



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

**Examiners' Report
January 2017**

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January 2017

Publication code: 54283_ER

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Introduction

Pearson (LCCI) redeveloped the specification for the Level 3 Certificate in Financial Accounting (VRQ) (ASE20097) in January 2015 as part of a Finance and Quantitative suite of qualifications from Level 1 to Level 4.

This brand new qualification 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 with a view to allow progression to the Pearson LCCI Level 4 Certificate in Financial Accounting (VRQ), which introduces candidates to advanced topic areas in financial accounting.

The assessment is out of 115 marks comprising a total of five compulsory questions.

This assessment covered these topics:

- The purpose of maintaining financial records
- Recording financial transactions
- Producing the financial statements of a sole trader and partnership
- Introduction to interpretation of financial statements.

Candidates performed very well in preparing the statement of profit or loss and formulae for ratios were stated and expressed correctly.

To prepare candidates for progression to higher levels knowledge and understanding of the purpose of maintaining financial records and of different formats for statements, according to the type of business such as partnership is important. Centres should, therefore, revisit these topics on regular intervals to ensure that candidates have an underpinning knowledge and understanding of fundamentals relating to financial accounting.

Question 1

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

Part (a), candidates were unable to state any of the characteristics of non-profit organisations correctly even the obvious one to serve people.

Part (b), candidates were unable to state any exceptions when going concern is not applied, which demonstrates a lack of understanding of concepts used in accounting and demonstrates rote learning. The majority of candidates stated the application of going concern concept.

A good example to part (b), where the candidate scored all the available two marks is given below.

- (2)
- 1 ^{an} When the business has intention to close down, the going concern concept would not be applied. ✓
- 2 When the business has bankrupted, there is no going concern concept be applied. ✓ 2

Part (c), candidates were unable to explain two limitations of financial statements when a business applies for a bank loan. The majority of candidates listed the components of the financial statements.

Parts (d) (i) and (d) (ii), the majority of candidates were unable to identify the type of errors for (i) according to the scenarios provided and the effect of these errors on equity for (ii). The majority of candidates just repeated what the scenarios were for (i) and stated whether equity will be affected or not for (ii) rather than describing the impact on equity.

See below for an example response to (d) (i).

- Error 1 Error of principal ✓
- Error 2 Error of Commission ✓
- Error 3 Error of reversal Entry ✓

**Examiner Comments**

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

Candidates must practise applying the theory in different contexts such as for question (d).

**Examiner Tip**

Candidates must learn the theory by asking what, how and why to answer the questions, as expected at this level.

Question 2

The majority of candidates scored above average on this question.

Candidates were able to prepare the statement of the profit or loss by adjusting or calculating the figures for a few transactions such as heating and lighting, insurance, depreciation and loss on disposal.

Main mistakes made were due to candidates not labelling the figures correctly, such as using bad debts for irrecoverable debts even though it was clearly stated as irrecoverable debt in the question, not adding wages and salaries for refurbishing the old computers in cost of sales and adding material used to repair the fixtures and fixtures correctly to the repairs and renewals balance provided.

Few candidates stated only the figures for the adjustments to the purchases such as drawings etc. In statements, all figures must have a label so that the different stakeholders can understand the financial statements to make economic decisions.



Examiner Comments

All the figures in the financial statements must have labels.

Candidates must use the correct labels for the financial statements by using new terminology.

Candidate must show the workings to calculate the figures included in the financial statements.

Change in allowance for doubtful debts must go through the allowance for the doubtful debts adjustment account.
Candidates must show the total of all the expenses.



Examiner Tip

Do not use abbreviations for the names of the accounts such as GP for gross profit and depn for depreciation. Statements must state the full name of the account.

See appendix pages 21 and 22 in the specification for the new terminology (ASE20097 ISBN 978 1 446 92680 2)

Question 3

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

Part (a), the majority of candidates were unable to record the interest on capital and salaries correctly due to the split of the year caused by changes in the partnership and split the profit by using the correct ratios for each period.

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

(18)

Perry, Qazim and Rowan
Profit or loss appropriation account for the year ended 31 December 2016

	\$	\$	Total
Profit for the year	41000	41000	82,000 ✓
Interest on capital.			✓
Perry	(2500) ²⁵⁰⁰ 5000	(20000) ¹⁰⁰⁰⁰ 5000	(12500)
Qazim	(1250) ¹²⁵⁰ 2500	(5000) ⁵⁰⁰⁰ 5000	(6250) ✓
Rowan	(1250) ¹²⁵⁰ 2500	(5000) ⁵⁰⁰⁰ 5000	(6250)
Partners' salaries.			
Perry	(5000) ✓	(12000) ✓	(17000) ✓
Qazim	(10000)	(12000)	(22000)
Rowan	(12000)	(12000)	(24000)
Profit for Distribution.	9000 ✓	(51000) ✓	(6000) ✓
Share of Profit/Loss.			✓
Perry	3000 4500 ✓	(25500) ✓	(3000) ✓
Qazim	3000 4500	(12750)	(1500) ✓
Rowan	3000	(12750)	(1500)
	9000	(51000)	(6000)

Part (b), candidates were unable to record correctly the transaction relating to the revaluation of the assets during the period, goodwill, introduction of the capital by the partner and the asset taken over by the partner in the capital account and balance the accounts correctly.

The majority of candidates recorded current account transactions in the capital account for each partner. Other mistakes were not recording the correct name of the account in the details column such as 'Bank' for additional capital and 'Motor vehicle' for the asset taken over by a partner.

**Examiner Comments**

Candidate must start the partnership appropriation account by showing the split of the profit if the partnership profit sharing ratio is changed during the year.

Candidates must **not** record the current account transactions in the capital account until and unless it is stated in the question.

**Examiner Tip**

For ledger accounts always bring the balances down to the next period.

Do not use abbreviations for the details for ledger accounts such as b b/d or b c/d for balance b/d or balance c/d.

Candidates must state the correct name of the opposite account in the ledger accounts in the details column, such as when an asset was taken over by a partner the entry is Debit capital account and Credit motor vehicle (name of an asset). Therefore, when the capital account is prepared, on the debit side, the details should have 'motor vehicle' as a name of the opposite account. It should not be assets taken over, which was recorded by majority of candidates.

Question 4

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

Parts (a) (i) and (a) (ii), candidates were unable to prepare the cash and bank account correctly from the provided information in order to calculate the missing information for cash sales and payment to trade payables. All the figures, including opening and closing balances along with the transaction relating to both of the accounts during the year, were provided and candidates were expected to balance the account to calculate the missing figures.

The Majority of candidates did not bring the balances down for next the period despite the fact it was clearly stated in the question requirement and the closing balances were provided in the question. These were two easy marks to collect by candidates. It demonstrates a lack of understanding of the purpose of balancing the ledger accounts, which candidates should have picked up at the lower levels.

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

(i) Cash account to calculate cash sales.

(3)

Cash Account			
Details	\$	Details	\$
Balance b/d	450	Drawings	10400
Cash sales	12000	Rent	1500
		Balance c/d	550
	12450		12450
Balance b/d	550		

(ii) Bank account to calculate the payments made to trade payables.

(4)

Bank Account			
Details	\$	Details	\$
Balance b/d	4000	Rent	4000
Receivables	57000	General expenses	12000
Receivables	8400	Wages and salaries	25000
		Trade payables	96000
		Balance c/d	8000
	145000		145000
Balance b/d	8000		

Part (b), only a few candidates prepared the trading section as required by using the information relating to gross profit and gross profit margin. The majority of candidates started with gross profit and completed it by deducting expenses to calculate the profit for the year figure.

Parts (c) (i) and (c) (ii), the majority of candidates were unable to complete the trade receivables and payables control accounts from the information provided, and from the information calculated in previous tasks, to calculate the closing balance for the respective accounts to complete the statement of financial position. Again, there were two easy marks to collect by candidates by showing the balance brought down for the next period despite the fact this was clearly stated in the question.

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

(i)

Trade Receivables Control Account

(4)

Details	\$	Details	\$
balance b/d	11450	Cheque received from R Receivable	138150 X
Credit Sale	164000		
	✓	Discount Allowed	2550 X
		balance c/d	34450
	175450		175450
balance b/d	34450		
	✓		

(ii)

Trade Payables Control Account

(3)

Details	\$	Details	\$
Cash paid to Payable	93150	balance b/d	27500
	✓	Purchase	137000 ✓
balance c/d	71350		
	164500		164500
		balance b/d	71350

Part (d), the majority of candidates attempted to prepare the statement of financial position. The main mistakes made were not using the correct labels, using the new terminology, and not making sure that the total assets balanced with the total equity and liabilities. Few candidates included the opening accruals and prepayments provided in the question to prepare the financial statement at the year end.

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

Georgious
Statement of financial position at 31 December 2016

	Cost	Acc Dep ²	NBV
	\$	\$	\$
Non-current assets			
Fixtures and fitting.	50,000	5000 ✓	45000 ✓
Current assets			
Inventory		26400	
Receivable		14300 ✓ of	
Cash		550	
Bank		8000	49250 ✓
Total Assets			94250
Equity and Liabilities			
Capital (Equity)		63225 X 28575	
(4) (-) Net Loss		(6550) X	
(-) Drawing (10400 + 875)		(10475) ✓	
			45900 ✓ of
Non current Liabilities			
Current Liabilities			
Payable		48350	48350 ✓ of
Total Equity and Liabilities			94250



Examiner Comments

Candidates must use the correct labels when preparing the financial statements by using the correct terminology.



Examiner Tip

Candidates must show the total of the sections/sub-sections with correct labels.

Question 5

The Majority of candidates scored below average marks on this question.

Part (a) (i), the majority of candidates answered this question by stating and expressing the ratios correctly. The main mistake was using the wrong old terminology for the formulae for ratios, for example using sales rather than revenue for gross profit margin.

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

Ratios	Mr Smith	Mrs Campana	Formula
Gross profit margin	60%	58%	$\frac{\text{Gross Profit}}{\text{Revenue}} \times 100 \quad \checkmark$
Net profit margin	18%	20%	$\frac{\text{Profit for the year}}{\text{Revenue}} \times 100 \quad \checkmark$

Return on capital employed	35%	40%	$\frac{\text{Profit before interest}}{\text{Capital} + \text{Reserve} + \text{Non-current liabilities}} \times 100 \quad \checkmark$
Current ratio	2.75:1	1.9:1	$\frac{\text{Current assets}}{\text{Current Liabilities}} \quad \checkmark$
Quick ratio (acid test)	1.5:1	1.1:1	$\frac{\text{Current assets} - \text{Closing Inventory}}{\text{Current Liabilities}} \quad \checkmark$
Inventory turnover	3 times	4 times	$\frac{\text{Cost of sale}}{\text{Average inventory}} \quad \checkmark$

Part (a) (ii), the majority of candidates either stated the ratios from (i) rather than the other two ratios or were unable to answer the question.

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

- 1 Trade receivable collection period
- 2 Trade payable settlement period

Part (a) (iii), the majority of candidates stated the obvious facts of ratios being higher/lower rather than analysing the possible reasons for the difference in ratios for the two businesses.

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

Gross profit margin

Gross profit margin - Mr Smith has ~~an~~ slightly improved than Mrs Campana, show better control over the cost of sales. ✓

Net profit margin

Net profit margin - Mrs Campana has ~~is~~ slightly improved than Mr. Smith, indicate better control over operational expenses and it should be increased gross profit.

Return on capital employed

Return on capital employed - Mrs Campana has slightly improved, indicate better capital utilization of the resources than Mr Smith. ✓

Current ratio

Current ratio is too high the standard of 2:1. Current ratio has increased ^{which} indicate that too much capital ^{is} tied up in current assets.

Quick ratio (acid test)

Quick ratio is too high the standard of 1:1. Quick ratio has increased indicate that too much money tied up in Trade receivable.

Inventory turnover

Mrs Campana, inventory is sold quicker than Mr Smith inventory due to more money spent on advertising and marketing. ✓

Part (b), the majority of candidates stated one business as a better prospective purchase but were unable to state reasons for their choice.

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



Examiner Comments

Candidates must state the possible reasons for differences in the ratios of the two businesses.



Examiner Tip

For an evaluation candidates must support their decision with valid reasons.

Paper Summary

Candidates demonstrated clear understanding of the preparation of financial statements for a sole trader but were unable to demonstrate understanding of partnership accounts and ledger accounts.

Candidates will benefit from the following:

- Practising the preparation of financial records/financial statements for sole traders and also for other organisations such as partnerships for different scenarios relating to change in a partnership due to change in profit sharing or revaluation of assets etc.
- Practising preparing journal entries for adjustments and business transactions to record the transactions either in the financial statements or ledger accounts correctly with correct labels.
- Practising analysing the results from the ratios provided by explaining why the difference and what impact it could have on the business currently or in future.
- 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.

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>