



Mark Scheme

December 2016
Results

Pearson LCCI Level 3 Certificate in
Financial Accounting
(ASE20097)

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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	A01(5)	Mark
1(a)	<p>Award 1 mark for each objective. Max 5 marks.</p> <ul style="list-style-type: none"> • Maximise profits (1) • Growth of sales (1) • Growth of market share (1) • Supply of quality goods and services (1) • Meet customer needs (1) • Develop skilled workforce (1) • Service to community (1) <p>Accept other valid responses.</p>	(5)

Question Number	A03 (2)	Mark
1(b)(i)	<p>Award up to 2 marks for explaining concept.</p> <p>Accruals concept: According to this concept businesses must match (1) their expenses with the income generated during that period (1).</p> <p>Accept other valid responses.</p>	(2)

Question Number	A03 (2)	Mark
1(b)(ii)	<p>Award up to 2 marks for explaining concept.</p> <p>Prudence concept: According to this concept businesses must record a conservative figure for assets (1) and for profits (1).</p> <p>Accept other valid responses.</p>	(2)

Question Number	A01(4)	Mark
1(c)	<p>Award 1 mark for each stated cause (maximum 4 marks).</p> <p>E.g</p> <ul style="list-style-type: none"> • Newly acquired non-current assets may not have been recorded in the non-current assets register (1). • Non-current assets may be sold or scrapped but the non-current assets register may not have been updated (1). • The non-current assets may have been stolen but it has not been reported hence not recorded in non-current assets register (1). • There may be errors in recording details in the non-current assets register (1). • The non-current assets may be at different location hence not counted (1). <p>Do not award marks for depreciation charge recorded/not recorded.</p>	(4)

Question Number	AO1 (2) & AO3 (2)	Mark
1(d)	<p>Award 1 mark each for stating the professional ethics (maximum 2) and 1 mark for explaining each principle (maximum 2).</p> <p>The principles of professional ethics which have been compromised in this situation are:</p> <ul style="list-style-type: none"> • Integrity (1) means that a person must be straightforward and honest in all professional and business dealings (1). • Honesty (1) means fair dealing and truthfulness (1). <p>Accept other valid responses.</p>	(4)

TOTAL FOR QUESTION 1 – 17 MARKS

Question Number	AO2(4)	Mark
2(a)	<p>Award 1 mark for calculation of each inventory item, and 1 mark for correct treatment of totals with existing value.</p> <p style="text-align: right;"> \$ 48 750 120 (1) 450 (1) <u> 1 900</u> (1) 51 220 (1of) </p>	(4)

Question Number	A02(17)	Mark																																																															
2(b)	<p>Award marks as indicated for figures, labels and correct direction.</p> <p style="text-align: center;">Samma Day Statement of profit or loss for the year ended 30 September 2016</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <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;">250 000</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">34 560</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">176 500 (1)</td> <td></td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: right;">(51 220)</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(159 840) (1of)</td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">90 160 (1 with label)</td> </tr> <tr> <td>Expenses:</td> <td></td> <td></td> </tr> <tr> <td>Sundry expenses</td> <td style="text-align: right;">150(1)</td> <td></td> </tr> <tr> <td>Petty cash expenses</td> <td style="text-align: right;">35 (1)</td> <td></td> </tr> <tr> <td>Depreciation charge</td> <td style="text-align: right;">12500 (1)</td> <td></td> </tr> <tr> <td>Wages and salaries</td> <td style="text-align: right;">60 100(1)</td> <td></td> </tr> <tr> <td>Rent and rates W1</td> <td style="text-align: right;">15 100(2)</td> <td></td> </tr> <tr> <td>Bank charges</td> <td style="text-align: right;">45 (1)</td> <td></td> </tr> <tr> <td>Insurance</td> <td style="text-align: right;">15000(1)</td> <td></td> </tr> <tr> <td>Irrecoverable debts</td> <td style="text-align: right;">3 250(1)</td> <td></td> </tr> <tr> <td>Allowance for doubtful debts adjustment W2</td> <td style="text-align: right;">1 225 (3)</td> <td></td> </tr> <tr> <td>Discount allowed</td> <td style="text-align: right;">125(1)</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">(107 530)</td> </tr> <tr> <td>Loss for the year</td> <td></td> <td style="text-align: right;">17 370 (1 with label)</td> </tr> </tbody> </table> <p>W1 14 700(1) + 400 (1) = 15 100</p> <p>W2 6 175 (1) - 4 950 (1) = 1 225 (1of)</p>		\$	\$	Revenue		250 000	Cost of sales			Opening inventory	34 560		Purchases	176 500 (1)		Closing inventory	(51 220)				(159 840) (1of)	Gross profit		90 160 (1 with label)	Expenses:			Sundry expenses	150 (1)		Petty cash expenses	35 (1)		Depreciation charge	12500 (1)		Wages and salaries	60 100 (1)		Rent and rates W1	15 100 (2)		Bank charges	45 (1)		Insurance	15000 (1)		Irrecoverable debts	3 250 (1)		Allowance for doubtful debts adjustment W2	1 225 (3)		Discount allowed	125 (1)				(107 530)	Loss for the year		17 370 (1 with label)	(17)
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TOTAL FOR QUESTION 2 – 21 MARKS

Question Number	AO2(5)	Mark																																
3(a)	<p>Award marks as indicated</p> <table border="1"> <thead> <tr> <th colspan="2">Amisha and Balwinder Appropriation account for the period ended 31 March 2016</th> <th style="text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Profit for the period</td> <td></td> <td style="text-align: right;">14 000</td> </tr> <tr> <td colspan="3">Interest on capital</td> </tr> <tr> <td>Amisha 250 000*10%*3/12</td> <td></td> <td style="text-align: right;">(6 250) (1)</td> </tr> <tr> <td>Balwinder 75 000*10%*3/12</td> <td></td> <td style="text-align: right;">(1 875) (1)</td> </tr> <tr> <td colspan="3">Salaries</td> </tr> <tr> <td>Amisha 12 000*3/12</td> <td rowspan="2" style="text-align: center; vertical-align: middle;">(1 for both)</td> <td style="text-align: right;">(3 000)</td> </tr> <tr> <td>Balwinder 12 000*3/12</td> <td style="text-align: right;">(3 000)</td> </tr> <tr> <td colspan="2">Loss available for distribution</td> <td style="text-align: right;">(125)</td> </tr> <tr> <td>Amisha 125*4/5</td> <td></td> <td style="text-align: right;">(100) (1of)</td> </tr> <tr> <td>Balwinder 125*1/5</td> <td></td> <td style="text-align: right;">(25) (1of)</td> </tr> </tbody> </table>	Amisha and Balwinder Appropriation account for the period ended 31 March 2016		\$	Profit for the period		14 000	Interest on capital			Amisha 250 000*10%*3/12		(6 250) (1)	Balwinder 75 000*10%*3/12		(1 875) (1)	Salaries			Amisha 12 000*3/12	(1 for both)	(3 000)	Balwinder 12 000*3/12	(3 000)	Loss available for distribution		(125)	Amisha 125*4/5		(100) (1of)	Balwinder 125*1/5		(25) (1of)	(5)
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3(b)	<p>Award marks as indicated with correct combination for label and figure.</p> <p style="text-align: center;">Capital Accounts</p> <table border="1"> <thead> <tr> <th>Details</th> <th>Amisha \$</th> <th>Balwinder \$</th> <th>Details</th> <th>Amisha \$</th> <th>Balwinder \$</th> </tr> </thead> <tbody> <tr> <td>Motor vehicle</td> <td style="text-align: right;">15 000 (1)</td> <td></td> <td>Balance b/d</td> <td style="text-align: right;">250 000</td> <td style="text-align: right;">75 000 (1 for both)</td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;">257 000</td> <td style="text-align: right;">230 500</td> <td>Revaluation W1</td> <td style="text-align: right;">22 000 (3of)</td> <td style="text-align: right;">5 500 (3of)</td> </tr> <tr> <td></td> <td></td> <td></td> <td>Bank</td> <td></td> <td style="text-align: right;">150 000 (1)</td> </tr> <tr> <td></td> <td style="text-align: right;">272 000</td> <td style="text-align: right;">230 500</td> <td></td> <td style="text-align: right;">272 000</td> <td style="text-align: right;">230 500</td> </tr> <tr> <td></td> <td></td> <td></td> <td>Balance b/d</td> <td style="text-align: right;">257 000</td> <td style="text-align: right;">230 500</td> </tr> </tbody> </table> <p>W1 -Revaluation \$ (60 000 (1) -(15 000 (1) +15 000 (1) +2 500 (1))) = \$27 500 Amisha= \$27 500*4/5=\$22 000 (1of) Balwinder= \$27 500*1/5=\$5 500 (1of)</p>	Details	Amisha \$	Balwinder \$	Details	Amisha \$	Balwinder \$	Motor vehicle	15 000 (1)		Balance b/d	250 000	75 000 (1 for both)	Balance c/d	257 000	230 500	Revaluation W1	22 000 (3of)	5 500 (3of)				Bank		150 000 (1)		272 000	230 500		272 000	230 500				Balance b/d	257 000	230 500	(9)
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3(c)	<p>Award marks as indicated for figures with correct labels.</p> <p style="text-align: center;">Amisha and Balwinder Statement of financial position at 31 March 2016</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Assets</th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Non-current assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Land and Buildings</td> <td></td> <td></td> <td style="text-align: right;">200 000 (1)</td> </tr> <tr> <td>Machinery</td> <td></td> <td></td> <td style="text-align: right;">65 000 (1)</td> </tr> <tr> <td>Motor vehicles</td> <td></td> <td></td> <td style="text-align: right;">30 000 (1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">295 000</td> </tr> <tr> <td>Current assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td></td> <td style="text-align: right;">15 000 (1)</td> <td></td> </tr> <tr> <td>Trade receivables</td> <td></td> <td style="text-align: right;">10 000</td> <td></td> </tr> <tr> <td>Bank</td> <td></td> <td style="text-align: right;">167 500 (1)</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">192 500</td> </tr> <tr> <td>Total assets</td> <td></td> <td></td> <td style="text-align: right;">487 500</td> </tr> <tr> <td>Equity and liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Equity</td> <td style="text-align: center;">Amisha</td> <td style="text-align: center;">Balwinder</td> <td></td> </tr> <tr> <td>Capital</td> <td style="text-align: right;">257 000</td> <td style="text-align: right;">230 500</td> <td style="text-align: right;">487 500 (1 of for both)</td> </tr> <tr> <td>Current W1</td> <td style="text-align: right;">(5 050) (2/1 of)</td> <td style="text-align: right;">(2 950) (2/1 of)</td> <td style="text-align: right;">(8 000) (1 of)</td> </tr> <tr> <td></td> <td style="text-align: right;">251 950</td> <td style="text-align: right;">227 550</td> <td style="text-align: right;">479 500</td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Trade payables</td> <td></td> <td></td> <td style="text-align: right;">8 000 (1)</td> </tr> <tr> <td>Total equity and liabilities</td> <td></td> <td></td> <td style="text-align: right;">487 500 (1 if equal to total assets)</td> </tr> </tbody> </table> <p>W1</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Current account</th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> <tr> <td></td> <td style="text-align: center;">Amisha</td> <td style="text-align: center;">Balwinder</td> </tr> </thead> <tbody> <tr> <td>Opening balance</td> <td style="text-align: right;">(14 200)</td> <td style="text-align: right;">(7 800)</td> </tr> <tr> <td>Salaries</td> <td style="text-align: right;">3 000</td> <td style="text-align: right;">3 000</td> </tr> <tr> <td>Interest on capital</td> <td style="text-align: right;">6 250</td> <td style="text-align: right;">1 875</td> </tr> <tr> <td>Share of loss (from 3(a))</td> <td style="text-align: right;">(100)</td> <td style="text-align: right;">(25)</td> </tr> <tr> <td>Closing balance</td> <td style="text-align: right;">(5 050)</td> <td style="text-align: right;">(2 950)</td> </tr> </tbody> </table>	Assets	\$	\$	\$	Non-current assets				Land and Buildings			200 000 (1)	Machinery			65 000 (1)	Motor vehicles			30 000 (1)				295 000	Current assets				Inventory		15 000 (1)		Trade receivables		10 000		Bank		167 500 (1)					192 500	Total assets			487 500	Equity and liabilities				Equity	Amisha	Balwinder		Capital	257 000	230 500	487 500 (1 of for both)	Current W1	(5 050) (2/1 of)	(2 950) (2/1 of)	(8 000) (1 of)		251 950	227 550	479 500	Current liabilities				Trade payables			8 000 (1)	Total equity and liabilities			487 500 (1 if equal to total assets)	Current account	\$	\$		Amisha	Balwinder	Opening balance	(14 200)	(7 800)	Salaries	3 000	3 000	Interest on capital	6 250	1 875	Share of loss (from 3(a))	(100)	(25)	Closing balance	(5 050)	(2 950)	(13)
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TOTAL FOR QUESTION 3 – 27 MARKS

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4 (a)	<p>Award marks as indicated for figures.</p> <p style="text-align: center;">Hoo King Limited Reconciliation of profit of the year to net cash flows from operating activities for the year ended 31 March 2016</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Profit for the year *</td> <td style="text-align: right;">115 000</td> <td></td> </tr> <tr> <td>Depreciation</td> <td></td> <td></td> </tr> <tr> <td>Land and building</td> <td style="text-align: right;">2 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Machinery W1</td> <td style="text-align: right;">7 813</td> <td style="text-align: right;">(3of)</td> </tr> <tr> <td>Motor vehicles W2</td> <td style="text-align: right;">5 440</td> <td style="text-align: right;">(3of)</td> </tr> <tr> <td>Loss on disposal machine W3</td> <td style="text-align: right;">7 870</td> <td style="text-align: right;">(5)</td> </tr> <tr> <td>Profit on disposal motor vehicle W4</td> <td style="text-align: right;">(2 200)</td> <td style="text-align: right;">(4)</td> </tr> <tr> <td>Decrease in inventory</td> <td style="text-align: right;">6 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Increase in trade receivables</td> <td style="text-align: right;">(18 000)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Decrease in trade payables</td> <td style="text-align: right;">(3 500)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Net cash from operating activities</td> <td style="text-align: right;">120 423</td> <td style="text-align: right;">(1of figure and label)</td> </tr> </tbody> </table> <p>For own figures in W1 and W2 marks percentage must be included in calculation.</p> <p>W1 Machinery $\\$(130\ 000 - (60\ 000\ (1) - 8\ 130\ (1))) * 10\% = \\$7\ 813\ (1of)$</p> <p>W2 Motor vehicles $\\$(60\ 000 - (40\ 000\ (1) - 7\ 200\ (1))) * 20\% = \\$5\ 440\ (1of)$</p> <p>W3 Loss on disposal machine $\\$(30\ 000 - 14\ 000\ (1) - (3\ 000\ (1) + 2\ 700\ (1) + 2\ 430\ (1))) = \\$7\ 870\ (1of)$</p> <p>W4 Profit on disposal motor vehicle $\\$(20\ 000 - 15\ 000\ (1) - (4\ 000\ (1) + 3\ 200\ (1))) = \\$2\ 200\ (1of)$</p>		\$		Profit for the year *	115 000		Depreciation			Land and building	2 000	(1)	Machinery W1	7 813	(3of)	Motor vehicles W2	5 440	(3of)	Loss on disposal machine W3	7 870	(5)	Profit on disposal motor vehicle W4	(2 200)	(4)	Decrease in inventory	6 000	(1)	Increase in trade receivables	(18 000)	(1)	Decrease in trade payables	(3 500)	(1)	Net cash from operating activities	120 423	(1of figure and label)	(20)
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Loss on disposal machine W3	7 870	(5)																																				
Profit on disposal motor vehicle W4	(2 200)	(4)																																				
Decrease in inventory	6 000	(1)																																				
Increase in trade receivables	(18 000)	(1)																																				
Decrease in trade payables	(3 500)	(1)																																				
Net cash from operating activities	120 423	(1of figure and label)																																				

Question Number	AO2(2)	Mark	
4 (b)	Award marks as indicated.	(2)	
			\$
	Cash and cash equivalents at the beginning of the year		15 000 (1)
	Cash and cash equivalents at the end of the year	(2 000) (1)	

Question Number	AO1(2)	Mark
4 (c)(i)	Award 1 mark for each valid point (maximum 2 marks) <ul style="list-style-type: none"> To understand the difference between profit and cash (1) To understand changing cash due to working capital changes (1) Accept other valid responses.	(2)

Question Number	AO1(2)	Mark
4 (c)(ii)	Award 1 mark for each valid point (maximum 2 marks) <ul style="list-style-type: none"> To understand the investment in non-current assets (1) To understand any cash generated from investments (1) Accept other valid responses.	(2)

Question Number	AO1(2)	Mark
4 (c)(iii)	Award 1 mark for each valid point (maximum 2 marks) <ul style="list-style-type: none"> Helps to understand how cash is generated through issue of shares (1) Helps to understand changes in external borrowing (1) Accept other valid responses.	(2)

TOTAL FOR QUESTION 4 – 28 MARKS

Question Number	AO2(4)	Mark
5 (a)(i)	Award marks as indicated Trade receivables collection period: 30 June 2016 = $\frac{\$75\,000 \times 365}{\$385\,000}$ = 72 days (1of) (1) 30 June 2015 = $\frac{\$70\,000 \times 365}{\$(280\,000)}$ = 92 days (1of) (1)	(4)

Question Number	AO2(6)	Mark
5(a)(ii)	Award marks as indicated Trade payables payment period: 30 June 2016 = $\frac{\$50\,000}{\$320\,000} \times 365$ = 58 days (1of) (1) 30 June 2015 = $\frac{\$65\,000}{\$215\,000} \times 365$ = 111 days (1of) (1)	(6)

Question Number	AO2(4)	Mark
5(a)(iii)	Award marks as indicated. Inventory turnover: 30 June 2016 = $\frac{\$300\,000}{\$50\,000}$ = 6 times (1of) (1) 30 June 2015 = $\frac{\$220\,000}{\$42\,500}$ = 5.18 times (1of) (1)	(4)

Question Number	AO4(6) AO5 (2)	Mark
5(b)	<p>Award up to 6 marks for analysis of the ratios. Award up to 2 marks for evaluation.</p> <p>Gross Profit Margin</p> <ul style="list-style-type: none"> • The gross profit margin has slightly increased which may indicate either an increase in selling price or decrease in cost price (1). • Decrease in cost price may be due to negotiation with suppliers/change in suppliers/trade discount. (1) <p>Net Profit Margin</p> <ul style="list-style-type: none"> • The net profit margin has increased which may indicate better management of expenses as the gross profit margin increase was negligible. (1) • The revenue increased in greater proportion than the expenses. (1) <p>Current Ratio</p> <ul style="list-style-type: none"> • The current ratio has improved which may indicate better management of working capital (1). • This may support the businesses ability to pay its short-term debts more promptly.(1) <p>Quick Ratio (acid test)</p> <ul style="list-style-type: none"> • The quick ratio has improved, this may be due to the trade receivables paying quicker (1). <p>Trade receivables collection period indicated that the customers paid quicker in 2016 compared to 2015 but it is still beyond the normal credit period (1).</p> <ul style="list-style-type: none"> • This could be due to incentive provided by the business such as cash discounts for early payments (1) or business had improved credit control system in place (1). • Early payment from trade receivables will help to improve cash flow in the business (1). <p>Trade payables payment period reduced nearly by half and it is with in normal credit period (1).</p> <ul style="list-style-type: none"> • The early payments to the suppliers could have been due to cash discounts offered by supplier (1) or to avoid the penalties charged by suppliers for late payments as the payments were after 110 days in 2015 (1). This had a negative impact on cash flow position of the business (1) but would help in improving the business relationships with suppliers in future (1). 	(8)

	<p>Inventory turnover ratio indicated inventory moved faster in 2016 compared to 2015 (1).</p> <ul style="list-style-type: none"> • It could be due to increase in the demand for the product as sales increased slightly higher than the cost of sales (1). • The faster inventory turnover may indicate increased revenue and profit.(1) <p>Evaluation The overall performance of the business over the past two years has improved (1) because the profitability, liquidity and efficiency has improved (1)</p>	
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TOTAL FOR QUESTION 5 – 22 MARKS

TOTAL FOR PAPER =115 MARKS