

Pearson LCCI

Certificate in Financial Accounting (VRQ) Level 3

Thursday 9 June 2016
Time: 3 hours

Paper Reference
ASE20097

Complete the details below in block capitals.

Candidate name

Centre Code

Candidate Number

Candidate ID Number

You do not need any other materials.

Total Marks

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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Answer ALL questions. Write your answers in the spaces provided.

- 1 (a) State **four** qualitative characteristics of financial reporting that support relevance and faithful presentation according to the International Accounting Standards Board (IASB) framework.

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- (b) Explain **two** accounting concepts that are relevant to the charging of depreciation on non-current assets.

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Doug Harrison, a business's accountant, has noticed that the business underpaid tax last year. He informed the finance director and suggested rectifying the error by disclosure.

The finance director informed him that by doing so the business would have to pay additional tax and penalties, which may result in the business ceasing trading with loss of all employees' jobs.

(c) Explain **two** principles of professional ethics that are affected. (4)

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(d) Describe what is meant by the term **unlimited liability**. (1)

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(Total for Question 1 = 15 marks)



- 2 Alex and Bobby were in partnership, sharing profits and losses in the ratio of 3:2. Their partnership agreement stated that they were entitled to an annual salary of \$24 000 and \$30 000 respectively, and 6% interest on capital.

On 1 April 2015 the partners' balances were:

	Capital account	Current account
	\$	\$
Alex	100 000	5 515 (debit)
Bobby	75 000	4 785

On 1 September 2015:

- Chandler was admitted as a partner. He contributed capital of \$75 000 in the form of cash. Goodwill was valued at \$36 000. Goodwill is not to be maintained in the books.
- Alex invested an additional \$75 000 cash into the business, of which \$25 000 was a loan with an interest rate of 7% per annum.

- The partnership annual salaries were:

	\$
Alex	36 000
Bobby	36 000
Chandler	42 000

- The new profit sharing ratios were:

Alex	50%
Bobby	25%
Chandler	25%

- The interest on capital was maintained at 6% per annum.

For the year ended 31 March 2016:

- The profit for the year, accrued evenly, before appropriation was \$360 000.

- The total drawings for the year were:

	\$
Alex	6 000
Bobby	3 000
Chandler	2 000



(a) Prepare the partnership appropriation account for the year ended 31 March 2016.

(17)

Alex, Bobby and Chandler
Appropriation account for the year ended 31 March 2016

	\$	\$	Total \$

(b) Complete the partners' capital accounts on page 6, showing balances brought down for 1 April 2016.

(9)

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Capital Accounts

	Alex \$	Bobby \$	Chandler \$		Alex \$	Bobby \$	Chandler \$		Alex \$	Bobby \$	Chandler \$

(Total for Question 2 = 26 marks)



- 3 (a) Complete the trial balance for Aladin, a decorator, at 31 December 2015 on pages 8 and 9. Show any difference in an appropriate account.

(3)

The following additional information was provided for year ended 31 December 2015:

- The closing inventory included damaged materials costing \$5 500. The damaged material had been disposed of safely at a cost of \$165, which had not been accounted for.
- Irrecoverable debts of \$3 250 were to be written off.
- The allowance for doubtful debts was to be maintained at 3% of the trade receivables.
- The depreciation was to be charged, as follows:

Land and buildings (land cost \$100 000)	5% (straight line)
Motor vans	20% (diminishing (reducing) balance)
Fixtures and fittings	10% (straight line)
- Drawings not accounted for during the year were:

	\$
Decorating material	5 000
Cash	14 000
- Commission received included \$750 commission received for January 2016.
- Equipment rental of \$1 500 was outstanding for the quarter ending 29 February 2016.
- Wages of \$630 paid to a cleaner were recorded twice in the wages and salaries account.
- Internet service provider expenses of \$945 has been recorded as \$495.

- (b) Complete the adjustment columns in the extended trial balance on pages 8 and 9.

(19)



Aladin – Extended trial balance at 31 December 2015

Ledgers	Balances \$	Trial balance		Adjustments	
		Debit \$	Credit \$	Debit \$	Credit \$
Allowance for doubtful debts	4 985				
Bank	45 000				
Carriage outwards	3 125				
Commission received	19 125				
Equity	275 000				
Fixtures and fittings – accumulated depreciation	12 500				
Fixtures and fittings at cost	25 000				
Internet expenses	15 495				
Inventory 1 January 2015	11 200				
Inventory 31 December 2015 – SOFP	35 450				
Inventory 31 December 2015 – SOPL	35 450				
Land and buildings accumulated depreciation	76 375				
Land and buildings at cost	250 000				
Motor vans – accumulated depreciation	36 000				
Motor vans at cost	80 000				
Purchase returns	5 250				



Purchases	138 800			
Rental charges for equipment	18 500			
Revenue	187 500			
Sales returns	7 500			
Sundry expenses	5 345			
Trade payables	59 750			
Trade receivables	43 250			
Wages and salaries	33 450			

(Total for Question 3 = 22 marks)



4 Abida Sheikh is planning to invest in Cute Clothing Ltd.

She has provided you with the following statements of financial position of Cute Clothing Ltd for the last two years.

Assets	31 December 2015 \$000	31 December 2014 \$000
Non-current assets		
Property, plant and equipment	1 722	1 655
Current assets		
Inventory	2 678	2 345
Trade receivables	1 672	1 363
Cash and cash equivalents	—	137
	<u>4 350</u>	<u>3 845</u>
Total assets	<u>6 072</u>	<u>5 500</u>
Equity and liabilities		
Equity		
Share capital	2 000	1 700
Share premium	500	400
Retained earnings	<u>1 614</u>	<u>1 452</u>
	4 114	3 552
Non-current liabilities		
Loan at 10%	750	1 000
Current liabilities		
Trade payables	1 168	948
Cash and cash equivalents	<u>40</u>	—
Total liabilities	1 958	1 948
Total equity and liabilities	<u>6 072</u>	<u>5 500</u>

Additional information

- Balances on property, plant and equipment were:

	31 December 2015 \$000	31 December 2014 \$000
Cost	2 700	2 500
Accumulated depreciation	978	845

- During the year ended 31 December 2015, the business sold machinery, that cost \$600 000, with accumulated depreciation of \$257 000, for \$450 000.



(a) Prepare a reconciliation statement of profit for the year to net cash from operating activities for the year ended 31 December 2015.

(9)

Cute Clothing Ltd
Reconciliation of profit for the year to net cash from operating activities for the year ended 31 December 2015

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(b) Prepare a statement of cash flows for the year ended 31 December 2015.

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Cute Clothing Ltd
Statement of cash flows for the year ended 31 December 2015

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(c) State **three** profitability ratios.

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Abida Sheikh is unable to understand why the cash and profit for the year figures are not the same.

(d) Explain why there may be a difference between the cash and profit for the year figures.

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Cute Clothing Ltd is valued at \$7 000 000 and Abida has applied to the bank for a loan of \$2 000 000 to buy Cute Clothing Ltd.

(e) Analyse the information provided and your answers in (a) and (b) to determine whether the bank will approve the loan.

(7)

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(Total for Question 4 = 33 marks)



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- 5 Mr Purohit has been running a bakery business for many years. He does not keep full accounting records.

He has informed you that he sells his goods at a 25% mark up.

Mr Purohit provided the following information for the year ended 31 October 2015:

	1 November 2014	31 October 2015
Balances	\$	\$
Cash at bank	9 500	(1 700)
Cash in hand	1 000	1 250
Inventory	24 575	To be calculated
Trade payables	49 250	54 795
Trade receivables	64 375	78 515

An extract from the cash book was as follows:

Receipts	Cash \$	Bank \$	Payments	Cash \$	Bank \$
Sales	5 000	10 500	Administration expenses		6 500
Trade receivables		80 000	General expenses	100	
Cash		3 500	Wages and salaries		23 550
			Trade payables		46 950
			Purchases	1 150	24 680
			Bank	3 500	
			Lighting and heating		3 520



(a) Calculate for the year ended 31 October 2015:

(i) total sales

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(ii) total purchases

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(iii) closing inventory.

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Mr Purohit is thinking about expanding his business by franchising from a world-renowned bakery.

(b) Explain **two disadvantages** of franchising.

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(Total for Question 5 = 19 marks)

TOTAL FOR PAPER = 115 MARKS

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