowance for doubtful debts		2 850		
Insurance	4 875			
Rent	14 000			
Trade receivables	40 350			

(Total for Question 2 = 30 marks)

3 Nanodeas Ltd provided the following information from its statements of financial position.

Details	**31 December 2016 $**	**31 December 2015 $**
Bank loan	120 000	150 000
Cash at bank	13 600 Cr	2 500
General reserve	10 000	-
Inventory	29 750	34 000
Ordinary share capital	150 000	100 000
Property, plant and equipment at carrying value	489 850	339 500
Retained earnings	100 000	99 700
Revaluation reserve	100 000	-
Share premium	30 000	20 000
Short-term investments	5 000	1 700
Trade payables	34 450	30 000
Trade receivables	33 450	22 000

Additional information

- Depreciation is charged as follows:

  Equipment 20% per annum using the reducing (diminishing) balance method

  Machinery 20% per annum using the reducing (diminishing) balance method

  Premises 5% per annum using the straight line method.

- The depreciation policy is to charge a full year's depreciation in the year of acquisition and none in the year of disposal.
- On 30 November 2016, equipment was sold for $14 500. Its original cost was $40 000 on 31 January 2013.
- On 4 December 2016, a machine costing $65 000 with a carrying value of $24 950 was used as a trade in allowance of $25 000 against a new machine costing $120 000. The remaining balance was paid by cheque.

- There were no other disposals or acquisitions of non-current assets during the year.
- The revaluation reserve is due to the revaluation of the premises during the year.
- The profit for the year was $25 300
- $10 000 was transferred to the general reserve during the year.
- $15 000 was paid as a dividend during the year.

(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

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(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

(Total for Question 3 = 25 marks)

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4 On 1 January 2016 Pan Ltd acquired 14 000 shares in Soup Ltd at $1.60 each.

The following information for both companies relates to the year ended 31 December 2016.

	Pan Ltd **$**	**Soup Ltd** **$**
Property, plant and equipment at carrying value	37 600	34 700
Inventory	5 000	2 500
Trade receivables	13 500	6 700
Cash and cash equivalents	1 500	800
$1 Ordinary share capital	50 000	20 000
Share premium	5 000	2 000
Retained earnings at 1 January 2016	2 500	1 700
Profit for the year ended 31 December 2016	5 000	2 000
General reserve	7 500	2 500
Trade payables	10 000	16 500

Additional information

- On 1 January 2016 the non-current assets of Soup Ltd were $39 700 at their fair value. The revaluation had not been reflected in the books of Soup Ltd.
- The share capital of both Pan Ltd and Soup Ltd consists of ordinary shares at $1 each. There were no issues of shares during the year.
- During the year there were no changes in the general reserves of either business.

(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

(b) (i) State **two** liquidity ratios.

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(ii) State **two** profitability ratios.

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(Total for Question 4 = 16 marks)

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5 Unicute Clothing Ltd is considering making party dresses for children. Its market research indicated that there is a demand for 1 000 party dresses each month during the first year.

It intends to sell these for $30 per party dress.

There are two options:

Option 1 – Make party dresses by hand

Option 2 – Make party dresses using a machine, which will be rented.

	Option 1	**Option 2**
Material costs per dress	$7	$7
Labour costs per dress	$18	$9
Variable overheads per dress	$2	$5
Fixed overheads	$2 100 per month	$8 100 per month
Profit for the year	$10 800	**To be calculated**

(a) (i) Calculate the **profit for the year** for option 2.

(5)

The business has calculated the following:

	Option 1	Option 2
Break-even point in party dresses	8400	10800

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

(6)

The business is also planning to invest in a machine to manufacture another product over the next three years.

The planned units to be produced and sold are 13 200, 14 400 and 15 600 for each year respectively.

You have been provided with the following information relating to two machines together with projected cost and revenue.

	Machine A	**Machine B**
Initial investment	$75 000	$100 000
Expected economic life of machines	3 years	3 years
Residual value at the end of 3 years	$5 000	$15 000
Variable overheads: Years 1 and 2 Year 3	 $7 per unit $8.50 per unit	 $6 per unit $9 per unit

Per unit	**Year 1** **$**	**Year 2** **$**	**Year 3** **$**
Selling price	30	30	35
Material cost	8	9	10
Labour cost	10	11	12

- Total fixed overheads for the year are:

Year 1 **$**	**Year 2** **$**	**Year 3** **$**
25 200	25 200	27 200

- An extract from the present value table of $1 at 15% is as follows:

Year	**Net present value**
0	1.000
1	0.870
2	0.756
3	0.658

(b) (i) Calculate the net present value for both machines.

(14)

(ii) State **three** reasons for using the net present value as a method of capital investment appraisal.

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(iii) State **one** other method of capital investment appraisal.

(1)

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(Total for Question 5 = 29 marks)

TOTAL FOR PAPER = 115 MARKS