



2014 Accounting

Advanced Higher Solutions

Finalised Marking Instructions

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2014 ADVANCED HIGHER ACCOUNTING

MARKING CONVENTIONS

CONVENTION	EXPLANATION	MARK(S) ON CANDIDATES PAPER
Extraneous	Items entered which should not be in the answer	-1E
Consequential	If a figure in a question is wrong, any further calculations are awarded marks if correct, as a consequence of using that figure	C
Nomenclature	The details in an account are wrong/missing	-1N
Dates	The date of an entry is wrong/missing	-1D
Complete Reversal	All the ledger entries are made the wrong way round The question is marked as if correct and then the total mark is divided by 2	R eg Total Mark = 12 Divided by 2 Mark awarded = 6
Plus/Minus Rule	If an entry is shown correctly it is awarded the mark (+) If the same entry then appears in another part of the question the mark is deducted (-) ie no mark is gained and there is no penalty	eg Correct entry £60,000 Sales in the Trading Account – Mark awarded 1 (+-) Wrong entry £60,000 Sales also entered in the Balance Sheet – Mark deducted -1 (+-)
Penalty	The answers given are more than required (4 given instead of 3) and one of them is wrong A heading is wrong/missing from a final account The answer is correct but not given in the format requested ie the question asks for an account or a statement and a list is given	-1P

GENERAL INSTRUCTIONS

- 1 Assess pencil figures and working. If the script is predominantly in pencil refer to the Principal Examiner.
- 2 A maximum of 10% of marks gained on any individual question may be deducted for untidy work and poor style. This penalty should only be applied in exceptional circumstances.
- 3 Work which has been deleted gains no marks, even if correct. Exceptional cases may be drawn to the attention of the Principal Examiner.
- 4 Consequential errors **MUST NOT** be penalised, subject to the marking instructions for each question.
- 5 Mark workings whether or not they are incorporated into the final answer. Deduct a penalty of -1 mark per question for working which is not incorporated in the final answer.
- 6 Incorrect figures, supported by adequate workings – award marks for any correct operations performed.
- 7 Incorrect figures, not supported by adequate workings – lose awards, unless the marking instructions specify otherwise. If arithmetic error lose 1 mark.
- 8 **EXTRANEIOUS ITEMS** – see instructions for specific questions.
- 9 If right and wrong – give value of award where figure is correct, deduct value of award where figure is wrong (cross reference +/- against relevant figures).
- 10 Indicate awards given for each item next to the appropriate figure eg £1500¹

In essay type questions indicate the marks awarded beside the point made by the candidate – **NOT IN THE MARGIN.**

Sub-totals for each section should be indicated and encircled, $\textcircled{5/6}$

Final totals should be clearly indicated and easy to check, eg Q1 = 42/50.

Question 1

SECTION A

(a) Net Cash Flow from Operating Activities	£000s	
Net Profit before Interest and Tax	208	5
Non Cash Adjustments		
Add Depreciation for the year	<u>155</u>	2
	363	
Add Loss on sale of Vehicles	<u>2</u>	2
	365	
Less Profits on sale of assets:		
Factory	50	2
Machinery	<u>10</u> 60	2
	305	
Changes in Working Capital		
Increase in Stock (28 – 45)	-17	1
Decrease in Debtors (30 – 15)	15	1
Increase in Creditors (10 – 18)	<u>8</u> 6	1
Net Cash Inflow from Operating Activities	<u><u>311</u></u>	
		(16)

(b) Cash Flow Statement for the year ended 31 December year 3	£000s	£000s	
Net cash Inflow from Operating Activities		311	
Returns on Investments and Servicing of Finance			
Debenture Interest (10 + 23 – 20)		<u>-13</u>	4
		298	
Taxation Paid (24 + 35 – 26)		<u>-33</u>	4
		265	
Capital Expenditure and Finance Investments			
Purchase of Fixed Assets (300 + 150 + 45)	-495		4
Sale of Fixed Assets (150 + 10 + 8)	<u>168</u>	-327	4
		-62	
Equity dividends paid			
Ordinary dividends paid		<u>-30</u>	2
		-92	
Management of liquid resources and financing			
Issue of ordinary shares	70		3
Issue of Debentures	<u>60</u>	130	2
Increase in Bank during the year		<u><u>38</u></u>	1
			(24)
			(40)

Working Notes

	£000s		
Net profit before tax and interest			
Unappropriated profit	120	1	
Add Debenture Interest (20 + 3)	23	2	
Ordinary Dividend	30	1	
Corporation Tax	35	1	(5)
	<hr/> 208		
Depreciation for year:			
Machinery	135	1	
Delivery Vans	20	1	(2)
	<hr/> 155		

Profit or Loss on Asset Sale

	Factory	Machinery	Delivery Vehicle	
Cost of Assets sold	100	50	20	
Less Depn on Disposal		50	10	
NBV	100	<hr/> 0	10	
Cash received	150	10	8	
Profit/(loss) on sale of assets	50	<hr/> 10	-2	
	(1)	(1)	(1)	
Entry in statement	(1)	(1)	(1)	(6)

Question 1

PART B

(a)

Dividend Yield

$\frac{\text{Ordinary dividend per share} \times 100\%}{\text{Market price per share}}$

$$\frac{7\text{p}^{(1)} \times 100\%^{(1)}}{\pounds 1.20}$$

5.83%

(b) **Dividend Cover**

$\frac{\text{Net Profit} - \text{Preference Dividends}}{\text{Dividends on Ordinary Shares}}$

$$\frac{\pounds 300,000^{(1)} - (5\% \times 150,000)^{(1)}}{(500,000 \times 7\text{p})^{(1)}}$$

2
1

$$\frac{292500}{35000}$$

8.36 times

(c) **Earnings per share**

$\frac{\text{Net Profit} - \text{Preference Dividends}}{\text{No of Ordinary Shares}}$

$$\frac{\pounds 300,000^{(1)} - (5\% \times 150,000)^{(1)}}{500,000}$$

2
1

$$\frac{292500}{500000}$$

£0.59 per share Or accept 58.5p

(d) **Price/earnings Ratio**

$\frac{\text{Market price per share}}{\text{Earnings per Share}}$

$$\frac{\pounds 1.20}{\pounds 0.59} \quad \text{or} \quad \frac{\pounds 1.02}{58.5\text{p}}$$

2.03 times **2.05 times**

1
1

(10)

(50)

Question 2

PART A

Realisation Account	Dr	Cr	Balance		
Factory Premises	250,000		250,000	Dr	
Office Equipment	50,000		300,000	Dr	
Delivery Vans	28,000		328,000	Dr	
Stock	17,000		345,000	Dr	1
Debtors	15,000		360,000	Dr	
VAT	8,000		368,000	Dr	
Bank (factory premises)		265,000	103,000	Dr	1
Bank (Office Equipment (60% × 50,000))		30,000	73,000	Dr	1
Capital – Brown (Delivery Van)		12,000	61,000	Dr	1
Capital – White (Delivery Van)		8,000	53,000	Dr	1
Bank (Delivery Vans)		18,000	35,000	Dr	1
Bank (Stock)		12,000	23,000	Dr	1
Bank (Debtors 15000 – (15000 × 10%))		13,500	9,500	Dr	1
Bank (VAT)		8,000	1,500	Dr	1
Discount Received		600	900	Dr	1
Realisation Expenses	1,400		2,300	Dr	1
Loss on realisation				Dr	
Brown 2/5 × 2300		920	1,380	Dr	
Grey 2/5 × 2300		920	460	Dr	1
White 1/5 × 2300		460	0	Dr	
					(11)

Capital Account – White	Dr	Cr	Balance		
Balance		55,000	55,000		
Current Account	3,700		51,300		1
Realisation – Delivery Van	8,000		43,300		1
Loss on realisation	460		42,840		1
Loan		20,000	62,840		1
					(4)
					(15)

PART B

Application and Allotment Account	Dr	Cr	Balance	
Bank (120,000 × 40p)		48,000	48,000	
Bank (10,000 × 40p)	4,000		44,000	
Bank (100,000 × 60p) – 4,000))		56,000	100,000	1
Preference Share Capital	80,000		20,000	1
Share Premium	20,000		0	1

Bank Account	Dr	Cr	Balance	
Application	48,000		48,000	1
Application (10,000 × 40p)		4,000	44,000	1
Application and Allotment	56,000		100,000	1
First and Final call (99,500 × 20p)	19,900		119,900	1
James Brown	350		120,250	1

7% Preference Share Capital Account	Dr	Cr	Balance	
Application and Allotment		80,000	80,000	2
Call (100,000 × 20p)		20,000	100,000	1
Forfeiture of Shares	500		99,500	1
J Brown		500	100,000	1

Share Premium Account	Dr	Cr	Balance	
Application and Allotment		20,000	20,000	1
Forfeiture of Shares		250	20,250	1

First and Final Call Account	Dr	Cr	Balance	
Bank		19,900	19,900	1
Preference Share Capital	20,000		100	1
Forfeiture of Shares		100	0	1

Forfeiture of Shares Account	Dr	Cr	Balance	
First and Final Call	100		100	1
Preference Share Capital		500	400	1
James Brown	400		0	1

James Brown's Account	Dr	Cr	Balance	
Bank (500 × 70p)		350	350	1
Forfeiture of Shares		400	750	1
Preference Share Capital	500		250	1
Share Premium	250		0	1

(25)

(40)

Question 3

(a)	Goodwill				
	(i)				
		Shares purchased	= 80% × 50,000 =	40,000	1
				£	
		Cost of shares	= 40,000 × £2 =	80,000	1
		Value of company purchased	= 59,800 × 80% =	47,840	2
		Goodwill		<u>32,160</u>	
	(ii)	Minority Interest	= 59,800 × 20% =	11,960	2
					(6)
(b)	(i)	Post acquisition profits	= 6820 – 4800 = 2,020 × 80% =	1,616	3
	(ii)	Unrealised Profits			
		Cost of Goods sold to River plc		3,600	
		Add mark-up 50%		<u>1,800</u>	2
		Selling price		<u>5,400</u>	
		Unrealised profits on goods not sold = 1,800 × 40% =		720	1
	(iii)	Minority Interest	= 20% × 61,820 =	12,364	1
	(iv)	Cash in transit	= 3,000 – 2,250 =	750	1
	(v)	Profit and Loss Account Balance			
		Profit		85,950	1
		Add post acquisition profits		<u>1,616</u>	1
				87,566	
		Less unrealised profits		<u>720</u>	1
				86,846	
		Less Goodwill (32,160 × 20%) w/o		6,432	1
		Profit & Loss Account balance		<u>80,414</u>	(12)

(c) **Consolidated Balance Sheet as at 30 September Year 3**

	£	£	
Fixed Assets (441,150 + 70,000)		511,150	2
Goodwill (32,160 – 6,432)		25,728	2
Stocks (5,900 + 3,200 – 720)		8,380	3
Debtors (5,600 + 5,240)		10,840	2
Banks (8,800 – 720 + 750)		8,830	3
		<u>564,928</u>	
Creditors (3,000 + 3,500)	6,500		1
Accruals (500 + 150)	650	7,150	1
		<u>557,778</u>	
Less Long Term Liabilities Debentures (15,000 + 10,000)		25,000	2
		<u><u>532,778</u></u>	
Financed by			
Ordinary Shares of £1 each	400,000		2
Share Premium	40,000		2
Profit and loss balance	80,414		1
Minority Interest	12,364	532,778	1
		<u>532,778</u>	(22)
			(40)

Question 4

(a) **Auditing**

- Is the independent examination of the financial statement and accompanying notes of a plc by a suitably qualified person
- Is an expression of opinion on the financial statements of an enterprise/produce a report
- It is carried out to establish that the final records prepared provide an accurate and fair view of what has actually taken place
- Auditing should ensure that the information produced is not misleading
- Smaller companies (with turnover less than £5.6m and Fixed and Current Assets less than £2.8m) are exempt from an external audit.

(6)

(b) The rights and duties of an auditor are:

Auditors have the following duties:

- To give a true and fair view of the company's state of affairs and its profits or losses for the year under audit
- To ensure that financial statements have been properly prepared in accordance with the Companies Acts
- Providing a report to the members on the position of the company.

Auditors have the following rights to:

- access at all times, to the company's accounting records and other documents
- to require directors and employees of the company to provide explanations and information they consider to be necessary to complete the audit
- to attend any general meeting and speak on matters concerning them.

(10)

(c) The Audit report produced by the Auditor will contain several distinct sections:

- Title of the report – who has it been produced for eg Shareholders or creditors
- Details of financial statements audited
- Details of accounting standards used as a basis for their assessment;
- Details of the depth of the audit providing stakeholders with a clear understanding of what was within the scope of the audit
- Conclusion as to whether the company has
 - met its statutory obligations in accordance with the Companies Act
 - presented accounts which show a "true and fair" view of the actual activities carried out by the company during the financial period
- A section which details any significant discrepancies between the auditor's and director's view of the accounts. These will be presented in such a way that stakeholders can make informed decisions regarding the accounts.

(8)

(d) The benefits of an independent external audit to stakeholders are that the audit gives credibility to the financial information provided by the board in the following ways(2):

- **Preventive control** – employees are more likely to take extra care preparing financial statements if they know their work will be checked.
- **Detective control** – errors may still exist in preparing financial statements and an audit may find these errors and allow them to be corrected before publication
- **Reporting control** – should errors be discovered which the directors are unwilling to correct the auditor can make the stakeholders (shareholders and creditors) aware of the situation by referring to it in the audit report. This lets stakeholders know that there is a possibility that the financial information provided may not be reliable.

(6)

(30)

Question 5

(a) FRS 3 – Reporting Financial Performance

The purpose is to ensure that financial reporting is made in a consistent and understandable manner. It

- Changed the way performance is reported
- Aims to ensure that entities highlight a range of important financial performance components helping users to understand the performance achieved in a period
- requires a layered format for the profit and loss account which will highlight a number of important financial components
 - i. Results of continuing operations (including acquisitions)
 - ii. Results of discontinued operations
 - iii. Profits and losses on the sale or termination of an operation
 - iv. Extraordinary items

The standard requires that

- a statement of total recognised gains and losses to be shown – this is a primary financial statement that includes the profit and loss for the period together with any movements in reserves
- a note of historical profits, showing profits and losses of entities which have revalued assets on a more comparable basis with those entities that have not.

(10)

FRS 10

Purpose is to ensure that purchased goodwill and other intangibles are written off in the financial period in which they are depleted.

Purchased goodwill is the cost of an acquisition less the total fair value of the assets acquired after adjusting for liabilities also acquired.

Purchased goodwill should be included in intangible assets and written off (amortised) against profits over 20 years or less.

Internally generated goodwill should not be capitalised and other intangibles should only be capitalised and written off against profit if their market value can be easily ascertained.

(10)

FRS 18 Accounting Policies

This FRS requires accounting policies to be consistent with accounting standards, Urgent Tasks Force Abstracts and Companies Legislation

This FRS deals mainly with the selection, application and disclosure of accounting policies. Its objective is to ensure that for all material items:

- the accounting policies adopted by an entity adopts the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view;
- the accounting policies adopted are reviewed regularly to ensure that they remain appropriate, and are changed when a new policy becomes more appropriate to the entity's particular circumstances; and
- sufficient information is disclosed in the financial Statements to enable users to understand how they have been implemented
- The entity should judge the appropriateness of accounting policies to its particular circumstances against the objectives of
 - i. Relevance
 - ii. Reliability
 - iii. Comparability
 - iv. Understandability

(10)

(30)

(b) The Director's Report may contain information on the following:

Area covered	Significance
A review of the business at the year end (1) , including market position (1) , principal business activities (1) , and changes in these (1)	Provide stakeholders with an overview of the company's activities over the year (1)
The difference between the balance sheet value and the market value of fixed assets (1) (especially land), if significant (1)	Informs shareholders of the net book value of the assets compared with the actual value and indicates where there are significant differences (1)
Comments on significant post balance sheet events (1)	Makes stakeholders aware of any significant payments which may have to be made in the near future (1)
Likely future developments (1)	Informs stakeholders of what the organisation is aiming to do in the future (1)
Research and development projects (1)	Informs stakeholders of what the organisation is aiming to do in the future (1)
Recommended dividends and transfers to reserves (1)	Informs shareholders of proposed dividends for discussion at AGM (1)
Directors' names and interest in company (including share and debenture holdings) (1)	Informs stakeholders of who the directors are and their holdings in the company (1)
Disclosures of donations to charities, political parties etc (1)	Allows shareholders and possible investors to decide whether they agree with the donations etc made and to decide whether to continue to do so or invest in the company (1)
Health, safety and welfare of staff (1)	Inform shareholders of any health and safety issues which may affect the running of the company. (1)
Disability policies (1)	Informs shareholders (1)
Creditors' payment policy (1)	Allows prospective suppliers to see what the company's payment policy is (1)
Environmental issues (1)	Informs shareholders or possible investors of their firms' policies on environmental issues and allows them. (1)

(10)

(30)

SECTION B

Question 6

PART A

Project A		For Information:					
Year	Net Cash Flow	Cumulative	12% DF	NPV	15% DF	NPV	
1	40	40	0.893	36	0.870	35	1
2	80	120	0.797	64	0.756	60	1
3	80	200	0.712	57	0.658	53	1
4	80	280	0.635	51	0.572	46	1
5	80	360	0.567	45	0.497	40	1
6	40	400	0.507	20	0.432	17	1
Wind up	-48	352	0.507	-24	0.432	-21	2
	352			249		230	
	Less Initial Investment (Year 1)			240		240	2
(b)	Net Present Value			9		-10	

(a) (i) Payback 4 Years
37 Days $(8/80) \times 365$ **3**

(a) (ii) If Project A is terminated at payback future cash inflows would be foregone – (2) £72,000 for Year 5 and £40,000 for Year 6. (1) Early termination is only likely if a new forecast suggests that the cash inflows for the later years may not materialise **3**

(a) (iii) Average Profit 18.67 $(352 - 240)/6$ **1**

ARR or 7.78% or 46.68% $(18.67/240) \times 100$ **2**
 $(18.67/40) \times 100$

(c) IRR 13.38% $12\% + 9(9 + 10) \times 3\%$ **4**
(1) (2) (1)

Project B							
Year	Net Cash Flow	Cumulative	12% DF	NPV	15% DF	NPV	
1	40	40	0.893	36	0.870	35	
2	60	100	0.797	48	0.756	45	
3	100	200	0.712	71	0.658	66	
4	100	300	0.635	64	0.572	57	
5	60	360	0.567	34	0.497	30	
6	40	400	0.507	20	0.432	17	
Wind up	-48	352	0.507	-24	0.432	-21	
	352			248		230	
	Less Initial Investment (Year 1)			240		240	
(b)	Net Present Value			8		-10	

(a) (i) Payback 3 Years
321 Days $(88/100)$ $(8/80) \times 365$ **3**

(a) (iii) Average Profit 18.67 $(352 - 240)/6$ **1**

ARR or 7.78% or 46.68% $(18.67/240) \times 100$ **2**
 $(18.67/40) \times 100$

(c) IRR 13.32% $12\% + 8(8 + 10) \times 3\%$ **4**

Project C

Year	Net Cash Flow	Cumulative
1	30	30
2	20	50
3	15	65
4	10	75
5	10	85
6	5	90
Wind up	-12	78
	78	
Initial cost	60	
Cash Profit	18	

Project D

Year	Net Cash Flow	Cumulative
1	20	20
2	30	50
3	30	80
4	10	90
5	10	100
6	10	110
Wind up	-14	96
	96	
Initial cost	70	
Cash Profit	26	

- (d) (i) Choose Projects A and D (1) as they give the best NPV and IRR combinations (2). The basis for this choice takes into account the time value of money (2) and avoids foregoing cash flows which may be lost upon early (payback) termination (2).

Max
3

- (d) (ii) £112 + £26 = £138m

2

PART B**Variances**

(i)	Material Cost	£4,380	Favourable	(55000*1.5)-78120	2
(ii)	Material Price	£5,580	Favourable	(55800*1.5)-78120	2
(iii)	Material Usage	-£1,200	Adverse	(55000-55800)*1.5	2
(iv)	Variable Overhead Cost	-£100	Adverse	(11000*2)-22100	2
(v)	Variable Overhead Expenditure	-£2,500	Adverse	(9800*2)-22100	2
(vi)	Variable Overhead Efficiency	£2,400	Favourable	(11000-9800)*2	2

(50)

Question 7

PART A

(a)(i) Equivalent Production Statement for Month 6

	Units	%	Materials	%	Labour	%	Overheads	
Inputs:								
Work in Progress	3000							
Transferred In	15000							
Materials Added	<u>12000</u>							
	30000							
Good Output	26500	100%	26500	100%	26500	100%	26500	3
Normal Loss	1500		-		-		-	
Work in Progress	2000	100%	2000	50%	1000	50%	1000	3
Equivalent Units Produced			<u>28500</u>		<u>27500</u>		<u>27500</u>	

(ii) Cost per Equivalent Unit Produced in Month 6

	Materials	Labour	Overheads	
Transferred In	£22,500	-	-	1
Costs for Month	£8,400	£18,000	£13,500	2
Work in Progress	£3,375	£1,250	£800	1
Less Scrap Value of Normal Loss	<u>-£1,500</u>			1
	£32,775	£19,250	£14,300	
Equivalent Units Produced	<u>28,500</u>	<u>27,500</u>	<u>27,500</u>	
Cost Per Equivalent Unit	<u>£1.15</u>	<u>£0.70</u>	<u>£0.52</u>	3
Total Cost per Unit	<u>£2.37</u>			1

(15)

(b) Finishing Process Account for Month 6

	Kg	Price	£	
Inputs				
Work in Progress b/f	3,000		£5,425	1
Transferred In	15,000	£1.50	£22,500	}
Materials	12,000	£0.70	£8,400	
Labour			£18,000	
Overhead			£13,500	
Abnormal Gain	500	£2.37	<u>£1,185</u>	2
			<u>£69,010</u>	
Outputs				
Normal Loss	1,500	£1.00	£1,500	1
Good Output	27,000	£2.37	£63,990	2
Work in Progress*	2,000		<u>£3,520</u>	1
			<u>£69,010</u>	
*Work in progress				
Materials	2000 × £1.15		£2,300.00	
Labour	1000 × £0.70		£700.00	
Overhead	1000 × £0.52		<u>£520.00</u>	
			<u>£3,520.00</u>	(8)

Question 7

PART B

Contract 1 Account for year ended 31 December Year 1

	£	£	£	
Work certified complete			180,000	1
Work complete, but not yet certified			40,000	1
			<u>220,000</u>	
Less Costs:				
Materials sent to site	50,500			1
Less balance at 31 December	<u>5,200</u>			1
			45,300	
Less scrap sales	<u>1,300</u>			2
		44,000		
Wages paid	60,000			1
Add accrued wages	<u>3,720</u>			1
		63,720		
Direct site expenses		<u>9,280</u>		1
Prime Cost		117,000		
Plant depreciation (£20,000-£16,000)	4,000			2
Company Overheads	38,610	42,610		3
			82,500 ×	
			<u>117 (1)</u>	
			(117 + 63 + 70) (2)	
Cost of contract to date			<u>159,610</u>	
Notional Profit			60,390	
Profit Taken (Profit and Loss)			20,130	(180/540)*60,390
Profit carried forward			<u>40,260</u>	1
			<u>-</u>	(17)
				(40)

Question 8

		Ortiz	Telford	Knowles		
(a)	Selling price	50	60	100		
	Variable cost	25	33	50		
	Cont pu	£25	£27	£50		1
(b) (i)	Cont pu	£25	£27	£50		
	Machine hrs	2	1	5		
	Cont per m/h	£12.50	£27.00	£10.00		2
	Priority	2	1	3		1
(b) (ii)	Cont pu	£25	£27	£50		
	Materials kg	2	4	5		
	Cont per kg	£12.50	£6.75	£10.00		2
	Priority	1	3	2		1
(c) (i)		Ortiz	Telford	Knowles	Total Hours	
	M/h priority	2	1	3		
	Hours allotted	8,000	3,000	19,000	30,000	
	Units required	4000	3000	3800		3
(c) (ii)	Units required	4000	3000	3800		
	Kg per unit	2	4	5		
	Total kg required	8000	12000	19000	39000	3
	Kg available				35000	
	Additional kg required				4000	
(c) (iii)	Mats priority	1	3	2	Total Kg	
	Kg allotted	8,000	8,000	19,000	35,000	
	Units produced	4,000	2,000	3,800		2
	Units required (c)(i)	4000	3000	3800		
	Reduction		1000			
(d) (i)		Ortiz	Telford	Knowles	Total Kg	
	Mats priority	1	3	2		
	Kg allotted	8,000	2,000	25,000	35,000	3
	Units Required	4000	500	5000		
(d) (ii)	Units required	4000	500	5000		
	Hours per unit	2	1	5		
	Total hours required	8000	500	25000	33500	3
	Hours available				30000	
	Additional hours required				3500	
(d) (iii)	Hours priority	2	1	3	Total Kg	
	Hours allotted	8,000	500	21,500	35,0000	
	Units produced	4,000	500	4,300		2
	Units required (c)(i)	4000	3000	3800		
	Effect		-2500	+500		

(e)

Option 1	Ortiz	Telford	Knowles		
Units produced	4,000	3,000	3,800		1
Cont per unit	£25	£27	£50		
Total contribution	£100,000	£81,000	£190,000	£371,000	1
Add royalties	(4,200 units × £15)			£63,000	2
				£434,000	
Less Fixed Costs				£100,000	2
Profit				£334,000	

Option 2	Ortiz	Telford	Knowles		
Total contribution from Option 1	£100,000	£81,000	£190,000	£371,000	1
Extra units	1,000	2,000	1,200		3
Cont per unit	£5	£15	£55		
Extra contribution	£5,000	£30,000	£66,000	£101,000	3
New total cont				£472,000	
Less Fixed Costs				£150,000	2
Profit				£322,000	

Advice: Choose Option 1 as it gives the greatest profit **2**

(17)
(40)

Question 9

- (a) Since the difference between marginal and absorption costing is in the treatment of the fixed costs, the only financial information common to both statements are: 2
- sales for the period 1
 - variable costs (labour, materials, variable overhead) incurred during the accounting period 1
 - as these are not affected by the way fixed costs are treated. 1
- Max 4**
- (b) In absorption costing statements, but not in marginal:
- fixed costs are charged to the cost of sales section at pre-determined rates calculated using estimated fixed costs and an estimated base (labour hours worked, units produced, etc) 2
 - consequently the amount charged is likely to be different from the actual fixed costs incurred 2
 - the difference will represent an over-or under-absorption and final profits are adjusted to take this difference into account 2
 - stock unit costs will include an estimated fixed cost per unit in addition to the variable cost per unit 2
 - so the total value of opening/closing stock will be higher than marginal for any given level of stock. 2
- Max 8**
- In marginal costing statements, but not in absorption:
- only variable costs are charged to cost of sales 2
 - stock unit costs are based upon variable costs only 2
 - so the total value of opening/closing stock will be lower than absorption for any given level of stock 2
 - the value of contribution will be shown (sales less the variable (marginal) cost of sales) 2
 - actual fixed cost for the period will be deducted from contribution to give the profit. 2
- Max 8**
- (c) (i) • profit will differ between marginal and absorption when production and sales levels for a period are different 2
- stocks will probably either decrease or increase – when stocks are falling absorption costing will show a lower profit than a marginal and vice versa 2
 - when stocks remain constant each method will show the same profit 2
 - over the life of a business where stocks begin and ends at zero there will be no difference due to method chosen. 2
- Max 6 for (c) (i)**

(c) (ii) Absorption Costing

- aids initial product pricing decisions. (Cost plus pricing) **2**
- all jobs (or short-term project) costs must use absorption costing to ensure that all costs are covered by the price charged. **2**

Marginal Costing

- useful for short term decision making in respect of special price contracts within current capacity. **2**
- contribution per unit may be used to assess the breakeven point for comparison with market potential – aiding production decisions. **2**
- 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. **2**

Max 6 for (c) (ii)

**Max
10**

Question 10

(a) (i) Attainable Standards are set when allowances are made for:

- normal losses and spoilage 2
- supplier price changes 2
- labour problems such as absenteeism, disputes, wages demands, low morale or shortages of skilled labour 2

Max 4

Using attainable standards:

- will only give rise to adverse variances in areas where remedial action will be successful 2
- will not overburden managers with too many adverse variances in areas where remedial action is unlikely to be successful 2
- should lead to high morale in a workforce which is recognised to be performing well 2
- should lead to a stable staff situation (staff turnover low) 2

Max 4

Max 6 for (a) (i)

(a) (ii) Flexible Budgets:

- set budgets for different levels of activity 2
- levels may relate to a change in cost behaviour 2
- for example where a step up in fixed costs is necessary to enable a higher level of production 2
- or where variable cost changes such as overtime wages or bulk discounts for materials occur 2
- take account of variable and semi-variable costs 2
- compare actual costs with budgeted costs for actual output 2
- so are better for evaluating performance 2

Max 6 for (a) (ii)

(b) Steps in preparation of master budget:

- decide on aims for the period with regard to long term strategy 2
- identify limiting factors to determine potential level of production 2
- prepare functional (and subsidiary) budgets for sales, production, administration and distribution as well as (possibly) research and development 2
- prepare a capital expenditure budget taking account of available finance 2
- prepare the cash budget 2
- co-ordinate and review all budgets and revise as necessary 2
- consolidate the individual budgets into a master budget (profit and loss account) 2
- present to management for approval 2

Max 8 for (b)

(c) (i)	<ul style="list-style-type: none"> • Activity based costing (ABC) is based upon identifying the commercial activities (ordering, material handling, set-up of production line, etc) • which are necessary to service the production of products or supply of services • these activities have cost drivers that give rise to the cost (set-up costs may be driven by the number of production runs undertaken) • the total cost of each activity (the cost pool) is used to produce an absorption rate per driver • which is then used to allocate the activity costs to products/services based upon their use of the cost drivers • used in preference to 'traditional; absorption costing by modern, multi-product companies 	<p>2</p> <p>2</p> <p>2</p> <p>2</p> <p>2</p> <p>2</p> <p>Max 6</p>
(c) (ii)	<ul style="list-style-type: none"> • Multi-product breakeven analysis is required when a company produces more than one product • which requires the product mix to be considered when calculating the breakeven point • by using the relative percentage of sales of each product • to calculate a weighted contribution per unit of sales • which is used to calculate the breakpoint in the normal way • the result will provide a good estimate of the breakeven level of activity as long as the production mix does not change • any change in the production mix will require a recalculation of the breakeven point 	<p>2</p> <p>2</p> <p>2</p> <p>2</p> <p>2</p> <p>2</p> <p>2</p> <p>Max 6</p>
		Max (10)

[END OF MARKING INSTRUCTIONS]



2014 Accounting

Advanced Higher Special Instructions

Finalised Marking Instructions

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2014 Accounting

Marking Conventions

CONVENTION	EXPLANATION	MARK(S) ON CANDIDATE PAPER
Extraneous	Items entered which should not be in the answer	-1E
Consequential	If a figure in a question is wrong, any further calculations are awarded marks if correct, as a consequence of using that figure	C
Nomenclature	The details in an account are wrong/missing	-1N
Dates	The date of an entry is wrong/missing	-1D
Complete Reversal	All the ledger entries are made the wrong way round. The question is marked as if correct and then the total mark is divided by 2	R Eg total mark = 12 Divided by 2 Mark awarded = 6
Plus/Minus Rule	If an entry is shown correctly it is awarded the mark (+) If the same entry then appears in another part of the question the mark is deducted (-) ie no mark is gained and there is no penalty	Eg Correct entry £60,000 Sales in the Trading Account – mark awarded 1 (+/-) Wrong entry £60,000 Sales also entered in the Balance Sheet – mark deducted -1 (+/-)
Penalty	The answers given are more than required (4 given instead of 3) and one of them is wrong A heading is wrong/missing from a final account The answer is correct but not given in the format requested ie the question asks for an account or a statement and a list is given	-1P

General

1. Assess pencil figures and working. If the script is predominantly in pencil refer to the Principal Examiner.
2. A maximum of 10% of marks gained on any individual question may be deducted for untidy work and poor style. This penalty should only be applied in exceptional circumstances.
3. Work which has been deleted gains no marks, even if correct. Exceptional cases may be drawn to the attention of the Principal Examiner.
4. Consequential errors **MUST NOT** be penalised, subject to the marking instructions for each question.
5. Mark workings whether or not they are incorporated into the final answer. Deduct a penalty of -1 mark per question for working which is not incorporated in the final answer.
6. Incorrect figures, supported by adequate workings – award marks for any correct operations performed.
7. Incorrect figures, not supported by adequate workings – lose awards, unless the marking instructions specify otherwise. If arithmetic error lose 1 mark.
8. EXTRANEIOUS ITEMS – **see instructions for specific questions**
9. If right and wrong – give value of award where figure is correct, deduct value of award where figure is wrong (cross reference +/- against relevant figures).
10. Indicate awards given for each item next to the appropriate figure eg £1,500¹.

In essay type questions indicate the marks awarded beside the point made by the candidate – NOT IN THE MARGIN.

Sub-totals for each section should be indicated and encircled, eg (5/6)

Final totals should be clearly indicated and easy to check eg Q1 = 42/50

	Award marks lost	Penalties applied
QUESTION 1		
Part A		
(a) Working notes for net cash flow from Operating Activities:		
Net profit before tax not £120	1	
Debenture interest not £20	1	
Debenture interest on newly issued debentures not £3	1	
Ordinary dividends not £30	1	
Corporation tax not £35	1	
Depreciation machinery not £135	1	
Depreciation of Vehicles not £20	1	
Profit or Loss on Sale of Assets:		
Correct figure gains 1 mark		
Correct treatment gains 1 mark		
Changes in Working Capital:		
Increase in stock not £-17	1	
Decrease in Debtors not £15	1	
Increase in Creditors not £8	1	
Net Cash Inflow from Operating Activities not labelled		-1
Extraneous items eg Appreciation or Purchase		-2 max -4
Items in wrong section eg Changes in Working Capital in non-cash adjustments give marks to correct figures		-2 once

	Award marks lost	Penalties applied
QUESTION 1 (continued)		
Part A		
Items in wrong section lose entry mark		
(b) Net cash Inflow from Operating Activities wrong, not consequential on (a)		-1
Returns on investments and Servicing of Finance:		
Debenture Interest due Jan 1 Year 3 wrong/omitted	1	
Debenture interest not £23 or omitted	1	
Debenture interest due wrong/omitted	1	
Debenture interest total not deducted	1	
Taxation Paid:		
Taxation due January 1 Year 3 wrong/omitted	1	
Corporation tax for year not £35 or omitted	1	
Corporation tax due 31 December Year 3 wrong / omitted	1	
Taxation total not deducted	1	
Capital Expenditure and Finance Investments:		
Factory and Warehouse assets purchases not £300	1	
Machinery assets purchased not £150	1	
Delivery vehicles not £45	1	
Total not deducted	1	
Sales of Fixed Assets:		
Factory and Warehouse not £150	1	
Machinery assets not £10	1	
Delivery Vehicles not £8	1	
Total not added	1	
Equity Dividends paid not £30	2	
Dividends £30 not deducted	1	
Management of liquid resources and financing:		
Issue of share not $(100,000 \times 50p) = £50$	1	
Share premium not $(100,000 \times 20p) = £20$	1	
Ordinary shares not added	1	
Issue of debentures not £60	1	
Debentures not added	1	
Increase in Bank during the year wrong, not consequential	1	
Extraneous items eg Revaluation -2, max -4		
Items repeated from Reconciliation apply +/- rule Arithmetic slips -1 each		

	Award marks lost	Penalties applied
<p>QUESTION 1 – (continued)</p> <p>Part B Ratios – 10 Marks</p> <p>Mark as per solution.</p> <p>Wrong formula lose full award for ratio. Preference dividends in (c) consequential on (b)</p> <p>Answer to part (d) is consequential on answer to part (c)</p> <p>Percentage, times or p omitted</p>		<p>-1 once</p>

	Award marks lost	Penalties applied
QUESTION 2		
Part A		
(a) Realisation Account:		
Mark as per solution.		
If any one from factory Premises, Office Equipment, Delivery Vans, Stock, Debtors or VAT omitted or wrong	1	
If error made in delivery vans taken over by Brown or White	1	
If loss on realisation not shared between partners according to profit sharing ratios	1	
Extraneous items eg Loan, Bank overdraft		-2 max -4
(b) Capital Account - White		
Opening Balance wrong, omitted		-1
Current Account balance wrong, omitted, wrong side	1	
Delivery Van wrong, omitted	1	
Loss on realisation wrong, omitted, not consequential	1	
Loan wrong or omitted	1	
Ignore any bank transfer to close Capital A/c		
Part B		
(a) Mark as per solution		
and		
(b)		
One mark is awarded for (120,000 × 40p) Application monies received in the Application and Allotment Account and the Bank, figure wrong or omitted	1	
One mark is awarded for refund of Application monies received in the Application and Allotment Account and Bank account, (10,000 × 40p), figure wrong or omitted	1	
If £56000 and £4000 are netted to £52000 in both Application and Allotment and Bank award 3 marks		
Do not accept £4000 netted against application money £48000		

	Award marks lost	Penalties applied
QUESTION 3		
Part A		
(a) (i) Calculation of Goodwill		
Calculation of number of shares purchased wrong	1	
Cost of shares wrong/omitted, not consequential on number of shares purchased	1	
Value of company purchased not 80% Of £59,800	1	
	1	
(a) (ii) Minority Interest not 20% Of £59,800	1	
	1	
(b) (i) Post Acquisition Profits not £6,820	1	
Less Profit and Loss Account Balance on acquisition £4,800	1	
Not 80% of figure	1	
(b) (ii) Unrealised Profits		
Mark-up not 50% of £3,600	2	
Unrealised profits not 40% of Cost or consequential	1	
(b) (iii) Minority Interest wrong or omitted	1	
(b) (iv) Cash in transit wrong or omitted	1	
(b) (v) Profit and Loss Account Balance		
Profit not £85,950	1	
Post Acquisition profits not £1,616 or consequential on (b) (i)	1	
Unrealised profits not £720 or consequential on (b) (ii)	1	
Goodwill written off wrong, or not consequential on (a) (i)	1	

	Award marks lost	Penalties applied
QUESTION 3 – (continued)		
Part A		
(c) Consolidated Balance Sheet		
Heading wrong or omitted		-1
Fixed Assets wrong	1 each	
Goodwill figures wrong or not consequential on (a) (i)	1	
Written off wrong, not consequential on (b) (v)	1	
Debtors figures wrong not consequential	1 each	
Bank figures wrong, not consequential	1 each	
Creditors wrong or omitted	1	
Accruals wrong or omitted	1	
Long Term Liabilities Debentures wrong any one omitted	1 each	
 Financed by		
Ordinary Shares not £400,000	2	
Share Premium not £40,000	2	
Profit and Loss not £80,414 or consequential on (b) (v)	1	
 Minority Interest wrong, not consequential on (b) (iii)	1	
Minority Interest not the final figure	1	

	Award marks lost	Penalties applied
QUESTION 4 Theory Questions Mark as per solution Two marks for each valid point		

	Award marks lost	Penalties applied
QUESTION 5 Mark as per solution (a) Award 2 marks to any valid point (b) Award 1 mark for each area up to a maximum of 5 Award 1 mark for significance up to maximum of 5		

	Award marks lost	Penalties applied
Question 6		
Part A		
(a) Project A		
(a) (i) If termination costs ignored Accept 4.1 years	2	
(ii) Accept any reasonable explanation for 2 marks, if wrong Foregone cash flow is £112,000 – if wrong	2 1	
(iii) Average profit wrong ARR wrong, not consequential on average profit	1 2	
Project B		
(i) If termination costs ignored Accept 3.9 years	2 1	
(ii) Average profit wrong ARR wrong, not consequential on average profit	1 2	
(b) Project A		
12% NPV Years 1-6 wrong	1 each	
Wind up not deducted or discounted	1	
Initial investment wrong/omitted	2	
Total Net Present Value omitted		1 mark
(c) Projects A and B		
Consequential on (b) , otherwise mark as per solution		
(d) (i) Consequential on (b) and (c) Award 1 mark for correct advice and 2 marks for a valid basis/explanation		
(ii) Consequential on (b) , (c) and (d) (i) If wrong/not consequential	2	
Part B		
Award each variance amount 1 mark and each correct label 1 mark		
Amount wrong	2	
Label wrong, but amount correct	1	

	Award marks lost	Penalties applied
Question 7		
Part A		
(a) (i) Good output of 26500kg – award 2 marks to calculation and 1 mark to allocation to all 3 elements Amount wrong ie 27000 Different amounts allocated to each element Work in progress wrong/omitted Final equivalent units produced wrong/omitted If normal loss 1000 ignore	2 3 1 each	2
(a) (ii) Transferred in cost wrong/omitted Costs for month – each one wrong/omitted Work in progress at start – any one wrong/omitted Scrap value of normal loss wrong/omitted not consequential Cost per equivalent unit wrong/omitted/not consequential Total cost per unit wrong/omitted Fixed costs included	1 1 (max 2) 1 1 1 each 1 1	
(b) Opening work in progress b/f not £5,425 Transferred in, materials, labour and overhead costs – any one wrong/omitted Abnormal gain/good output cost per unit wrong/not consequential Not the same cost per unit allotted to abnormal gain and good output Abnormal gain treated as a loss Normal loss wrong/omitted Closing work in progress wrong/omitted Fixed costs included	1 1 2 2 2 1 1 1	
Part B		
All figures – mark as per solution except:		
Company overheads consequential on prime cost – if wrong / omitted/not consequential	3	
Profit taken consequential on notional profit – if wrong / omitted /not consequential	2	
Extraneous items -2, max -4		
If damaged materials of £10000 entered lose 1 for £50,500	1	

	Award marks lost	Penalties applied
Question 8		
(a) Mark as per solution		
(b) Consequential on (a)		
(i) Priority depends upon correct calculation of the contribution per machine hour Each contribution per machine hour wrong	1 max 2	
(ii) Priority depends upon correct calculation of the contribution per kg Each contribution per kg wrong	1 max 2	
(c) Consequential on (a) and (b)		
(i) Units required – each figure wrong/omitted/not consequential	1	
(ii) Kg required – each figure wrong/omitted/not consequential on (c) (i) Additional kg required omitted	1	1
(iii) Units reduced must be based on third priority in (b) (ii)	2	
(d) Consequential on (a) and (b)		
(i) Units required – each figure wrong/omitted not consequential	1	
(ii) Hours required – each figure wrong/omitted/not consequential on (d) (i) Additional hours required omitted	1	1
(iii) Change in Units produced must be based on the priority in (b) (i) Reduction in units wrong/omitted/not consequential	2	

	Award marks lost	Penalties applied
Question 8 - Continued		
(e) Consequential on (a) and (c) (i)		
Option 1		
Units produced (from (c) (i)) wrong/not consequential	1	
Total contribution wrong/not consequential	1	
Royalties wrong/not consequential	2	
Fixed cost wrong/omitted	2	
Profit wrong/omitted		1
Option 2		
Total contribution from Option 1 omitted/wrong	1	
Extra units wrong/omitted/not consequential	1 each	
Extra contribution wrong/omitted/not consequential	1 each	
Fixed costs wrong/omitted	2	
Profit wrong/omitted		1
Advice consequential on working for Options 1 and 2		
Advice not consequential	2	
Adequate reason not given	2	

	Award marks lost	Penalties applied
<p>Question 9</p> <p>(a) Award 2 marks and 1 mark per point as per suggested answers and for other relevant points where appropriate</p> <p>(b) Award 2 marks per point as per suggested answers and for other relevant points where appropriate Apply maximum marks per statement as per solutions</p> <p>(c) (i) Award 2 marks per point as per suggested answers and for other relevant points where appropriate Maximum 6 marks</p> <p>(ii) Award 2 marks per point as per suggested answers and for other relevant points where appropriate Maximum 6 marks</p>		

	Award marks lost	Penalties applied
<p>Question 10</p> <p>(a) (i) Award 2 marks per point as per suggested answers and for other relevant points where appropriate and (ii) Apply maximum marks as per suggested answers</p> <p>(b) Award 2 marks as per suggested answers and for other relevant points where appropriate</p> <p>(c) Award 2 marks per point as per suggested answers for each point correctly made Apply maximum marks per section as per solutions</p>		

[END OF MARKING INSTRUCTIONS]