



Mark Scheme

September 2016  
**Results**

Pearson LCCI Level 3 Certificate in  
Financial Accounting  
(ASE 20097)

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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	AO1(2)	Mark
<b>1(a)(i)</b>	<p><b>Award 1 mark for each correct difference. Must be a comparison of both types of organisation.</b></p> <p><b>E.g.</b></p> <ul style="list-style-type: none"> <li>• A public limited company (plc) is where the shares are issued to the general public <b>whereas</b> a private limited (Ltd) company is where shares are issued to a limited group of people, e.g. friends and family <b>(1)</b>.</li> <li>• A public limited company must have a minimum share capital of \$50 000 <b>whereas</b> there is no minimum share capital for a private limited company <b>(1)</b>.</li> </ul> <p><b>Accept any other appropriate response.</b></p>	<b>(2)</b>

Question Number	AO1(2)	Mark
<b>1(a)(ii)</b>	<p><b>Award 1 mark for each correct difference. Must be a comparison of both types of organisation.</b></p> <p><b>E.g.</b></p> <ul style="list-style-type: none"> <li>• Partners in a limited liability partnership have limited liability whereas with a general partnership liability is unlimited <b>(1)</b>.</li> <li>• There must be one partner with unlimited liability within a limited liability partnership whereas there is no such restriction in a general partnership <b>(1)</b>.</li> </ul> <p><b>Accept any other appropriate response.</b></p>	<b>(2)</b>

Question Number	AO1(4)	Mark
<b>1(b)</b>	<p><b>Award up to 2 marks for each disadvantage. 1 mark for each side of comparison.</b></p> <p><b>E.g.</b></p> <ul style="list-style-type: none"> <li>• The sole trader may have limited capital to run the business <b>(1)</b> but partners may have more capital to run the business <b>(1)</b>.</li> <li>• The sole trader may have limited skills to run the business <b>(1)</b> but partners may have different skills to run the business <b>(1)</b>.</li> <li>• A sole trader has to bear all the losses <b>(1)</b> whereas in a partnership losses are shared <b>(1)</b>.</li> </ul> <p><b>Accept any other appropriate response.</b></p>	<b>(4)</b>

Question Number	AO1(2)	
<b>1(c)</b>	<p><b>Award 1 mark for each correct purpose of preparing a trial balance.</b></p> <p><b>E.g.</b></p> <ul style="list-style-type: none"> <li>• The arithmetical accuracy of the ledger accounts <b>(1)</b>.</li> <li>• To aid in the preparation of the financial statements of the business <b>(1)</b>.</li> </ul> <p><b>Accept any other appropriate response.</b></p>	<b>(2)</b>

Question Number	AO1(2)	Mark
<b>1(d)</b>	<p><b>Award 1 mark for each purpose of financial statements.</b></p> <p><b>E.g.</b></p> <p>The purpose of financial statements is to:</p> <ul style="list-style-type: none"> <li>• show the financial performance (profitability) of the business for the period <b>(1)</b></li> <li>• show the change change in liquidity position of the business for the period <b>(1)</b></li> <li>• show the financial position on a specific date <b>(1)</b></li> <li>• show the change in the equity of the business over a period <b>(1)</b></li> <li>• enable the stakeholders to make (economic) decisions <b>(1)</b>.</li> </ul> <p><b>Accept any other appropriate response.</b></p>	<b>(2)</b>

Question Number	AO1(1) AO3(3)	Mark
<b>1(e)(i)</b>	<p><b>Award 1 mark for stating prudence concept and 3 marks for explaining the prudence concept.</b></p> <p>Allowance for doubtful debts is created according to prudence concept <b>(1)</b></p> <p>which states that where there is any uncertainty the business should report a conservative/lower figure <b>(1)</b> for profit <b>(1)</b> and valuation of assets <b>(1)</b>.</p>	<b>(4)</b>

Question Number	AO2(3)	Mark												
<b>1(e)(ii)</b>	<p>Award marks as shown for figures and details in correct combination.</p> <p style="text-align: center;"><b>Nazib</b></p> <p style="text-align: center;"><b>Statement of financial position extract at 30 June 2016</b></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">36 250</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Allowance for doubtful debts</td> <td style="text-align: right;"><u>(3 625)</u></td> <td style="text-align: right;">(1of)</td> </tr> <tr> <td></td> <td style="text-align: right;">32 625</td> <td style="text-align: right;">(1of)</td> </tr> </table>		\$		Trade receivables	36 250	(1)	Allowance for doubtful debts	<u>(3 625)</u>	(1of)		32 625	(1of)	<b>(3)</b>
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<b>1(f)</b>	<p><b>Award 1 mark for each principle (max 2) and up to 2 marks for reasons corresponding to ethics identified.</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;">Principles of professional ethic</th> <th style="width: 50%; text-align: center;">Reason</th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>• Integrity <b>(1)</b></li> <li>• Honesty <b>(1)</b></li>   <li>• Objectivity <b>(1)</b></li> <li>• Independence<b>(1)</b></li> </ul> </td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>• Anna will compromise her integrity/honesty by signing the report without reading it <b>(1)</b>.</li> <li>• Lying to the client in saying the reason for the delay was computer failure <b>(1)</b>.</li>   <li>• Anna’s objectivity / independence will be at risk as they are friends <b>(1)</b>.</li> <li>• Raminder also offered free lunch for the favour in return <b>(1)</b>.</li> </ul> </td> </tr> </tbody> </table>	Principles of professional ethic	Reason	<ul style="list-style-type: none"> <li>• Integrity <b>(1)</b></li> <li>• Honesty <b>(1)</b></li>   <li>• Objectivity <b>(1)</b></li> <li>• Independence<b>(1)</b></li> </ul>	<ul style="list-style-type: none"> <li>• Anna will compromise her integrity/honesty by signing the report without reading it <b>(1)</b>.</li> <li>• Lying to the client in saying the reason for the delay was computer failure <b>(1)</b>.</li>   <li>• Anna’s objectivity / independence will be at risk as they are friends <b>(1)</b>.</li> <li>• Raminder also offered free lunch for the favour in return <b>(1)</b>.</li> </ul>	<b>(4)</b>
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**TOTAL FOR QUESTION 1 –23 MARKS**

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<b>2(a)</b>	<p><b>Award marks as indicated.</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 40%;"><b>Workings</b></th> <th style="width: 30%;"><b>Answer \$</b></th> </tr> </thead> <tbody> <tr> <td rowspan="2" style="vertical-align: middle; text-align: center;">Credit sales</td> <td>           Accept 301 860 if candidate shows the irrecoverable debts have been accounted for.              <b>Trade receivables control account</b> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <thead> <tr> <th style="width: 25%;">Details</th> <th style="width: 15%;">\$</th> <th style="width: 25%;">Details</th> <th style="width: 35%;">\$</th> </tr> </thead> <tbody> <tr> <td>Balance b/d</td> <td style="text-align: right;">25 000</td> <td>Bank</td> <td style="text-align: right;">278 460 (1)</td> </tr> <tr> <td>Credit sales</td> <td style="text-align: right;">301 860 (1)</td> <td>Irrecoverable debts</td> <td style="text-align: right;">5 700 (1)</td> </tr> <tr> <td></td> <td></td> <td>Balance c/d</td> <td style="text-align: right;">42 700 (1 for both opening and closing)</td> </tr> <tr> <td></td> <td style="text-align: right; 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	<p>Cost of sales = opening inventory +(Credit purchases – Purchase return – Drawings ) – closing inventory</p> <p>(440 300 x 100/140) (314 500) = 42 790 + (Credit Purchase– 15 720 – 2500)– 50 000</p> <p>Credit purchase 314 500 <b>(1)</b> – 42 790 +(15 720 +2 500) <b>(1)</b> +50 000 <b>(1 for both balances)=339 930 (1)</b></p>		
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Question Number	AO2(23)	Mark																																																						
<b>2(b)</b>	<p><b>Award marks as indicated. 1 mark for profit for the year with label.</b></p> <p style="text-align: center;"><b>Dona</b> <b>Statement of Profit or Loss for the year ended 31 March 2016.</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">440 300 <b>(1of)</b></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">42 790</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">339 930</td> <td></td> </tr> <tr> <td>Purchase returns</td> <td style="text-align: right;">(15 720) <b>(1)</b></td> <td></td> </tr> <tr> <td>Drawings</td> <td style="text-align: right;">(2 500) <b>(1)</b></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">364 500</td> <td></td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: right;">(50 000) <b>(1)</b></td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>(314 500)</u></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">125 800</td> </tr> <tr> <td>Profit on disposal of fixture and fittings</td> <td></td> <td style="text-align: right;">150 <b>(1)</b></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">125 950</td> </tr> <tr> <td>Expenses:</td> <td></td> <td></td> </tr> <tr> <td>Loss on disposal of motor van</td> <td style="text-align: right;">2 500 <b>(1)</b></td> <td></td> </tr> <tr> <td>Depreciation charge: Fixtures and fittings <b>W1</b></td> <td style="text-align: right;">1 750 <b>(4)</b></td> <td></td> </tr> <tr> <td>Motor vans <b>W2</b></td> <td style="text-align: right;">17 500 <b>(4)</b></td> <td></td> </tr> <tr> <td>Wages and salaries <b>W3</b></td> <td style="text-align: right;">19 550</td> <td></td> </tr> </tbody> </table>		\$	\$	Revenue		440 300 <b>(1of)</b>	Cost of sales			Opening inventory	42 790		Purchases	339 930		Purchase returns	(15 720) <b>(1)</b>		Drawings	(2 500) <b>(1)</b>			364 500		Closing inventory	(50 000) <b>(1)</b>		Cost of sales		<u>(314 500)</u>	Gross profit		125 800	Profit on disposal of fixture and fittings		150 <b>(1)</b>			125 950	Expenses:			Loss on disposal of motor van	2 500 <b>(1)</b>		Depreciation charge: Fixtures and fittings <b>W1</b>	1 750 <b>(4)</b>		Motor vans <b>W2</b>	17 500 <b>(4)</b>		Wages and salaries <b>W3</b>	19 550		<b>(23)</b>
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		<b>(3)</b>	
Electricity <b>W4</b>	4 600	<b>(3)</b>	
General expenses	3 460	<b>(1)</b>	
Irrecoverable debts	5 700	<b>(1)</b>	
			(55 060)
Profit for the year			70 890 <b>(1of with label for both gross profit and profit for the year)</b>
<p><b>W1</b> Opening Balance \$10 000 + Acquisition \$8 000<b>(1)</b> – Disposal \$250<b>(1)</b> – Closing balance \$16 000<b>(1 for both balances) = 1 750 (1of)</b></p> <p><b>W2</b> Opening balance \$40 000 + Acquisition \$20 000 <b>(1)</b> – Disposal \$7 500<b>(1)</b> – Closing balance \$35 000<b>(1 for both balances) = 17 500 (1of)</b></p> <p><b>W3</b> Bank \$19 250 + Closing balance \$700 <b>(1)</b> - Opening balance \$400 <b>(1) = 19 550 (1of)</b></p> <p><b>W4</b> Bank \$4 150 + Opening balance \$800 <b>(1)</b> - Closing balance \$350 <b>(1) = 4 600 (1of)</b></p>			

**TOTAL FOR QUESTION 2 – 33 MARKS**

Question Number	AO2(4)	Mark	
<b>3(a)(i)</b>	<b>Award marks as indicated.</b>		<b>(4)</b>
		\$	
	Profit as per accounts	88 196	
	Drawings	2 150	
		<b>(1)</b>	
	Interest on loan	(3 000)	
	Depreciation	(3 000)	
	<b>(1)</b>		
Adjusted profit before appropriation	84 346		
	<b>(1of)</b>		

Question Number	AO2(6)	Mark	
<b>3(a)(ii)</b>	<b>Award marks as indicated.</b>		
	<b>Munir, Nishant and Osman Appropriation Account for the year ended 31 March 2016</b>		
			<b>\$</b>
	Adjusted profit for the year <b>(1)</b>		84 346 <b>(1of)</b>
	<b>Interest on capital</b>		
	Munir 45 000*10% } <b>1 mark for all</b>		(4 500)
	Nishant 30 000*10% }		(3 000)
	Osman 25 000*10% }		(2 500)
	<b>Salaries</b>		
	Munir } <b>1 mark for all</b>		(14 000)
	Nishant }		(12 000)
	Osman }		(16 000)
	Profit available for distribution		32 346 <b>(1)</b>
	Munir 32 346 x 3/6 } <b>1 mark for all</b>		16 173
Nishant 32 346 x 2/6 }	10 782		
Osman 32 346 x 1/6 }	5 391		
	<b>(6)</b>		

Question Number	AO2(10)	Mark
<b>3(b)</b>	<b>Award marks as indicated.</b>	<b>(10)</b>

**Current Accounts**

Details	Munir	Nishant	Osman	Details	Munir	Nishant	Osman
Balance b/d	\$	\$	\$	Balance b/d (1for all)	\$	\$	\$
		7 150			4 500		1 300
Drawings - cash	6 000 (1)	7 800 (1)	8 400 (1)	Interest on capital (1of for all)	4 500	3 000	2 500
Drawings -goods	600 (1)	800 (1)	750 (1)				
Balance c/d	32 573	10 032	16 041	Salaries (1 for all)	14 000	12 000	16 000
				Profit share (1of for all)	16 173	10 782	5 391
	<b>39 173</b>	<b>25 782</b>	<b>25 191</b>		<b>39 173</b>	<b>25 782</b>	<b>25 191</b>
				Balance b/d	32 573	10 032	16 041

Question Number	AO2(11)	Mark			
<b>3(c)</b>	<b>Award marks as indicated.</b>				
	<b>Munir, Nishant and Osman Statement of Financial Position at 31 March 2016</b>				
	<b>Assets</b>	\$		\$	\$
	Non-current assets	Cost		Accumulated depreciation	Carrying value
	Premises	70 000		7 000	63 000 <b>(1)</b>
	Motor vehicle	70 000 <b>(1)</b>		15 500 <b>(1)</b>	54 500 <b>(1of)</b>
		140 000		22 500	117 500
	Current assets				
	Inventory			47 646	
	Trade receivables less allowance for doubtful debts	45 000 <b>(1)</b> - (4 500) <b>(1)</b> =40 500			
	Cash and cash equivalent			9 500	
					97 646
	<b>Total assets</b>				<b>215 146</b>
	<b>Equity and liabilities</b>				
	Equity	Munir		Nishant	Osman
	Capital account	45 000		30 000	25 000
					100 000 <b>(1)</b>
	Current account	32 573		10 032	16 041
					58 646 <b>(1of)</b>
		77 573		40 032	41 041
					158 646
	Non-current liabilities				
	Munir's loan				30 000 <b>(1)</b>
Current liabilities					
Trade payables			23 500		
Other payables(interest on Munir's loan)			3 000 <b>(1)</b>		
Total liabilities			56 500		
<b>Total equity and liabilities</b>			<b>215 146</b> <b>(1of if equal to total assets)</b>		
			<b>(11)</b>		

**TOTAL FOR QUESTION 3 – 31 MARKS**

Question Number	AO2(6)	Mark																				
<b>4(a)</b>	<p><b>Award marks as indicated</b></p> <table border="1" data-bbox="395 304 1294 891"> <thead> <tr> <th colspan="2" data-bbox="405 304 1284 412" style="text-align: center;"><b>Food Ltd</b> <b>Reconciliation of profit for the year to net cash from operating activities</b></th> </tr> <tr> <th data-bbox="405 412 1102 450"></th> <th data-bbox="1107 412 1284 450" style="text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td data-bbox="405 450 1102 521">Profit for the year</td> <td data-bbox="1107 450 1284 521" style="text-align: right;">60 650 <b>(1)</b></td> </tr> <tr> <td data-bbox="405 521 1102 593">Depreciation charge for the year W1</td> <td data-bbox="1107 521 1284 593" style="text-align: right;">127 500 <b>(1)</b></td> </tr> <tr> <td data-bbox="405 593 1102 665">Loss on disposal W2</td> <td data-bbox="1107 593 1284 665" style="text-align: right;">2 840 <b>(2)</b></td> </tr> <tr> <td data-bbox="405 665 1102 703">Increase in trade receivables</td> <td data-bbox="1107 665 1284 703" style="text-align: right;">(30 100)</td> </tr> <tr> <td data-bbox="405 703 1102 741">Increase in inventory</td> <td data-bbox="1107 703 1284 741" style="text-align: right;">(4 650)</td> </tr> <tr> <td colspan="2" data-bbox="405 741 1102 779" style="text-align: center;"><b>for all three</b></td> </tr> <tr> <td data-bbox="405 779 1102 817">Increase in trade payables</td> <td data-bbox="1107 779 1284 817" style="text-align: right;">18 600</td> </tr> <tr> <td data-bbox="405 817 1102 891">Cash from operating activities</td> <td data-bbox="1107 817 1284 891" style="text-align: right;">174 840 <b>(1of)</b></td> </tr> </tbody> </table> <p data-bbox="395 931 1294 1039"><b>W1</b> Depreciation charge for the year \$(7 500 + 90 000 + 30 000)= \$127 500 <b>(1)</b></p> <p data-bbox="395 1070 1294 1142"><b>W2</b> Loss on disposal \$27 840 <b>(1)</b> - 25 000= \$2 840 <b>(1)</b></p>	<b>Food Ltd</b> <b>Reconciliation of profit for the year to net cash from operating activities</b>			\$	Profit for the year	60 650 <b>(1)</b>	Depreciation charge for the year W1	127 500 <b>(1)</b>	Loss on disposal W2	2 840 <b>(2)</b>	Increase in trade receivables	(30 100)	Increase in inventory	(4 650)	<b>for all three</b>		Increase in trade payables	18 600	Cash from operating activities	174 840 <b>(1of)</b>	<b>(6)</b>
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Question Number	A02(12)	Mark																																													
<b>4(b)</b>	<p><b>Award marks as indicated.</b></p> <table border="1"> <thead> <tr> <th colspan="3"><b>Food Ltd</b></th> </tr> <tr> <th colspan="3"><b>Statement of Cash Flows for the year ended 31 March 2016</b></th> </tr> <tr> <th></th> <th style="text-align: right;">\$</th> <th style="text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Net cash from operating activities</td> <td></td> <td style="text-align: right;">174 840</td> </tr> <tr> <td>Cash from investing activities</td> <td></td> <td></td> </tr> <tr> <td>Acquisition of plant and machinery <b>W1</b></td> <td style="text-align: right;">(227 840) <b>(4 of)</b></td> <td></td> </tr> <tr> <td>Acquisition of fixtures and fittings*</td> <td style="text-align: right;">(25 000) <b>(3 of)</b></td> <td></td> </tr> <tr> <td>Disposal of machinery</td> <td style="text-align: right;">25 000</td> <td></td> </tr> <tr> <td>Net cash <b>used in</b> investing activities</td> <td></td> <td style="text-align: right;">(227 840) <b>(1)</b></td> </tr> <tr> <td>Cash from financing activities</td> <td></td> <td></td> </tr> <tr> <td>Bank loan</td> <td style="text-align: right;">(150 000) <b>(1)</b></td> <td></td> </tr> <tr> <td>Net cash <b>used in</b> financing activities</td> <td></td> <td style="text-align: right;">(150 000) <b>(1)</b></td> </tr> <tr> <td>Decrease in cash and cash equivalents during the year</td> <td></td> <td style="text-align: right;">(203 000) <b>(1of)</b></td> </tr> <tr> <td>Cash and cash equivalent at 1 April 2015</td> <td style="text-align: right;"><b>(1for both with labels)</b></td> <td style="text-align: right;">123 000</td> </tr> <tr> <td>Cash and cash equivalent at 31 March 2016</td> <td></td> <td style="text-align: right;">(80 000)</td> </tr> </tbody> </table> <p><b>W1</b>  Acquisition of plant and machinery=  \$(650 000+90 000<b>(1)</b>+27 840<b>(1)</b>-540 000<b>(1 for both balances)</b>)=  \$(227 840) <b>(1of)</b>  Acquisition of fixtures and fittings=  \$(87 000+30 000<b>(1)</b>-92 000<b>(1 for both balances)</b>)= \$  (25 000) <b>(1of)</b></p>	<b>Food Ltd</b>			<b>Statement of Cash Flows for the year ended 31 March 2016</b>				\$	\$	Net cash from operating activities		174 840	Cash from investing activities			Acquisition of plant and machinery <b>W1</b>	(227 840) <b>(4 of)</b>		Acquisition of fixtures and fittings*	(25 000) <b>(3 of)</b>		Disposal of machinery	25 000		Net cash <b>used in</b> investing activities		(227 840) <b>(1)</b>	Cash from financing activities			Bank loan	(150 000) <b>(1)</b>		Net cash <b>used in</b> financing activities		(150 000) <b>(1)</b>	Decrease in cash and cash equivalents during the year		(203 000) <b>(1of)</b>	Cash and cash equivalent at 1 April 2015	<b>(1for both with labels)</b>	123 000	Cash and cash equivalent at 31 March 2016		(80 000)	<b>(12)</b>
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**TOTAL FOR QUESTION 4 – 18 MARKS**



Question Number	AO4(8)	Mark
5(a)	<p><b>Award 1 mark (maximum 2 marks) for developing each reason for the higher or lower ratios of each business in comparison to the other business. E.g.</b></p> <p><b>Net profit margin</b> for Mr Solanki's business is higher as Mr Solanki has a higher gross profit margin compared to Mr Kay's business<b>(1)</b>. Mr Kay's net profit margin is 2.5 times lower than the gross profit margin while Mr Solanki's net profit margin is almost 3 times lower, which indicates that Mr Kay has better control over his operating expenses<b>(1)</b>.</p> <p><b>Quick ratio (acid test)</b> again is higher for Mr Solanki's business in comparison to Mr Kay's business. The change in the ratio from the current ratio for Mr Solanki's business is 3.2:1 compared to Mr Kay's business which is 0.85:1, which indicates that Mr Solanki's capital is tied up too much in inventory <b>(1)</b> which could have been utilised in business more efficiently <b>(1)</b>.</p> <p><b>Inventory turnover</b> for Mr Solanki is a matter of concern as his inventory moves only 6 times compared to Mr Kay's business and this could be the reason for his higher trade receivables collection period <b>(1)</b>. The reason for this could be that Mr Kay may have a wholesale business which means the inventory moves in higher volume at a lower selling price <b>(1)</b> which could be the reason for his lower gross profit margin as well <b>(1)</b>. <b>Max 2</b></p> <p><b>Trade payables payment period</b> for Mr Solanki is higher than the Mr Kay's business, which is higher than normal credit period of 30 days. Mr Kay's business shows good liquidity as it pays its suppliers on time <b>(1)</b> and utilises the resources efficiently as it has 30 days in between collecting money from customers and paying to its suppliers compared to Mr Solanki's business, who pays its suppliers 13 days after collecting money from its customers <b>(1)</b>.</p>	(8)

Question Number	AO5(2)	Mark
<b>5(b)</b>	<p><b>Award 1 mark for suggesting either business only if stated a reason and 1 mark for the reason.</b></p> <p>Mr Chung should invest in Mr Kay's business <b>(1)</b> as he is managing its resources efficiently and the sales are on a cash basis <b>(1)</b>.</p> <p>OR</p> <p>Mr Chung should invest in Mr Solanki's business <b>(1)</b> as his profitability/liquidity ratios are higher than Mr Kay's business <b>(1)</b>.</p>	<b>(2)</b>

**TOTAL FOR QUESTION 5 – 10 MARKS**

**TOTAL FOR PAPER = 115 MARKS**