National
Qualifications
2016

2016 Accounting Assignment

Higher

Finalised Marking Instructions

SQA ©

General Marking Principles for the assignment

This information is provided to help you understand the general principles you must apply when marking candidate responses to this assignment. 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.

Treatment of errors

Guidance on the treatment of errors such as extraneous items, arithmetical errors and consequential errors will be provided in the Detailed Marking Instructions.

Layouts

Layouts in the Detailed Marking Instructions are provided for illustrative purposes only. Candidates should not be penalised for using appropriate alternative layouts.

Consequential errors

Consequential errors will be taken into account and candidates will receive credit for following the correct accounting processes and spreadsheet formula.

Formulae

It is possible for candidates to use a variety of different formulae to resolve the problem and provide the information needed in the spreadsheet. Marks will be awarded where a formulae has been used that provides the correct answer, the formulae provided in the marking instructions is not the only correct answer.

Printouts

Candidates are clearly directed, within the instructions, as to the printing requirements. Where a printout for a task is missing, marks will be awarded on any available alternative printout.

International Accounting Standards

With the introduction of the new Higher Accounting specification revised IAS terminology will be used in the preparation of financial statements. However candidates using the traditional approach and terminology in these questions will be rewarded. In addition centres need to be aware of the requirements of IAS 1 which specifies the presentation of accounts and the changes in the treatment of proposed dividends.

In order to make this new specification relevant and current the preparation of an appropriation account will, in future, be replaced by a statement of changes in equity. Only dividends that have been approved will be included in final accounts, with any proposed dividends no longer being shown in the statements. The Detailed Marking Instructions which follow show the new terminology with the current terminology in brackets.

Task 1

Andrew Mitchell plc

Income Statement for year ended 31 December 2015 ✓

	£	£	£	CODE	MARKS
Sales Revenue (Net Sales)			360	A	
Less Cost of Goods Sold					
Opening Inventory (Stock)		20		B	
Purchases	130			A	1
Add Carriage In	5			C	
	135				
Less Purchases Returns	12	123		C	
		143			
Less Closing Inventory (Stock)		30		B	
		113			
Add Warehouse Expenses		20		C	1
Cost of Sales			133		
Gross Profit ✓			227		
Less Expenses					
Selling Expenses	(40+2)	42		D	
Office Expenses	(15-5)	10		E	
Wages		51		F	
Discount Allowed		5		F	
Debenture Interest	(60x10%)	6		G	
Depreciation:					
Fittings	(100x10%)	10		Ha	1
Vehicles	(60-10)x20%	10	134	Hb	1
			93		
Add Other Income					
Decrease in Provision for Doubtful Debts		4		Ia	1
Discount Received		10		F	1
Dividends due from Investments		1	15	J	
Profit for the Year (Net Profit) before tax ✓			108		
Less Corporation Tax 25%			27	K	
Profit for the Year (Net Profit) after tax			81		
Add Unappropriated Profit at 1 January 2015			8	L	
			89		
Less					
Ordinary Dividend		20		M	
Preference Dividend		3		M	1
Goodwill written down		20	43	N	
Unappropriated Profit at 31 December 2015 ✓			46	L	

Main Heading, Labels and Arithmetic - insert "A" where 1st arithmetic error appears (Income Statement, Gross Profit, Profit for the Year before Tax and Unappropriated Profit at year end) 1

(8)

Task 1

Andrew Mitchell plc

Statement of Financial Position as at 31 December 2015 ✓

	£	£	£	CODE	MARK
Non- Current Assets (Fixed Assets) ✓	Cost	Depn	NBV		
Property (Premises)	120		160	O	
Showroom Fittings	100	30	70	Q	1
Motor Vehicles	60	20	40	R	1
			270		
Investments			110	S	
Goodwill (54-20)			34	N	1
			414		
Current Assets ✓					
Inventory (Stock)		30		B	1
Trade Receivables (Debtors) (80-4)		76		Ib	1
Cash and Cash Equivalents (Bank and Cash) (32-3)		29		T	1
Other Receivables (Office Expenses)		5		E	1
Dividends Due		1		J	1
		141			
Current Liabilities ✓					
Trade Payables (Creditors)	54			S	
Debenture Interest	6			G	1
VAT	40			S	1
Other Payables (Accrual) Selling Expenses	2			D	1
Corporation Tax	27	129		K	1
Net Current Assets			12		
			426		
Non-Current Liabilities ✓					
Debentures			60	U	
			366		
Equity and Reserves (Financed by) ✓					
200,000 Ordinary Shares of £1 ✓		200		U	
50,000 Preference Shares of £1 ✓		50	250	U*	1
Unappropriated Profit at 31 December 2015		46		L	1
Share Premium (36-6)		30		P**	1
Revaluation Account		40	116	O	1
			366		

U* Check value <u>or</u> number of both shares is shown then award 1 mark

P** If Preliminary Expenses are not shown elsewhere then award 1 mark

Main Heading, Labels and Arithmetic - Statement of Financial Position (Balance Sheet) Non-Current Assets (Fixed Assets), Current Assets, Current Liabilities, Non-current (Long-Term) Liabilities and Financed By 1

(17)

TOTAL 25

Additional Guidance

If mark applies to more than one item, tick initial item(s) and award the mark to the final correct item, providing all relevant items are correct. For example: B - tick Opening Inventory (Stock), tick Closing Inventory (Stock) and award the mark to Closing Inventory (Stock) in Current Assets.

If any item is repeated incorrectly then lose original mark eg: mark awarded for Discounts and Wages in Income Statement will be lost if any appear in the Statement of Financial Position eg Discount in Current Assets or Current Liabilities.

If candidates do not calculate Depreciation for the year and only use the figures from the Trial Balance in the Statement of Financial Position award 0 marks.

If Non-Current Liabilities are shown in the Financed By section, they must be the last item to gain award.

Do not accept Loans or Debentures as the heading for Non-Current Liabilities (Long-term Liabilities).

Be aware and accept rounding of figures from Corporation Tax onwards.

Accept Net Discounts in the Income section as 5.

Accept Decrease in Provision for Doubtful Debts as a negative figure in Expenses as long as treated correctly.

Task 2 Data View

Andrew Mitchell plc
Sales Budget for January to June 2016

	Jan	Feb	Mar	Apr	May	Jun	CODE	MARKS	
(a) Opening Inventory (Stock)	30 (A)	40	45	45	50	55	B	*A - award 1 mark to Jan figure only	
Add Purchases	400	400	450	450	500	550			
	430	440	495	495	550	605			
Less Closing Inventory (Stock)	40	45	45	50	55	60	B	1	(for both closing & opening inventory)
							TOTAL	2 MARKS	
(b) Sales	390	395	450	445	495	545	C	1	

Andrew Mitchell plc
Cash Budget for March to June 2016

Retail (Cash) Selling Price (per unit)	£140		D	
Wholesale Selling Price (per unit)	£126	(accept £140 if 90% applied to Credit Sales lines)	D	
Surcharge (per unit)	£2		D	
Purchase Price (per unit)	£80		D	
Selling Expenses (per unit)	£1		D	
Bonus (per unit)	£4		D	
Tent Rental Charge	£40		D	1

	March	April	May	June		
Opening Balance	30,000	49,611	50,553	33,150		
Receipts						
Retail Cash Sales	12,600	12,460	13,860	15,260		
Credit Sales - 1 month	29,862	34,020	33,642	37,422		
Credit Sales - 2 months *	9,984	10,112	11,520	11,392		
Tent Hire Income	960	1,600	1,600	1,600		
Total Receipts	53,406	58,192	60,622	65,674		
Payments						
Purchases (Deposit - 20%)	7,200	7,200	8,000	8,800		
Purchases (Balance - 80%)	25,600	28,800	28,800	32,000		
Selling Expenses	395	450	445	495		
Bonus	0	200	180	380		
Fixed Costs	600	600	600	600		
New Fittings		20,000	40,000	40,000	E	1
Total Payments	33,795	57,250	78,025	82,275		
Closing Balance	49,611	50,553	33,150	16,549		

* Consequential values if Jan Opening Stock is entered as 40 in Sales Budget are Jan Sales 400, March Credit Sales 2 months, 10,240 in Sales Budget

Consequential values if Jan Opening Stock is entered as 20 in Sales Budget are Jan Sales 380, March Credit Sales 2 months, 9,728 in Sales Budget

Formulae View

	March	April	May	June		
Opening Balance	30000	=D40	=E40	=F40	O	
Receipts						
Retail Cash Sales	=D8*20%*$B$14	=E8*20%*$B$14	=F8*20%*$B$14	=G8*20%*$B$14	F	1
Credit Sales - 1 month	=C8*80%*75%*$B$15	=D8*80%*75%*$B$15	=E8*80%*75%*$B$15	=F8*80%*75%*$B$15	G	1
Credit Sales - 2 months	=B8*80%*25%*($B$15+$B$16)	=C8*80%*25%*($B$15+$B$16)	=D8*80%*25%*($B$15+$B$16)	=E8*80%*25%*($B$15+$B$16)	H	1
Tent Hire Income	=4*6*B20 (or $B$20)	=4*10*$B$20	=E29 **OR** =4*10*$B$20	=F29 **OR** =4*10*$B$20	I	1
Total Receipts*	=SUM(D26:D29)	=SUM(E26:E29)	=SUM(F26:F29)	=SUM(G26:G29)		
Payments						
Purchases (Deposit - 20%)	=D5*20%*$B$17 **	=E5*20%*$B$17	=F5*20%*$B$17	=G5*20%*$B$17	J	1
Purchases (Balance - 80%)	=C5*80%*$B$17 **	=D5*80%*$B$17	=E5*80%*$B$17	=F5*80%*$B$17	K	1
Selling Expenses	=C8*$B$18 ***	=D8*$B$18	=E8*$B$18	=F8*$B$18	L	1
Bonus	=IF(C8>400,(C8-400)*$B$19,0)	=IF(D8>400,(D8-400)*$B$19,0)	=IF(E8>400,(E8-400)*$B$19,0)	=IF(F8>400,(F8-400)*$B$19,0)	M	1
Fixed Costs	600	=D37 **OR** $D$37	=E37 **OR** $D$37	=F37 **OR** $D$37	N	1
New Fittings		20000	=C38*2	=C38*2		
Total Payments	=SUM(D33:D38)	=SUM(E33:E38)	=SUM(F33:F38)	=SUM(G33:G38)		
Closing Balance	=(D23+D30)-D39	=(E23+E30)-E39	=(F23+F30)-F39	=(G23+G30)-G39	O	1

* Must only include receipts (should not include Opening Balance) — TOTAL 13 MARKS
** Ensure Purchases units are used here
*** Ensure Sales units are used here

Task 3 (a)

Equity (Capital) Gearing Ratio	(£50,000 + Preference Shares	£60,000) Debentures	/£200,000 Ordinary Shares
Answer	**0.55:1**	1	
Dividend Yield	£0.10 Dividend per Share	/£1.18 Market Price per Share	x 100
Answer	8.47% (accept 8.48% or 8.5%)	1	
Dividend Cover	(£81,000 (c) Profit for the Year (after tax)	- £3,000) (c) Preference Dividend	/£20,000 Dividends on Ordinary Shares
Answer	3.90 times	1	
Earnings per Share	(£81,000 (c) Profit for the Year (after tax)	- £3,000) (c) Preference Dividend	/200,000 No of Ordinary Shares
Answer	£0.39	1	
Price/Earnings Ratio	£1.18 (c) Market Price per Share	/£0.39 (c) Earnings per Share	
Answer	3.03 times	1	

Award one mark per correct calculation per ratio (if missing :1, %, £ or times lose award on first occasion only)

CONSEQUENTIAL (c)

Dividend Cover - check candidate's Profit for the Year (after tax) figure with Task 1

Earnings per Share – accept Profit for the Year as used in Dividend Cover as consequential

Earnings per Share – if Preference Dividend used is incorrect in Dividend Cover then accept as consequential here (unless candidates used Preference Share Value of £50,000)

Price Earnings Ratio - calculation is consequential on Earnings per Share figure calculated

Price Earnings Ratio – if incorrect Market Price per share used in Dividend Yield lose mark in Dividend Yield but award as consequential here

Task 3 (b)

Report

To: Board of Directors (Andrew Mitchell plc)

From: Your name

Date: Today's

Subject: Ratio Analysis (Andrew Mitchell plc and Camperlands plc)

Solution Task 3(b) – **Compare the ratios of both companies, suggest one possible <u>reason</u> for the difference between each ratio - candidates to give any explained comparison <u>or</u> reason to gain mark.**

<u>Gearing Ratio – 1 mark for any relevant point MAX 1</u>

C Camperlands plc has the highest gearing ratio as it has the highest proportion of fixed interest equity/debentures to ordinary shares.

R

CAMPERLANDS PLC	*ANDREW MITCHELL*
Greater proportion of fixed interest equity (capital)/debentures.	*Lower proportion of fixed interest equity (capital) /debenture.*

<u>Dividend Yield – 1 mark for any relevant point MAX 1</u>

C Andrew Mitchell plc has a slightly better dividend yield than Camperlands plc indicating that it has performed better than Camperlands plc <u>and</u> shareholders are therefore receiving a better return.

Andrew Mitchell plc has a slightly better dividend yield than Camperlands plc as Directors have chosen to pay a higher ordinary dividend per share.

R

CAMPERLANDS PLC	*ANDREW MITCHELL*
May be retaining more profit within the business for expansion rather than paying high dividends.	May be retaining less profit within the business for expansion due to paying higher dividends.
Market price of ordinary shares may be increasing.	Market price of ordinary shares may be decreasing.
Higher market value per share.	Lower market value per share.

Dividend Cover - 1 mark for any relevant point MAX 1

C Andrew Mitchell plc has a higher dividend cover as they may be retaining more profits than Camperlands plc.

R

CAMPERLANDS PLC	ANDREW MITCHELL
Lower dividend cover so may be retaining less profit.	Higher dividend cover so may be retaining more profit.
Retains less profit in the business in the form of reserves and unappropriated profit.	Retains more profit in the business in the form of reserves and unappropriated profit.

Earnings per Share - 1 mark for any relevant point MAX 1

C Camperlands plc has a much higher earnings per share than Andrew Mitchell plc as they may have higher profits or a smaller number of ordinary shares.

R

CAMPERLANDS PLC	ANDREW MITCHELL
Higher due to being higher geared - more fixed equity (capital)/debentures.	Lower due to being lower geared - less fixed equity (capital)/debentures.

Price Earnings Ratio - 1 mark for any relevant point MAX 1

C **Investing** in Camperlands plc would be more attractive because Camperlands plc earns more per share than Andrew Mitchell plc.

R

CAMPERLANDS PLC	ANDREW MITCHELL
High geared which can increase earnings per ordinary share in times of high profits.	Low geared which can reduce earnings per ordinary share in times of low profits.
Low demand for shares then market price will decrease resulting in lower price earnings ratio.	High demand for shares then market price will increase resulting in higher price earnings ratio.

[END OF MARKING INSTRUCTIONS]