



**Pearson LCCI
Certificate in Financial
Accounting (VRQ)
Level 3
(ASE20097)**

**Examiners' Report
April 2018**

LCCI Qualifications

LCCI qualifications come from Pearson, the world's leading learning company. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information, please visit our website at www.lcci.org.uk.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk.

All the material in this publication is copyright
Publication code: 57515_er
© Pearson Education Ltd 2018

Introduction

Pearson (LCCI) redeveloped the Level 3 Certificate in Financial Accounting (VRQ) (ASE20097) as a part of a Finance and Quantitative suite of qualifications from Level 1 to Level 4.

This revised qualification gives candidates an overview of the fundamental accounting principles and concepts that underlie all financial accounting. Candidates are introduced to topic areas they are likely to encounter in their working lives in practical, scenario-based situations.

The qualification has been developed with a view to allow progression on to the Pearson LCCI Level 4 Certificate in Financial Accounting (VRQ), which introduces candidates to advanced topic areas in financial accounting.

The assessment is out of 100 marks comprising a total of five compulsory questions.

This assessment covered these topics:

- The purpose of maintaining financial records
- Recording financial transactions
- Balancing accounts and trial balance
- The purpose of the extended trial balance
- Produce financial statements of a sole trader and partnership
- Introduction to interpretation of financial statements.

Candidates performed very well on statement of cash flows and completion of adjustment columns of the extended trial balance, but the majority of candidates did not attempt explain, discuss and evaluate questions and responses for state questions were very poor.

Candidates are expected to demonstrate knowledge and understanding of all the content of the specification to achieve higher grades.

Candidates need to prepare not just for the numerical/practical questions, but also for the theory related to these questions to score higher grades.

Candidates' overall performance was not as good as expected as candidates demonstrated poor understanding of accounting fundamentals and skills or knowledge required at this level, as well as for discursive questions especially relating to discussion and evaluation.

Question 1

The majority of candidates scored average marks on this question.

Part (a) Candidates were unable to state one reason to open a suspense account. The majority of candidate responses included it is opened when one entry is wrong.

See an example of (a).

to verify the wrong account through suspense account
to balance trial balance.

Part (b) Candidates were able to identify the correct concept but were not able to state the reason for applying the identified concept to an allowance for doubtful debts. The majority of candidate responses included a description of an allowance for doubtful debts.

See an example of (b).

Concept

Prudence

Explanation

An allowance for doubtful debts to show the true and fair view of the financial statements.

Part (c) Candidates were unable to calculate the inventory valuation at the year-end after adjusting the sales return and sales after the year end, with the mark-up included in the figures provided. The majority of candidates either added or deducted the gross figures or where they calculated the cost of the sales and the sales return the direction was wrong to get the inventory valuation at the year-end. Candidates from few centres started with the cost of sales to find the closing inventory.

See an example of (c).

the value of inventory at 15 February 2018	=	\$ 22000
sales returns	$8650 \times \frac{1}{5}$	= (1730)
cost of sales	$8400 \times \frac{1}{5}$	= 1680
the value of inventory at 31 Jan 2018		<u>22100</u>

Part (d) Candidates were able to calculate the change in the allowance for doubtful debts, the only error was not accounting the sales return to calculate the updated trade receivables at the year end.

See an example of (d).

$$\begin{aligned}
 \text{Allowance for doubtful debts} &= (\$16810 \times 5\%) - \$580 \\
 &= \$840.5 - \$580 \\
 &= \$260.5
 \end{aligned}$$

Part (e) ~~Majority of the~~ The majority of candidates scored above average marks on this part. Main mistakes were not accounting the telephone accrual and prepayments and sales return correctly.

See an example of (e).

Ledger account	Trial balance		Adjustments	
	Debit \$	Credit \$	Debit \$	Credit \$
Allowance for doubtful debts		580		228
Bank	2 680			
Computer equipment	6 100			
Equity		50 000		
General expenses	10 990			1890 2010
Purchases	78 520			
Purchase returns		1 430		
Revenue		184 230		
Sales returns	2 390		650	
Telephone expenses	1 480		165	120
Trade payables		7 265		
Trade receivables	16 810			650
Allowance for doubtful debts adjustment			228	
Closing inventory – statement of financial position				
Closing inventory – statement of profit or loss				
Drawings			1890	
Other payables				165
Other receivables			120	



**Examiner Comments**

In the extended trial balance, for the entries use the calculated amount from the previous tasks.

**Examiner Tip**

Candidates must pay attention to the year-end for the business to account for the transactions correctly, especially for the after year-end transactions and accruals and prepayments.



Question 2

The majority of candidates scored below average marks on this question.

Part (a) Candidates were able to state two advantages of being in business as a sole trader.

- 1 independence control of marketing and running a business.
- 2 Do not have to share profit, maximise profit.

Part (b)(i) The majority of candidates were unable to calculate the revised profits after adjusting the adjustments/transactions provided, as it required an understanding of the accounting rules and application rather than a straight forward question to calculate the profit for the year.

See an example of (b)(i).

	Gross profit \$	Profit for the year \$
Draft profits	56 400	9 200
1	+200	+200
2	+ 650	No effect
3	No effect	+ 260 X
4	- 600	-600
5	- 180 X	No effect X
6	No effect	+ 336
Revised profits	56470	9 396

Part (b)(ii) Candidates were unable to identify the relevant accounting concept related to the information provided in the adjustment/transaction.

See an example of (b)(ii).

Business entity

Part (c)(i) Candidates were unable to state a reason for preparing a bank reconciliation statement.

Part (c)(ii) Candidates were unable to state two adjustments to the cash book before preparing a bank reconciliation statement. The majority of candidates stated the items, such as irrecoverable debts (not a cash book entry), outstanding lodgements and unpresented cheques (both items are already in the cash book and are recorded in the bank reconciliation statement as these are not included in the bank statement), which demonstrates the lack of understanding of fundamental principles of accounting expected at this level.

See an example of (c)(ii).

1 Bank charges

2 Bank Interest gain

Part (d) Candidates were unable to state two reasons for a business to measure its performance. The majority of candidates stated the name of the ratios or name of the statements rather than why a business must measure its performance.

See an example of (d).

1 Because ^{if} the owners know its performance, he ~~deceid~~ decide any action of future.

2 Compare to other bussiness to imporve business's result.



Examiner Comments

Candidates must read the question carefully to answer accordingly.



Examiner Tip

It is important that candidates either complete the lower levels to progress to this level or have the requisite skills for the level before taking exam.



Question 3

The majority of candidates scored below average marks on this question.

Part (a) Candidates were unable record the journal entries relating to goodwill on retirement of a partner. The majority of candidates just divided the goodwill amount in the profit sharing ratio along with the name of the partners without stating the name of the account, whether capital or current account, for each partner.

See an example of (a).

Date	Account	Debit \$	Credit \$
31 January 2018	Goodwill	18000	
	Capital (Asif)		9000
	Capital (Bharti)		6000
	Capital (Aar)		3000
31 January 2018	Capital (Asif)	12000	
	Capital (Aar)	6000	
	Goodwill		18000

Part (b)(i) The majority of candidates were able to prepare the current account to a reasonable standard. The main error was not having the correct labels such as appropriation account for the interest on capital, salary and for profit share. Weaker candidates recorded the amount transferred to the capital account as the balance c/d and did bring the balances down along with the goodwill or revaluation into the current account, which indicated a lack of understanding of partnership accounts as the partner left the partnership.



See an example of (b)(i).

(i) **Current Account – Bharti** (7)

Date	Details	\$	Date	Detail	\$
1 February 2017	balance b/d	18,000	31 January 2018	Appropriation	1,500
31 January 2018	Drawing	15,000		(Interest on Capital)	
			31 January 2018	Appropriation (Salary)	8,000
31 January 2018	Capital	12,700	31 January 2018	Appropriation	29,000
				(Profit Share)	
				(60,000 × $\frac{2}{8}$)	
		<u>29,500</u>			
					<u>29,500</u>

Part (b)(ii) The majority of candidates were able to prepare the capital account as expected. The main error was not having the correct labels for bank and loan. Weaker candidates recorded the balancing amount as a balance c/d and did bring the balances down along, instead of loan as stated in the information provided.

See an example of (b)(ii).

(ii) **Capital Account – Bharti** (6)

Date	Details	\$	Date	Details	\$
31/1/18	Revaluation	3,000	1/2/17	Balance b/d	30,000
31/1/18	Cash Book	15,000	31/1/18	Goodwill	6,000
31/1/18	Loan	30,700	31/1/18	Current	12,700
		<u>48,700</u>			<u>48,700</u>

Part (c) Candidates were unable to justify their decision whether to convert the partnership business to a private limited company by discussing the comparative advantages and disadvantages of both forms of organisation.

See an example of (c).

Partnership - They are unlimited liability.

Share are not issued to raise finance.

Cover for holiday / illness.

Share the idea, knowledge on her own.

Liability the other partner's action.

Private Limited company - They are limited liability. That personal asset of the owner cannot be used to pay off business debts. They can get / raise through issuing of shares among family and friends. So, they may have the capital, resources, finance.

Therefore, Asif and Cao should form a private limited company as it is a limited liability.



Examiner Comments

Candidates must not bring the balances down on current account and capital account if the partner is no longer to continue as a partner.



Examiner Tip

For the current and capital account, when a partner is leaving, the question would not require balancing the account and bring the balances down, which should give an indication that the current account balance needs to be transferred to the capital account and the capital account to be settled either by bank or loan.

For discuss questions always try to state comparative advantages and disadvantages or both sides of the discussion to form a decision and to score high/full marks.



Question 4

The majority of candidates scored below average marks on this question.

Part (a) ~~Majority of the~~ The majority of candidates were unable to calculate the closing trade receivables correctly. The main errors were not accounting the sales return, discount allowed and set off /contra entries correctly.

See an example of (a).

Bal b/d.	8	Receipts	8
	34200		154900
Credit sales.	16480	Discount allowed	2440
		Sale return	2180
		Bal c/d Contra.	1420
			379404
	198880		198880
			u

Part (b)(i) Candidates were unable to calculate the carrying value of the asset being disposed of.

See an example of (b)(i).

$$1500 - 285 = 1215$$

Part (b)(ii) Candidates were unable to calculate the loss on disposal by deducting the sale proceeds from the carrying value.

See an example of (b)(ii).

Fixtures & fittings	1500	Bank	1100	Loss on Disposal \$115
		Acc Depreciation	285	
		Income tax	115	
	1500		1500	



Part (b)(iii) Candidates were unable to calculate the depreciation charge for the year correctly.

See an example of (b)(iii).

$$[(7500 - 1500) - (1935 - 285)] \times 10\% = 435$$

Depreciation charge for the year ended 31 December 2017 \$435

Part (b)(iv) Candidates were unable to calculate the carrying value at the year-end after adjusting the disposal and updating the accumulated depreciation after disposal and depreciation charge for the year.

See an example of (b)(iv).

$$6000 - 2085 = 3915$$

Part (c) The majority of candidates were able to calculate the adjusted profit after adjusting the adjustments relating to accrual of insurance, loss on disposal and depreciation charge for the year.

See an example of (c).

Before the profit	\$ 25095
(-) loss on disposal	(115)
(-) depreciation for the year	(435)
(-) Accrued insurance covering	<u>(300)</u>
The adjusted profit for the 31 December 2017	24245

Part (d). Candidates were unable to prepare the statement of financial position. Main mistakes were not showing the subtotals for each section with labels, and not showing the bank overdraft and trade payables correctly.

See an example of (d).

Kelly Statement of financial position at 31 December 2017			
	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
<u>Non current Assets</u>			
Fixtures and fitting	6000	(2085)	3915
<u>Current Assets</u>			
Inventory		24200	
Other receivable		840	
Trade receivable		37940	
		<u>41540</u>	
			62980
			<u>66895</u>
Equity		29530	
(-) Drawings		(21850)	
(+) Profit		<u>24245</u>	31925
Bank		2660	
Other payable (\$1280 + \$300)		1580	
Trade payable		<u>27230</u>	31470
Bank Loan			3500
			<u>66895</u>



**Examiner Comments**

Pay attention to the dates to account for the accruals and prepayments correctly.

For calculate questions, try to calculate the figure required by preparing the ledger account where possible to keep you on track with the plus and minus figures.

**Examiner Tip**

Must show the subtotals in the statements with labels.



Question 5

The majority of candidates scored average marks on this question.

Part (a) Candidates were unable to explain one way in which the financial statements can contribute to the needs of the employees. The majority of responses only stated the needs of the employees without relating it to the required indicator such as profitability or liquidity.

See an example of (a)(i).

(2)

Financial statements contribute to ~~the meet~~ meeting ~~the~~ the needs of employees with the financial position. ^{showing} the liquidity that company will ~~be have continue~~ be able to pay the wages and salary, and have continue employment.

Part (a)(ii) Candidates were unable to explain one way in which the financial statements can contribute to the needs of the providers of finance. The majority of responses stated the needs of the investors, such as return on their investment, which was not asked for in the question.

See an example of (a)(ii).

To established the ~~liquid~~ liquidity of the business in order to determine if their loan will be pay back.

Part (b) ~~Majority of the~~ The majority of candidates prepared the reconciliation statement to reconcile the profit for the year to the net cash from operating activities. The main error was not treating the loss for the year correctly.

See an example of (b).

Gradel Ltd
Reconciliation of profit for the year to net cash from operating activities
for the year ended 31 December 2017

	\$
Loss Operating loss	(28200)
Add: loss on Disposal	250
Add: Depreciation Charge year	53200
Inc. In Inventory	(8780)
Inc. In Trade Receivables	(18570)
Inc. In Trade Payables	18850
Cash generated from operating activities	<u>16750</u>

Part (c) The majority of candidates prepared the statement of cash flows to a reasonable standard. The main errors were not showing the subtotals with labels for the investing and financing activities.

See an example of (c).

Gradel Ltd
Statement of cash flows for the year ended 31 December 2017

Cash flow from operating activities	16750
<u>Cash flow from investing activities</u>	
Purchase of Land and buildings	(60000)
Sale of Motor Vehicle	20000
Cash generated from investing activities	(40000)
<u>Cash flow from financing activities</u>	
Share Capital (300000 - 280000)	20000
Share premium (35000 - 25000)	10000
Loan (85000 - 60000)	25000
Cash generated from financing activities	<u>55000</u>
Cash and Cash Equivalents year	31750
Cash and Cash Equivalents previous year	(13900)
Cash and Cash Equivalents current year	<u><u>17850</u></u>



Part (d) ~~Majority of the~~ The majority of candidates were unable to evaluate the working capital management of the business over two years. The majority of responses stated acquisition of non-current assets and the bank loan, which demonstrates lack of understanding of working capital as both items are not included in the working capital, which is the difference between current assets and current liabilities. Hence candidates were expected to analyse the possible reasons for the change in the inventory, trade receivables, cash and cash equivalents and trade payables.



Examiner Comments

For explain questions, candidates must identify a point (here, reasons for the difference) and must develop it further (here, by stating the effect on cash and on profit) to score full marks.



Examiner Tip

Cash and cash equivalents include the cash in hand and cash at bank (bank overdraft). It also includes short-term investments.

Cash and cash equivalents at the beginning and at the end are always provided in the question and must be correct.

Net increase and decrease can be worked out from the cash and cash equivalents at the beginning and at the end and must be correct. If the net increase or decrease, working through the statement, does not balance, then you must go back and check your figures, but must not change the figures in investing or financing activities just to balance this figure.

Paper Summary

Candidates performed very well on statement of cash flows and completion of adjustment columns of an extended trial balance, but poor performance overall including basic state questions.

The candidates will benefit from the following:

- Candidates must learn and practise using the International Accounting Standards (IAS) terminology and formats.
- Candidates must show their workings for any figure they calculate, with reference number such as W/Note1, W/Note2 etc.
- Candidates must use the labels for the figures used in the workings.
- Practice journal entries for the adjustments for extended trial balance.
- Practise preparing ledger accounts with correct labels and bring the balances down.
- Practise preparing financial statements with correct labels and showing the sub-totals with labels, as appropriate, by using the IAS terminology.
- Do not just practise numerical questions but also understand the theory to be able to answer the explain questions.
- Practise discuss question by providing the comparative statements for both sides.
- Practise analysing the results from the information provided by giving the reasons or what impact it will have on the business currently or in future.
- Visit Pearson website for various resources to support candidates learning

<https://qualifications.pearson.com/en/qualifications/lcci/financial-and-quantitative/financial-accounting-sept-2015.coursematerials.html>

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>