



National
Qualifications
2016

2016 Accounting

Advanced Higher

Finalised Marking Instructions

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General Marking Principles for Advanced Higher Accounting

This information is provided to help you understand the general principles you must apply when marking candidate responses to questions in this paper. These principles must be read in conjunction with the detailed marking instructions, which identify the key features required in candidate responses.

- (a) Marks for each candidate response must always be assigned in line with these General Marking Principles and the Detailed Marking Instructions for this assessment.
- (b) Marking should always be positive. This means that, for each candidate response, marks are accumulated for the demonstration of relevant skills, knowledge and understanding: they are not deducted from a maximum on the basis of errors or omissions.
- (c) If a specific candidate response does not seem to be covered by either the principles or detailed Marking Instructions, and you are uncertain how to assess it, you must seek guidance from your Team Leader.
- (d) Consequentiality subsequent to a calculative error must be followed through, with credit being given for any errors in subsequent calculations or working.
- (e) Scored out or erased working which has not been replaced should be marked where still legible. However, if the scored out or erased working has been replaced, only the work which has not been scored out should be marked.
- (f) For each candidate response, the following provides an overview of the marking principles. Refer to the Detailed Marking Instructions for further guidance on how these principles should be applied.

Marks will be awarded as follows for:

- (i) Questions that ask candidates to “**Describe ...**”

Candidates must make a number of relevant factual points, which may be characteristics and/or features, as appropriate to the question asked. These points may relate to a concept, process or situation.

Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question:

- **1 mark** should be given for each relevant factual point.
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

- (ii) For questions that ask candidates to “**Explain...**”

Candidates must make accurate relevant points that relate cause and effect and/or make relationships clear. These points may relate to a concept, process or situation.

Candidates may provide straightforward points of explanation or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question:

- **1 mark** should be given for each relevant point of explanation
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(iii) Questions that ask candidates to “**Justify ...**”

Candidates must give good reasons for a course of action or decision.

Up to the total mark allocation of this question:

- **1 mark** should be given for each relevant statement or opinion
- Marks can be given for any further development of a relevant statement or opinion

(iv) Questions that ask candidates to “**Analyse...**”

Candidates must demonstrate their ability to identify/describe/explain relevant parts and the relationships between the parts and/or the whole. Candidates should be able to draw out and relate any implications and/or analyse data.

Up to the total mark allocation for this question:

- **1 mark** should be given for each relevant point of analysis
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(v) Questions that ask candidates to “**Discuss...**”

Candidates must make points that communicate issues, ideas, or information about a given topic or context that will make a case for and/or against. It is not always necessary to give both sides of the debate in responses.

Up to the total mark allocation for this question:

- **1 mark** should be given for each accurate point of knowledge that is clearly relevant
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(vi) Questions that ask candidates to “**Compare...**”

Candidates must demonstrate knowledge and understanding of the similarities and/or differences between things, methods or choices, for example. The relevant points could include theoretical concepts.

Up to the total mark allocation for this question:

- **1 mark** should be given for each accurate point of analysis
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

(vii) Questions that ask candidates to “**Evaluate...**”

Candidates must demonstrate the ability to make a reasoned judgement in terms of the effectiveness or usefulness of something based on criteria. Candidates should be able to determine the value of something within context.

Up to the total mark allocation for this question:

- **1 mark** should be given for each accurate point of evaluation
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

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	(c)	<p>Project 1 should be supported as IRR is greater than that of Project 2.</p> <p>The higher the IRR, the more profitable the Project is likely to be. Whilst both IRR figures are better than the cost of capital, Project 1 is highest.</p> <p>Accept any other reasonable answer.</p>	2	<p>Mark for recommendation may only be awarded if IRR of both projects referenced.</p> <p>Second mark awarded for clear understanding of the underlying theory.</p>

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2.	(a)	<p>Statement of Cash Flows for Anwar Logistics for y/e 31 Dec Year 4</p> <table border="0"> <thead> <tr> <th style="text-align: left;"><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></th> <th style="text-align: right;">£000</th> <th style="text-align: right;">£000</th> </tr> </thead> <tbody> <tr> <td>Operating profit</td> <td style="text-align: right;">460</td> <td style="text-align: right;">6</td> </tr> <tr> <td>Adjustments for:</td> <td></td> <td></td> </tr> <tr> <td> Depreciation</td> <td style="text-align: right;">200</td> <td style="text-align: right;">2</td> </tr> <tr> <td> Gain on disposal of Non-Current Assets</td> <td style="text-align: right;">-20</td> <td style="text-align: right;">6</td> </tr> <tr> <td>Operating cash flow before working equity changes</td> <td style="text-align: right;">640</td> <td></td> </tr> <tr> <td>Decrease in inventory</td> <td style="text-align: right;">12</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Increase in trade receivables</td> <td style="text-align: right;">-7</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Decrease in trade payables</td> <td style="text-align: right;">-9</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Cash generated from operations</td> <td style="text-align: right;">636</td> <td></td> </tr> <tr> <td>Taxation paid</td> <td style="text-align: right;">-98</td> <td style="text-align: right;">4</td> </tr> <tr> <td>Interest paid</td> <td style="text-align: right;">-18</td> <td style="text-align: right;">4</td> </tr> <tr> <td>Net cash from operating activities</td> <td></td> <td style="text-align: right;">520</td> </tr> <tr> <td colspan="3"> <u>CASH FLOWS FROM INVESTING ACTIVITIES</u></td> </tr> <tr> <td>Proceeds from sale of Non-Current Assets</td> <td style="text-align: right;">250</td> <td style="text-align: right;">2</td> </tr> <tr> <td>Purchase of Non-Current Assets</td> <td style="text-align: right;">-1180</td> <td style="text-align: right;">2</td> </tr> <tr> <td>Net cash used in investing activities</td> <td></td> <td style="text-align: right;">-930</td> </tr> <tr> <td colspan="3"> <u>CASH FLOWS FROM FINANCING ACTIVITIES</u></td> </tr> <tr> <td>Debenture Issue</td> <td style="text-align: right;">40</td> <td style="text-align: right;">2</td> </tr> <tr> <td>Proceeds from issue of equity share capital</td> <td style="text-align: right;">100</td> <td style="text-align: right;">2</td> </tr> <tr> <td>Share Premium</td> <td style="text-align: right;">60</td> <td style="text-align: right;">2</td> </tr> <tr> <td>Dividend paid</td> <td style="text-align: right;">-45</td> <td style="text-align: right;">2</td> </tr> <tr> <td>Net cash used in financing activities</td> <td></td> <td style="text-align: right;">155</td> </tr> <tr> <td> Net decrease in cash and cash equivalents</td> <td></td> <td style="text-align: right;">-255</td> <td style="text-align: right;">1</td> </tr> </tbody> </table>	<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	£000	£000	Operating profit	460	6	Adjustments for:			Depreciation	200	2	Gain on disposal of Non-Current Assets	-20	6	Operating cash flow before working equity changes	640		Decrease in inventory	12	1	Increase in trade receivables	-7	1	Decrease in trade payables	-9	1	Cash generated from operations	636		Taxation paid	-98	4	Interest paid	-18	4	Net cash from operating activities		520	 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			Proceeds from sale of Non-Current Assets	250	2	Purchase of Non-Current Assets	-1180	2	Net cash used in investing activities		-930	 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			Debenture Issue	40	2	Proceeds from issue of equity share capital	100	2	Share Premium	60	2	Dividend paid	-45	2	Net cash used in financing activities		155	 Net decrease in cash and cash equivalents		-255	1	38	<p>Must be correct effect for entry marks to be awarded.</p> <p>Items in wrong section - lose entry mark but give marks to correct figures.</p> <p>Items repeated in different sections apply +/- rule.</p> <p>Depreciation - 1 for calc and 1 for entry.</p> <p>Gain on disposal of NCA - 5 for calcs, 1 for entry.</p> <p>Tax & Interest - 3 each for calcs, 1 each for entries.</p> <p>Investing Activities - 1 each for calcs, 1 each for entries.</p> <p>Financing Activities - 1 each for calcs, 1 each for entries.</p> <p>Issue of equity share capital and Share Premium can be combined for 160 - 4 marks.</p> <p>Final mark is for correct arithmetic throughout the statement, no extraneous (eg revaluation) and correct consequential total.</p>
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Sub contracting	43	1																																																																																																																																																																															
Add Professional Architects Fees	12	1	55																																																																																																																																																																														
Overheads ((90 x 500)/(500 + 400))			50	2																																																																																																																																																																													
	(1)	(1)			130	630																																																																																																																																																																											
Notional Profit					100																																																																																																																																																																												
Transferred to Income Statement (100 x (690/920))																																																																																																																																																																																	
	(1)	(1)	75	2																																																																																																																																																																													
Profit retained/carried forward			25	1	100																																																																																																																																																																												
	(b)	(i)	Cash paid by clients $(690 \times 95\%) = \text{£}655,500$ <div style="text-align: center;">(1) (1)</div>						2																																																																																																																																																																								
		(ii)	Retentions are allowed as a cash guarantee against 'snagging' (1), disputes (1) and other unforeseen problems (1).						2																																																																																																																																																																								

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(c)	<p>Establishment charges cover preparing a contract site for the work to begin. (1) This may include acquiring access rights, building roads, installing power, water, drainage and communications, drainage and erecting site buildings. (1) These charges are very costly and may not be considered part of completed work. (1) They are significant because they may represent a substantial outlay for the contractor (1) at a time when cash receipts from the contract are low or non-existent. (1) Accept any 3 relevant points.</p>	3	
4.	(a)	<p>(i) Total material $(12000 \times 4.00) - (14000 \times 3.80)$ $= 48000 - 53200$ -5200 A</p> <p>(ii) Material usage $(12000 - 14000) \times 4.00$ -8000 A</p> <p>(iii) Material price $(4.00 - 3.80) \times 14000$ 2800 F</p>	2 2 2	Award 1 mark for calculation. Award 1 mark for correct variance and identification of A or F. Accept declaration of variance consequential to calculation.
	(b)	<p>(i) Total labour $(8 \times 10000 \times 9) - (64000 \times 10)$ 80000 F</p> <p>(ii) Labour efficiency $(8 \times 10000 - 64000) \times 9$ 144000 F</p> <p>(iii) Labour rate $9 - 10 \times 64000$ -64000 A</p>	2 2 2	Award 1 mark for calculation. Award 1 mark for correct variance and identification of A or F. Accept declaration of variance consequential to calculation.
	(c)	<p>(i) Fixed Overhead Volume $(10000 \times 8) - (8000 \times 8)$ 16000 F</p> <p>(ii) Fixed overhead expenditure $(8000 \times 8) - 70000$ -6000 A</p>	2 2	Award 1 mark for calculation. Award 1 mark for correct variance and identification of A or F. Accept declaration of variance consequential to calculation.

Question		Expected Answer(s)	Max Mark	Additional Guidance																		
	(d)	(i) Variable overhead efficiency $((10000 \times 8) - 64000) \times 1.5 = 24000$ F (ii) Variable overhead expenditure $(64000 \times 1.5) - 104,000 = -8000$ A	2 2	Award 1 mark for calculation. Award 1 mark for correct variance and identification of A or F. Accept declaration of variance consequential to calculation.																		
5.	(a)	Percentage shareholding owned - $\text{£}63,000 / \text{£}90,000 = 70\%$ (1) Price Paid - $\text{£}63,000 \times \text{£}2.20 = \text{£}138,600$ (1) Value of Dean - $\text{£}102,000 \times 70\% = \text{£}71,400$ (1) Goodwill - $\text{£}138,600 - \text{£}71,400 = \text{£}67,200$ (1)	4	Value of Dean is consequential on percentage calculated.																		
	(b)	Equity Section: <table style="margin-left: 40px;"> <tr> <td>£1 Ordinary Shares</td> <td style="text-align: right;">£380,000</td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Share Premium</td> <td style="text-align: right;">£30,000</td> <td></td> <td rowspan="3" style="font-size: 2em; vertical-align: middle;">} (1) for both *</td> </tr> <tr> <td>Retained Earnings</td> <td style="text-align: right;">£28,500</td> <td></td> </tr> <tr> <td>Non-Controlling Interest</td> <td style="text-align: right;">£30,600</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">£469,100*</td> <td></td> <td></td> </tr> </table>	£1 Ordinary Shares	£380,000	(1)		Share Premium	£30,000		} (1) for both *	Retained Earnings	£28,500		Non-Controlling Interest	£30,600	(1)		£469,100*			3	* Need to have both Share Premium and Retained Earnings correct as well as correct total for mark.
£1 Ordinary Shares	£380,000	(1)																				
Share Premium	£30,000		} (1) for both *																			
Retained Earnings	£28,500																					
Non-Controlling Interest	£30,600	(1)																				
	£469,100*																					
	(c) (i)	Post-Acquisition profits = $\text{£}18,400$ (1) - $\text{£}9,000$ (1) = $\text{£}9,400 \times 70\%$ (1) = $\text{£}6,580$	3																			
	(ii)	Unrealised Profits Cost of sales = $\text{£}8,000$ Margin = $\text{£}8,000 / 80\% = \text{£}10,000$ Sales Value (1) Profit = $\text{£}10,000 - \text{£}8,000 = \text{£}2,000$ (1) Unrealised profits on goods not sold = $\text{£}2,000 \times 60\% = \text{£}1,200$ (1)	3	If answer is $\text{£}960$, candidate has applied mark-up instead of margin - award 2 marks.																		

Question		Expected Answer(s)	Max Mark	Additional Guidance																								
	(iii)	Cash in transit = £3,500 - £2,900 = £600 (1)	1																									
	(iv)	Trade Receivables £18,500 - £3,500 = £15,000 (1) + £13,700 = £28,700 (1)	2																									
	(v)	Retained Earnings: <table border="1" data-bbox="353 646 1093 933"> <tbody> <tr> <td>Torvill Retained Earnings</td> <td>£75,200</td> <td>*</td> </tr> <tr> <td>Add post acquisition profits</td> <td>£6,580</td> <td>(1)</td> </tr> <tr> <td></td> <td>£81,780</td> <td></td> </tr> <tr> <td>Less unrealised profits</td> <td>£1,200</td> <td>(1)</td> </tr> <tr> <td></td> <td>£80,580</td> <td></td> </tr> <tr> <td>Less Goodwill w/o (67,200 × 20%)</td> <td>£13,440</td> <td>(1)</td> </tr> <tr> <td></td> <td>£67,140</td> <td>(1)*</td> </tr> <tr> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Torvill Retained Earnings	£75,200	*	Add post acquisition profits	£6,580	(1)		£81,780		Less unrealised profits	£1,200	(1)		£80,580		Less Goodwill w/o (67,200 × 20%)	£13,440	(1)		£67,140	(1)*				4	*Final arithmetic total must be correct to gain award for Torvill Retained Earnings figure.
Torvill Retained Earnings	£75,200	*																										
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[END OF MARKING INSTRUCTIONS]