

C209/SQP235

Accounting
Higher

NATIONAL
QUALIFICATIONS

<i>Contents</i>	<i>Page</i>
Course Assessment Specification	2
Specimen Question Paper	7
Specimen Marking Instructions	19

Course Assessment Specification

Accounting Higher

The purpose of this document is to provide:

- ◆ details of the structure of the Question Paper in this Course
- ◆ guidance to centres on how to use information gathered from the Question Paper in this Course to estimate candidate performance

Part 1

This part of the Course Assessment Specification details the structure of the Question Paper in this Course.

The Course assessment consists of one Question Paper.

Paper	Time Allocation	Mark Allocation
1	2 hours 30 mins	200

- ◆ This paper examines Knowledge and Understanding covering the Course content.
- ◆ This paper will consist of two sections, A and B.
- ◆ Questions will be of a computational and theoretical nature.
- ◆ Questions will not focus solely on one area of content but rather will provide opportunity for integration of topics within each of the two Units of the Course.

Section A – total marks 100

Questions in this section of the paper will be based on the Financial Accounting area of the Course.

- ◆ Three questions must be answered in Section A.
- ◆ The first question will be compulsory, based on the final accounts of one of the following:
 - partnership
 - non-profit making organisation
 - public limited company

and may be for a manufacturing concern.

- ◆ Candidates will answer a second question, drawn from a choice of two based on any area of the Financial Accounting Course. Theory **may**, but need not, be assessed in these optional questions.
- ◆ Candidates will answer a third question, an extended theory question from a choice of two drawn from any area of the Financial Accounting Course.
- ◆ Questions may be based on a single topic, dual topic, or integrated topics.
- ◆ Marks will be awarded as follows:

Compulsory question (Question 1)	Optional question (Choose one from two, ie Question 2 or 3)	Optional question (Choose one from two, ie Question 4 or 5)
50 marks	40 marks	10 marks

Section B–total marks 100

Questions in this section of the paper will be based on the Management Accounting area of the Course.

- ◆ Three questions must be answered in Section B.
- ◆ The first question will be compulsory, drawn from any area of the Management Accounting Course.
- ◆ Candidates will choose a second, drawn from a choice of two based on any area of the Management Accounting Course. Theory **may**, but need not, be assessed in these optional questions.
- ◆ Candidates will choose a third question, an extended theory question from a choice of two drawn from any area of the Management Accounting Course.
- ◆ The questions may be based on a single topic, dual topic, or integrated topics.
- ◆ Marks will be awarded as follows:

Compulsory question (Question 6)	Optional question (Choose one from two, ie Question 7 or 8)	Optional question (Choose one from two, ie Question 9 or 10)
50 marks	40 marks	10 marks

In line with Course Grade Descriptions it is expected that candidates will:

- ◆ apply knowledge and understanding across the scope and range of the Course

- ◆ produce a range of financial and management accounting statements
- ◆ integrate contents of the Units and Course
- ◆ problem solve and make decisions in a variety of contexts
- ◆ produce solutions to a range of accounting problems
- ◆ integrate the theoretical and practical aspects of the Course
- ◆ demonstrate the retention of a larger body of knowledge from the whole Course content

Part 2

This part of the Course Assessment Specification provides guidance on how to use assessment information gathered from the Question Paper to estimate candidate performance.

The Course award is based on one Question Paper with a total mark of 200.

In National Qualifications cut-off scores should be set at approximately 70% for Grade A and 50% for Grade C with Grade B falling midway.

For a total mark range of 0-200, the following gives an indication of the cut-off scores:

Grade	Band	Mark Range
A	1	170-200
A	2	140-169
B	3	130-139
B	4	120-129
C	5	110-119
C	6	100-109
D	7	90-99
NA	8	80-89
NA	9	0-79

These cut-off scores may be lowered if the Question Paper turns out to be more demanding or raised if the Question Paper is less demanding.

Worked example

- ◆ In a centre's own prelim, a candidate scores 123/200.
- ◆ The centre's view is that their prelim is slightly less demanding than SQA examination.
- ◆ Using the mark range, a realistic estimate may be **band 5** rather than band 4.

C209/SQP235

Accounting
Higher
Specimen Question Paper
for use in and after 2005

Time: 2 hours 30 mins

NATIONAL
QUALIFICATIONS

Candidates should attempt **six** questions in total, as follows.

Section A

Question 1

and Question 2 **or** 3

and Question 4 **or** 5

Section B

Question 6

and Question 7 **or** 8

and Question 9 **or** 10

Answers must be in ink. Answers in pencil will **not** be accepted, though incidental working may be in pencil.

All working should be shown fully and clearly labelled. Any incorrect figure not supported by adequate working will receive no marks. Candidates using calculators should pay particular heed.

Begin your answer to each question on a fresh page.

Marks will be deducted for untidy and badly arranged work.

SECTION A

You should attempt 3 questions from this section:

Question 1, AND Question 2 OR 3, AND Question 4 OR 5.

Any incorrect figure not supported by adequate working will receive no marks.

1. The following is a summary of the bank receipts and payments of the Mungo Rugby Club for the year ended 31 December 2003.

	£000	£000
Receipts		
Bar Sales	148	
Sale of Raffle Tickets	7	
Subscriptions	158	
Vending Machine Takings	<u>45</u>	358
Payments		
Bar Purchases	90	
Bar Wages	26	
Coach's Salary	50	
Ground Staff Wages	140	
Insurance	2	
Secretary's Honorarium	3	
Electricity	26	
Loan Repayment	5	
Purchase of Grassing Materials	15	
Purchase of Rugby Equipment	16	
Raffle Prizes	9	
Rent of Vending Machines	16	
Secretarial Expenses	<u>9</u>	407

1. (continued)**NOTES**

- (1) The Accumulated Fund at 1 January 2003 is £233,000.
 (2) Electricity is apportioned between Clubhouse and Bar in the ratio of 3:2.
 (3) Other Assets and Liabilities at year end are as follows:

	31 December 2002	31 December 2003
	<i>£000</i>	<i>£000</i>
Bar Purchases Creditors	9	8
Bar Stocks	13	12
Bar Wages due	1	3
Cash at Bank	13	?
Clubhouse	150	150
Electricity prepaid	–	1
Grassing Material Stocks	–	3
Loan from Council	25	20
Rugby Equipment (NBV)	95	70
Subs in Advance	6	5
Subs in Arrears	3	7

Prepare the following for the year ending 31 December 2003:

- | | |
|--|-------------|
| (i) Bar Trading and Profit and Loss account; | 14 |
| (ii) Income and Expenditure account; | 22 |
| (iii) Balance Sheet as at that date. | 14 |
| | (50) |

[Turn over

Any incorrect figure not supported by adequate working will receive no marks.

2. Kane and Abel are in partnership with capital of £50,000 and £100,000 respectively.

Their partnership agreement states the following:

- 1 Each year £4,000 of any Profits is to be transferred to a General Reserve.
- 2 Interest on Capital is payable at 10% per annum.
- 3 Drawings are to be 20% of each partner's capital.
- 4 Interest on Drawings is charged at 10% per annum.
- 5 Residual Profits/Losses are to be shared in the ratio of capital invested.

The following figures have been extracted at the end of their first three years of business.

	YEAR 1	YEAR 2	YEAR 3
	£000	£000	£000
Sales (all credit)		400	500
Gross Profit		80	125
Expenses		20	40
Fixed Assets (Net Book Value)		60	100
Stock	30	50	100
Debtors	32	38	22
Bank		22	32
Creditors		15	12
Current Account–Kane (credit)		4	?
Current Account–Abel (debit)		2	?
General Reserve		8	?

- (a) **You are required to calculate the following** for Year 2 and Year 3:

- (i) Gross Profit Ratio;
- (ii) Expenses Ratio;
- (iii) Rate of Stock Turnover;
- (iv) Debtors' Collection Period (in days);
- (v) Fixed Assets to Turnover.

10

- (b) **Give 3** possible reasons for the change in **each** of the following ratios.

- (i) Rate of Stock Turnover
- (ii) Debtors' Collection Period

6

- (c) **Prepare** the following for Year 3:

- (i) Profit and Loss Appropriation Account;
- (ii) Current Account of each partner;
- (iii) **Financed by** Section of the Balance Sheet at Year end.

9

10

5

(40)

Any incorrect figure not supported by adequate working will receive no marks.

3. The following data is taken from the Accounts of the manufacturing firm of Jerome plc for the year ending 31 December 2003.

	<i>£000</i>
Stocks at 1 January 2003:	
Raw Materials	25
Work-in-Progress	30
Finished Goods	50
Sales of Finished Goods	4,500
Purchases of Finished Goods	50
Purchases of Raw Materials	3,000
Carriage on Raw Materials	15
Wages	200
Factory Supervisors' Salaries	40
Factory Power (indirect)	20
Factory Expenses	46
Factory Machinery at cost	980
Provision for Depreciation on Machinery at 1 January 2003	80
Royalties	20
Rent	40
Insurance	8
Administration Expenses	25
Discount Allowed	5
Debtors	42
Creditors	30
Bank	10
Vehicles at cost	200
Provision for Depreciation on Vehicles at 1 January 2003	60
Issued Capital	120

NOTES

- | | <i>£000</i> |
|---|-------------|
| (1) Stocks at 31 December 2003: | |
| Raw Materials | 20 |
| Work-in-Progress | 27 |
| Finished Goods | 40 |
| (2) Fixed Assets are depreciated at 10%—straight line method. | |
| (3) Wages are apportioned according to the number of workers in each area as follows. | |
| Direct Factory | 20 |
| Indirect Factory | 10 |
| Warehouse | 5 |
| Administration | 5 |
| (4) Rent of £8,000 is unpaid. | |
| (5) Rent and Insurance are apportioned to Factory, Warehouse and Administration in the ratio of 4:3:1 respectively. | |
| (6) Finished Goods are transferred to the warehouse at the estimated wholesale price of £3,500,000. | |

3. (continued)

(a) **Prepare** the following for the year ending 31 December 2003:

- (i) Manufacturing Account;
- (ii) Trading Account.

30

The firm's net profit for the year is £500,000 but a subsequent audit of the books reveals the following errors.

- (1) A Sales Invoice for £6,500 had been wrongly entered as £4,500.
- (2) Discount Allowed of £1,000 had been treated as Discount Received.
- (3) Sales Returned of £5,000 had been entered as Purchases of Finished Goods.
- (4) Depreciation of Motor Vehicles has been charged at 10% of the diminishing balance.
- (5) Bonuses totalling £8,000 had not been entered in the Wages Account.

(b) **Calculate** the effect on the Gross Profit and/or Net Profit of the correction of the above errors, using the layout given below.

**10
(40)**

	Effect on Gross Profit	Effect on Net Profit
	<i>£000</i>	<i>£000</i>
Original Profit	?	500
Error No. 1		
2		
3		
4		
5		
Corrected Profit	_____	_____
	=====	=====

4. (a) **Explain** the reasons for offering:
- (i) trade discount;
 - (ii) cash discount.
- 4
- (b) **Explain** the meaning of any 2 of the following.
- (i) Share Premium
 - (ii) Limited Partner
 - (iii) Prudence
 - (iv) Rights Issue
- 6
(10)
5. (a) **State** 2 advantages and 2 disadvantages to existing partners of admitting a new partner.
- 4
- (b) **Outline** the Accounting procedures to be followed on the admission of a new partner.
- 6
(10)

[END OF SECTION A]

[Turn over

SECTION B

You should attempt 3 questions from this section:

Question 6, AND Question 7 OR 8, AND Question 9 OR 10.

Any incorrect figure not supported by adequate working will receive no marks.

6. McGill's Bus Company has 8 mini-coaches. **Each** coach costs £60,000 and after 4 years will have an estimated trade-in value of £12,000. **Each** coach has a capacity of 30 seats and has an estimated annual occupancy rate of 80%. It is also estimated that **each** coach will cover an average of 400 miles per week over a 48-week year.

The company's running costs for the year to 31 December 2005 are estimated as follows.

- (1) Petrol and Maintenance £50,000 per coach
- (2) Administration Expenses £36,664
- (3) Garage Rental £25,000
- (4) Vehicle Insurance £4,000 per coach and Personal Insurance £2,000 per driver
- (5) Driver's wages – 8 drivers normally work an 8 hour shift for five days a week at an hourly rate of £6 per hour and an extra 8 hour shift on Saturday at an overtime rate of time and a half. Each driver works 48 weeks and receives 20 days holiday pay at the basic hourly rate.
- (6) Each driver is issued with two uniforms which cost £50 each.
- (7) Each coach is fitted with a new set of tyres (4) which lasts for approximately 30,000 miles and each tyre costs £162.50.

(a) **Calculate** the:

- | | |
|--|----|
| (i) total annual cost of operating the coaches; | 23 |
| (ii) number of passenger miles, based on the estimated occupancy rate and mileage; | 6 |
| (iii) operating cost per passenger mile; | 2 |
| (iv) fare to be charged per passenger mile to give McGill a profit margin of 20% of the operating cost per passenger mile; | 2 |
| (v) total annual sales revenue from passenger fares; | 2 |
| (vi) estimated profit for the year. | 1 |

6. (continued)

For the year ending 31 December 2005 McGill is offered a contract by the local football club to transport its teams and back-up staff to all home and away fixtures for the season. This will involve the purchase of a suitable new 50-seater coach at a cost of £120,000—to be used **mainly** by the club—and the employment of a steward, in addition to a driver, to serve refreshments, which are to be provided by McGill.

The estimated usage of the coach by the football club is 12,000 miles.

McGill's running costs for this contract are estimated as follows.

	<i>£000</i>
Purchases	
Refreshments	5
Fuel	10
Cleaning Materials	3
Other Payments	
Driver/Steward Salaries	18
Insurance	3
Administration	2
Uniforms	1
Maintenance	4

Annual Depreciation of the coach is at 20% straight line and it is estimated that the coach will also cover 4,000 miles on non-football club activities.

(b) **Calculate** the:

- | | |
|---|-------------|
| (i) total cost of operating the coach for the football club for the year; | 5 |
| (ii) total hiring charge to the football club to give McGill a profit margin of 20% of the hiring charge; | 3 |
| (iii) difference in profit from your answer in (ii) if McGill had; | |
| (1) charged the football club your passenger fare per mile from (a)(iv) less a 25% discount, and; | |
| (2) assumed a coach occupancy of 90%. | 6 |
| | (50) |

[Turn over

Any incorrect figure not supported by adequate working will receive no marks.

7. KoolKwick Ltd manufactures refrigerators. The following forecasts have been made for Year ending 31 December 2004.

Selling Price per unit	£120
Variable Cost per unit:	
Materials	£50
Labour	£20
Variable Overheads	£10
Labour hours per unit	2
Annual Fixed Costs	£480,000

- (a) **Calculate** for year ending 31 December 2004 the:

- (i) Break-even point in units and sales value;
- (ii) Profit (after tax at 25%) from estimated sales of 60,000 units;
- (iii) P/V Ratio;
- (iv) Margin of safety in units and sales value based on the estimated sales.

14

The firm is working at full capacity and currently buys in a refrigerator component at £25 per unit. For the Year ending 2004, KoolKwick Ltd is considering making this component and estimates that it will take 1 labour hour at a total variable cost of £21 per unit.

- (b) **Advise**, with figures to support your answer, whether KoolKwick Ltd should make or continue to buy the component.

6

The following estimates have been prepared for the first 3 months of 2004.

Units	January	February	March
Sales	6000	7000	5000
Closing Stocks	200	100	300

- (c) **Prepare** the Production Budget for the 3 months January to March 2004. Stock at 31 December 2003 was 400 units.

6

The estimated timescale for receipts and payments for the year ended 31 December 2004 is as follows.

- (1) Sales are 40% cash and 60% credit. Credit sales are paid for one month after sale.
- (2) Materials—in the month following production.
- (3) Labour—in the same month as production.
- (4) Variable Overheads—one quarter is paid one month after production and the remainder is paid two months after production.
- (5) Fixed Costs—£40,000 per month including Depreciation of £2,000.
- (6) A new machine costing £720,000 will be purchased in March, when an initial deposit of 25% is payable.

- (d) **Prepare** the Cash Budget for the month of March 2004, given that the forecast Cash/Bank Balance at the end of February is £2,000.

14
(40)

Any incorrect figure not supported by adequate working will receive no marks.

8. Quickbrew pic has 4 production departments. The overhead cost of running each department is recovered as follows.

Department 1—Percentage of Direct Materials

Department 2—Percentage of Direct Wages

Department 3—Number of Machine Hours

Department 4—Units of Input

The following are the **estimated** figures for September.

	Dept 1	Dept 2	Dept 3	Dept 4
Direct Materials	£22,250	£0	£0	£0
Indirect Materials	£0	£1,000	£0	£5,000
Direct Wages	£2,368	£24,800	£3,812	£10,400
Total Overheads	£8,900	£18,600	£2,250	£6,859
Machine Hours	300	200	1,250	0
Units of Input	16,000	15,200	14,440	13,718

- (a) **Calculate** the overhead recovery rate for **each** department.

8

The following are the **actual** production figures for Processes 2 and 4 for Week 3.

	Process 2	Process 4
Where Processed:	Department 2	Department 4
Indirect Materials	£284	£1,250
Direct Wages	£6,200	£3,300
Overheads	?	?
Unit Input	3800 @ £2.20	3500 @ £6.00
Unit Output	3600 @ ?	3300 @ ?

Normal loss of 5% of input is expected in **Processes** 2–4. Any loss from Process 4 has an estimated scrap value of £4 per unit.

- (b) **Prepare** the following accounts:

- (i) Process 2;
- (ii) Process 4;
- (iii) Abnormal Loss.

32
(40)

[Turn over

9. (a) **Explain** the difference between a cost centre and a cost unit. **4**
- (b) **Explain** the meaning of any 2 of the following.
- (i) Semi-variable Costs
 - (ii) Job Costing
 - (iii) Piece Rates
 - (iv) EFTPOS
- 6**
(10)
10. (a) **Describe** 2 methods of pricing stores issues and give one advantage and one disadvantage of each. **6**
- (b) **State** 2 advantages of the use of Information Technology in management accounting. **4**
- (10)**

[END OF SECTION B]

[END OF SPECIMEN QUESTION PAPER]

C209/SQP235

Accounting
Higher
Specimen Marking Instructions
for use in and after 2005

NATIONAL
QUALIFICATIONS

Only use whole marks for all questions. Half marks must not be awarded for any answer.

SECTION A

1.

Bar Trading Account for year ending 31 December 2004

Sales	148	1	
Less <u>Cost Sales</u>			
Opening Bar Stock	13	1	
+ Purchases	<u>89</u>	3	
	102		
- Closing Bar Stock	<u>12</u>	1	90
GROSS PROFIT			58 1
Less:			
Wages	28	3	
Electricity	10	3	38
PROFIT FROM BAR			<u><u>20</u></u> 1 (14)

Income and Expenditure Account for year ending 31 December 2004

<u>Income</u>			
Subscriptions	163	5	
Profit from Bar	20	1	
Profit from Vending	<u>29</u>	2	212
<u>Expenditure</u>			
Grass Materials	12	2	
Electricity	15	1	
Insurance	2	1	
Honorarium	3	1	
Depreciation Equipment	41	3	
Coach's Salary	50	1	
Wages	140	1	
Secretarial Expenses	9	1	
Loss on Raffle	2	2	274
DEFICIT			<u><u>-62</u></u> 1 (22)

Balance Sheet as at 31 December 2003

FIXED ASSETS			
Clubhouse	150	1	
Equipment	70	1	
			220
CURRENT ASSETS			
Bar Stock	12	1	
Grass Stock	3	1	
Subs in arrears	7	1	
Electricity prepaid	1	1	
			23
CURRENT LIABILITIES			
Creditors	8	1	
Wages due	3	1	
Subs in adv	5	1	
Bank o/d	36	2	52 -29
			191
LOANS			<u>20</u> 1
			<u>171</u>
ACCUMULATED FUND			
Balance at 1/1/03			233 1
Less Deficit			<u>62</u> 1
			<u>171</u> (14)
			<u><u>171</u></u> (50)

WORKINGS:

<u>Bar Purchases</u>			
Payments	90	1	
- Opening Creditors	<u>9</u>	1	
	81		
+ Closing Creditors	<u>8</u>	1	
Purchases			<u>89</u>
 <u>Bar Wages</u>			
Payments	26	1	
- Opening due	<u>1</u>	1	
	25		
+ Closing due	<u>3</u>	1	
Wages			<u>28</u>
 <u>Electricity</u>			
Payments	26	1	
- Closing prepaid	<u>1</u>	1	
Electricity			<u>25</u>
Bar share = 2/5	10	1	
Clubhouse = 3/5	15		
 <u>Subs</u>			
Receipts	158	1	
- Yr 1 arrears	<u>3</u>	1	
	155		
+ Yr 2 advances	<u>6</u>	1	
	161		
+ Yr 2 arrears	<u>7</u>	1	
	168		
- Yr 3 advances	<u>5</u>	1	
Subs this year			<u>163</u>
 <u>Grass Materials</u>			
Purchases	15	1	
- Closing Stock	<u>3</u>	1	
Material used			<u>12</u>
 <u>Depreciation</u>			
Opening NBV	95	1	
+ Purchases	<u>16</u>	1	
	111		
- Closing NBV	<u>70</u>	1	
Depreciation			<u>41</u>
	1	1	
Vending	45 - 16		= <u>29</u>
	1	1	
Raffle	7 - 9		= <u>-2</u>
	1	1	
Bank	13 + <u>358 - 407</u>		= <u>-36</u>

2. (a)

RATIOS	Year 2	Year 3
(i) Gross Profit	¹ 20%	¹ 25%
(ii) Expenses	¹ 5%	¹ 8%
(iii) Stock Turnover	¹ 8 times	¹ 5 times
(iv) Debtors Collection	¹ 32 days	¹ 22 days
(v) Fixed Assets to Turnover	¹ 0·15:1	¹ 0·20:1

(10)

(b) (i) and (ii)

REASON FOR CHANGE (in (iii) and (iv))

Increase in Selling Prices¹ or stocking of higher¹ quality goods which are less popular¹ with slower demand as reflected by the higher stock levels—overstocking¹ or bulk buying.¹

Greater efficiency in sending invoices/reminders or more attractive offers of discount for prompt¹ payment as reflected in the reduction in the level of debtors—better credit control.¹

(6)

2. (continued)

(c) (i) PROFIT AND LOSS APPROPRIATION ACCOUNT FOR YEAR 3

Net Profit			85 1
- Transfer to Reserve		4 1	81
- Interest on Capital	K 5 1		15
	A 10 1		66
+ Interest on Drawings	K 1 1		3
	A 2 1		69
Share of Profit	1/3 } 1	K 23 1	69
	2/3 } 1	A 46 1	69

(9)

(ii) CURRENT ACCOUNT—KANE

	Dr	Cr	Balance
Balance			4 1
Int. on Cap.		5 1	9
Share of P.		23 1	32
Drawings	10 1		22
Int. on Drawings	1 1		21

CURRENT ACCOUNT—ABEL

	Dr	Cr	Balance
Balance			-2 1
Int. on Cap.		10 1	8
Share Of P.		46 1	54
Drawings	20 1		34
Int. on Drawings	2 1		32

(10)

(iii) BALANCE SHEET AT END OF YEAR 3

Represented by

	Kane	Abel	
Capital	50 1	100 1	150
Current	21 1	32 1	53
General Reserve $\underbrace{\quad}_{(8 + 4)}$			12
			215

(5)
(40)

3. (a)

(i) **Manufacturing Account for the year ending 31 December 2003** £000

Stock of Raw Materials at start	25	1
Add: Purchases of Raw Materials	3000	1
Carriage on Raw Materials	15	1
	3040	
Less: Stock of Raw Materials at end	20	1
COST OF RAW MATERIALS CONSUMED	3020	1
Add: Direct Wages	100	1
Royalties	20	1
PRIME COST	3120	1
Add: <u>Factory Overheads</u>		
Indirect Wages	50	1
Supervisors' Salaries	40	1
Power	20	1
Expenses	46	1
Depreciation of Machinery	98	1
Rent	24	1 + 1
Insurance	4	1
	282	
	3402	
Add: Work-in-Progress at start	30	1
Less: Work-in-Progress at end	27	1
FACTORY COST OF PRODUCTION	3405	1
Wholesale Value	3500	1
MANUFACTURING PROFIT	95	1

(21)

(ii) **Trading Account for the year ending 31 December 2003** £000

Sales		4500	1
Less: Cost of Sales			
Stock of Finished Goods at start	50	1	
Add: Wholesale Value of Finished Good	3500	1	
Purchases of Finished Goods	50	1	
Warehouse Wages	25	1	
Warehouse Rent	18	1	
Warehouse Insurance	3	1	
	3646		
Less: Stock of Finished Goods at end	40	1	3606
GROSS PROFIT		894	1

(9)

3. (continued)

(b)

	Effect on Gross Profit	Effect on Net Profit
	£000	£000
Original Profit	894	500
Error No. 1	+2 1	+2 1
2	nil 1	-2 1
3	nil 1	nil 1
4	nil 1	-6 1
5	-1 1	-8 1
Corrected Profit	895	486

(10)

(40)

4.

(a) (i) A wholesaler/manufacturer will offer **TRADE DISCOUNT** to encourage retailers to return and buy goods regularly.¹ **TRADE DISCOUNT** is also offered to encourage bulk buying by varying the rate of discount according to the amount bought. **1**

(2)

(ii) Any firm will offer **CASH DISCOUNT** to customers who buy goods on credit to encourage them to pay the outstanding amount within a specified time.¹ In addition to receiving prompt payment, **CASH DISCOUNT** can reduce the possibility of bad debt.¹

(2)

(b) (i) **SHARE PREMIUM**

This is the difference between the issue price and nominal value of a share where the issued price is higher. **1**

The premium must be shown in the Balance sheet as a reserve,¹ which is not available for cash distribution.¹

The Premium may be used for:

writing off preliminary and issue expenses; **1**

making bonus issue of shares; **1**

writing off discount on shares; **1**

writing off premium paid on redemption of redeemable preference shares

or premium on redemption of ordinary shares under certain circumstances. **1**

Max 3

(ii) **LIMITED PARTNER**

In a "general" partnership, the liability of the partnership debts is unlimited¹ so that, if they cannot be met out of partnership assets, the separate/private property of each partner may be sold to pay the firm's creditors.¹

The limited partner's liability is restricted to the amount he/she has contributed as his/her capital¹ as his/her personal assets cannot be sold to meet partnership debts.¹

For this lesser risk, the limited partner must take no part¹ in the management of the business and, where there is a Limited Partnership, there must be at least one general partner whose personal assets are therefore at risk to pay the debts of all other partners. **1**

Max 3

4. (b) (continued)

(iii) PRUDENCE (Convention of Conservatism)

The convention of conservatism is often stated as “anticipate no profit, provide for all possible losses”.**1**

Thus accountants should report the lowest of several possible values for assets and revenues **1** and the highest of several possible values for liabilities and expenses.**1**

Assets are more likely to be understated than overstated^{**1**} and income is more likely to be understated.**1**

The convention of conservatism is reflected in:

the valuation of Fixed Assets at cost less aggregate depreciation; **1**

the valuation of stocks at lowest of cost price, selling price, replacement price;

early writing off of intangible assets, eg. goodwill; **1**

charging all conceivable losses and expenses; **1**

not anticipating profits but waiting until they are realised—recognising revenue at the point of sale. **1**

The aim is to protect creditors and avoid the accidental return of capital to shareholders in the form of dividends **1**

Max 3

(iv) RIGHTS ISSUE

A company with shares already issued may raise new capital by a rights issue but without the need to issue a prospectus **1** or offer for sale giving details of the rights issue.**1**

Existing ordinary shareholders are allocated “rights certificates” allowing them to take up, at a stated price, the new shares.**1**

The number of shares allocated will be in proportion to their existing holdings,^{**1**} eg 1 new share for every 4 already held. The rights can be sold to others since there is no compulsion to contribute more capital. **1**

A rights issue has certain benefits:

it is an inexpensive way of raising capital; **1**

it allows shareholders to show their confidence in the company; **1**

it offers the chance for shareholders to obtain additional shares at a reduced price, since issue price is usually below current market price as an inducement to buy; **1**

it minimises the risk of a change in the balance of control. **1**

**Max 3
(10)**

- 5.
- (a) Advantages: increase in capital¹, work-sharing¹, decision-making¹, ideas¹, available skills,¹ profits ¹
reduction in share of loss ¹ (2)
- Disadvantages: increase in disagreement,¹ dispute,¹ disharmony,¹ ill-feeling,¹ reduction in share of profits¹
unlimited liability for all debts if only solvent partner¹
all decisions are binding on all partners¹ (2)
- (b) Procedures: revaluation of assets with share ¹of any surplus/deficit to existing partners¹
calculation of goodwill/premium to be paid by new partner ¹
agreement on new profit sharing ratio¹
revision of existing partnership agreement,¹ eg duties and responsibilities ¹ (6)
(10)

[END OF SECTION A]

SECTION B

6.

WORKING

Cost of Coach	60,000		1	
– Trade in Value	12,000		1	
Total Depreciation	1 48,000			
Lifespan	4 years			
	1			
Annual DEP	12,000 × 8 =	96,000		
	1 1			
Petrol etc	50,000 × 8 =	400,000		
	1 1			
Coach Insurance	4,000 × 8 =	32,000		
	1 1			
Driver Insurance	2,000 × 8 =	16,000		
	1 1			
Wages normal	$\overbrace{8 \text{ hrs} \times 5}^{\mathbf{1}} \times \overbrace{\pounds 6}^{\mathbf{1}} \times 8 \times 48 =$	92,160		
overtime	$\overbrace{8 \text{ hrs} \times 1}^{\mathbf{1}} \times \overbrace{\pounds 9}^{\mathbf{1}} \times 8 \times 48 =$	27,648		
holiday	$\overbrace{8 \text{ hrs} \times 5}^{\mathbf{1}} \times \overbrace{\pounds 6}^{\mathbf{1}} \times 8 \times 4 =$	7,680		
		<u>12,7488</u>		
Uniform	$\overbrace{50 \times 2}^{\mathbf{1}} \times 8 =$	800		
Annual Mileage	$\overbrace{400 \times 48}^{\mathbf{1}} \times 8 =$	153,600		
Occupancy Rate (Passengers)	$\overbrace{30}^{\mathbf{1}} \times \overbrace{80\%}^{\mathbf{1}} =$	24		
No. of Pass. miles	$\overbrace{24 \times 153,600}^{\mathbf{1}} =$	3,686,400	(6)	
Cost of Tyres	$\overbrace{\pounds 162.5 \times 4}^{\mathbf{1}} \times 8 =$	£5,200		
Lifetime Mileage	$\overbrace{30,000 \times 8}^{\mathbf{1}} =$	240,000		
Annual Mileage	(see above)	153,600		
Annual Cost of Tyre Mileage	$\frac{153,600}{240,000} \times \overbrace{\pounds 5,200}^{\mathbf{1}} =$	£3,328		

ANNUAL COST OF OPERATING

Depreciation	£96,000		4	
Petrol	£400,000		2	
Administration	£36,664		1	
Garage	£25,000		1	
Coach Insurance	£32,000		2	
Driver Insurance	£16,000		2	
Wages	£127,488		6	
Uniforms	£800		1	
Tyres	£3,328		4	
TOTAL COST	£737,280			(23)
COST PER PASSENGER MILE	$\frac{\pounds 737,280}{3,686,400} =$	<u>£0.20</u>		
PASSENGER FARE PER MILE	20% on cost	$\pounds 0.20 \times 20\% =$	<u>£0.04</u>	
		$\pounds 0.20 + \pounds 0.04 =$	<u>£0.24</u>	
ANNUAL SALES REVENUE	$\overbrace{3,686,400}^{\mathbf{1}} \times \pounds 0.24 =$	£884,736	1	(2)
Sales	£884,736			
Less Total Costs	£737,280		1	
ESTIMATED PROFIT		<u>£147,456</u>		
OR Annual Mileage × 4p profit per mile	$\underbrace{3,686,400 \times 4\text{p}}_{\mathbf{1}} =$	£147,456		(1)

6. (continued)

(b) (i) TOTAL COST OF OPERATING COACH FOR FOOTBALL CLUB

		£000		
Refreshments	5			
Fuel	10			
Cleaning	3		18	1
Salaries	18			
Insurance	3			
Administration	2			
Uniforms	1			
Maintenance	4		28	1
Dep Coach			18	3
Total Running Costs			64	

	Depreciation	
	1	
	$\overbrace{\text{£120,000} \times 20\%}$	
	$= \text{£24,000} \times \frac{12,000}{16,000}$	1
		1
	$= \text{£18,000}$	(5)

(ii) HIRE CHARGE TO FOOTBALL CLUB

		£000		
Cost of operating Coach	64		1	
Profit Margin 20% on Hire charge	16		2	
Hire Charge	80			(3)

(iii) DIFFERENCE IN PROFIT

New charge	$\overbrace{12,000 \times 50}^{\mathbf{1}} \times 0.24 \times 0.75 \times 0.9 =$	£97,200	
original charge		£80,000	
Difference (increase)	$\mathbf{1}$	£17,200	(6)
		$\left. \begin{array}{l} \text{£97,200} \\ \text{£80,000} \\ \hline \text{£17,200} \end{array} \right\} \mathbf{1}$	(50)

7.

(a) (i) BREAK-EVEN POINT

Selling Price	£120	1
– Variable Costs	<u>£80</u>	1
Contribution per Unit	<u>£40</u>	

$$\text{Fixed Costs } \frac{£480,000}{£40} = 12,000 \text{ units} \times £120 = £1,440,000 = \text{Sales Value}$$

(ii) PROFIT FROM SALES OF 60,000 UNITS

Contribution = 60,000 × £40 =	£2,400,000	
Less: Fixed Costs =	<u>£480,000</u>	1
Profit before Tax	£1,920,000	
Tax (25%)	<u>£480,000</u>	1
Profit after Tax	<u>£1,440,000</u>	

(iii) P/V RATIO = $\frac{40}{120} = 33.33\%$

(iv) MARGIN OF SAFETY

Estimated Sales	60,000	1
BEP Sales	<u>12,000</u>	1
Margin of Safety (units)	<u>48,000</u>	

$$\text{Margin of Safety (value)} = 48,000 \times £120 = £5,760,000$$

(14)

(b) MAKE OR BUY COMPONENT

Contribution from Refrigerator	£40	1	Cost to make Component	£21	1
Labour Hours per unit	2	1	Opportunity Cost (1 labour hour)	<u>£20</u>	1
Contribution per labour hour	£20	1	Actual Cost making Component	<u>£41</u>	

ADVICE—continue to buy at £25 instead of making for £41 1 (6)

(c) PRODUCTION BUDGET

	January	February	March	
Opening Stock	400	200	100	1 line
+ Production	<u>5,800</u>	<u>6,900</u>	<u>5,200</u>	2 line
	6,200	7,100	5,300	1 line
–Sales	<u>6,000</u>	<u>7,000</u>	<u>5,000</u>	1 line
Closing Stock	<u>200</u>	<u>100</u>	<u>300</u>	1 line

(6)

7. (continued)

(d) CASH BUDGET FOR MARCH

Receipts

Opening Balance	£2,000	1	
Cash Sales (40%)	£240,000	2	
Credit Sales (60%)	<u>£504,000</u>	2	£746,000

Payments

Material Cost	£345,000	1	
Labour Cost	£104,000	1	
Variable Cost (1 month)	£17,250	2	
Variable Cost (2 months)	£43,500	2	
Fixed Costs	£38,000	1	
Deposit on New Machine	£180,000	1	<u>£727,750</u>
Closing Balance			<u>£18,250</u> 1

(14)

(40)

8.

(a) RECOVERY RATES

Process 1	(% Materials)	$\frac{8,900}{22,250} =$	40%	
Process 2	(% Wages)	$\frac{18,600}{24,800} =$	75%	
Process 3	(Machine hours)	$\frac{2,250}{1,250} =$	£1·80	
Process 4	(Units Input)	$\frac{6,859}{13,718} =$	£0·50	(8)

(b)

(i)

PROCESS 2 A/C

Input	Quantity	Price	Value		Output	Quantity	Price	Value	
From Process 1	3,800	£2·20	£8,360	1	To Process 3	3,600	£5·40	£19,440	1
Indirect Materials			£284	1	Normal Loss	190		£0	
Wages			£6,200	1	Abnormal Loss	10	£5·40	£54	1
Overheads			£4,650	2					
	<u>3,800</u>		<u>£19,494</u>			<u>3800</u>		<u>£19,494</u>	

$$\text{Unit Cost} = \frac{\text{£19,494}}{3,600 + 10} = \text{£5·40}$$

(14)

(ii)

PROCESS 4 A/C

Input	Quantity	Price	Value		Output	Quantity	Price	Value	
From Process 3	3,500	£6	£21,000	1	To Stores	3,300	£8	£26,400	1
Indirect Materials			£1,250	1	Normal Loss	175	£4	£700	1
Wages			£3,300	1	Abnormal Loss	25	£8	£200	1
Overheads			£1,750	2					
	<u>3,500</u>		<u>£27,300</u>			<u>3500</u>		<u>£27,300</u>	

$$\text{Unit Cost} = \frac{\text{£27,300} - 300}{3,325} = \text{£8·00}$$

(14)

(iii)

ABNORMAL LOSS A/C

	Dr	Cr	Balance
From Process 2	£54	1	£54
From Process 4	£200	1	£254
Cash		£100	1 £154
To Profit and Loss (Loss)		£154	1 £0

(4)
(40)

9.

- (a) A cost centre is any part of a firm where production takes place and to which both direct and indirect costs can be charged/apportioned. **1**

It may be geographical, eg, an area/dept, equipment, eg a machine/group of machines, or a person, eg a salesman. **1**

The total cost of operating a cost centre is recovered by calculating and applying an absorption rate to the work done in that centre. **1** **Max (2)**

A cost unit is any unit of produce, service, or time, the cost of which can be ascertained in terms of materials, labour, and overheads, and expressed as follows:

cost per unit of produce, eg, per job or contract, per kg of material or per litre of liquid; **1**

cost per unit of service, eg, per passenger mile, per hospital bed; **1**

cost per unit of time, eg, per kilowatt hour, per consulting hour. **1** **Max (2)**
(4)

- (b) (i) Semi-variable Costs

These include an element of both fixed and variable cost. **1**

The fixed element usually takes the form of a standing charge which is payable regardless of the amount of usage. **1**

The variable part will depend on the amount of usage. **1**

Examples include telephone, gas, and electricity **1** **Max (3)**

- (ii) Job Costing

The calculation of the cost of a job for a customer involves estimates of the amount of materials the job will use and the number of labour hours it will require for completion. **1** **1**

Materials used are priced out of stores and recorded on the job cost card. Labour hours taken are recorded on time sheets **1** and the total wage or labour cost is added to the material cost on the cost card.

Total Dept Overheads costs are also estimated in advance **1** and are recovered by charging an overhead absorption rate—preferably time based—to the job for each dept through which the job has passed. **1**

The material, labour, and overheads costs are added to give the total cost of the job. **1** A percentage is then added to give a profit margin and the selling price to be quoted to the customer. **1** **Max (3)**

9. (b) (continued)

(iii) Piece Rates

Workers are paid for each piece of work they produce.¹ Differential rates may be paid for higher levels of output.¹ It is suitable where large quantities of identical products are manufactured and can be used as a supplement to a low basic time rate.¹

ADVS gives an incentive to work faster since higher output = higher wages¹
workers can achieve greater expertise¹
fixed costs per unit are lower with higher output¹

DISADVS it can result in poorer quality or increased wastage with workers trying to increase their production/wages¹
requires inspectors to ensure quality is maintained¹
boredom from repetitive tasks can affect both quality and output¹

Max (3)

(iv) EFTPOS (Electronic Funds Transfer at Point Of Sale)

Computerised data processing has enabled the use of switch or debit cards to pay for goods without the need for cash/cheques.¹

By swiping the customer's card through the specialised electronic cash register, the total amount of the transaction is transferred directly from the customer's bank account to the retailer's bank account,¹ providing there are sufficient funds in the customer's account.¹

If the customer's bank balance is insufficient to meet the transaction total, the transfer would not be accepted.¹

EFTPOS benefits both the customer, who does not have to carry large sums of cash or write cheques,¹ and the retailer, who receives instant payment directly into the bank without the problems of handling cash (theft) or dishonoured cheques.¹

**Max (3)
(6)**

10.

(a) FIFO—stock is charged out to production on the notional basis that issues are made in chronological order of receipt from suppliers.**1**

ADVS 1. Satisfactory if purchases prices are relatively stable¹
 2. Easy to understand as it can be viewed as corresponding to actual flow of stock **1**
 3. Ensures use of stock inventory cards = better stock control¹
 4. Provides a closing stock figure for the final accounts which will reflect current prices **1** **Max (1)**

DISADVS 1. Cost of sales may be compromised if relatively old prices¹
 2. It may be time-consuming to operate = increase in staff costs¹
 3. If purchase prices are rising, stock costs will rise with no corresponding rise in stock quantities **1**
 4. Results of different accounting periods may be difficult to compare **1** **Max (1)**

LIFO—stock is priced out to production on the notional basis that issues are made from stock most recently acquired.

ADVS 1. Necessitates the use of stock record cards = better stock control
 2. Prices charged to production are related to current price levels
 3. Useful when using “cost” as the basis for estimating sales price to customer
 4. The issue price is a more realistic indicator of the cost of replenishing stocks **Max (1)**

DISADVS 1. The balance on the stock record card assumes that ‘older’ stock items form significant part of actual stock held—this may not be acceptable to the accountant
 2. It is not accepted by the UK Inland Revenue for corporation tax purposes
 3. It may be time-consuming to operate = increased staff costs
 4. Comparisons between accounting periods may be difficult
 5. It may inflate stock turnover ratios **Max (1)**

AVCO—stock is priced to production based on the average price paid for the items currently in stock, allowing for quantities held at each price.¹ New averages may be calculated on receipt of each new delivery of stock or calculated weekly or monthly to minimise the work involved. **1**

ADVS 1. Necessitates the use of stock record cards = accurate stock control
 2. Less clerical work than FIFO/LIFO
 3. Stock values are usually acceptable to the accountant
 4. It tends to smooth out price fluctuations **Max (1)**

DISADVS Calculation of averages can be time consuming if price changes are regular **Max (1)**
(6)

10. (continued)

- (b) Databases—electronic storage of customers'/suppliers' details enables quicker access to files,¹ faster search for information¹ eg bills which have been outstanding beyond a specific date, and easier amendment/reproduction of required information.¹

Word Processing—standard documents are more easily produced, amended, and sent,¹ eg reminders for outstanding bills, with the use of mail merge.¹

Spreadsheets—ensures accuracy in all calculations,¹ easy amendment and reproduction of information,¹ ability to forecast (“if” statements),¹ and the use of graphs for illustration.¹

Other suggestions: Power Point—for presentation of information.¹

Max (4)
(10)

[END OF SECTION B]

[END OF SPECIMEN MARKING INSTRUCTIONS]