



Mark Scheme

June 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 candidate's 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 candidate's answer is correct, and in line with the mark scheme.

Question Number	AO1(4)	Mark
<b>1(a)</b>	<b>Award marks as indicated</b> 1. Comparability <b>(1)</b> 2. Verifiability <b>(1)</b> 3. Timeliness <b>(1)</b> 4. Understandability <b>(1)</b>	<b>(4)</b>

Question Number	AO1(2), AO3 (4)	Mark
<b>1(b)</b>	<b>Award 1 mark for identification of a concept up to a maximum of 2 marks, and up to 2 marks for development up to a maximum of 4 marks.</b>  <ul style="list-style-type: none"> <li>• <b>Consistency concept (1)</b> states that once the business has decided the accounting treatment for an item such as method of depreciation of non-current assets the business should continue to use the same method <b>(1)</b> otherwise it will be difficult to compare the business's performance over the years <b>(1)</b>.</li> <li>• <b>Accruals concept (1)</b> states that income generated by using non-current assets and expenditure in the form of depreciation on non-current assets <b>(1)</b> should be matched in the period incurred <b>(1)</b>.</li> </ul>	<b>(6)</b>

Question Number	AO1(2), AO2(2)	Mark
<b>1(c)</b>	<b>Award 1 mark for identification of a principle up to a maximum of 2 marks, and 1 mark for development up to a maximum of 2 marks.</b>  <ul style="list-style-type: none"> <li>• The principle of integrity (honesty)<b>(1)</b>. The integrity of Doug is compromised by not declaring the correct amount of tax <b>(1)</b>.</li> <li>• The principle of objectivity (independence)<b>(1)</b>. His objectivity is at risk due to fear of loss of his and his fellow colleagues' jobs <b>(1)</b>.</li> </ul>	<b>(4)</b>

Question Number	AO1(1)	Mark
<b>1(d)</b>	<b>Award marks as indicated.</b>  The term unlimited liability means that the <b>personal</b> assets of the owner of the business can be used to pay off business debts <b>(1)</b> .	<b>(1)</b>

**TOTAL FOR QUESTION 1 – 15 MARKS**

Question Number	AO2(17)	Mark																																																																								
2(a)	<p><b>Award marks as indicated.</b></p> <p style="text-align: center;"><b>Alex, Bobby and Chandler</b> <b>Appropriation account for the year ended 31 March 2016</b></p> <table border="1"> <thead> <tr> <th></th> <th><b>1 April-31 August 2015</b></th> <th><b>1 September -31 March 2016</b></th> <th><b>Total</b></th> </tr> <tr> <th></th> <th><b>\$</b></th> <th><b>\$</b></th> <th><b>\$</b></th> </tr> </thead> <tbody> <tr> <td>Profit before appropriation</td> <td>150 000</td> <td>210 000</td> <td>360 000</td> </tr> <tr> <td><b>Less</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>Interest on capital</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Alex</td> <td>2 500(1)</td> <td>5 250(1)</td> <td>7 750</td> </tr> <tr> <td>Bobby</td> <td>1 875(1)</td> <td>2 625(1)</td> <td>4 500</td> </tr> <tr> <td>Chandler</td> <td>-</td> <td>2 625(1)</td> <td>2 625</td> </tr> <tr> <td><b>Salaries</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Alex</td> <td>10 000(1)</td> <td>21 000(1)</td> <td>31 000</td> </tr> <tr> <td>Bobby</td> <td>12 500(1)</td> <td>21 000(1)</td> <td>33 500</td> </tr> <tr> <td>Chandler</td> <td>-</td> <td>24 500(1)</td> <td>24 500</td> </tr> <tr> <td><b>Profit available for distribution</b></td> <td><b>123 125 (1of)</b></td> <td><b>133 000 (1of)</b></td> <td><b>256 125</b></td> </tr> <tr> <td>Alex</td> <td>73 875 (1of)</td> <td>66 500(1of)</td> <td><b>140 375</b></td> </tr> <tr> <td>Bobby</td> <td>49 250 (1of)</td> <td>33 250(1of)</td> <td><b>82 500</b></td> </tr> <tr> <td>Chandler</td> <td>-</td> <td>33 250(1of)</td> <td><b>33 250</b></td> </tr> <tr> <td><b>Total</b></td> <td><b>123 125</b></td> <td><b>133 000</b></td> <td><b>256 125</b></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		<b>1 April-31 August 2015</b>	<b>1 September -31 March 2016</b>	<b>Total</b>		<b>\$</b>	<b>\$</b>	<b>\$</b>	Profit before appropriation	150 000	210 000	360 000	<b>Less</b>				<b>Interest on capital</b>				Alex	2 500(1)	5 250(1)	7 750	Bobby	1 875(1)	2 625(1)	4 500	Chandler	-	2 625(1)	2 625	<b>Salaries</b>				Alex	10 000(1)	21 000(1)	31 000	Bobby	12 500(1)	21 000(1)	33 500	Chandler	-	24 500(1)	24 500	<b>Profit available for distribution</b>	<b>123 125 (1of)</b>	<b>133 000 (1of)</b>	<b>256 125</b>	Alex	73 875 (1of)	66 500(1of)	<b>140 375</b>	Bobby	49 250 (1of)	33 250(1of)	<b>82 500</b>	Chandler	-	33 250(1of)	<b>33 250</b>	<b>Total</b>	<b>123 125</b>	<b>133 000</b>	<b>256 125</b>					<b>(17)</b>
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Question Number	AO2(9)	Mark
<b>2(b)</b>	<b>Award marks as indicated (combination of date details and amount).</b>	<b>(9)</b>

### Capital Accounts

Date	Details	Alex \$	Bobby \$	Chandler \$	Date	Details	Alex \$	Bobby \$	Chandler \$
1 September 2015	Goodwill	18 000 (1)	9 000 (1)	9 000 (1)	1 April 2015	Balance b/d (1 for both, must not have any balance for Chandler)	100 000	75 000	
					1 September 2015	Bank	50 000 (1)		75 000 (1)
31 March 2016	Balance c/d	153 600	80 400	66 000	1 September 2015	Goodwill	21 600 (1)	14 400 (1)	
		<b><u>171 600</u></b>	<b><u>89 400</u></b>	<b><u>75 000</u></b>			<b><u>171 600</u></b>	<b><u>89 400</u></b>	<b><u>75 000</u></b>
					1 April 2016	Balance b/d (1 for both c/d and b/d for all partners)	153 600	80 400	66 000

**TOTAL FOR QUESTION 2 – 26 MARKS**

Question Number	AO2(3+19=22)	Mark
<b>3(a) and 3(b)</b>	<b>Award marks as indicated.</b>	<b>(3+19=22)</b>

**Aladin - Extended trial balance at 31 December 2015**

Ledgers	Balances	Trial balance		Adjustments	
	\$	Debit \$	Credit \$	Debit \$	Credit \$
Allowance for doubtful debts	4 985		4 985	3 785 <b>(1)</b>	
Bank	45 000	45 000			14 165 <b>(2)</b>
Carriage outwards	3 125	3 125			
Commission received	19 125		19 125	750 <b>(1)</b>	
Equity	275 000		275 000		
Fixtures and fittings - accumulated depreciation	12 500		12 500		2 500 <b>(1)</b>
Fixtures and fittings - cost	25 000	25 000			
Internet expenses	15 495	15 495		450 <b>(1)</b>	
Inventory 1 January 2015	11 200	11 200			
Inventory 31 December 2015 – SOFP	35 450	35 450			5 500 <b>(1)</b>
Inventory 31 December 2015 – SOPL	35 450		35 450	5 500 <b>(1)</b>	
Land and buildings - accumulated depreciation	76 375		76 375		7 500 <b>(1)</b>



Land and buildings at cost	250 000	250 000			
Motor vans – accumulated depreciation	36 000		36 000		8 800 <b>(1)</b>
Motor vans at cost	80 000	80 000			
Purchases returns	5 250		5 250		
Purchases	138 800	138 800			5 000 <b>(1 for both entries)</b>
Rental charges for equipment	18 500	18 500		500 <b>(1)</b>	
Revenue	187 500		187 500		
Sales returns	7 500	7 500			
Sundry expenses	5 345	5 345		165 <b>(1)</b>	
Trade payables	59 750		59 750		
Trade receivables	43 250	43 250			3 250 <b>(1 for both entries)</b>
Wages and salaries	33 450	33 450			630 <b>(1)</b>
Suspense (must be labelled)			180 <b>(1cf)</b>	630	450
Irrecoverable debts				3 250	
Allowance for doubtful debts adjustment					3 785 <b>(1)</b>
Depreciation charge				18 800 <b>(1 of- must include)</b>	

				<b>3 non-current assets)</b>	
Drawings				19 000 <b>(1)</b>	
Other payables- prepaid income + accrued expenses					1 250 <b>(1 of)</b>
<b>Total</b>		<b>712 115</b>	<b>712 115</b>	<b>52 830</b>	<b>52 830</b>

(2cf/1of for total)

=3

=19

**TOTAL FOR QUESTION 3 – 22 MARKS**

Question Number	AO2(9)	Mark																										
4(a)	<p data-bbox="392 273 1184 407"><b>Award marks as indicated, accept if interest on loan added to the profit and deducted afterwards to calculate cash from operating activities.</b></p> <p data-bbox="392 416 1184 551" style="text-align: center;"><b>Cute Clothing Limited</b> <b>Reconciliation of profit for the year to net cash from operating activities for the year ended 31 December 2015</b></p> <table border="1" data-bbox="392 622 1197 1422"> <thead> <tr> <th></th> <th style="text-align: right;">\$'000</th> </tr> </thead> <tbody> <tr> <td>Profit for the year</td> <td style="text-align: right;">162</td> </tr> <tr> <td></td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Depreciation charge for the year*</td> <td style="text-align: right;">390</td> </tr> <tr> <td></td> <td style="text-align: right;"><b>(3 of)</b></td> </tr> <tr> <td>Profit on disposal*</td> <td style="text-align: right;">(107)</td> </tr> <tr> <td></td> <td style="text-align: right;"><b>(3 of)</b></td> </tr> <tr> <td>Increase in trade receivables (1672-1363)</td> <td style="text-align: right;">(309)</td> </tr> <tr> <td>Increase in inventory (2678-2345)</td> <td style="text-align: right;">(333)</td> </tr> <tr> <td><b>1 for all three</b></td> <td></td> </tr> <tr> <td>Increase in trade payables (1168-948)</td> <td style="text-align: right;">220</td> </tr> <tr> <td>Net cash from operating activities</td> <td style="text-align: right;">23</td> </tr> <tr> <td></td> <td style="text-align: right;"><b>(1of)</b></td> </tr> </tbody> </table> <p data-bbox="408 1429 539 1460"><b>*Notes:</b></p> <p data-bbox="408 1491 912 1523">Depreciation charge for the year=</p> <p data-bbox="408 1554 1177 1621"><math>978-845 = 133(1) + 257(1) = 390</math> <b>(1of – correct direction)</b></p> <p data-bbox="408 1653 1043 1720">Profit on disposal= <math>600 - 257 = 343 (1) - 450(1) = 107</math> <b>(1 of – correct direction)</b></p>		\$'000	Profit for the year	162		<b>(1)</b>	Depreciation charge for the year*	390		<b>(3 of)</b>	Profit on disposal*	(107)		<b>(3 of)</b>	Increase in trade receivables (1672-1363)	(309)	Increase in inventory (2678-2345)	(333)	<b>1 for all three</b>		Increase in trade payables (1168-948)	220	Net cash from operating activities	23		<b>(1of)</b>	<b>(9)</b>
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4(b)	<p><b>Award marks as indicated.</b></p> <table border="1" data-bbox="392 371 1219 1921"> <thead> <tr> <th colspan="3" data-bbox="392 371 1219 517" style="text-align: center;"><b>Cute Clothing Limited Statement of cash flows for the year ended 31 December 2015</b></th> </tr> <tr> <th data-bbox="392 517 815 577"></th> <th data-bbox="815 517 1027 577" style="text-align: center;">\$'000</th> <th data-bbox="1027 517 1219 577" style="text-align: center;">\$'000</th> </tr> </thead> <tbody> <tr> <td data-bbox="392 577 815 680">Net cash from operating activities</td> <td data-bbox="815 577 1027 680"></td> <td data-bbox="1027 577 1219 680" style="text-align: right;">23</td> </tr> <tr> <td data-bbox="392 680 815 781">Cash from investing activities</td> <td data-bbox="815 680 1027 781"></td> <td data-bbox="1027 680 1219 781"></td> </tr> <tr> <td data-bbox="392 781 815 882">Acquisition of property, plant and equipment*</td> <td data-bbox="815 781 1027 882" style="text-align: right;">(800) <b>(3 of)</b></td> <td data-bbox="1027 781 1219 882"></td> </tr> <tr> <td data-bbox="392 882 815 943">Disposal of machinery</td> <td data-bbox="815 882 1027 943" style="text-align: right;">450 <b>(1)</b></td> <td data-bbox="1027 882 1219 943"></td> </tr> <tr> <td data-bbox="392 943 815 1068">Net cash used in investing activities</td> <td data-bbox="815 943 1027 1068"></td> <td data-bbox="1027 943 1219 1068" style="text-align: right;">(350) <b>(1)</b></td> </tr> <tr> <td data-bbox="392 1068 815 1169">Cash from financing activities</td> <td data-bbox="815 1068 1027 1169"></td> <td data-bbox="1027 1068 1219 1169"></td> </tr> <tr> <td data-bbox="392 1169 815 1229">Loan at 10%</td> <td data-bbox="815 1169 1027 1229" style="text-align: right;">(250) <b>(1)</b></td> <td data-bbox="1027 1169 1219 1229"></td> </tr> <tr> <td data-bbox="392 1229 815 1290">Issue of shares</td> <td data-bbox="815 1229 1027 1290" style="text-align: right;">400 <b>(1)</b></td> <td data-bbox="1027 1229 1219 1290"></td> </tr> <tr> <td data-bbox="392 1290 815 1415">Net cash from financing activities</td> <td data-bbox="815 1290 1027 1415"></td> <td data-bbox="1027 1290 1219 1415" style="text-align: right;">150 <b>(1)</b></td> </tr> <tr> <td data-bbox="392 1415 815 1552">Decrease in cash and cash equivalents during the year</td> <td data-bbox="815 1415 1027 1552"></td> <td data-bbox="1027 1415 1219 1552" style="text-align: right;">(177) <b>(1 of)</b></td> </tr> <tr> <td data-bbox="392 1552 815 1653">Cash and cash equivalents at 1 January 2015</td> <td data-bbox="815 1552 1027 1653"></td> <td data-bbox="1027 1552 1219 1653" style="text-align: right;">137</td> </tr> <tr> <td data-bbox="392 1653 815 1753">Cash and cash equivalents at 31 December 2015</td> <td data-bbox="815 1653 1027 1753"></td> <td data-bbox="1027 1653 1219 1753" style="text-align: right;">(40) <b>(1)</b></td> </tr> <tr> <td colspan="3" data-bbox="392 1753 1219 1921"> <p><b>*Notes:</b> Acquisition of property, plant and equipment(2700-2500 = 200 <b>(1)</b>+ 600<b>(1)</b> = 800<b>(1 of)</b></p> </td> </tr> </tbody> </table>	<b>Cute Clothing Limited Statement of cash flows for the year ended 31 December 2015</b>				\$'000	\$'000	Net cash from operating activities		23	Cash from investing activities			Acquisition of property, plant and equipment*	(800) <b>(3 of)</b>		Disposal of machinery	450 <b>(1)</b>		Net cash used in investing activities		(350) <b>(1)</b>	Cash from financing activities			Loan at 10%	(250) <b>(1)</b>		Issue of shares	400 <b>(1)</b>		Net cash from financing activities		150 <b>(1)</b>	Decrease in cash and cash equivalents during the year		(177) <b>(1 of)</b>	Cash and cash equivalents at 1 January 2015		137	Cash and cash equivalents at 31 December 2015		(40) <b>(1)</b>	<p><b>*Notes:</b> Acquisition of property, plant and equipment(2700-2500 = 200 <b>(1)</b>+ 600<b>(1)</b> = 800<b>(1 of)</b></p>			<b>(10)</b>
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Question Number	AO1(3)	Mark
4(c)	<b>Award marks as indicated.</b> <ul style="list-style-type: none"> <li>• Gross profit percentage (margin) <b>(1)</b></li> <li>• Net profit percentage (margin) <b>(1)</b></li> <li>• Return on capital employed <b>(1)</b></li> </ul>	<b>(3)</b>

Question Number	AO3(4)	Mark
4(d)	<b>Award up to 4 marks for an explanation.</b>  E.g The business may not have cash and profit figures the same as some transactions may be adjusted in the statement of profit or loss due to timing differences <b>(1)</b> such as accruals and prepayments <b>(1)</b> and due to non-cash items <b>(1)</b> such as depreciation <b>(1)</b> .The figures would also be different as cash balance will be affected due to the capital expenditure/disposals <b>(1)</b> .	<b>(4)</b>

Question Number	AO4(5) and AO5(2)	Mark
4(e)	<p><b>Award 1 mark for stating current year's profit and cash from operating activities.</b>  <b>1 mark for identification of investing and financing activities (maximum 2).</b>  <b>1 mark for development of identified point relating to investing and financing activity for development (maximum 2).</b>  <b>1 mark for approval and 1 mark for development.</b></p> <p><b>E.g.</b></p> <ul style="list-style-type: none"> <li>• The business had a profit of \$162 000 and/or cash from operating activities of \$23 000 <b>(1)</b>.</li> <li>• The business had a net cash outflow of \$350 000 from investing activities with an investment in non-current assets of \$800 000 <b>(1)</b> which in future will generate more income <b>(1)</b>.</li> <li>• The acquisition of non-current assets was financed by the business through internal sources of finance <b>(1)</b> such as disposal of assets/issue of share capital <b>(1)</b>.</li> <li>• The issue of the shares was at a premium <b>(1)</b> which indicated investors' confidence in the business <b>(1)</b>.</li> <li>• The business, along with financing its assets internally, had also repaid its loan of \$250 000 <b>(1)</b> which indicated a good liquidity position of the business <b>(1)</b>.</li> </ul> <p><b>Decision</b></p> <p><b>Approval</b>  The bank will approve the loan <b>(1) plus justification (1)</b></p> <p><b>Disapproval</b>  The bank will not approve the loan <b>(1) plus justification (1)</b></p>	(7)

**TOTAL FOR QUESTION 4 – 33 MARKS**

Question Number	AO2(5)	Mark																		
<b>5(a)(i)</b>	<p><b>Award marks as indicated.</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Cash sales = \$(5 000+10 500)=</td> <td style="text-align: right;">15 500</td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Credit sales = \$78 515 - 64 375</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">= 14140 <b>(1)</b> +80 000<b>(1)</b></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">=</td> <td style="text-align: right;"><u>94 140</u></td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Total sales</td> <td style="text-align: right;">109 640</td> <td style="text-align: right;"><b>(1of) (5)</b></td> </tr> </table>		\$		Cash sales = \$(5 000+10 500)=	15 500	<b>(1)</b>	Credit sales = \$78 515 - 64 375			= 14140 <b>(1)</b> +80 000 <b>(1)</b>			=	<u>94 140</u>	<b>(1)</b>	Total sales	109 640	<b>(1of) (5)</b>	
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Question Number	AO1(4)	Mark
<b>5(b)</b>	<p><b>Award 1 mark for identification of disadvantage (maximum 2) and 1 mark for development (maximum 2).</b></p> <p><b>E.g.</b></p> <ul style="list-style-type: none"> <li>• Mr Purohit has to pay initial fee to get the franchise <b>(1)</b>, which will have an impact on cash flow of his business <b>(1)</b>.</li> <li>• He will also lose his independence <b>(1)</b> on how to market his products and run his business <b>(1)</b>.</li> <li>• He also has to share his profit with the franchisor <b>(1)</b> therefore his profits may decrease <b>(1)</b>.</li> </ul>	<b>(4)</b>

**TOTAL FOR QUESTION 5 – 19 MARKS**

**TOTAL FOR PAPER = 115 MARKS**