



National  
Qualifications  
EXEMPLAR PAPER ONLY

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**EP01/H/01**

**Accounting**

Date — Not applicable

Duration — 2 hours

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**Total marks — 100**

**SECTION 1 — 40 marks**

Attempt this question

**SECTION 2 — 60 marks**

Attempt ALL questions

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.



\* E P 0 1 H 0 1 \*

SECTION 1 — 40 marks

Attempt this question

1. The following is the Trial Balance of Glencairn plc at 31 December Year 4:

	£000	£000
Sales revenue (Sales)		430
Purchases	246	
Inventory (Stock) at 1 January Year 4	30	
Administration expenses	36	
Selling and distribution expenses	33	
Warehouse expenses	16	
Discounts (net)		4
VAT	16	
Wages	40	
Provision for doubtful debts at 1 January Year 4		5
Trade receivables (Debtors)	60	
Trade payables (Creditors)		35
Quoted investments	70	
Cash and cash equivalents (Bank)		6
Goodwill	20	
Preliminary expenses	10	
150,000 £1 ordinary shares		150
10% Debentures		80
Property (at cost)	100	
Office equipment (at cost)	30	
Motor vehicles (at cost)	50	
Provisions for depreciation at 1 January Year 4:		
Office equipment		8
Motor vehicles		10
Share premium		30
Interim dividend-ordinary shares	6	
Rent and rates	5	
Unappropriated profit at 1 January Year 4		10
	<u>£768</u>	<u>£768</u>

## NOTES AT 31 DECEMBER YEAR 4

- 1 Inventory (Stock) valued at £20,000 has a market value of £24,000.
- 2 Administration expenses prepaid – £2,000.
- 3 The provision for doubtful debts is to be adjusted to 10% of trade receivables.
- 4 Dividends of £3,000 are due from investments.
- 5 Provide for depreciation for the year as follows:
  - Office equipment – 10% on cost.
  - Motor vehicles – 20% on the diminished balance.
- 6 Provide for corporation tax at 25% of Profit for the year (Net Profit).
- 7 Buildings have been revalued at £110,000 – the surplus on revaluation is to be transferred directly to a Revaluation Reserve.
- 8 Preliminary expenses are to be written down by transfer from Share Premium.
- 9 A cheque for payment of rent for this year of £1,000 has been completely omitted from the books and has still to be recorded.
- 10 Goodwill is to be written down by £12,000.

You are required to prepare the following for internal use, from the Trial Balance and Notes.

- |     |      |  |           |
|-----|------|--|-----------|
| (a) | (i)  | An Income Statement (Trading and Profit & Loss Account) for the year ended 31 December Year 4. | <b>19</b> |
|     | (ii) | A Statement of Financial Position (Balance Sheet) as at 31 December Year 4.                    | <b>19</b> |
| (b) |      | State <b>two</b> additional forms of finance which are available to Glencairn plc.             | <b>2</b>  |

## SECTION 2 — 60 marks

Attempt ALL questions

2. The following budgeted data relates to Scotia plc for the period July to November Year 4.

	July	August	September	October	November
Sales (in units)	4,000	4,300	4,600	5,000	4,800
Production (units)	4,120	4,420	4,760	4,920	

The following information is also available.

- (1) Cash and cash equivalents (bank) balance at 1 August Year 4 is expected to be £12,000.
  - (2) The retail selling price per unit is £40.
    - Credit sales are expected to be 40% of total sales.
    - Credit sales to trade customers are at a discount of 10%.
    - Credit sales are paid for one month after sale.
    - Monthly bad debts are estimated to be 10% of credit sales revenue.
  - (3) Costs are as follows:
    - Materials – £14 per unit, payable in the month before production.
    - Labour – £12 per unit, payable in the month of production.
    - Variable overheads – £10 per unit – 50% payable in the month of production and the rest in the month following production.
  - (4) Fixed costs, excluding depreciation of £1,500 are £3,000 per month.
  - (5) A van owned by the business will be sold during the month of August. The purchase price of the van was £12,000 and at the time of sale will have an expected net book value of £6,500. It is estimated that it will be sold for a profit of £300.
  - (6) The company will issue 20,000 Ordinary Shares of 50p each in August, at a premium of 10p per share.
  - (7) The company will receive a loan of £30,000 from the bank in August. The bank loan, including interest of 5% per annum, will be repaid in 12 equal instalments starting in September.
- (a) Prepare the cash budget for the months of August and September Year 4. 17
- (b) Explain three benefits of using spreadsheets when preparing a cash budget. 3

3.

	Crichie plc	Davah plc
Profit for the year (Net Profit) after interest and tax	£400,000	£1,200,000
Ordinary shares of £1 each	£400,000	£2,000,000
5% Preference shares	£500,000	
Ordinary shares market price	£3.40	£3.20
Ordinary dividend per share	16p	12p

(a) Calculate for each company:

- Dividend Yield
- Dividend Cover
- Earnings per share
- Price/earnings ratio

8

Answers should be given to two decimal places.

(b) Analyse the ratios calculated above and give advice to a potential investor.

4

(c) Explain **two** advantages and **one** disadvantage of the weighted average method of inventory (Stock) control.

3

(d) (i) Explain the meaning of process costing.

1

(ii) In connection with process costing, distinguish between:

- scrap and waste;
- normal loss and abnormal loss.

4

4. Lanark Enterprises plc uses the same basic raw materials to produce two different products – Y and Z. They currently operate at 75% capacity. The following information is available for the year ended 31 December Year 1.

PER UNIT	Product Y	Product Z
Selling price	£50	£70
Variable cost		
• Material	£10	£6
• Labour	£20	£40
Machine hours	2	4
Revenue (units)	6,000	4,500

Variable overheads are recovered at £3 per machine hour.

Fixed costs per annum are £50,000.

(a) Using the above information calculate:

- (i) the total machine hours being used at the current production level; 2
- (ii) the total profit earned at the current level of production. 8

Market research has indicated that in Year 2 the maximum demand for each product will be as follows.

Product Y	8,000 units
Product Z	7,000 units

In an attempt to meet this demand and maximise profits, Lanark Enterprises plc will have to work at full machine capacity.

(b) Calculate for Year 2:

- (i) the number of machine hours available at full capacity; 1
- (ii) the quantity of each product to be produced at full capacity in order to maximise profit; 6
- (iii) total contribution; 2
- (iv) total profit if fixed costs rise by 20%. 1

[END OF EXEMPLAR QUESTION PAPER]



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**EP01/H/01**

**Accounting**

## Marking Instructions

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

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## General marking principles for 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) (i) For 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 “Outline . . .”
- Candidates must make a number of brief statements appropriate to the question asked. These may include facts, features or characteristics.
- Up to the total mark allocation for this question:
- 1 mark should be given for each accurate statement given.



Marking Instructions for each question

Section 1

Question			Expected response	Max mark	Additional guidance																																																																																																														
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Question			Expected response			Max mark	Additional guidance		
1	a	ii	<b>Statement of Financial Position (Balance Sheet) as at 31 December Year 4 ✓</b>			19	Any acceptable layout can be used for the Statement of Financial Position (Balance Sheet).		
			£000	£000	£000				
			Cost	Depn	NBV				
			<b>NON CURRENT ASSETS</b>						
			Buildings	100	-10			110	(1)
			Office equipment	30	11			19	(1)
			Motor vehicles	50	18			32	(1)
								161	
			Investments					70	(1)
			<b>INTANGIBLE ASSETS</b>						
			Goodwill (20-12)					8	(1)
								239	
			<b>CURRENT ASSETS</b>						
			VAT	16					(1)
			Inventory (Stock)	20					(1)
			Trade receivables (Debtors) (60-6)	54					(1)
			Dividends receivable	3					(1)
			Admin expenses – other receivables	2		95	(1)		
			<b>LESS CURRENT LIABILITIES</b>						
			Trade payables (Creditors)	35			(1)		
			Cash and cash equivalents (Bank) (6+1)	7			(1)		
			Corporation tax due	8			(1)		
			Debenture interest payable	8		58	(1)		
			WORKING EQUITY			37			
			<b>TOTAL NET ASSETS</b>			276			
			<b>LESS NON-CURRENT LIABILITIES</b>						
			10% Debentures			80	(1)		
						196			



Section 2

Question		Expected response				Max mark	Additional guidance
2	a	<b>Cash Budget for 2 months/August-September (Year 4) ✓</b>				17	
			<b>August</b>		<b>September</b>		
		Opening balance	12,000	<i>(1)</i>	50,460		
		<b>RECEIPTS</b>					
		Cash revenue	103,200		110,400	<i>(1 for line)</i>	
		Credit revenue	51,840	<i>(1)</i>	55,728	<i>(1)</i>	
		Loan	30,000	<i>(1)</i>			
		Ordinary shares	10,000	<i>(1)</i>			
		Share premium	2,000				
		Proceeds of sale – van	6,800	<i>(1)</i>			
		<b>TOTAL RECEIPTS</b>	<u>£203,840</u>		<u>£166,128</u>		
		<b>PAYMENTS</b>					
		Materials	66,640		68,880	<i>(1 for line)</i>	
		Labour	53,040		57,120	<i>(1 for line)</i>	
		Variable overheads – 1	22,100	<i>(1)</i>	23,800	<i>(1)</i>	
		Variable overheads – 2	20,600	<i>(1)</i>	22,100	<i>(1)</i>	
		Fixed overheads	3,000		3,000	<i>(1)</i>	
		Loan repayment			2,500	<i>(1)</i>	
		Loan interest			125	<i>(1)</i>	
		<b>TOTAL PAYMENTS</b>	<u>£165,380</u>		<u>£177,525</u>		
		Closing balance	<u>£50,460</u>		<u>£39,063</u>		
		Heading and closing balances shown (1)					

Question		Expected response	Max mark	Additional guidance
2	b	<p>Templates can be used from year to year.</p> <p>Fewer arithmetical mistakes will be used with the use of formulae.</p> <p>'What if' scenarios can be tried out, eg if a new van is bought, is it affordable?</p> <p>If the cash budget needs updated with the use of formulae, all changes will ripple through the statement.</p>	3	Any three points: one mark for each valid point.

Question		Expected response		Max mark	Additional guidance	
3	a		Crichie plc	Davah plc	8	Up to two marks available per ratio.
		<b>Dividend Yield</b>				
		<u>Ordinary dividend per share</u> x 100	<u>0.16 x 100</u>	<u>0.12 x 100</u>		
		Market price per share	3.4	3.2		
			4.71% (1)	3.75% (1)		
		<b>Dividend Cover</b>				
		<u>Profit for the Year (Net Profit) – Pref Dividend</u>	<u>400,000 - (5%*500,000)</u>	<u>1,200,000</u>		
		Ordinary Dividend	0.16*400,000	0.12*2,000,000		
			5.86 times (1)	5 times (1)		
		<b>Earnings per share</b>				
		<u>Profit for the Year (Net Profit) – Pref Dividend</u>	<u>400,000 - 25,000</u>	<u>1,200,000</u>		
		Number of Ord Shares	400,000	2,000,000		
			£0.94 (1)	£0.60 (1)		

Question		Expected response	Max mark	Additional guidance									
3	a	<p><b>Price earnings Ratio</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"><u>Market price per share</u></td> <td style="width: 30%; text-align: center;"><u>£3.40</u></td> <td style="width: 30%; text-align: center;"><u>£3.20</u></td> </tr> <tr> <td>Earnings per share</td> <td style="text-align: center;">£0.94</td> <td style="text-align: center;">£0.60</td> </tr> <tr> <td></td> <td style="text-align: center;">3.62 times (1)</td> <td style="text-align: center;">5.33 times (1)</td> </tr> </table>	<u>Market price per share</u>	<u>£3.40</u>	<u>£3.20</u>	Earnings per share	£0.94	£0.60		3.62 times (1)	5.33 times (1)		
<u>Market price per share</u>	<u>£3.40</u>	<u>£3.20</u>											
Earnings per share	£0.94	£0.60											
	3.62 times (1)	5.33 times (1)											
3	b	<p>Crichie plc has a slightly better dividend yield than Davah plc, indicating that they have performed better than Davah plc and that the client would receive a better return on their investment (1 mark).</p> <p>The dividend cover shows that Crichie plc retains more of its profits in the business in reserves for reinvestment, which may benefit the investor with increased share prices (1 mark).</p> <p>If the investor is looking for income, Davah plc distributes more of its profits to the shareholders (1 mark).</p> <p>Crichie plc shows better earnings per share than Davah plc, which may be a better indicator to potential investors than dividend yield or rate of dividend (1 mark).</p> <p>It would cost 3.69 times its earnings to buy shares in Crichie plc but 4.57 times its earnings to buy Davah plc, so this would be a better time to purchase shares in Crichie plc (1 mark).</p> <p>Taking into account all of the above, the best recommendation for a potential investor would be to invest in Crichie plc (1 mark).</p>	4	<p>Up to 4 marks: one mark for each valid point or for each developed point.</p> <p>Candidate must attempt to analyse <i>and</i> advise to gain full marks mark.</p>									



Question		Expected response	Max mark	Additional guidance									
3	c	<p>Advantages of weighted average cost (AVCO):</p> <ul style="list-style-type: none"> <li>• It is based on actual costs incurred.</li> <li>• It evens out price changes.</li> <li>• Inventory (stock) is valued at one price at any one time.</li> <li>• It involves less clerical work than FIFO and LIFO.</li> <li>• Inventory (stock) value will usually be accepted for financial accounting purposes.</li> </ul> <p>Disadvantages of AVCO:</p> <ul style="list-style-type: none"> <li>• Where prices are constantly changing, the calculation of the average can involve a considerable amount of work. However, if this is carried out on a spreadsheet package, the calculation can be performed accurately with no arithmetic errors.</li> </ul>	3	<p>Up to two marks: one mark for each valid advantage.</p> <p>Up to one mark for a valid disadvantage.</p>									
3	d	i	<ul style="list-style-type: none"> <li>• Process production consists of a succession of continuous operations or processes.</li> <li>• Each process represents a different stage of manufacture.</li> <li>• The output of one process becomes the input of another.</li> <li>• This continues until the units are complete and are transferred to a Finished Goods Account.</li> </ul>	1	Any valid point of explanation.								
3	d	ii	<table border="1"> <thead> <tr> <th>SCRAP</th> <th>WASTE</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> <li>• unusable output of an operation</li> <li>• can be sold at a loss</li> <li>• capable of being reprocessed</li> </ul> </td> <td> <ul style="list-style-type: none"> <li>• unusable output of an operation</li> <li>• has no sales value</li> <li>• cannot be reprocessed</li> </ul> </td> </tr> <tr> <th>NORMAL LOSS</th> <th>ABNORMAL LOSS</th> </tr> <tr> <td> <ul style="list-style-type: none"> <li>• anticipated waste of material or efficiency</li> <li>• can be predetermined</li> <li>• generally has a scrap value which offsets costs of production</li> </ul> </td> <td> <ul style="list-style-type: none"> <li>• unanticipated waste of material or efficiency irrespective of normal loss</li> <li>• cannot be predetermined</li> <li>• generally has no scrap value</li> <li>• cost must be valued as good output</li> </ul> </td> </tr> </tbody> </table>	SCRAP	WASTE	<ul style="list-style-type: none"> <li>• unusable output of an operation</li> <li>• can be sold at a loss</li> <li>• capable of being reprocessed</li> </ul>	<ul style="list-style-type: none"> <li>• unusable output of an operation</li> <li>• has no sales value</li> <li>• cannot be reprocessed</li> </ul>	NORMAL LOSS	ABNORMAL LOSS	<ul style="list-style-type: none"> <li>• anticipated waste of material or efficiency</li> <li>• can be predetermined</li> <li>• generally has a scrap value which offsets costs of production</li> </ul>	<ul style="list-style-type: none"> <li>• unanticipated waste of material or efficiency irrespective of normal loss</li> <li>• cannot be predetermined</li> <li>• generally has no scrap value</li> <li>• cost must be valued as good output</li> </ul>	4	<p>Up to three marks available for points of distinction between Scrap and Waste</p> <p>Up to three marks available for points of distinction between Normal and Abnormal loss.</p>
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Question			Expected response				Max mark	Additional guidance	
4	b	i	No of hours at full capacity =	$\frac{30,000}{75}$	$\times 100 =$	40,000	machine hours (1)	1	
4	b	ii	Contribution per machine hour =	<u>Product Y</u> $\frac{\pounds 14}{2} = \pounds 7$	(1)	<u>Product Z</u> $\frac{\pounds 12}{4} = \pounds 3$	(1)	6	
			Order of priority	First		Second	(1)		
			Total machine hours available:			40,000			
			Less: Hours allocated to Y (8,000 × 2)			16,000			
			Available for Z			<u>24,000</u>	(1)		
			Number of units to be produced:	$\frac{16,000}{2} = 8,000$	(1)	$\frac{24,000}{4} = 6,000$	(1)		
4	b	iii	Total contribution	<u>Product Y</u> $\pounds 14 \times 8,000 = \pounds 112,000$	(1)	<u>Product Z</u> $\pounds 12 \times 6,000 = \pounds 72,000$	(1)	2	
						<u>£184,000</u>			
4	b	iv	Less Fixed costs			<u>60,000</u>	(1)	1	
			Maximum profit			<u>£124,000</u>			

[END OF EXEMPLAR MARKING INSTRUCTIONS]