



National  
Qualifications  
SPECIMEN ONLY

**S800/76/11**

**Accounting**

Date — Not applicable

Duration — 2 hours 30 minutes

**Total marks — 120**

**SECTION 1 — 80 marks**

Attempt ALL questions.

**SECTION 2 — 40 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.



\* S 8 0 0 7 6 1 1 \*

**SECTION 1 — 80 marks**

**Attempt ALL questions**

1. Chapman and Elrick are in partnership, sharing profits and losses in the ratio of equity invested. The following is their Trial Balance as at 31 December Year 3, **after** the preparation of the Income Statement to Gross Profit.

	£000	£000
Gross Profit		131
Inventory at 31 December Year 3	12	
Warehouse Expenses payable		1
Wages	20	
Rates	9	
Rent Received		20
Heat and Light	18	
Property at cost	190	
Equipment at cost	80	
Delivery Vans at cost	32	
Provisions for Depreciation at 1 January Year 3:		
Equipment		11
Delivery Vans		12
Cash and Cash Equivalents	62	
Trade Receivables	40	
Trade Payables		30
Provision for Doubtful Debts at 1 January Year 3		6
VAT	17	
Discounts		3
Equity Accounts:		
Chapman		200
Elrick		100
Current Accounts at 1 January Year 3:		
Chapman		10
Elrick	9	
Drawings:		
Chapman	50	
Elrick	25	
Loan — Elrick		40
	£564	£564

## NOTES AT 31 DECEMBER YEAR 3:

1. The partnership agreement of Chapman and Elrick states:
  - interest on equity will be paid at 5% per annum
  - interest on drawings will be charged at 4% per annum
  - a partnership salary of £23,000 will be paid to Chapman.
2. Inventory at 31 December Year 3 had a market value of £14,000.
3. Heat and Light receivable £2,000.
4. Wages payable £3,000.
5. The Rates payment for the final quarter of the year is payable.
6. Equipment, which was purchased on 31 May Year 1 and cost £30,000, was sold on 31 October Year 3 for £20,000 by cheque. It is the firm's policy to charge a full year's depreciation in the year of purchase and none in the year of sale. No entries have been made in respect of this sale.
7. Provide for depreciation per annum as follows:
  - (i) Equipment — 10% on cost.
  - (ii) Delivery Vans — 20% of the reduced balance.
8. The Provision for Doubtful Debts is to be adjusted to 5% of Trade Receivables.
9. Finance costs on the loan from Elrick are payable at 5% per annum.
10. Property was professionally revalued at £200,000.

## (a) Prepare:

- |   |    |
|---|----|
| (i) an Income Statement for the year ended 31 December Year 3     | 16 |
| (ii) the updated Current Accounts                                 | 6  |
| (iii) a Statement of Financial Position as at 31 December Year 3. | 17 |

- |   |   |
|---|---|
| (b) Describe how a manufacturing profit is treated in financial statements. | 1 |
|---|---|

[Turn over

**2. PART A**

The following budgeted data relates to the manufacturing firm Crawford plc for the period May to November Year 2.

	May	June	July	August	September	October	November
Sales in units	6,000	6,200	7,000	8,000	8,350	9,800	10,100

Closing inventory at the end of each month is equal to 20% of the sales of the following month.

(a) Prepare the Production Budget for the period May to October.

4

The following information is available:

1. The Cash and Cash Equivalents balance at 1 July is expected to be £43,000.
2. The retail selling price per unit is £50.
  - Credit sales represent 80% of total sales.
  - Credit sales are sold to trade customers at a discount of 10% on the retail selling price, providing they pay within one month.
  - It is estimated that 75% of credit customers pay within one month.
  - The remaining credit customers pay within 2 months of sale, however 2% of the amount due from these customers is expected to be bad debts.
3. Costs per unit are as follows:
  - Materials — £20 per unit, payable in the month before production
  - Labour — £18 per unit, payable in the month of production
  - Variable overheads — £10 per unit,  $\frac{2}{3}$  payable in the month of production and the remainder in the month following production.
4. Fixed overheads, including depreciation of £2,000, are £8,000 per month.
5. Part of the firm's premises is sublet at an annual rental of £20,000. This is payable quarterly in advance, starting in January.
6. New machinery will be purchased in August for £400,000, payable as follows:
  - a deposit of 10% paid in the month prior to purchase
  - the balance paid in 8 equal monthly instalments, beginning one month after purchase.
7. In June, 200,000 £1 ordinary shares will be issued at a premium of £0.50. Payment for these shares will be made 2 months later.

(b) Prepare the Cash Budget for July to September.

25

**2. PART B**

Duffus Chemicals plc manufactures a product in 3 separate processes. The details for Process 2 for the month of May are as follows:

Transfer from Process 1	1,000 kgs @ £5 per kg
Materials	2,000 kgs @ £3 per kg
Labour	500 hours
Variable overheads	£2 per labour hour
Good Output transferred to Process 3	2,300 kgs
Closing work-in-progress	500 kgs worth £2,500
Labour rate	£12 per hour
Fixed overheads	£4,925
Normal loss	5% of total input quantity

All losses are sold for £3 per kg.

Using the information shown above, prepare:

- (a) the account for Process 2 for the month of May, showing quantities, cost and values
- (b) the Abnormal Loss Account for the month of May.

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[Turn over

## SECTION 2 — 40 marks

Attempt ALL questions

## 3. PART A

The following information is available for 2 companies:

	Barclay plc	Harlaw plc
Profit for the Year after Tax	£400,000	£200,000
Ordinary Shares of £1 each	£500,000	£400,000
5% Preference Shares	£400,000	-
4% Debentures	£100,000	£200,000
Ordinary Shares Market Price	£2.50	£4.00
Ordinary Dividend per Share	£0.10	£0.12

(a) Calculate for each company:

- |                           |   |
|---------------------------|---|
| (i) Dividend Yield        | 1 |
| (ii) Dividend Cover       | 3 |
| (iii) Earnings per Share. | 2 |

(b) Analyse the ratios calculated in (i) — (iii) above and give advice to a potential investor. 3

(c) Describe 2 limitations of ratio analysis. 2

(d) State 3 non-financial performance indicators. 3

## 3. PART B

Thom plc has an opening inventory of 200 kgs at £5.00 per kg of Material A at the beginning of May. The following information is available for Material A for the month.

Date	Transaction	Units	Price
4 May	Purchases	300 kgs	£5.50
9 May	Issues to shop	100 kgs	
15 May	Purchases	400 kgs	£5.70
20 May	Returns of inventory bought on 15 May	300 kgs	
25 May	Purchases	500 kgs	£5.60

Prepare the Inventory Record Card for Material A for the month of May using the Weighted Average (AVCO) valuation system. Show quantity, price and value of units purchased, issued and held.

6

4. Garioch Enterprises plc has equity available for investment in Project A or Project B. The company's project consultants have provided the following information.

	Project A	Project B
Initial investment	£320,000	£325,000
Residual value	£100,000	£175,000
Investment life	5 years	5 years
Estimated net cash flow (excluding initial investment)		
Year 1	£70,000	£94,000
Year 2	£79,000	£85,000
Year 3	£74,000	£79,000
Year 4	£62,000	£68,000
Year 5	£45,000	£40,000

- (a) Calculate the profit earned in each year for Project A and for Project B. 6
- (b) Show the results of applying the following methods of investment appraisal to each project:
- (i) Accounting Rate of Return (based on average profits earned on the initial investment) 4
- (ii) Payback Period (to the nearest day). 6
- (c) Describe **one** advantage and **one** disadvantage of using each of the following methods of investment appraisal:
- (i) Accounting Rate of Return
- (ii) Payback Period. 4

[END OF SPECIMEN QUESTION PAPER]



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## Marking Instructions

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These marking instructions have been provided to show how SQA would mark this specimen question paper.

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## General marking principles for Higher Accounting

*Always apply these general principles. Use them in conjunction with the specific marking instructions, which identify the key features required in candidates' responses.*

- (a) Always use positive marking. This means candidates accumulate marks for the demonstration of relevant skills, knowledge and understanding; marks are not deducted for errors or omissions.
- (b) If a candidate response does not seem to be covered by either the principles or specific marking instructions, and you are uncertain how to assess it, you must seek guidance from your team leader.
- (c) Always follow through consequentiality subsequent to a calculative error and give credit for any errors in subsequent calculations or working.
- (d) Mark scored out or erased working which has not been replaced, where still legible. However, if the scored out or erased working has been replaced, mark only the work which has not been scored out.
- (e) For **state** questions, candidates must list a number of relevant items or facts. These must relate to the context of the question and do not need to be in any particular order.

Up to the total mark allocation for this question:

- award **1 mark** for each relevant item or fact.

- (f) For **describe** questions, 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:

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

- (g) For **analyse** questions, candidates must demonstrate their ability to identify, describe and explain relevant parts and the relationships between the parts and/or the whole. Candidates must be able to draw out and relate any implications.

Up to the total mark allocation for this question:

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

Marking instructions for each question

Section 1

Question			Expected answer(s)				Max mark	Additional guidance																																																																																
1.	(a)	(i)	<p><b>Chapman and Elrick</b>  <b>Income Statement for year ended 31 December Year 3✓</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 10%; text-align: right;">£000</th> <th style="width: 10%; text-align: right;">£000</th> <th style="width: 10%; text-align: right;">£000</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Gross Profit</td> <td></td> <td></td> <td style="text-align: right;">131</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td colspan="5"><u>Less Expenses</u></td> </tr> <tr> <td>Wages (20 + 3)</td> <td></td> <td style="text-align: right;">23</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Rates (9/3*4)</td> <td></td> <td style="text-align: right;">12</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Heat and Light (18 - 2)</td> <td></td> <td style="text-align: right;">16</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Loss on sale of Equipment</td> <td></td> <td style="text-align: right;">4</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Finance Cost – Elrick</td> <td></td> <td style="text-align: right;">2</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Depreciation: Equipment (50*10%)</td> <td></td> <td style="text-align: right;">5</td> <td></td> <td style="text-align: right;">(2)</td> </tr> <tr> <td style="padding-left: 20px;">Delivery Vans (32 - 12)*20%</td> <td></td> <td style="text-align: right;">4</td> <td style="text-align: right;">(1)</td> <td style="text-align: right;">66</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">65</td> <td></td> </tr> <tr> <td colspan="5"><u>Add Income</u></td> </tr> <tr> <td>Rent Received</td> <td></td> <td style="text-align: right;">20</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Discount Received</td> <td></td> <td style="text-align: right;">3</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Decrease in provision for bad debts</td> <td></td> <td style="text-align: right;">4</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td><b>PROFIT FOR YEAR✓</b></td> <td></td> <td></td> <td style="text-align: right;">92</td> <td></td> </tr> </tbody> </table>					£000	£000	£000		Gross Profit			131	(1)	<u>Less Expenses</u>					Wages (20 + 3)		23		(1)	Rates (9/3*4)		12		(1)	Heat and Light (18 - 2)		16		(1)	Loss on sale of Equipment		4		(1)	Finance Cost – Elrick		2		(1)	Depreciation: Equipment (50*10%)		5		(2)	Delivery Vans (32 - 12)*20%		4	(1)	66				65		<u>Add Income</u>					Rent Received		20		(1)	Discount Received		3		(1)	Decrease in provision for bad debts		4		(1)	<b>PROFIT FOR YEAR✓</b>			92		<b>16</b>	<p>Award <b>1 mark</b> for correct entry of Trial Balance items (they must appear only once).</p> <p>It is advisable to check both accounts before awarding marks. If an entry does appear twice, apply +/- rule.</p> <p>Depreciation: Equipment – award <b>1 mark</b> if answer is 8.</p>
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(a)	<p><b>PART B</b></p> <p><b>PROCESS 2 ACCOUNT</b></p> <table border="1"> <thead> <tr> <th></th> <th colspan="3">DR</th> <th colspan="3">CR</th> <th colspan="3">Bal</th> <th></th> </tr> <tr> <th></th> <th>Qty (kg)</th> <th>CPU £</th> <th>£</th> <th>Qty (kg)</th> <th>CPU £</th> <th>£</th> <th>Qty (kg)</th> <th>CPU £</th> <th>£</th> <th></th> </tr> </thead> <tbody> <tr> <td>From Process 1</td> <td>1,000</td> <td>5·00</td> <td>5,000</td> <td></td> <td></td> <td></td> <td>1,000</td> <td></td> <td>5,000</td> <td>(1)</td> </tr> <tr> <td>New Material</td> <td>2,000</td> <td>3·00</td> <td>6,000</td> <td></td> <td></td> <td></td> <td>3,000</td> <td></td> <td>11,000</td> <td>(1)</td> </tr> <tr> <td>Labour</td> <td></td> <td></td> <td>6,000</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>17,000</td> <td rowspan="3">(1)</td> </tr> <tr> <td>Variable Overheads</td> <td></td> <td></td> <td>1,000</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>18,000</td> </tr> <tr> <td>Fixed Overheads</td> <td></td> <td></td> <td>4,925</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>22,925</td> </tr> <tr> <td>Normal Loss</td> <td></td> <td></td> <td></td> <td>150</td> <td>3·00</td> <td>450</td> <td>2,850</td> <td></td> <td>22,475</td> <td>(1)</td> </tr> <tr> <td>Work in Progress</td> <td></td> <td></td> <td></td> <td>500</td> <td></td> <td>2500</td> <td>2,350</td> <td>8·50</td> <td>19,975</td> <td>(1)</td> </tr> <tr> <td>Transfer to Process 3</td> <td></td> <td></td> <td></td> <td>2,300</td> <td>8·50</td> <td>19,550</td> <td>50</td> <td>8·50</td> <td>425</td> <td>(2)*</td> </tr> <tr> <td>Abnormal Loss</td> <td></td> <td></td> <td></td> <td>50</td> <td>8·50</td> <td>425</td> <td>0</td> <td></td> <td>0</td> <td>(1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		DR			CR			Bal					Qty (kg)	CPU £	£	Qty (kg)	CPU £	£	Qty (kg)	CPU £	£		From Process 1	1,000	5·00	5,000				1,000		5,000	(1)	New Material	2,000	3·00	6,000				3,000		11,000	(1)	Labour			6,000						17,000	(1)	Variable Overheads			1,000						18,000	Fixed Overheads			4,925						22,925	Normal Loss				150	3·00	450	2,850		22,475	(1)	Work in Progress				500		2500	2,350	8·50	19,975	(1)	Transfer to Process 3				2,300	8·50	19,550	50	8·50	425	(2)*	Abnormal Loss				50	8·50	425	0		0	(1)												11	<p>Award mark if the entry and balance are correct.</p> <p>Do not award Labour mark if any entry in Quantity and/or CPU for Labour.</p> <p>Award 1 mark if Labour, Variable Overheads and Fixed Overheads are correct.</p> <p>* Award 2 marks for Transfer to Process 3 entry – all or nothing.</p> <p>Watch for consequentiality with Abnormal Loss account.</p> <p>If nomenclature incorrect, do not award mark on first occasion.</p>
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Question		Expected answer(s)	Max mark	Additional guidance
	(b)	<ul style="list-style-type: none"> <li>• Short-term investors may favour Barclay plc, as the Dividend Yield Ratio is more attractive, indicating the return is higher. (1)</li> <li>• Investors looking for a more secure, longer-term investment may be attracted, as Barclay plc has reinvested more profits back into the business, with a Dividend Cover of over 7 times. (1)</li> <li>• Earnings per Share is 26p per share more than Harlaw plc and earning in relation to share price may indicate that it is a good time to buy in Barclay plc. (1)</li> </ul>	3	Award 1 mark for each piece of advice related to the ratio information calculated in 3(a).
	(c)	<ul style="list-style-type: none"> <li>• As the information the ratios are based on is historical, it is out of date. (1)</li> <li>• Companies use different accounting policies, so are difficult to compare. (1)</li> <li>• Owing to inflation, comparisons across years are less meaningful. (1)</li> <li>• Differing company strategies make comparison between companies difficult. (1)</li> <li>• For comparisons to be meaningful, organisations must be similar in size and operate in the same industry. (1)</li> <li>• External factors are not taken into account. (1)</li> </ul>	2	Award 1 mark for each description.
	(d)	<ul style="list-style-type: none"> <li>• employee relations (1)</li> <li>• customer satisfaction (1)</li> <li>• health and safety record (1)</li> <li>• environmental policies, including net carbon footprint (1)</li> <li>• number of customers (1)</li> <li>• number of new shops opened (1)</li> <li>• new products developed/innovation (1)</li> <li>• ethical policies (1)</li> <li>• market share (1)</li> </ul>	3	Award 1 mark for each statement.

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3.		<p><b>PART B</b></p> <p><b>Inventory Record Card – AVCO</b></p> <table border="1"> <thead> <tr> <th rowspan="2">Date</th> <th rowspan="2">Details</th> <th colspan="3">Receipts</th> <th colspan="3">Issues</th> <th colspan="3">Balance</th> <th rowspan="2"></th> </tr> <tr> <th>Qty (kg)</th> <th>CPU</th> <th>Total</th> <th>Qty (kg)</th> <th>CPU</th> <th>Total</th> <th>Qty (kg)</th> <th>CPU</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>01 May</td> <td>Balance</td> <td>200</td> <td>5·00</td> <td>1,000</td> <td></td> <td></td> <td></td> <td>200</td> <td>5·00</td> <td>1,000</td> <td>(1)</td> </tr> <tr> <td>04 May</td> <td>Purchases</td> <td>300</td> <td>5·50</td> <td>1,650</td> <td></td> <td></td> <td></td> <td>500</td> <td>5·30</td> <td>2,650</td> <td>(1)</td> </tr> <tr> <td>09 May</td> <td>Issues to shop</td> <td></td> <td></td> <td></td> <td>100</td> <td>5·30</td> <td>530</td> <td>400</td> <td>5·30</td> <td>2,120</td> <td>(1)</td> </tr> <tr> <td>15 May</td> <td>Purchases</td> <td>400</td> <td>5·70</td> <td>2,280</td> <td></td> <td></td> <td></td> <td>800</td> <td>5·50</td> <td>4,400</td> <td>(1)</td> </tr> <tr> <td>20 May</td> <td>Returns</td> <td></td> <td></td> <td></td> <td>300</td> <td>5·70</td> <td>1,710</td> <td>500</td> <td>5·38</td> <td>2,690</td> <td>(1)</td> </tr> <tr> <td>25 May</td> <td>Purchases</td> <td>500</td> <td>5·60</td> <td>2,800</td> <td></td> <td></td> <td></td> <td>1,000</td> <td>5·49</td> <td>5,490</td> <td>(1)</td> </tr> </tbody> </table>										Date	Details	Receipts			Issues			Balance				Qty (kg)	CPU	Total	Qty (kg)	CPU	Total	Qty (kg)	CPU	Total	01 May	Balance	200	5·00	1,000				200	5·00	1,000	(1)	04 May	Purchases	300	5·50	1,650				500	5·30	2,650	(1)	09 May	Issues to shop				100	5·30	530	400	5·30	2,120	(1)	15 May	Purchases	400	5·70	2,280				800	5·50	4,400	(1)	20 May	Returns				300	5·70	1,710	500	5·38	2,690	(1)	25 May	Purchases	500	5·60	2,800				1,000	5·49	5,490	(1)	6	Award mark if both the entry and balance are correct.
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Question		Expected answer(s)				Max mark	Additional guidance		
	(b)	(i)	<b>ACCOUNTING RATE OF RETURN (ARR)</b>				<b>4</b>		
			PROJECT A	£26,000	ARR	6·9%			(1)
				£35,000					
				£30,000					
				£18,000					
				£1,000	£110,000				
			Average profits		£22,000				(1)
			<b>ACCOUNTING RATE OF RETURN (ARR)</b>						
			PROJECT B	£64,000	ARR	13·3%			(1)
				£55,000					
				£49,000					
				£38,000					
				£10,000	£216,000				
			Average profits		£43,200		(1)		



Question		Expected answer(s)	Max mark	Additional guidance
	(c) (i)	<p><b>Accounting Rate of Return (ARR)</b></p> <p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>• Similar to other accounting ratios used for making accounting comparisons. (1)</li> <li>• Easy to understand and simple to calculate. (1)</li> <li>• Emphasises the necessity of profit. (1)</li> </ul> <p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>• Does not consider the time value of money. (1)</li> <li>• Ignores the timing of cash inflows and outflows. (1)</li> <li>• No target rate of return. (1)</li> <li>• Where timescales are different, ARR is not suitable. (1)</li> <li>• ARR is not suitable for comparing projects with different investment amounts. (1)</li> <li>• Benefits of high profits in the early years is ignored. (1)</li> </ul> <p><b>Payback Period</b></p> <p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>• Very easy to understand and calculate. (1)</li> <li>• Can compare mutually exclusive projects. (1)</li> <li>• May encourage growth, by favouring projects providing a quick return. (1)</li> <li>• Reduces the time during which liquidity is at risk. (1)</li> </ul> <p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>• Calculation and timing of net cash flows may be difficult. (1)</li> <li>• Ignores profitability. (1)</li> <li>• Ignores net cash inflows after payback period. (1)</li> <li>• Ignores time value of money. (1)</li> </ul>	4	Award maximum 1 mark for describing <b>one</b> advantage and <b>one</b> disadvantage of each method.

[END OF SPECIMEN MARKING INSTRUCTIONS]