National
Qualifications
EXEMPLAR PAPER ONLY

EP01/AH/01 Accounting

Date — Not applicable

Duration — 2 hours 30 minutes

Total marks — 140

SECTION 1 — 120 marks

Attempt ALL questions

SECTION 2 — 20 marks

Attempt **EITHER** Question 4 OR 5

You may use a calculator.

All working should be shown fully, and clearly labelled.

Write your answers clearly in the answer booklet provided. In the answer booklet you must clearly identify the question number you are attempting.

Use **blue** or **black** ink.

Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.

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EP01AH01

MARKS

SECTION 1 — 120 marks

Attempt ALL questions

1. McLaughlin & Winchester have provided the following information relating to the production and sale of Product Y.

Selling price per carton of 25 units:

Sales of 1-1,000 cartons	£175
Additional sales above 1,000 cartons	£150

Unit costs:

Direct materials	£2
Direct labour	£1
Variable overheads	£1

Under normal conditions, fixed overheads are £30,000 per month and 25,000 units will be produced.

The following data apply to the three months ended 31 March Year 6.

	Units
Production	
January	28,000
February	24,000
March	32,000
Inventory held	
1 January	2,000
31 January	2,500
28 February	2,800
31 March	4,000
Actual fixed overheads incurred	
January	£30,000
February	£29,000
March	£33,000

(a) Prepare statements to show the profit earned in each of the 3 months January to March Year 6 using:

(i) Marginal costing **20**

(ii) Absorption costing **16**

MARKS

1. (continued)

(b) Describe the impact of marginal costing and absorption costing on decision-making within an organisation. **4**

(c) A company produces a single product called product X.

The following data relate to Year 3.

	Budgeted	**Actual**
Production and sales (units)	4,000	3,975
Selling price per unit	£300	£310
Direct material usage	8 kg per unit	31,600 kg
Direct material cost	£8 per kg	£259,500
Direct labour	10 hours per unit	40,250 hours
Direct labour cost	£10 per hour	£394,450
Variable overhead	30% of labour cost	£115,000
Fixed overhead (Recovered at a rate per unit)	£15 per unit	£61,000

Calculate the following variances:

(i) Sales price **2**

(ii) Material usage **2**

(iii) Labour rate **2**

(iv) Variable overhead efficiency **2**

(v) Fixed overhead expenditure **2**

MARKS

2. The following financial information relates to River plc on 30 September Year 2, at which date Denver plc acquired an 80% share in River plc, paying £2 per share.

	River plc
	£
Equity: Ordinary shares of £1 each	50,000
Share premium	5,000
Retained earnings	4,800

(a) You are required to calculate:

(i) the value of goodwill on acquisition **4**

(ii) the value of non-controlling interest on acquisition **2**

2. (continued)

The following statements of financial position were produced on 30 September Year 3.

	Denver plc	River plc
	£	£
Non-current assets		
Tangible	441,150	70,000
Investment in River plc	80,000	–
Current assets		
Inventory	5,900	3,200
Trade receivables	5,600	5,240
Cash and cash equivalents	8,800	–
Current account (owed by River plc)	3,000	–
Total assets	**544,450**	**78,440**
Current liabilities		
Trade payables	(3,000)	(3,500)
Accruals	(500)	(150)
Cash and cash equivalents	–	(720)
Current account (owed to Denver plc)	–	(2,250)
Non-current liabilities		
Debentures	(15,000)	(10,000)
Total liabilities	**(18,500)**	**(16,620)**
Net assets	**525,950**	**61,820**
Equity: Ordinary shares of £1 each	400,000	50,000
Share premium	40,000	5,000
Retained earnings	85,950	6,820
	525,950	**61,820**

MARKS

2. (continued)

The following additional information was provided:

1. There is cash in transit.
2. Goods costing £3,600 were sold at a mark-up of 50% by Denver plc to River plc in September Year 3. Of these, only 60% have been sold on by River plc.
3. An Impairment Review on 30 September Year 3 reduced the value of goodwill by 20%.

(b) You are required to calculate the following for inclusion in the Denver Group's consolidated statement of financial position:

(i)	Post-acquisition profits	**3**
(ii)	Unrealised profits	**3**
(iii)	Non-controlling interest	**2**
(iv)	Cash in transit	**2**
(v)	Retained earnings	**4**

(c) Prepare the consolidated statement of financial position of the Denver Group as at 30 September Year 3. **20**

MARKS

3. Ring Ltd has been formed to produce four products — W, X, Y and Z. Each product passes through three departments — Machining, Assembly and Finishing.

Estimated data for Period 1

- The following are the expected overhead costs:

Machining	**Assembly**	**Finishing**
£19,406	£10,164	£9,222

- Current departmental overhead absorption rates are as follows:

Department	**Basis**	**Rate**
Machining	Machine hours	£6·20 per machine hour
Assembly	Labour hours	£3·50 per labour hour
Finishing	Unit	£8·70 per unit

- Additional information

			Product			
			W	**X**	**Y**	**Z**
	Units produced and sold		200	250	400	210
Department	Machining	Machine hours	800	500	1,200	630
	Machining	Labour hours	1,000	1,000	2,000	840
	Assembly	Labour hours	600	600	1,200	504
	Finishing	Labour hours	400	400	800	336

(a) Calculate the overhead charge per unit for each product. **5**

The cost accountants are considering a change from the current departmental basis of overhead absorption to an "Activity Based Costing" system.

(b) Describe the key features of an "Activity Based Costing" system. **4**

MARKS

3. (continued)

As a result, the same Period 1 data was further analysed on an activity basis as follows:

Activity	**Cost**	**Cost driver**
Set up	£20,000	Number of production runs
Material requisitioning	£8,000	Number of requisitions
Quality control	£5,492	Number of production runs
Order despatch	£5,300	Number of batches sold

- Products W, X and Y will be produced in batches of 50.
- Product Z will be produced in batches of 70.
- All sales will be in batches of 10.
- The number of requisitions for each product will be 10.

(c) Using the information above:

(i) Calculate the overhead absorption rate for each activity. **9**

(ii) Calculate for each product the total overhead absorbed per activity. **8**

(iii) Calculate the overhead charge per unit for each product. **4**

MARKS

SECTION 2 — 20 marks

Attempt EITHER question 4 OR question 5

4. Theo and Juan propose to invest in two of the following four projects, each beginning on 1 January Year 1.

The following data apply (£million):

	Project			
	A	**B**	**C**	**D**
Initial investment	240	240	60	70
Net cash inflows:				
Year 1	40	40	30	20
2	80	60	20	30
3	80	100	15	30
4	80	100	10	10
5	80	60	10	10
6	40	40	5	10

The cost of winding up each project is estimated to be 20% of the initial investment cost, payable immediately upon completion of the project.

Cost of capital — 12%. The discount factors at 12% are:

Year 1	0·893
2	0·797
3	0·712
4	0·636
5	0·567
6	0·507

(a) Calculate, for Project A only, the net present value at the end of Year 6. **9**

The following additional estimated data is available at the end of Year 6:

	Project			
	A	B	C	D
Net present value				
Discounted at 12% (£m)	?	8·30	1·89	3·13
Discounted at 15% (£m)	−10·02	−10·48	−1·24	−1·22
Internal rate of return	?	?	13·81%	14·16%

MARKS

4. (continued)

(b) Calculate the internal rate of return for **Projects A and B only**. **8**

(c) Theo and Juan can afford to choose Projects A **or** B, **and** C **or** D. Advise them which two projects they should invest in, stating the basis for your advice. Give an explanation for your choices. **3**

MARKS

5. Merchant plc has provided the following data for the year ended 31 December Year 2.

Trial balance as at 31 December Year 2.

	Dr £000	Cr £000
Sales revenue		2,400
Purchases of finished goods	500	
Wages and salaries	1,000	
Inventory on 1 January Year 2	250	
General expenses	420	
Debenture interest paid	20	
Discounts (net)	10	
Carriage inwards	10	
Directors' fees	65	
Trade receivables and payables	450	80
Cash and cash equivalents	720	
Land and property at cost	2,000	
Equipment at cost	1,000	
Vehicles at cost	600	
Provisions for depreciation:		
Equipment		200
Vehicles		90
Interest received		25
VAT		60
10% Debentures (Years 4–10)		400
Ordinary shares of 50p each (fully paid)		2,500
8% £1 Preference shares (fully paid)		1,000
Share premium		100
Investments at cost (market value £70,000)	60	
Retained earnings at 31 December Year 2		250
	7,105	7,105

In addition:

1 Inventory of finished goods at 31 December Year 2 — £188,000.
2 Auditors' fees unpaid — £15,000.
3 Prepaid general expenses amounted to £5,000.
4 Allocate expenses as follows:

	Cost of sales	Distribution	Administration
Wages and salaries	30%	40%	30%
General expenses	Nil	20%	80%
Depreciation of equipment	80%	Nil	20%
Depreciation of vehicles	Nil	90%	10%

MARKS

5. (continued)

5 Depreciation is to be charged as follows:

Equipment — 20% on reducing balance
Vehicles — 20% on cost

6 Corporation tax charge for the year is £45,000.

7 The following dividends were paid on 20 December Year 2.
No entries had been made in the accounts of the plc.

- Ordinary share dividend of 1p per share
- Preference share dividend paid in full

(a) Using the above information calculate:

(i) Cost of sales **4**

(ii) Distribution costs **2**

(iii) Administration expenses **6**

(b) Prepare the income statement for the year ended 31 December Year 2 in a form suitable for publication. **5**

(c) Calculate the dividends paid figure which would be included in the statement of retained earnings. **3**

[END OF EXEMPLAR QUESTION PAPER]

National
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EXEMPLAR PAPER ONLY

EP01/AH/01 **Accounting**

Marking Instructions

These Marking Instructions have been provided to show how SQA would mark this Exemplar Question Paper.

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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) Consequentiality subsequent to a calculative error must be followed through, with credit being given for any errors in subsequent calculations or working.

d) 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.

e) 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 accurate 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 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. 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 for 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 appropriate 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

Detailed Marking Instructions for each question

Section 1

Question			Expected response	Max mark	Additional guidance
1	a	i	**Marginal costing profit statement**		

	January		February		March	
Sales	£190,000		£165,900		£209,800	*(10)**
Less opening inventory	£8,000	*(1)*	£10,000		£11,200	
Add variable costs	£112,000	*(1)*	£96,000	*(1)*	£128,000	*(1)*
Less closing inventory	£10,000	*(1)*	£11,200	*(1)*	£16,000	*(1)*
	£110,000		£94,800		£123,200	
Contribution	£80,000		£71,100		£86,600	*(1)@*
Less fixed costs	£30,000		£29,000		£33,000	*(1)#*
Profit	£50,000		£42,100		£53,600	*(1)♦*

Additional guidance:

* 10 marks for workings (see detailed mark breakdown below).

@ All figures in line must be correct **and** correctly labelled as contribution to gain the mark.

All figures in this line must be correct to gain the mark.

♦ Totals in this row have to be consequentially correct.

Workings: to be viewed in association with specific mark allocations to 1 (a) (i)

Sales	**January £**		**February £**		**March £**	
Opening inventory	2,000		2,500		2,800	*(1)#*
Production	28,000		24,000		32,000	*(1)#*
Closing inventory	2,500		2,800		4,000	*(1)#*
Sales (units)	27,500		23,700		30,800	*(1)#*
Sales (cartons)	1,100		948		1,232	*(1)#*
Sales value @ £175 per carton	175,000	*(1)*	165,900	*(1)*	175,000	*(1)*
Sales value @ £150 per carton	15,000	*(1)*			34,800	*(1)*
	190,000		**165,900**		**209,800**	

Additional guidance:

All figures in this line must be correct to gain the mark.

Question			Expected response	Max mark	Additional guidance

	£	£	£
Variable costs			
Direct materials	56,000	48,000	64,000
Direct labour	28,000	24,000	32,000
Variable overhead	28,000	24,000	32,000
	112,000	**96,000**	**128,000**
Fixed overheads			
Absorbed	33,600	28,800	38,400
Actual	30,000	29,000	33,000
Over/(under) absorbed	3,600	-200	5,400
Unit costs			
Materials	2		
Labour	1		
Overheads	1		
Fixed costs	1·20		

Question			Expected response	Max mark	Additional guidance
1	a	ii	**Absorption costing profit statement** **January / February / March** Sales £190,000 / £165,900 / £209,800 **(1)#** Less opening inventory £10,400 ***(1)*** / £13,000 / £14,560 Add variable costs £112,000 / £96,000 / £128,000 ***(1)#*** Add fixed overhead absorbed £33,600 ***(1)*** / £28,800 ***(1)*** / £38,400 ***(1)*** Less closing inventory £13,000 ***(1)*** / £14,560 ***(1)*** / £20,800 **(1)** £143,000 / £123,240 / £160,160 £47,000 / £42,660 / £49,640 Over/under-absorbed fixed overhead £3,600 ***(2)♦*** / −£200 ***(2)♦*** / £5,400 ***(2)♦*** Profit £50,600 / £42,460 / £55,040 ***(1)#***	**16**	# All figures in this line must be correct to gain the mark. ♦ 2 marks broken down into: – 1 mark for correct figure – 1 mark for the correct application of the principle of over/under absorption of overheads to each figure
1	b		Possible answers to describe the impact of marginal costing and absorption costing on decision making within an organisation could include: **Marginal costing** • useful for short-term decision-making in respect of special price contracts within current capacity ***(1)*** • contribution per unit may be used to assess the break-even point for comparison with market potential – aiding production decisions ***(1)*** • contribution per limiting factor may be used to help prioritise products for manufacture and to assist decision-making in respect of make or buy, etc.***(1)*** • or any other relevant answer	**4**	1 mark for each point or development of a point or a detailed example, up to a maximum of 4 marks. Candidates must refer to both marginal costing and absorption costing in their answer. A maximum of 3 marks for each type of costing.

Question			Expected response	Max mark	Additional guidance
			Absorption costing • aids initial product pricing decisions (cost plus pricing) ***(1)*** • all job (or short-term project) costs must use absorption costing to ensure that all costs are covered by the price charged ***(1)*** • or any other relevant answer		
1	**c**	**i**	Variance: Sales price (3,975 × 300) ***(1)*** − (3,975 × 310) ***(1)*** = £39,750 favourable	**2**	
1	**c**	**ii**	Variance: Material usage [(8 × 3,975) ***(1)*** − 31,600] x 8 ***(1)*** = £1,600 favourable	**2**	
1	**c**	**iii**	Variance: Labour rate (40,250 × 10) ***(1)*** −£394,450 ***(1)*** **=** £8,050 favourable	**2**	
1	**c**	**iv**	Variance: Variable o/h efficiency 3 ***(1)*** × (39,750 − 40,250) ***(1)*** = £1,500 adverse	**2**	
1	**c**	**v**	Variance: Fixed o/h expenditure (4,000 × 15) ***(1)*** − 61,000 ***(1)*** = £1,000 adverse	**2**	
2	**a**	**i**	Shares purchased = 80% × 50,000 = £40,000 ***(1)#*** Cost of shares = 40,000 × £2 = £80,000 ***(1)#*** Value of company purchased = 59,800 ***(1)*** × 80% ***(1)*** = £47,840 Goodwill = £32,160	**4**	**#** All figures in this line must be correct to gain the mark.
2	**a**	**ii**	Non-controlling interest = 59,800 ***(1)*** × 20% ***(1)*** = £11,960	**2**	
2	**b**	**i**	Post-acquisition profits = 6,820 ***(1)*** − 4,800 ***(1)*** = 2,020 × 80% ***(1)*** = £1,616	**3**	

Question			Expected response	Max mark	Additional guidance
2	**b**	**ii**	Unrealised profits Cost of goods sold to River plc £3,600 Add mark-up 50% £1,800 (***1***) Unrealised profits on goods not sold = £1,800 (***1***) × 40% (***1***) = £720	**3**	
2	**b**	**iii**	Non-controlling interest = 20% **(1)** × 61,820 **(1)** = 12,364	**2**	
2	**b**	**iv**	Cash in transit = 3,000 **(1)** − 2,250 **(1)** = 750	**2**	
2	**b**	**v**	Retained earnings £85,950 (***1***) Add post-acquisition profits £1,616 (***1***) £87,566 Less unrealised profits £720 (***1***) £86,846 Less goodwill (32,160 × 20%) w/o £6,432 (***1***) Retained earnings £80,414		

Question			Expected response	Max mark	Additional guidance
2	c		**Consolidated statement of financial position as at 30 September Year 3**	20	
			£ £		
			Non-current assets		
			Tangible (441,150 + 70,000) 511,150 ***(1) #***		# All figures in this line must be correct to gain the mark.
			Intangible – goodwill (32,160 ***(1)*** – 6,432 ***(1)***) 25,728		
			536,878		
			Current assets		
			Inventories [(5,900 + 3,200 ***(1)***) – 720 ***(1)***] 8,380		
			Trade receivables (5,600 + 5,240) 10,840 ***(1)#***		
			Cash and cash equivalents 8,830 28,050		
			(8,800 ***(1)*** – 720 ***(1)*** + 750 ***(1)***)		
			TOTAL ASSETS **564,928** ***(1)@***		@ Figure and label in this line must be correct to gain the mark.
			Current liabilities		
			Trade payables (3,000 + 3,500) 6,500 ***(1)#***		
			Other payables (500+ 150) 650 ***(1)#***		
			7,150		

Question			Expected response	Max mark	Additional guidance
			Non-current liabilities £ £ Debentures (15,000 + 10,000) 25,000 ***(1)#*** **TOTAL LIABILITIES** **32,150 (1)@** **NET ASSETS** **532,778 (1)@** **Equity** Ordinary shares of £1 each 400,000 ***(1)*** Share premium 40,000 ***(1)*** Retained earnings 80,414 ***(1)*** Non-controlling interest 12,364 ***(1)*** 532,778 ***(1)♦***		♦ Totals have to be consequentially correct.
3	**a**		**Overhead charge per unit** **Product** Department **W** **X** **Y** **Z** Machining £24·80* ***(1)*** £12·40 £18·60 £18·60 ***(1)**** Assembly £10·50* ***(1)*** £8·40 £10·50 £8·40 ***(1)**** Finishing £8·70 £8·70 £8·70 £8·70 ***(1)#*** £44·00 £29·50 £37·80 £35·70 ***Workings — not exhaustive — for illustrative purposes only*** Calculation of machining charge as follows: Dept W = (800 hours/200 units = 4 hours per unit) * £6·20 per hour = £24·80 Calculation of assembly charge as follows: Dept W = (600 labour hours/200 units = 3 hours per unit) * £3·50 per hour = £10·50	**5**	* 1 mark for correct value for W; 1 mark for correct value for all three columns — X, Y & Z. # All figures in this line must be correct to gain the mark.

Question			Expected response	Max mark	Additional guidance
3	b		Possible answers which describe the key features of an activity based costing system could include: • Activity Based Costing (ABC) is based upon identifying the commercial activities (ordering, material handling, set-up of production line, etc) ***(1)*** which are necessary to service the production of products or supply of services. ***(1 development mark)*** • These activities have cost drivers that give rise to the cost (set-up costs may be driven by the number of production runs undertaken). ***(1)*** • The total cost of each activity (the cost pool) is used to produce an absorption rate per driver ***(1)*** which is then used to allocate the activity costs to products/services based upon their use of the cost drivers. ***(1 development mark)*** • ABC is used in preference to 'traditional' absorption costing by modern, multi-product companies. ***(1)*** • or any other relevant answer	**4**	1 mark for each point or development of a point, or a detailed example, up to a maximum of 4 marks.
3	c	i	**Overhead absorption rate for each activity** **Product** **W X Y Z Total** Number of production runs 4 ***(1)**** 5 8 3 ***(1)**** 20 Number of requisitions 10 10 10 10 40 ***(1)#*** Number of batches sold 20 ***(1)**** 25 40 21 ***(1)**** 106 Absorption rates Set-up costs £1,000·00 per production run (£20,000/20) ***(1)*** Material requisitioning £200·00 per requisition (£8,000/40) ***(1)*** Quality control £274·60 per production run (£5,492/20) ***(1)*** Order despatch £50·00 per batch sold (£5,300/106) ***(1)***	**9**	***** 1 mark for the correct value for W; 1 mark for the correct value for all three columns — X, Y & Z **#** All figures in this line must be correct to gain the mark.

Question			Expected response					Max mark	Additional guidance
3	c	ii	**Total overhead absorbed per activity**					8	
					Product				
				W	**X**	**Y**	**Z**		
			Set-up costs	£4,000·00 ***(1)****	£5,000·00	£8,000.00	£3,000.00 ***(1)****		* 1 mark for the correct value for W; 1 mark for the correct value for all three columns — X, Y & Z
			Material requisitioning	£2,000·00 ***(1)****	£2,000·00	£2,000.00	£2,000.00 ***(1)****		
			Quality control	£1,098·40 ***(1)*** *	£1,373·00	£2,196.80	£823.80 ***(1)****		
			Order despatch	£1,000·00 ***(1)*** *	£1,250·00	£2,000.00	£1,050.00 ***(1)****		
			Total	£8,098·40	£9,623·00	£14,196·80	£6,873·80		
3	c	iii	**Overhead charge per unit**					4	
				£40·49 ***(1)***	£38·49 ***(1)***	£35·49 ***(1)***	£32·73 ***(1)***		

Section 2

Question			Expected response	Max mark	Additional guidance
4	a		**Net present value at the end of Year for Project A** **Year** **Net cash flow** **Cumulative** **12% DF** **NPV** £ £ £ 1 40 40 0·893 35·72 ***(1)*** **#** 2 80 120 0·797 63·76 ***(1)*** # 3 80 200 0·712 56·96 ***(1)*** # 4 80 280 0·636 50·88 ***(1)*** # 5 80 360 0·567 45·36 ***(1)*** # 6 40 400 0·507 20·28 ***(1)*** # Wind up −48 352 0·507 −24·34 ***(1)*** # 352 248·62 Less initial investment (Year 1) 240·00 ***(1)*** Net present value 8·62 ***(1)***	**9**	**#** All figures in this line must be correct to gain the mark.
4	b		Internal rate of return for Project A and Project B IRR for Project A: 12% + (8·62/(8·62 + 10·02) × 3%) = 13·39% ***(1)*** ***(1)*** ***(1)*** ***(1)*** IRR for Project B: 12% + (8·30/(8·30 + 10·48) × 3%) = 13·33% ***(1)*** ***(1)*** ***(1)*** ***(1)***	**8**	

Question			Expected response	Max mark	Additional guidance
4	c		• Choose Projects A and D ***(1)*** as they give the best NPV and IRR combinations. ***(1)*** • The basis for this choice takes into account the time value of money ***(1)*** and avoids foregoing cash flows which may be lost upon early (payback) termination. ***(1)*** • Or any other relevant point	3	1 mark for each point or development of a point, up to a maximum of 3 marks. No marks if candidate just states which project to accept. There has to be a justification and/or explanation of the choice.
5	a	i	**Cost of sales** **£000** **£000** Cost of goods sold: Opening inventory 250 * Add purchases 500 ***(1)*** Add carriage inwards 10 ***(1)*** 760 Less closing inventory 188 ***(1)**** 572 Depreciation of equipment 128 ***(1)*** Wages and salaries 300 428 Cost of sales 1000	4	* 1 mark for both opening and closing inventories.
5	a	ii	**Distribution costs** **£000** Wages and salaries 400 General expenses 83 ***(1)*** Depreciation vehicles 108 ***(1)*** 591	2	

Question			Expected response	Max mark	Additional guidance
5	a	iii	**Administration expenses** **£000** Wages and salaries 300 ***(1)*** * General expenses 332 ***(1)*** Depreciation equipment 32 ***(1)*** Depreciation vehicles 12 ***(1)*** Auditors' fees 15 ***(1)*** Discounts (net) 10 Directors' fees 65 ***(1)*** # 766	6	* 1 mark for all wages and salaries correctly split. # 1 mark for correct value of both discounts and directors fees.
			Working notes for 5 (a) General expenses £420 Less prepaid £5 £415 COS / Distribution / Admin Wages and salaries £1,000: 30% / 40% / 30% £300 / £400 / £300 General expenses £415: nil / 20% / 80% - / £83 / £332		

Question			Expected response			Max mark	Additional guidance
			Depreciation				
			Equipment £1,000 – £200	COGS	Admin		
			Written down value £800	80%	20%		
			Depreciation @ 20% = £160	£128	£32		
			Depreciation	S&D	Admin		
			Vehicles £600	90%	10%		
			Depreciation @ 20% = £120	£108	£12		
5	b		**Income statement of ABC plc for year ending 31 December Year 2**			5	
				£000			
			Sales revenue	2,400	*(1)*		
			Cost of sales	(1,000)			
			Gross profit	1,400			
			Distribution costs	(591)			
			Administrative expenses	(766)			
			Profit from operations	**43**	***(1)*** *		* mark awarded only if labelled correctly.
			Finance costs	(15)	**(2) #**		
			Profit (loss) before tax	28			# see below for detailed breakdown of mark allocation.
			Tax	(45)	*(1)*		
			Loss for the year	**(17)**			

Question			Expected response	Max mark	Additional guidance
			# Finance costs — detailed breakdown of mark allocation: Finance income £25 ***(1)*** Finance expense (£40) ***(1)***		
5	**c**		Preference shares = 8% × £1,000,000 ***(1)*** = £80,000 Ordinary shares = 0·01 ***(1)*** × (2,500,000/£0·50 ***(1)***) = £50,000 Total = £130,000	**3**	

[END OF EXEMPLAR MARKING INSTRUCTIONS]