

Pearson LCCI

Certificate in Financial Accounting (VRQ) Level 3

Thursday 7 April 2016

Time: 3 hours

Paper Reference

ASE20097

Complete the details below in block capitals.

Candidate name

Centre Code

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Candidate Number

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Candidate ID Number

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Total Marks

You do not need any other materials.

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.*
- Answers should be given to an appropriate degree of accuracy.

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.
- You are advised to show your workings.
- 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) State **one** advantage and **one** disadvantage of two sole traders entering into a partnership. (2)

Advantage

.....
.....

Disadvantage

.....
.....

- (b) State **two** advantages of a business having limited liability. (2)

1

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2

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- (c) Explain the purpose of financial statements. (2)

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- (d) State with a reason why **three** different categories of stakeholder, other than employees, would be interested in the financial statements of a business.

(6)

Stakeholder	Reason
Employees	To ensure continuity of employment

RS Builders has been a client of Ann's accounting firm for five years. Recently Ann married the owner of RS Builders. Ann is not directly involved in preparing the accounts for RS Builders.

- (e) State which **two** principles of professional ethics will be questioned due to her relationship with her firm's client.

(2)

1

.....

2

.....

Tina is a trainee accountant for property developer, Russell Woodrow. Russell has asked Tina to ignore the cost of \$50 000 mentioned in a surveyor's report to dispose of toxic building material. He told her that no one else has seen this report. The toxic material will be disposed of with other normal building materials.

Tina is concerned about any action she should take and has approached you for advice.

- (f) Explain how the concept of public interest in this situation would affect Tina's decision and any action she should take.

(2)

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(Total for Question 1 = 16 marks)



2 Your accounts assistant produced the draft accounts of Abdul Karim. You noticed that he recorded suspense of \$755 on the debit side of the trial balance and has a draft profit for the year of \$4 255. On your investigation, you have found the following errors.

1. The stationery account has been understated by \$500.
2. A cheque received from a supplier has been recorded as \$155 instead of \$115.
3. General expenses included \$135 Abdul spent travelling to attend the wedding of an employee.
4. Invoice issued to Mrs Ramakant for \$2 300 plus sales tax (20%) has not been recorded in the books of prime entry.
5. Rent payable of \$150 has been recorded as \$105 as a credit entry in rent receivable.

(a) Prepare the journal entries to correct these errors. Narratives are **not** required.

(12)

Account name	Debit \$	Credit \$



(b) Calculate the revised profit for the year, indicating the effect on profit for each correction.

(6)

Details	Increase \$	Decrease \$	\$
Draft profit for the year			4 255
Revised profit for the year			

(Total for Question 2 = 18 marks)

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3 O'Dowd & Sons purchased a machine on 1 March 2012 for \$10 000. On 14 March 2015 this machine was part-exchanged for \$800 against a new machine costing \$12 000. The balance was financed by a bank loan.

The company's policy is to depreciate property, plant and equipment on a diminishing balance basis at a rate of 40% per annum, with the full year's charge in the year of acquisition and none in the year of disposal.

O'Dowd & Sons year end is 31 March.

(a) Prepare the following accounts for **each** year from acquisition to disposal to record the information given.

Balance the accounts where appropriate on 31 March 2015 and bring the balances down on 1 April 2015.

Machinery cost account

(3)



Machinery accumulated depreciation account

(6)

Disposal account

(4)

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On 31 March 2015 the business had trade receivables of \$61 000 and an allowance for doubtful debts of \$1 490.

It was decided to write off debts amounting to \$1 000. It was agreed to carry forward a specific allowance of \$800 and a general allowance equal to 1% of remaining trade receivables.

- (b) Prepare the following accounts to record the transactions. Balance the accounts where appropriate on 31 March 2015 and bring the balances down on 1 April 2015.

Allowance for doubtful debts account

(2)

Irrecoverable receivables account

(2)

Allowance for doubtful debts adjustment account

(2)

(Total for Question 3 = 19 marks)



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4 Rona Eastern Fabrics prepares its accounts every year on 30 June. You have been given the trial balance on pages 10 and 11.

The following information has been received after the trial balance was extracted as at 30 June 2015.

1. Inventory was valued at \$66 941. This includes inventory that originally cost \$5 000 but is damaged and can only be sold for \$4 452 after repairs, costing \$435.
2. Motor vehicle expenses owing \$1 250, the insurance charge for the year \$2 000 has been entered in a motor vehicles account.
3. Non-current assets are depreciated at the rate of 10% per annum on a straight line basis except property, on which there is no depreciation charged.
4. Bank loan attracts interest at the rate of 4% per annum. The loan was taken out on 1 October 2014. This has not yet been accounted for.
5. The tenant has paid \$500 rent in advance.
6. Office expenses prepaid \$364.
7. Goods costing \$250 were taken by the proprietor for his own use.

(a) Complete the extended trial balance for adjustments 1 to 7. (14)

(b) Complete the extended trial balance for the statement of profit or loss and the statement of financial position. (10)



Rona Eastern Fabrics Extended Trial Balance as at 30 June 2015

Account name	Trial balance		Adjustments		Statement of profit or loss		Statement of financial position	
	Debit \$	Credit \$	Debit \$	Credit \$	Debit \$	Credit \$	Debit \$	Credit \$
Bank loan		73 000						
Capital		155 000						
Cash and cash equivalents	1 197							
Discounts	3 187	4 951						
Drawings	21 710							
Motor vehicles accumulated depreciation		5 249						
Motor vehicles (cost)	83 500							
Motor vehicle expenses	36 894							
Office expenses	33 947							
Office furniture accumulated depreciation		5 248						
Office furniture (cost)	23 250							
Opening inventory	63 084							
Property	100 000							
Purchases	600 128							
Purchases returns		3 894						

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Rent							2 000				
Revenue							864 321				
Sales returns			2 746								
Trade payables ledger control account							52 919				
Trade receivables ledger control account				74 328							
Wages and salaries				122 611							
Total				1 166 582			1 166 582				

(Total for Question 4 = 24 marks)



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5 The following balances have been provided for two years for Spate Ltd.

Ledger balances	31 March 2015 \$	31 March 2016 \$
Share capital	50 000	50 000
Retained earnings	18 000	
Cash and cash equivalents	18 000	29 000
Closing inventory	15 000	35 000
Shop fittings (cost)	50 000	65 000
Shop fittings (accumulated depreciation)	8 500	15 000
Trade payables	1 500	8 000
Trade receivables	2 000	6 000
Bank loan	7 000	2 000

Additional information provided is as follows:

1. Depreciation on shop fittings is charged at 10% per year (straight line method).
 2. There was no disposal of non-current assets during the year.
 3. Operating profit for the year is \$42 000.
- (a) Prepare a statement to reconcile profit from operating activities to net cash from operating activities.

(5)

Details	\$
Operating profit for the year	
Net cash from operating activities	



The following information has also been provided for the year ended 31 March 2016:

Revenue	\$246 000
Cost of sales	\$157 000
Purchases	\$177 000

All purchases and sales were on a credit basis.

- (c) Complete the table on page 15 to calculate the accounting ratios for the year ended 31 March 2016. State the formula used clearly.

(15)



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Ratios	31 March 2015	Formula	31 March 2016
Gross profit margin	35.0%		
Net profit margin	9.8%		
Return on capital employed	29.0%		
Trade receivables collection period	37 days		
Trade payables payment period	20 days		
Inventory turnover	13.5 times		



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(Total for Question 5 = 38 marks)

TOTAL FOR PAPER = 115 MARKS



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