



Mark Scheme

July 2016
Results

Pearson LCCI 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	Answer (AO1) 1	Mark
1(a)(i)	Award mark as indicated. Eg Shareholders – allows them to see how the money they have invested is being used, and the returns being made (1).	(1)
Question Number	Answer (AO1) 1	Mark
1(a)(ii)	Award mark as indicated. Eg Employees – allows them to see the financial position of the business, which they may need to know for wage demands, job security etc (1).	(1)
Question Number	Answer (AO1) 1	Mark
1(a)(iii)	Award mark as indicated. Eg Customers – allows them to see the continuity of the products and services (1).	(1)
Question Number	Answer (AO1) 1	Mark
1(b)	Award mark as indicated. For the sole trader: in the event of the business running up debts, in order to pay debts, the personal possessions of the sole trader may be used to pay the debts (1).	(1)
Question Number	Answer (AO1) 4	Mark
1(c)	Award marks as indicated. Eg <ul style="list-style-type: none"> • There is no restriction for minimum authorised capital for a private company(1), where as a public limited company must have at least £50 000 as a minimum authorised capital.(1) • Private limited company’s shares are not traded on the stock exchange (1), but public limited company’s shares are (1). • Private limited companies cannot advertise their shares for sale (1), public companies can (1). 	(4)

Question Number	Answer (AO1) 2	Mark
1(d)	<p>Award marks as indicated.</p> <p>Eg Advantage: able to use the brand name of an established business which will enable them to attract customers and higher sales than trading under their own name (1).</p> <p>Disadvantage: there will be limited flexibility on how the outlet is run for example product range, pricing, marketing may be decided by the franchisor (1).</p>	(2)

Question Number	Answer (AO1) 2	Mark
1(e)(i)	<p>Award marks as indicated.</p> <p>Eg</p> <ul style="list-style-type: none"> • The accounting roles and functions involve finance, often concerning funds that have been supplied by others (1). • Without the application of professional ethics in accounting roles and functions, the business world would find it difficult to run smoothly (1). • Potential investors would be unwilling to invest (1). • Suppliers would not give credit terms (1). • Public confidence in financial statements would disappear (1). 	(2)

Question Number	Answer (AO3) 3	Mark
1(e)(ii)	<p>Award 1 mark for each example.</p> <p>Eg</p> <p>Integrity A company making a rights issue of shares, would state an accurate financial position of the company, and the reason for the rights issue, not giving an unrealistic, optimistic picture of the company (1).</p> <p>Objectivity A business may have to write down the value of assets in the statement of financial position, giving an accurate market value at the time of the end of the financial period (1).</p> <p>Independence An auditor needs to carry out their duties in an independent way, and not be influenced by personal friendship with clients, or the possibility of further paid work with the client (1).</p>	(3)

Question Number	Answer (AO1) 2	Mark
1(f)	Award marks as indicated. Inventory is valued at cost or net realisable value (1) whichever is lower (1).	(2)

Total for Question 1 = 17 marks

Question Number	Answer (AO2) 7	Mark																												
2(a)	<p>Award marks as indicated. Accept if finance cost added to profit and then subtracted at the end to calculate the cash from operating activities.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3" style="text-align: center;">Malacca Trading plc</th> </tr> <tr> <th colspan="3" style="text-align: center;">Reconciliation of profit for the year to cash from operating activities for the year ended 31 December 2015</th> </tr> <tr> <th></th> <th style="text-align: center;">\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Profit for the year</td> <td style="text-align: right;">195 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Add Depreciation charge for the year</td> <td style="text-align: right;">259 000</td> <td style="text-align: right;">(3 - W1)</td> </tr> <tr> <td>Less Profit on disposal of machinery</td> <td style="text-align: right;">(13 000)</td> <td style="text-align: right;">(1 - W2)</td> </tr> <tr> <td>Increase in inventories</td> <td style="text-align: right;">(138 000)</td> <td rowspan="3" style="text-align: right;">(1) all three</td> </tr> <tr> <td>Increase in trade receivables</td> <td style="text-align: right;">(157 000)</td> </tr> <tr> <td>Increase in trade payables</td> <td style="text-align: right;">16 000</td> </tr> <tr> <td>Net Cash from operating activities</td> <td style="text-align: right;">162 000</td> <td style="text-align: right;">(1of)</td> </tr> </tbody> </table> <p>Workings W1 Depreciation charge for the year \$(Closing balance 690 000 + Disposals 299 000) (1) - Opening balance 730 000 (1for both balances)= \$259 000 (1) W2 Profit on disposal of machinery \$ (Disposal proceeds 64 000-Carrying value 51 000)=\$13 000(1)</p>	Malacca Trading plc			Reconciliation of profit for the year to cash from operating activities for the year ended 31 December 2015				\$		Profit for the year	195 000	(1)	Add Depreciation charge for the year	259 000	(3 - W1)	Less Profit on disposal of machinery	(13 000)	(1 - W2)	Increase in inventories	(138 000)	(1) all three	Increase in trade receivables	(157 000)	Increase in trade payables	16 000	Net Cash from operating activities	162 000	(1of)	(7)
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2(c)(i)	<p>Award 1 mark for each correct ratio.</p> <p>Current Ratio 31 December 2014 2.66:1 (1)</p> <p>31 December 2015 3.13:1 (1)</p>	(2)

Question Number	Answer (AO2) 2	Mark
2(c)(ii)	<p>Award 1 mark for each correct ratio.</p> <p>Quick Ratio (Acid Test) 31 December 2014 0.93:1 (1)</p> <p>31 December 2015 1.20:1 (1)</p>	(2)

Question Number	Answer (AO4) 4 (AO5) 2	Mark
2(d)	<p>Award up to 4 marks for analysis, award up to 2 marks for evaluation.</p> <p>Eg</p> <p>Analysis The current ratio is too high than the standard of 2:1 and quick ratio is also too high than the standard 1:1(1). Current ratio for 2015 has increased which indicates that too much capital is tied up in current assets (1) which could have been used more efficiently to generate future income (1). The Acid test has also increased which indicates too much money tied up in trade receivables which may lead to increased risk of irrecoverable debts (1).</p> <p>Evaluation Over the two years the liquidity position has improved (1) as they have positive cash balance and the ratios were higher than the standard (1).</p>	(6)

Total for Question 2 = 28 marks

Question Number	Answer (AO1) 2 (AO2) 21	Mark																																																																																																																																		
3	<p>Awards marks as indicated. Award 1 mark for the heading. Award 1 additional mark total for both labels of Gross profit, loss for the year</p> <p style="text-align: center;">Mr Papo Statement of profit or loss for the year ended 31 March 2016 (1)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">\$</th> <th></th> <th style="text-align: center;">\$</th> <th></th> </tr> </thead> <tbody> <tr> <td>Revenue–Sales Returns)</td> <td></td> <td></td> <td style="text-align: right;">152 279</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">-577</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">151 702</td> <td></td> </tr> <tr> <td>Less Cost of sales</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">69 000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Purchases (125 690)</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Purchases returns (693) (1)</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Drawings (450) (1)</td> <td style="text-align: right;">124 547</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Closing inventory (95 250-250 (1)+(185 -45) (1))</td> <td style="text-align: right;">(95 140)</td> <td style="text-align: right;">(1)</td> <td style="text-align: right;">(98 407)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Gross profit</td> <td></td> <td></td> <td style="text-align: right;">53 295</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Discount received</td> <td></td> <td></td> <td style="text-align: right;">2 928</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Less Expenses</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Discount allowed</td> <td style="text-align: right;">2 875</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Carriage outwards</td> <td style="text-align: right;">2 170</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Depreciation</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Fixtures and fittings (60 000 x 20%)</td> <td style="text-align: right;">12 000</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td>Machinery (150 000 – 64 000 (1))x20%</td> <td style="text-align: right;">17 200</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">17 500</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Insurance (6902 – (480 x 2/3) (1))</td> <td style="text-align: right;">6 582</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td>Rent</td> <td style="text-align: right;">13 480</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Telephone expenses (2 500 + (55x3)(1))</td> <td style="text-align: right;">2 665</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td>Wages and salaries</td> <td style="text-align: right;">28250</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Irrecoverable debt</td> <td style="text-align: right;">397</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td>Allowance for doubtful debts (12 397 – 397)(1)x2%</td> <td style="text-align: right;">240</td> <td style="text-align: right;">(1)</td> <td style="text-align: right;">(103 359)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Loss for the year (1 for both labels gross profit and loss of the year)</td> <td></td> <td></td> <td style="text-align: right;">47 136</td> <td style="text-align: right;">(1)</td> </tr> </tbody> </table>		\$		\$		Revenue–Sales Returns)			152 279	(1)				-577					151 702		Less Cost of sales					Opening inventory	69 000				Purchases (125 690)					Purchases returns (693) (1)					Drawings (450) (1)	124 547				Closing inventory (95 250-250 (1)+(185 -45) (1))	(95 140)	(1)	(98 407)	(1)	Gross profit			53 295	(1)	Discount received			2 928	(1)	Less Expenses					Discount allowed	2 875				Carriage outwards	2 170				Depreciation					Fixtures and fittings (60 000 x 20%)	12 000	(1)			Machinery (150 000 – 64 000 (1))x20%	17 200	(1)			General expenses	17 500				Insurance (6902 – (480 x 2/3) (1))	6 582	(1)			Rent	13 480				Telephone expenses (2 500 + (55x3)(1))	2 665	(1)			Wages and salaries	28250				Irrecoverable debt	397	(1)			Allowance for doubtful debts (12 397 – 397)(1)x2%	240	(1)	(103 359)	(1)	Loss for the year (1 for both labels gross profit and loss of the year)			47 136	(1)	(23)
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Total for Question 3 = 23 marks

Question Number	Answer (AO2) 3	Mark	
4(a)(i)	Award marks as indicated.	(3)	
	<table border="1"> <tr> <td>Gross Profit percentage</td> <td>$\\$(248\ 000(2/1of)/748\ 000) \times 100 = 33.16\% (1of)$</td> </tr> </table>		Gross Profit percentage
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Question Number	Answer (AO2) 2	Mark	
4(a)(ii)	Award marks as indicated.	(2)	
	<table border="1"> <tr> <td>Net Profit percentage</td> <td>$\\$(57\ 000(1)/748\ 000) \times 100 = 7.62\% (1of)$</td> </tr> </table>		Net Profit percentage
Net Profit percentage	$\$(57\ 000(1)/748\ 000) \times 100 = 7.62\% (1of)$		

Question Number	Answer (AO1)1 (AO3) 1	Mark
4(b)(i)	2 marks for explaining each concept and relating to the scenario.	(2)
	Consistency concept states that business should continue to use the same method of depreciation or inventory valuation (1) hence the change in method goes against the consistency concept (1).	

Question Number	Answer (AO1)1 (AO3) 1	Mark
4(b)(ii)	2 marks for explaining each concept and relating to the scenario.	(2)
	Prudence concept states to record the conservative valuation of the profit and assets (1) hence by changing from the straight line to reducing balance method the depreciation will be lower which will give the higher profit hence goes against the prudence concept (1).	

Question Number	Answer (AO1)1 (AO3) 1	Mark
4(b)(iii)	2 marks for explaining each concept and relating to the scenario.	(2)
	Accruals concept states that the costs are matched with the revenue of the relevant year (1) hence charging the depreciation under both methods complies with the accrual concept (1).	

Question Number	Answer (AO1)1 (AO3) 1	Mark
4(b)(iv)	<p>2 marks for explaining each concept and relating to the scenario.</p> <p>Going concern concept states that the assets are shown at the cost not at market value until and unless it is sure that business will discontinue its operations within the next 12 months (1) changing the method of the depreciation would not affect the application of going concern concept (1).</p>	(2)

Question Number	Answer (AO2) 12	Mark																																										
4(c)	<table border="1"> <thead> <tr> <th>Name of Account</th> <th>Debit \$</th> <th>Credit \$</th> </tr> </thead> <tbody> <tr> <td>Motor repairs</td> <td>500 (1)</td> <td></td> </tr> <tr> <td>Motor vehicles</td> <td></td> <td>500 (1)</td> </tr> <tr> <td>Being the correction of an error of principle (1)</td> <td></td> <td></td> </tr> <tr> <td>Bank</td> <td>700 (1)</td> <td></td> </tr> <tr> <td>Suspense</td> <td></td> <td>700 (1)</td> </tr> <tr> <td>Being the correction of an error where a cheque was incorrectly posted (1)</td> <td></td> <td></td> </tr> <tr> <td>Suspense</td> <td>160 (1)</td> <td></td> </tr> <tr> <td>Discount received</td> <td></td> <td>80</td> </tr> <tr> <td>Discount allowed</td> <td></td> <td>80 (1 both)</td> </tr> <tr> <td>Being the correction of an error of discount received being incorrectly posted. (1)</td> <td></td> <td></td> </tr> <tr> <td>Suspense</td> <td>9 000</td> <td></td> </tr> <tr> <td>Purchases</td> <td></td> <td>9 000</td> </tr> <tr> <td>Being the correction of a posting error in the purchase account. (1)</td> <td></td> <td></td> </tr> </tbody> </table>	Name of Account	Debit \$	Credit \$	Motor repairs	500 (1)		Motor vehicles		500 (1)	Being the correction of an error of principle (1)			Bank	700 (1)		Suspense		700 (1)	Being the correction of an error where a cheque was incorrectly posted (1)			Suspense	160 (1)		Discount received		80	Discount allowed		80 (1 both)	Being the correction of an error of discount received being incorrectly posted. (1)			Suspense	9 000		Purchases		9 000	Being the correction of a posting error in the purchase account. (1)			(12)
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Total for Question 3 = 25 marks

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Total for Question 5 = 22 marks

TOTAL FOR PAPER =115 MARK