Pearson LCCI

Certificate in Financial Accounting (VRQ)

Level 3

Wednesday 18 January 2017

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 ▶

1/1/1/1/1/1/1/1

Pearson

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

1 (a) State **two** characteristics of 'Not for Profit' organisations.

(2)

1 ....

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2 ....

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(b) State **two** situations when the going concern concept would **not** be applied.

(2)

1 ....

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2 ....

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(c) Explain **two** limitations of financial statements when applying for a loan.

(4)

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(d) David made the following errors in his accounting books.

Error 1: Delivery charges for a new machine had been recorded as carriage inwards.

Error 2: Purchase of a motor vehicle was recorded as equipment.

Error 3: A cash sale had been recorded as a payment in the cash book and posted to the wrong side of the account in the general ledger.

(i) Identify the type of error in **each** case.

(3)

Error 1 ....

Error 2 ....

Error 3 ....

(ii) Describe how **each** error would have affected David's equity.

(3)

Error 1 ....

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Error 2 ....

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Error 3 ....

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(Total for Question 1 = 14 marks)

2 Demitri Constas sells new and refurbished computers and accessories.

He has provided the following account balances for the year ended 31 August 2016.

	$		$
Carriage inwards	4 430	Office furniture – accumulated depreciation	4 000
Carriage outwards	6 000	Office furniture – cost	40 000
Discount allowed	4 800	Fixtures and fittings – accumulated depreciation	2 000
Discount received	3 200	Fixtures and fittings – cost	10 000
Rent	8 750	Purchase returns	5 800
Repairs and renewals	1 570	Purchases	296 000
Heating and lighting	4 100	Revenue	416 000
Insurance	8 400	Trade payables	32 150
Inventory at 1 September 2015	35 000	Trade receivables	42 600
Wages and salaries	49 450		

Additional information

- On 31 August 2016 the inventory was valued at $49 650. This included new computers costing $5 000 which were damaged. These can be repaired at a cost of $400 and then sold for $3 750
- Wages and salaries included $21 000 paid to the employees for refurbishing the old computers.
- Heating and lighting included $750, paid for three months for the period ended 31 October 2016.
- Insurance of $1 200 for six months for the period ending 31 December 2016 was outstanding.
- Irrecoverable debts of $2 600 were to be written off.
- An allowance for doubtful debts was to be created at 10% of trade receivables.
- Demitri repaired fixtures and fittings using materials costing $130. These had been included in the purchases.
- A new laptop computer costing $400, taken by Demitri for personal use, has not been accounted for.

- On 31 August 2016 office furniture purchased on 1 January 2014, costing \$2 000, was disposed of for \$1 500. This has not been recorded in the books.
- The depreciation policy is to charge a full year's depreciation in the year of acquisition and none in the year of disposal.
- Depreciation is to be provided as follows:

Fixtures and fittings	10% straight line method
Office furniture	10% diminishing (reducing) balance method.

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

(28)

Demitri Constas

Statement of profit or loss for the year ended 31 August 2016

(Total for Question 2 = 28 marks)

3 Perry, Qazim and Rowan are in partnership, sharing profits and losses equally.

The partnership agreement provided for interest on capital at 5% per annum, and salaries for Perry, Qazim and Rowan of $10 000, $20 000 and $24 000 per annum respectively.

On 1 January 2016 the capital and current account balances were:

Partner	Capital Account $	Current Account $
Perry	100 000	4 000 Dr
Qazim	50 000	5 000
Rowan	50 000	3 000

On 1 July 2016

- Perry, Qazim and Rowan changed the partnership agreement to share profits and losses in the ratio of 2:1:1 respectively. It was agreed to have interest on capital at 10% per annum and salaries for all partners at $24 000 per annum.
- The partners made additional investments as follows:

  Perry $100 000 as capital and $20 000 as a five-year loan

  Qazim $50 000 as capital

  Rowan $50 000 as capital.
- A motor van with a carrying value of $40 000 was taken by Perry at a value of $30 000
- Partners revalued all remaining non-current assets $85 000 higher than the carrying amount.
- Goodwill was valued at $60 000 and the partners decided not to maintain it in their partnership books.

On 31 December 2016

- The profit for the year was $82 000 accrued evenly.

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(a) Prepare the profit or loss appropriation account for the year ended 31 December 2016.

(18)

Perry, Qazim and Rowan
Profit or loss appropriation account for the year ended 31 December 2016

	$	$	Total

(b) Prepare the partners' capital accounts for the period ended 31 December 2016 on page 10, showing the profit or loss on the revaluation and the balances brought down on 1 January 2017 (dates are not required).

(9)

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Capital Accounts

Details	Perry $	Qazim $	Rowan $	Details	Perry $	Qazim $	Rowan $

(Total for Question 3 = 27 marks)

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4 Georgious, a retailer, lost his records during recent floods but was able to provide you with the following information for the year ended 31 December 2016.

On 1 January 2016

	$
Bank	4 000
Cash	450
Fixtures and fittings	50 000
General expenses prepaid	600
Inventory	21 400
Rent owing	400
Trade payables	27 500
Trade receivables	11 450

During the year

- Goods were sold at a 25% gross profit margin.
- Sales were both on a credit and cash basis. Purchases were only on a credit basis.
- Normal credit terms were 30 days and 5% discount was offered for payment within 10 days.
- Trade receivables paid by cheque were as follows:
  - payments of $57 000 were received within 10 days
  - payments of $84 000 were received at the due date.
- Georgious took for personal use:
  - goods at a selling price of $500
  - $200 cash per week.
- Rent paid by cheque was $4 000 and by cash $1 500
- General expenses paid by cheque were $12 000
- Wages and salaries paid by cheque were $25 000
- The depreciation charge for the year was $5 000

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On 31 December 2016

- Inventory was valued $5 000 more than the opening inventory.
- Cash and bank balances were $550 and $8 000 respectively.
- Gross profit was $44 000

Note: 1 year = 52 weeks

(a) Prepare the following accounts for the year ended 31 December 2016 showing the balance brought down on 1 January 2017 (dates are **not** required).

(i) Cash account to calculate cash sales.

(3)

Cash Account

Details	**$**	**Details**	**$**

(ii) Bank account to calculate the payments made to trade payables.

(4)

Bank Account

Details	**$**	**Details**	**$**

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(b) Prepare the trading section of the statement of profit or loss for the year ended 31 December 2016.

(6)

Georgious
Trading section of the statement of profit or loss for the year ended 31 December 2016

(c) Prepare the following accounts for the year ended 31 December 2016 showing the balance brought down on 1 January 2017 (dates are **not** required).

(i)

Trade Receivables Control Account

(4)

Details	**$**	**Details**	**$**

(ii)

Trade Payables Control Account

(3)

Details	**$**	**Details**	**$**

(d) Prepare the statement of financial position at 31 December 2016.

(10)

Georgious
Statement of financial position at 31 December 2016

(Total for Question 4 = 30 marks)

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QUESTION 5 BEGINS ON THE NEXT PAGE.

5 You have been provided with the ratios of two similar businesses for the year ended 31 December 2016.

(a) (i) Complete the following table to show the formula for **each** ratio.

(6)

Ratios	**Mr Smith**	**Mrs Campana**	**Formula**
Gross profit margin	60%	58%	
Net profit margin	18%	20%	
Return on capital employed	35%	40%	
Current ratio	2.75:1	1.9:1	
Quick ratio (acid test)	1.5:1	1.1:1	
Inventory turnover	3 times	4 times	

(ii) State **two** other ratios that could be used to analyse a business's performance.

(2)

1 ....

2 ....

(iii) Analyse the following ratios for the two businesses.

(6)

Gross profit margin

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Net profit margin

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Return on capital employed

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Current ratio

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Quick ratio (acid test)

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Inventory turnover

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(b) Evaluate which business would be a better prospective purchase.

(2)

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(Total for Question 5 = 16 marks)

TOTAL FOR PAPER = 115 MARKS

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