



Mark Scheme

November 2016

**Results**

Pearson LCCI (ASE20097)  
Certificate in Financial Accounting (VRQ)  
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	Answer (AO1) 4	Mark
<b>1 (a)</b>	<p><b>Award 1 mark for each correct response.</b></p> <p>E.g.</p> <ul style="list-style-type: none"> <li>• Going Concern – Non-current assets are valued at cost rather than at a market value <b>(1)</b>.</li> <li>• Accruals – Expenses for the accounting period would be entered in the statement of profit or loss, irrespective of whether these are paid or not <b>(1)</b>. <b>OR</b> Income is matched with expenses incurred during that period irrespective of when they are received or paid <b>(1)</b>.</li> <li>• Prudence - An allowance for doubtful debts should be provided, in case a trade receivable may fail to pay the amount owed <b>(1)</b>.</li> <li>• Consistency - Depreciation on each class of non-current assets should be applied at the same method/rate each year <b>(1)</b>.</li> </ul> <p><b>Accept other valid responses</b></p>	<b>(4)</b>

Question Number	Answer (A01) 2	Mark
<b>1 (b)</b>	<p><b>Award 1 mark for each correct response, max 2 marks.</b></p> <p>e.g.</p> <ul style="list-style-type: none"> <li>• Maximise profit <b>(1)</b></li> <li>• Maximise market share <b>(1)</b></li> <li>• Create employment <b>(1)</b></li> <li>• Supply quality goods or services <b>(1)</b></li> <li>• Pay a return to the owners, or shareholders as dividends <b>(1)</b></li> </ul> <p><b>Accept other valid responses</b></p>	<b>(2)</b>

Question Number	Answer (AO1) 4	Mark
<b>1 (c) (i)</b>	<p><b>Award 1 mark for each correct response</b></p> <p>Advantages</p> <ul style="list-style-type: none"> <li>• possible to raise more share capital <b>(1)</b></li> <li>• to enjoy economies of scale <b>(1)</b></li> <li>• possible to attract higher quality staff as directors, executives etc <b>(1)</b></li> </ul> <p><b>Accept other valid responses</b></p>	<b>(2)</b>

Question Number	Answer (AO1) 4	Mark
<b>1 (c) (ii)</b>	<p><b>Award 1 mark for each correct response</b></p> <p>Disadvantages</p> <ul style="list-style-type: none"> <li>• possible loss of control <b>(1)</b></li> <li>• must operate according to Stock Exchange regulations <b>(1)</b></li> <li>• cost/additional formalities of conversion <b>(1)</b></li> </ul> <p><b>Accept other valid responses</b></p>	<b>(2)</b>

Question Number	Answer (AO3) 2	Mark
<b>1 (d)</b>	<p><b>Award 1 mark as indicated</b></p> <p>If a partner is unable to settle his or her share of the debt/liability <b>(1)</b> the other partner(s) are responsible for that share of debt/ liability<b>(1)</b>.</p>	<b>(2)</b>

Question Number	Answer (AO1) 8	Mark
<b>1 (e)</b>	<p><b>Award 1 mark for each identified characteristic and 1 mark for development.</b></p> <p>Relevance <b>(1)</b>– the financial information is capable of making a <b>difference in the decisions made by users (1)</b>.</p> <p>Faithful representation <b>(1)</b>– the financial information must be <b>truthful, complete, free from errors and neutral (1)</b>.</p> <p>Comparability <b>(1)</b>– financial information given can be compared with the financial information from <b>other years</b>, and with similar information about <b>other entities (1)</b>.</p> <p>Verifiability <b>(1)</b>– the financial information has <b>supporting evidence</b> to verify the information <b>(1)</b>.</p> <p>Timeliness <b>(1)</b>– information is available to decision-makers <b>in time</b> to be capable of <b>influencing their decisions (1)</b>.</p> <p>Understandability <b>(1)</b>– information must be presented <b>clearly and concisely</b> for users who have a reasonable knowledge of business <b>(1)</b>.</p>	<b>(8)</b>

**Total for Question 1 – 20 marks**

Question Number	Answer (AO2) 17	Mark																																																																																																																																																
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**TOTAL FOR QUESTION 2 – 17 MARKS**

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3 (a)	<p><b>Award marks as indicated in combination with valid label. Award an additional 1 mark for all labels as stated in mark scheme.</b></p> <p style="text-align: center;"><b>Rubini</b> <b>Statement of Profit or Loss for year ended 30 June 2016</b></p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td style="text-align: right;">69 888</td> <td><b>(2/1of W1)</b></td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;">(34 944)</td> <td rowspan="2"><b>(1of for both)</b></td> </tr> <tr> <td>Gross Profit</td> <td style="text-align: right;">34 944</td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> <tr> <td>Insurance</td> <td style="text-align: right;">216</td> <td><b>(1)</b></td> </tr> <tr> <td>Power</td> <td style="text-align: right;">2 080</td> <td><b>(1)</b></td> </tr> <tr> <td>Rent</td> <td style="text-align: right;">10 80</td> <td><b>(1)</b></td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">2 200</td> <td><b>(1)</b></td> </tr> <tr> <td>Loan interest</td> <td style="text-align: right;">1 150</td> <td><b>(1)</b></td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right;">28 218</td> <td><b>(1of)</b></td> </tr> </tbody> </table> <p><b>Labels (1)</b></p> <p><b>W1</b> <math>(52 \times 240 \times 5.60 \text{ (1)}) = 69\,888 \text{ (1of)}</math></p>		\$		Revenue	69 888	<b>(2/1of W1)</b>	Cost of sales	(34 944)	<b>(1of for both)</b>	Gross Profit	34 944				Insurance	216	<b>(1)</b>	Power	2 080	<b>(1)</b>	Rent	10 80	<b>(1)</b>	Depreciation	2 200	<b>(1)</b>	Loan interest	1 150	<b>(1)</b>	Profit for the year	28 218	<b>(1of)</b>	<b>(10)</b>
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**TOTAL FOR QUESTION 3 – 22 MARKS**

Question Number	Answer (AO2) 15	Mark																														
<b>4 (a)</b>	<p><b>Award marks as indicated combination of figures and label.</b></p> <table border="1" data-bbox="400 405 1217 1048"> <thead> <tr> <th colspan="3" data-bbox="400 405 1217 562"> <b>Hartong Construction plc Reconciliation of profit for the year to net cash from operating activities for the year ended 30 June 2016</b> </th> </tr> <tr> <th data-bbox="400 562 943 611"></th> <th data-bbox="943 562 1126 611" style="text-align: center;">\$</th> <th data-bbox="1126 562 1217 611"></th> </tr> </thead> <tbody> <tr> <td data-bbox="400 611 943 660">Profit for the year</td> <td data-bbox="943 611 1126 660" style="text-align: right;">135 000</td> <td data-bbox="1126 611 1217 660" style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td data-bbox="400 660 943 710">Add Depreciation <b>W1</b></td> <td data-bbox="943 660 1126 710" style="text-align: right;">360 000</td> <td data-bbox="1126 660 1217 710" style="text-align: right;"><b>(4of)</b></td> </tr> <tr> <td data-bbox="400 710 943 781">Less gain on disposal of non-current asset <b>W2</b></td> <td data-bbox="943 710 1126 781" style="text-align: right;">(19 000)</td> <td data-bbox="1126 710 1217 781" style="text-align: right;"><b>(2of)</b></td> </tr> <tr> <td data-bbox="400 781 943 853">Add Loss on disposal of non-current asset <b>W3</b></td> <td data-bbox="943 781 1126 853" style="text-align: right;">13 000</td> <td data-bbox="1126 781 1217 853" style="text-align: right;"><b>(4of)</b></td> </tr> <tr> <td data-bbox="400 853 943 902">Decrease in inventories</td> <td data-bbox="943 853 1126 902" style="text-align: right;">11 000</td> <td data-bbox="1126 853 1217 902" style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td data-bbox="400 902 943 952">Less Increase in trade receivables</td> <td data-bbox="943 902 1126 952" style="text-align: right;">(36 000)</td> <td data-bbox="1126 902 1217 952" style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td data-bbox="400 952 943 1001">Less Decrease in trade payables</td> <td data-bbox="943 952 1126 1001" style="text-align: right;">(9 000)</td> <td data-bbox="1126 952 1217 1001" style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td data-bbox="400 1001 943 1048">Net Cash from Operating Activities</td> <td data-bbox="943 1001 1126 1048" style="text-align: right;">455 000</td> <td data-bbox="1126 1001 1217 1048" style="text-align: right;"><b>(1of)</b></td> </tr> </tbody> </table> <p data-bbox="355 1081 1187 1189"><b>W1</b> 636 000 + 189 000 (1) + 208 000 (1) – 673 000 (1 for both balances) = 360 000 (1of)</p> <p data-bbox="355 1227 943 1296"><b>W2</b> 235 000 – 216 000 (1) = 19 000 (1 of)</p> <p data-bbox="355 1335 932 1433"><b>W3</b> 480 000 – 189 000 (1) = 291 000 (1) 291 000 – 278 000 (1) = 13 000 (1of)</p>	<b>Hartong Construction plc Reconciliation of profit for the year to net cash from operating activities for the year ended 30 June 2016</b>				\$		Profit for the year	135 000	<b>(1)</b>	Add Depreciation <b>W1</b>	360 000	<b>(4of)</b>	Less gain on disposal of non-current asset <b>W2</b>	(19 000)	<b>(2of)</b>	Add Loss on disposal of non-current asset <b>W3</b>	13 000	<b>(4of)</b>	Decrease in inventories	11 000	<b>(1)</b>	Less Increase in trade receivables	(36 000)	<b>(1)</b>	Less Decrease in trade payables	(9 000)	<b>(1)</b>	Net Cash from Operating Activities	455 000	<b>(1of)</b>	<b>(15)</b>
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**TOTAL FOR QUESTION 4 – 28 MARKS**

Question Number	Answer (AO3) 3	Mark
<b>5 (a)</b>	<p><b>Award marks as indicated</b></p> <p>It is important to measure business performance because each stakeholder e.g.</p> <ul style="list-style-type: none"> <li>• can see the size of profit or loss generated, and see the return on every dollar invested. <b>(1)</b></li> <li>• can see the liquidity position of the business before deciding to give credit. <b>(1)</b></li> <li>• can see the efficiency of the business, in relation to other businesses, or the industry average <b>(1)</b></li> </ul> <p><b>Accept other valid responses</b></p>	<b>(3)</b>

Question Number	Answer (AO2) 2 marks	Mark
<b>5 (b)(i)</b>	<p>Gross Profit percentage = <math>\frac{528}{1521} \times 100 = 34.71\%</math> <b>(1of)</b></p>	<b>(2)</b>

Question Number	Answer (AO2) 2	Mark
<b>5 (b)(ii)</b>	<p><b>Award marks as indicated</b></p> <p>Net Profit percentage = <math>\frac{52}{1521} \times 100 = 3.42\%</math> <b>(1of)</b></p>	<b>(2)</b>

Question Number	Answer (AO2) 2	Mark
<b>5 (b)(iii)</b>	<p><b>Award marks as indicated</b></p> <p>Current ratio = 282 000 : 133 000 <b>(1)</b> = 2.12 : 1 <b>(1of)</b></p>	<b>(2)</b>

Question Number	Answer (AO2) 2	Mark
<b>5 (b)(iv)</b>	<p><b>Award marks as indicated</b></p> <p>Quick ratio (acid test) = 165 000 : 133 000 <b>(1of)</b> = 1.24 : 1 <b>(1of)</b></p>	<b>(2)</b>

Question Number	Answer (AO2) 2	Mark
<b>5 (b)(v)</b>	<b>Award marks as indicated</b>  Return on Capital employed = $\frac{52}{475} \times 100 = 10.95\%$ <b>(1of)</b> <b>(475) (1)</b>	<b>(2)</b>

Question Number	Answer (AO2) 2	Mark
<b>5 (b)(vi)</b>	<b>Award marks as indicated</b>  Trade receivables collection period  = $\frac{172}{1521} \times 365$ <b>(1)</b> = 42 days <b>(1of)</b>	<b>(2)</b>

Question Number	Answer (AO2) 2	Mark
<b>5 (b)(vii)</b>	<b>Award marks as indicated</b>  Trade payables payment period = $\frac{68}{1009} \times 365$ <b>(1)</b> = 25 days <b>(1of)</b>	<b>(2)</b>

Question Number	Answer (AO2) 2	Mark
<b>5 (b)(viii)</b>	<b>Award marks as indicated</b> Inventory turnover = $\frac{993}{(101 + 117)/2}$ <b>(1)</b> = 9.11 times <b>(1of)</b>	<b>(2)</b>

Question Number	Answer (AO4) 6 marks (AO5) 3 mark	Mark
5 (c)	<p><b>Award marks as indicated</b></p> <p>E.g</p> <p><b>Profitability</b>  Gross profit margin of Akmal’s business is lower than the industry average which means he is either selling goods at lower selling price <b>(1)</b> or he purchasing goods at higher purchase price <b>(1)</b>.</p> <p>Net profit margin of Akmal’s business is although lower than the industry average but the operating expenses are 31.29% (34.71%-3.42%) compared to industry operating expenses of 35% (40%-5%) <b>(1)</b>, which indicates that he has better control over his operating expenses <b>(1)</b>.</p> <p>Return on capital employed for Akmal’s business is higher than the industry average despite the fact the net profit is lower than the industry average which could be due to lower amount of capital invested <b>(1)</b> in his business.</p> <p>Overall the profitability of his business is good as the return on one dollar invested in Amal’s business in higher than the industry <b>(1)</b>.</p> <p><b>Liquidity</b>  Current ratio is slightly higher than the industry average and compared to the standard of 2:1 <b>(1)</b> which indicates that Akmal’s business is able to meet its liabilities <b>(1)</b> but business is not utilising his current assets efficiently to generate income in the business <b>(1)</b>.</p> <p>Quick ratio(acid test) is also higher than the industry average and compared to the still standard of 1:1<b>(1)</b> which indicates that after deducting the inventory the Akmal’s business is able to meet its current liabilities <b>(1)</b></p> <p>Overall the liquidity of his business is good as both ratios are close to the standard and Industry average <b>(1)</b>.</p> <p><b>Efficiency</b>  Trade receivables are greater than the industry average which means Akmal’s credit customers are taking longer to pay than normal, which does not help cash flow or that’s why he has overdraft<b>(1)</b>. <b>OR</b> Greater risk of irrecoverable debts <b>(1)</b>.</p> <p>Trade payables payment period is shorter than the industry average which means Akmal pays his suppliers quicker than</p>	

	<p>normal, so he will enjoy discounts and have a good credit rating which is good <b>(1)</b> OR this will not help cash flow or that's why he has overdraft <b>(1)</b>.</p> <p>Inventory turnover is lower than the industry average, which is bad, as inventory is not being sold as quickly, <b>(1)</b> OR it may indicate a larger inventory is held <b>(1)</b> hence leading to storage costs and changes of inventory being damaged <b>(1)</b>.</p> <p>Overall efficiency of the business is not good as the business is taking longer to convert trade receivables and inventory into cash <b>(1)</b>.</p>	<b>(9)</b>
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**TOTAL FOR QUESTION 5 – 23 MARKS**

**TOTAL FOR PAPER – 115 MARKS**