

Pearson LCCI

Certificate in Financial Accounting (VRQ) Level 3

Wednesday 6 July 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 how financial statements contribute towards meeting the needs of:

(i) shareholders

(1)

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(ii) employees

(1)

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(iii) customers.

(1)

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(b) State the implication of unlimited liability for a sole trader.

(1)

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(c) State **two** differences between a private limited company (Ltd) and a public limited company (plc).

(4)

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(d) State **one** advantage and **one** disadvantage **for the franchisee** of a franchise business organisation.

(2)

Advantage

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Disadvantage

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(e) (i) State **two** reasons why it is important to apply professional ethics when undertaking accounting roles and functions.

(2)

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(ii) Explain how the principles of professional ethics can be applied under each of the following headings.

(3)

Integrity

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Objectivity

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Independence

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(f) State how inventory should be valued according to the International Financial Reporting Standards.

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(Total for Question 1 = 17 marks)

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- 2 Malacca Trading plc provided the following information at 31 December 2014 and 31 December 2015.

	31 December 2015 \$	31 December 2014 \$
Assets		
Non-current assets		
Property, plant and equipment at carrying value	<u>2 723 000</u>	<u>2 586 000</u>
Current assets		
Inventory	1 056 000	918 000
Trade and other receivables	489 000	332 000
Cash and cash equivalents	<u>169 500</u>	<u>164 000</u>
	<u>1 714 500</u>	<u>1 414 000</u>
Total assets	<u>4 437 500</u>	<u>4 000 000</u>
Equity and liabilities		
Equity		
Share capital – \$1 ordinary shares	2 900 000	2 500 000
Share premium	220 000	200 000
Retained earnings	<u>569 500</u>	<u>493 000</u>
Total equity and reserves	<u>3 689 500</u>	<u>3 193 000</u>
Non-current liabilities		
6% bank loan	200 000	275 000
Current liabilities		
Trade and other payables	<u>548 000</u>	<u>532 000</u>
Total liabilities	<u>748 000</u>	<u>807 000</u>
Total equity and liabilities	<u>4 437 500</u>	<u>4 000 000</u>



Additional information

- Extract from the non-current assets schedule

Property, plant and equipment	31 December 2015 \$	31 December 2014 \$
Cost	3 413 000	3 316 000
Accumulated depreciation	690 000	730 000

- On 11 April 2015 machinery that had originally cost \$350 000 was sold for \$64 000. The carrying value of the machinery was \$51 000.
- There had been no revaluation of non-current assets during the year.
- On 31 May 2015 the company issued additional shares.
- During the year the company paid the following dividends:
 - 22 January 2015 \$0.03 per share
 - 29 July 2015 \$0.015 per share.
- Profit for the year ended 31 December 2015 was \$195 000.

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(c) Calculate the following ratios for **both** years:

(i) current ratio

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(ii) quick ratio (acid test).

(2)

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(d) Evaluate the liquidity position of Malacca Trading plc.

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(Total for Question 2 = 28 marks)



3 Mr Papo provided the following information at 31 March 2016.

Account	Balance \$
Bank	8 750
Carriage outwards	2 170
Cash	1 819
Discount allowed	2 875
Discount received	2 928
Equity at 1 April 2015	250 000
Fixtures and fittings accumulated depreciation	18 500
Fixtures and fittings at cost	60 000
General expenses	17 500
Insurance	6 902
Inventory at 1 April 2015	69 000
Machinery accumulated depreciation	64 000
Machinery at cost	150 000
Purchases	125 690
Purchases returns	693
Rent	13 480
Revenue	152 279
Sales returns	577
Telephone expenses	2 500
Trade payables control	13 510
Trade receivables control	12 397
Wages and salaries	28 250

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Additional information

- Inventory at 31 March 2016 was valued at \$95 250. This included damaged inventory of \$250. This can be sold at \$185 after repairs costing \$45.
- The insurance included \$480 paid for three months for the period ended 31 May 2016.
- Mr Papo took goods costing \$450 for personal use, which had not been accounted for in the books.
- The telephone account of \$55 per month was outstanding for the last quarter.
- Irrecoverable debts of \$397 were to be written off.
- An allowance for doubtful debts is to be introduced based on 2% of trade receivables.
- The depreciation is to be charged as follows:

Fixtures and fittings	20% on the straight line basis
Machinery	20% on the reducing (diminishing) balance basis.

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Prepare the statement of profit or loss for the year ended 31 March 2016.

Area with horizontal dotted lines for writing the statement of profit or loss.

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(Total for Question 3 = 23 marks)



4 Wei Lung, a trader in building materials, provided the following information for the year ended 31 May 2016.

	\$
Revenue	748 000
Purchases	508 000
Expenses	191 000
Inventory	
1 June 2015	51 000
31 May 2016	59 000
Premises at carrying value	120 000
Motor vehicles at carrying value	35 000

(a) Calculate the following ratios for Wei Lung for the year ended 31 May 2016:

(i) gross profit percentage

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(ii) net profit percentage.

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Wei Lung is considering changing the depreciation method from 20% on the straight line basis to 20% on the reducing balance basis for his motor vehicles.

(b) Explain how the proposed change will affect the application of the following concepts.

(i) Consistency

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(ii) Prudence

(2)

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(iii) Accruals

(2)

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(iv) Going concern

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At the end of June 2016, Wei Lung's trial balance failed to balance and the difference was entered into a suspense account.

On investigation, he discovered the following errors:

- A \$500 payment to Bob's Garage in respect of motor repairs was entered in the motor vehicles account.
- A cheque received from a credit customer for \$350 was entered as a payment in the cash book.
- Discount received of \$80 was posted to the debit of the discount allowed account.
- The total of the purchases day book, \$1 000, was posted to the purchases account on the correct side as \$10 000.

(c) Prepare the journal entries to correct the above errors.
Narratives are required.

(12)

Journal

Name of Account	Debit \$	Credit \$

(Total for Question 4 = 25 marks)

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- 5 Chan, Ling and Tong are in partnership, trading as an employment agency with a profit sharing ratio of 2:3:4 respectively.

The partnership agreement provided for:

- interest on capital at 8% per annum
- interest on drawings at 10% per annum
- interest on drawings being charged on total drawings
- salaries: Chan \$17 000, Ling \$21 250 and Tong \$19 250.

On 1 June 2015 the partners provided the following information.

	Capital Accounts \$	Current Accounts \$
Chan	40 000	750
Ling	60 000	14 040 (debit)
Tong	80 000	6 980

Additional information

- On 1 December 2015 Ling introduced \$30 000 additional capital into the partnership.
- On 1 December 2015 the partners revised their salaries to \$24 000 per annum for each partner.
- During the year, the partners' drawings were:

	\$
Chan	15 000
Ling	24 000
Tong	22 000

- The profit for the year before appropriation was \$105 291.

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

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Chan, Ling and Tong
Appropriation account for the year ended 31 May 2016

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(b) Prepare an extract of the statement of financial position at 31 May 2016 to show only the equity section.

(11)

Chan, Ling and Tong
Extract of statement of financial position at 31 May 2016

Equity

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(Total for Question 5 = 22 marks)

TOTAL FOR PAPER = 115 MARKS





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