



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

**Examiners' Report
January 2017**

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January 2017

Publication code: 54334_ER

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Introduction

Pearson (LCCI) redeveloped the specification for Level 3 Certificate in Accounting (VRQ) (ASE20104) in October 2015 as a part of a 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 out of 115 marks comprising a total of five compulsory questions.

This assessment covered these topics:

- Accounting concepts and framework
- Recording financial transactions
- Preparation of financial statements
- Interpretation of financial statements
- Budgetary control
- Introduction to decision making.

Candidates performed very well on the preparation of a statement of profit or loss with adjustments, partnership accounts on dissolution of partnership flows, calculation of break-even points and preparation of a cash budget.

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

Question 1

The majority of candidates scored average marks for this question.

Part (a), the majority of candidates only stated two correct methods of funding the acquisition of non-current assets. The main mistake seen was stating the sources of the funding, such as internal or external, rather than methods as required in the question.

An example response to part (a) is given below.

- 1 Company fund: paid by company bank account.
- 2 Bank loan/Borrow money from bank with interest.
- 3 Hire purchase: credit agreement with deposit and regular payment.
- 4 Leasing: credit agreement with regular payment but can't gain the income on final payment.

Parts (b) (i) and (ii), the majority of candidates only stated the suitable action according to the scenarios provided but were unable to explain the reasons for such a course of action.

An example response to parts (b) (i) and (ii) is given below.

Situation 1 Chang should not provide information relating to his previous employer's clients to the marketing department. As an accountant the most important thing is keep confidentiality. you can not disclosure client's information unless you support by law.

Situation 2 It is wrong to pretend to be a prospective customer to obtain information. As an accountant, you should be integrity and honesty.

Parts (c) (i) and (ii), the majority of candidates only stated one point for each term by referring to either a fixed or variable cost.

An example response to parts (c) (i) and (ii) is given below.

(i) absorption costing

(2)

Absorption costing system is an accounting system. Both variable cost and fixed cost are charged into cost per unit. Over or under ^{absorbed amount} ~~absorbed~~ of fixed cost should be calculated.

(ii) marginal costing.

(2)

Marginal costing system is an accounting system in which only variable cost is subtract from sale to get contribution. Fixed cost is treated as period cost and it is calculated ^{against} ~~against~~ contribution.

Part (d), the majority of candidates gave an advantage or disadvantage of a partnership. Where candidates stated a disadvantage of converting a partnership into a limited liability company, they were unable to develop the point.

An example response to part (d) is given below.

Disadvantage
We have more rules and regulations to follow. We can't do ~~we~~ what we want to as in partnership. We have ~~to~~ ~~have~~ make our financial record more professional. It may be complex, ~~we~~ wasting time and high-cost. We also have to pay more taxation.

Part (e), the majority of candidate's stated internal stakeholders and their interests rather than external stakeholders despite the fact it was highlighted in bold in the question. Candidates from a few centres just listed the financial statements or qualitative characteristics of financial information.

An example response to part (e) is given below.

Stakeholder	Interests in financial statements
1 Government ✓	The government and the inland revenue department want to see if the company made profits to pay profit tax. ✓
2 Banks and other creditors ✓	Banks and other creditors want to know the liquidity of the company and if it has enough money or cash to repay its debts, ✓ or if it is safe to to lend money to this company.
3 Potential Investors ✓	The potential investors wants to ^{know} see the profitability of the company to see if ✓ the company is worth to invest in it. ✓



Examiner Comments

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



Examiner Tip

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

Pay attention to emboldened words in the question.

Question 2

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

The majority of candidates prepared the statement of profit or loss for Southern Products Ltd in the company format by showing the workings for the cost of sales, administrative expenses, distribution costs and finance costs and by recording the adjustments as appropriate. Well-prepared candidates labelled each section with the correct headings, such as profit from operations and profit for the year.

The main mistake was not treating the insurance compensation correctly in the disposal account to calculate the loss on disposal of a delivery van. Few candidates had problems recording the expenses correctly under each section– administrative or distribution costs.



Examiner Comments

Candidates must calculate the closing inventory figures by subtracting the damaged inventory and by adding the net realisable value of the damaged inventory (sales price at which damaged inventory can be sold minus any additional expenses incurred to sell the damaged inventory).

Change in the allowance for doubtful is always through the allowance for doubtful adjustment account. The allowance for doubtful debts account provided in the list is to show the closing balance for the statement of financial position columns.

Candidates must use the new terminology for the labels for all sections of financial statements.



Examiner Tip

All the expenses relating to the office, such as depreciation on office equipment, are recorded as administrative expenses and anything to do with the distribution of the goods, such as warehouse rent or depreciation on a delivery van, is recorded as distribution costs.

Must use full words for all labels such as gross profit not GP or depreciation not depn.

Question 3

The majority of candidates scored above average marks on this question.

Part (a), the majority of candidates prepared a cash budget by using the information provided correctly, with the correct format and labels for all sections in the cash budget.

Main mistakes were recording the issue of shares as payments, recording the fixed overheads for January as \$175 rather than \$150 and not recording the deposit and balance on purchase of equipment correctly.

An example response to part (a) is given below.

Chocotheme Ltd
Cash budget for the period ending 31 March 2017

	January	February	March
Receipts	\$	\$	\$
Cash sale	140	180	320 ✓
Credit sale	450	550	450 ✓
Share issue (1000 x \$1.5)		1500 ✓	
	590	2230 ✓	770 ✓
Payments			
Purchase of raw material	150	800	860 ✓
Direct Labour	(50 x \$4) 200	(60 x \$4) 240	(75 x \$4) 300 ✓
Variable overhead	(50 x \$3) 150	(60 x \$3) 180	(75 x \$3) 225 ✓
Fixed overhead	150	175	175 ✓
Purchase of Equipment	(3000 x 10%) 300		2700 ✓
	950	895	3760 ✓
Net cash flow	(360)	1335	(2990) ✓
(+) Opening cash & bank	750	390	£ 1225 ✓
Closing cash & bank	390	1725	(1265) ✓

Part (b), the majority of candidates were able to calculate the break-even units correctly for the first quarter of 2017. The main mistake made was taking the fixed overheads from the cash budget according to the payments rather than according to how much fixed costs were incurred during the first quarter.

An example response to part (b) is given below.

$$\begin{aligned} \text{contribution per unit} &= 20 - 13 = 7 \\ \text{break even point} &= \frac{\text{Total fixed cost}}{\text{contribution per unit}} \\ &= \frac{175 \times 3}{7} \\ &= 75 \text{ units. } 3 \end{aligned}$$



Examiner Comments

All cash budget figures must have 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.

For the break-even point fixed costs are divided by the contribution per unit.

Question 4

The majority of candidates scored above average marks on this question.

Part (a) (i), the majority of candidates answered this part well.. The main mistake made was not labelling or calculating the discount allowed or received after settling trade receivables and trade payables, candidates only netted of the figures.

An example response to part (a) (i) is given below.

Realisation Account

(14)

[illegible]

Part (a) (ii), the majority of candidates were able to prepare the capital accounts for the partners correctly by transferring the balance from the realisation account, although some candidates missed to record the entry correctly in the realisation account.

The main mistake made by the majority of candidates was to balance the capital account for each partner by recording/showing the balances as balance c/d rather than bank as the partnership was dissolved.

An example response to part (a) (ii) is given below.

Capital Accounts

(6)

Details	Amba \$	Bhrugsha \$	Chandan \$	Details	Amba \$	Bhrugsha \$	Chandan \$
Current		1840	1000	Bal b/f	25000	5000 5000	50000
Realisation			28000	Current	4500 ✓		
Bank	33390 ✓	55940 ✓	78780 ✓	Realisation ✓	3890	7780	7780
				5% loan from Chandan			50000
	33390	57780	107780		33390	57780	107780

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Part (a) (iii), the majority of candidates prepared the bank account by recording the entries from the realisation account and capital account correctly. The main mistake made was recording the discount allowed and discount received in the bank account. Few candidates split the balance on the bank account among the partners in their profit sharing ratio and the majority of candidates recorded this amount to the capital accounts rather than vice versa.

An example response to part (a) (iii) is given below.

Bank Account (10)

Details	\$	Details	\$
Realisation-Premises	150,000	Balance b/d	3,240
-Machinery	29,600	Realisation-Dissolution costs	4,500 ✓
-Inventory	5,000	Trade payables	12,500 ✓
-Trade receivables	3,750	Capital = Amba	33,390 ✓
		-Bhruvesha	55,940 ✓
		-Chandan	78,780 ✓
	188,350		188,350



Examiner Comments

Candidates must use a correct label in the details column (name of opposite account) for all transactions recorded in the ledger accounts.

It is the balancing figure as bank from the capital account is transferred to the bank account.



Examiner Tip

Candidates must transfer all the assets or liabilities as agreed to the realisation account.

When the partnership dissolves the capital accounts are closed off with bank as the balancing figure.

On dissolution of a partnership, the bank account must balance. If it does not balance then you must go back and check your answers.

Question 5

The majority of candidates scored below average marks for this question.

Part (a), the majority of candidates struggled to calculate the figures required for the statement of financial position by using the ratios provided. Where they made an attempt, they were unable to score full marks due to either figures without labels or the use of old terminology.

An example response to part (a) is given below.

Sanjana Roy
Statement of financial position at 31 December 2016

ASSETS		\$
Non-current assets	252500	252500 ✓
Current Assets		
Inventory		50000
Trade Trade Receivables		46875 ✓
Bank		38125 ✓
		135000 ✓
Total ASSETS		<u>387500</u> ✓
EQUITY AND LIABILITIES		
Equity		
Opening Balance as at 1 Jan 2016		268625 ✓
Net Profit		84375 ✓
Drawings		<u>(15500) ✓</u>
Closing Balance as at 31 Dec 2016		337500 ✓
Current Current Liabilities		
Trade Payables		<u>50000</u> ✓
Total EQUITY AND LIABILITIES		<u>387500</u>

Part (b), the majority of candidates were unable to analyse the impact of the trade receivable collection and trade payables payment period on the liquidity of the business. Where candidates tried, the responses related to an impact on business rather than on liquidity.

An example response to part (b) is given below.

As the trade receivables collection period increased from 30 days to 36 days, the liquidity of the business is worse than before because a longer collection period means a higher risk of having bad debts which will increase the expense and lower the liquidity. But the trade payables payment period also increased from 30 days to 36 days. It would increase the liquidity because the business can pay the debts a bit later and have more time to make the repayments.



Examiner Comments

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

Each subtotal in the financial statements must have a label.

Candidates must show the workings for their figures.



Examiner Tip

Statement of financial position must balance.

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

Candidates must practise ratio calculation by writing the formula, as it will help them to work out the figures to prepare the financial statements.

Paper Summary

Candidates demonstrated clear understanding of the preparation of financial statements for all types of organisation, such as sole traders, partnership and companies, however they need to practise written questions.

Candidates will benefit from the following:

- Candidates must learn and practise using the definitions of the key terms according to the accounting standards and framework stated in the specification.
- Candidates must practise preparing journal entries for the adjustments and business transaction and then recording these correctly in ledger accounts.
- Candidates must practise analysing financial information not just in general terms but according to the question requirement.
- Candidates must show their workings with reference numbers such as W1, W2 etc. on the lined pages of the question paper.
- Candidates must learn and practise using 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>