



**2014 Accounting**

**Higher Solutions**

**Finalised Marking Instructions**

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## **General Marking Principles for: Accounting Higher Solutions**

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 specific Marking Instructions for each question.

- (a)** Marks for each candidate response must always be assigned in line with these general marking principles and the specific Marking Instructions for the relevant question. If a specific candidate response does not seem to be covered by either the principles or detailed Marking Instructions, and you are uncertain how to assess it, you must seek guidance from your Team Leader/Principal Assessor.
- (b)** Marking should always be positive ie, marks should be awarded for what is correct and not deducted for errors or omissions.

## **GENERAL MARKING ADVICE: Accounting Higher Solutions**

The marking schemes are written to assist in determining the “minimal acceptable answer” rather than listing every possible correct and incorrect answer. The following notes are offered to support Markers in making judgements on candidates’ evidence, and apply to marking both end of unit assessments and course assessments.

## Section A

### Question 1

**(a) Statement of Accumulated Fund as at 1 January Year 2**

<u>Fixed Assets</u>	£000's	£000's	£000's	
Clubhouse and course			500	}
Machinery			40	
Bar Fixtures			15	
			555	<b>(1)</b>
 Add <u>Current Assets</u>				
Bar Stock		3		}
Bank		6		
Subs in Arrear (Year 1)		3	<b>(1)</b>	
		12		
 Less <u>Current Liabilities</u>				
Creditors for Bar Supplies	4			}
Professional's Salary	2			
Electricity Accrued	1			
Subs in Advance (Year 2)	2	<b>(1)</b>	9	
Accumulated Fund			558	<b>(5)</b>

**(b) Bar Trading Account for year ending 31 December Year 2**

	£000's	£000's	
Sales		60	<b>(1)</b>
Less <u>Cost of Sales</u>			
Opening Stock	3		<b>(1)</b>
Add Purchases* (40 - <sup>1</sup> 4 + <sup>1</sup> 5)	41		<b>(2)</b>
	44		
Less Closing Stock	4		<b>(1)</b>
		40	
Gross Profit		20	
Less Bar Wages & Expenses	15		<b>(1)</b>
Depreciation - Bar Fixtures (20% * 15)	3		<b>(2)</b>
<b>Net Profit</b> ✓		2	<b>(8)</b>

(c) **Income and Expenditure Account for the year ending 31 December Year 2** ✓

<b><u>Income</u></b>	£000's	£000's	
Subscriptions (155 + 2 (1) - 3 (1) + 4 (1) - 1 (1))		157	(4)
Net Profit From Bar		2	(1)
Life Membership Fees		10	(2)
Surplus from Gaming Machines (6 - 3)		<u>3</u>	(2)
		172	
Less <b><u>Expenditure</u></b>			
Greenkeepers' Wages	25	(1)	
Professional's Salary (33 - 2 + 3)	34	(2)	
Repairs to Machinery	17	(1)	
Purchase of Grass Seed and Sand (20 - 3)	17	(2)	
Gas and Electricity (12 - 1 + 2)	13	(2)	
General Expenses	7	(1)	
Depreciation - Machinery (10%*(40 + 20))	<u>6</u>	(3)	
		<u>119</u>	
<b>Surplus</b> ✓		<u>£53</u>	(21)

(d) **Balance Sheet as at 31 December Year 2** ✓

<b><u>Fixed Assets</u></b>	<b><u>Cost</u></b>	<b><u>Depn</u></b>	<b><u>NBV</u></b>	
Clubhouse and course	500	0	500	(1)
Machinery	60	6	54	(1)
Bar Fixtures	<u>20</u>	<u>8</u>	<u>12</u>	(1)
	<u>580</u>	<u>14</u>	566	
Add <b><u>Current Assets</u></b>				
Bar Stock		4	(1)	
Stock of Grass Seed		3	(1)	
Subs in Arrears		4	(1)	
Bank (6 + 271 - 192)		<u>85</u>	(2)	
		96		
Less <b><u>Current Liabilities</u></b>				
Creditors for Bar Supplies	5	(1)		
Professional's salary due	3	(1)		
Subs in Advance	1	(1)		
Electricity Accrued	<u>2</u>	(1)	<u>11</u>	
			<u>85</u>	
			<u>£651</u>	
<b><u>Financed by</u></b>				
Accumulated Fund			558	(1)
Add Life Membership Fees capitalised			40	(2)
Add Surplus			<u>53</u>	(1)
			<u>£651</u>	(16)
				(50)

## Question 2

		£000	£000	
(i)	<b><u>Davis plc Manufacturing Account for the year ending 31 December Year 3</u></b>			✓
	<b>Prime Cost</b>		247	<b>(1)</b>
Add	<b><u>Factory Overheads</u></b>			
	Indirect Wages	25	<b>(1)</b>	
	General Expenses	30	<b>(2)</b>	
	Lighting and Heating	24	<b>(2)</b>	
	Depreciation - Factory Machinery	75	<b>(2)</b>	154
				<hr/>
			401	
Add	Work-In-Progress at start		15	<b>(1)</b>
				<hr/>
			416	
Less	Work-In-Progress at end		27	<b>(1)</b>
	<b>Factory Cost of Production</b>		389	✓
	<b>Market Value of Production (150 x £2.80)</b>		420	<b>(2)</b>
	<b>Factory Profit</b>		£31	<b>(2) (14)</b>

(ii) <b><u>Davis plc Trading and Profit and Loss Accounts FYE 31 December Year 3</u></b> ✓		£000	£000	£000	
	Sales of Finished Goods			691	(1)
Less	<b><u>Cost of Sales</u></b>				
	Opening Stock of Finished Goods		21	(1)	
Add	Market Value of Finished Goods		420	(2)	
			441		
Less	Closing Stock of Finished Goods		18	(1)	
			423		
Add	<b><u>Warehouse Expenses</u></b>				
	Wages	21	(1)		
	Lighting and Heating	16	(1)	37	460
	<b>Gross Profit</b> ✓			231	(7)
Add	<b>Factory Profit</b>			31	(2)
				262	
Add	Decrease in Provision for Bad Debts			1	(2)
				263	
Less	<b><u>Expenses</u></b>				
	Wages		23	(1)	
	General Expenses		20	(1)	
	Office Insurance (6 – 2)		4	(2)	
	Lighting and Heating		8	(1)	
	Debenture Interest		10	(2)	
	Provision for Depreciation on Office Equipment		50	(2)	115
	<b>Net Profit Before Tax</b> ✓			148	(13)
	Corporation Tax			37	(1)
	Net Profit After Tax			111	
Add	Profit and Loss Account Balance 1 January Year 3			5	(1)
				116	
Less	<b><u>Appropriations</u></b>				
	Ordinary Dividend - Interim		30	(1)	
	Ordinary Dividend - Final		20	(2)	
	Goodwill written down		15	(1)	65
	<b>Unappropriated Profit</b> ✓			£51	(6)
					(26)

**Question 3 Part A**

**(a) Profit or loss on revaluation**

Vehicles – decrease in value	-20,000	(1)	
Premises – increase in value	50,000	(1)	
Increase in provision for bad debts	-1,000	(1)	
Revaluation Expenses	<u>-3,000</u>	(1)	(4)
Profit on Revaluation	26,000		

**(b) Share of Profit on Revaluation**

Ray	9,750	(1)	
Fennel	16,250	(1)	(2)

**(c) New Profit Sharing Ratio**

Bishop	20%		
Ray – 3/8	30%	(1)	
Fennel – 5/8	50%	(1)	

**(d) New capital balances of each partner**

	<b>Ray</b>		<b>Fennel</b>		<b>Bishop</b>	
Original Capital	60,000	(1)	100,000	(1)	120,000	(1)
Current Account Balances	5,500	(1)	-3,000	(1)		
Share of profit on Revaluation	9,750	(1)	16,250	(1)		
Share of Goodwill	15,000	(1)	25,000	(1)		
	90,250		138,250		120,000	
Less share of goodwill written off	12,000	(1)	20,000	(1)	8,000	(1)
New Capital balances	78,250		118,250		112,000	(12)
						(20)

### Question 3 Part B

<b>(a)(i)</b>	<b>Gross Profit</b> $30\% \times \text{£}200,000 = \text{£}60,000$ (1) (1)
<b>(ii)</b>	<b>Mark-up Ratio</b>  $\text{Cost of Sales} = \text{Sales} - \text{Gross Profit} \quad \text{£}200,000 - \text{£}60,000 = \text{£}140,000$ (1)  $\text{Mark-up Ratio} = \frac{\text{Gross Profit}}{\text{Cost of Sales}} \times 100 \quad 60,000/140,000 \times 100 = 42.9\%$ (1) (2)
<b>(iii)</b>	<b>Opening Stock</b>  $\text{Rate of Stock Turnover} = \text{Cost of Sales}/\text{Average Stock}$  $\text{Average Stock} = 140,000/10 = \text{£}14,000$ (1) $\text{Average Stock} = \frac{\text{Opening Stock} + \text{Closing Stock}}{2}$  $2 \times \text{£}14,000 = \text{£}28,000$ (1) $\text{£}28,000 - \text{£}12,000 = \text{£}16,000$ (1) (3)
<b>(iv)</b>	<b>Purchases</b>  $140,000 - 16,000 + 12,000 = \text{£}136,000$ (2) (2)
<b>(v)</b>	<b>Expenses</b>  $\text{Net Profit} = 12\% \times \text{£}200,000 = \text{£}24,000$ (1) $\text{Expenses} = \text{Gross Profit} - \text{Net Profit}$  $= \text{£}60,000 - \text{£}24,000 = \text{£}36,000$ (1) (2)



<b>(vi)</b>	<p><b>Debtors' Collection Period</b></p> <p>Average Debtors/Credit Sales x 365</p> <p>Credit Sales = 80% x £200,000 = £160,000 <b>(1)</b></p> <p>Averages Debtors = £10,000 + £18,000/2 = £14,000 <b>(1)</b></p> <p style="margin-left: 20px;"> <math display="block">\left[ \frac{£14,000 \text{ (1)}}{£160,000} \times 365 \text{ (1)} = 32 \text{ days} \right]</math> </p>	<b>(4)</b>
<b>(vii)</b>	<p><b>Acid Test Ratio</b></p> <p>(Bank + Debtors) : Current Liabilities</p> <p>(£4,000 + £10,000) : £10,000 = 1.4:1 <b>(2)</b></p>	<b>(2)</b>

**(b) Decrease in Gross Profit Percentage**

Change in buying policy – not bulk buying  
Change of supplier  
Increased purchase prices  
Theft, pilferage  
Poor security  
Mark downs/lower selling prices

Or any suitable answer **(2) x (1)** **(2)**

**Shorter Debtors' Collection Period**

Tighter credit control  
Customers being offered discounts  
Factoring to recover debts  
Customers being invoiced faster

Or any suitable answer **(2) x (1)** **(2)**

**(40)**

**Question 4**

- (a) Articles of Association (1)  
 Memorandum of Association (1) (2)

**Articles of Association – features**

- Deals with internal regulations (for the management of the proposed company) (1)  
 Subordinate to/controlled by the Memorandum of Association (1)  
 The raising of capital/share allotment/borrowing powers  
 Directors' remuneration/powers (1)  
 Holding of meetings (1)  
 The rights of shareholders (1) (max 2)

**Memorandum of Association – features**

- Deals with the external regulations (for the management of the proposed company) (1)  
 Name of the company (to include the term PLC if appropriate) (1)  
 Address in the UK of the Registered Office (1)  
 Statement that the liability of its members is limited (1)  
 Details of the intended amount of Share Capital (1) and types of shares (1)  
 Statement of its objects (1) (max 2)

(6)

- (b) Comparison of Preference Shares with Debentures

Preference Shares	Debentures
• Represent ownership of a business	• Are long term loans – holders are creditors
• May/may not carry voting rights	• Have no voting rights
• Do not guarantee a return on investment	• Interest on Loan must be repaid
• Carry a fixed rate of dividend	• Carry a fixed rate of interest
• May not be paid their initial investment on liquidation	• Loan is usually repaid if based on a secured asset
• Are a more risky investment than Debentures	• Are a less risky investment than Preference Shares
• Are part of Share Capital	• Are a long term liability
• Preference Dividends are paid out of appropriation of profits	• Debenture Interest is charged in the Profit and Loss Account
• In event of liquidation Preference Shareholders are paid after Debenture Holders	

- One mark per line to a maximum of four (must be comparison) (4)

(10)

## Question 5

### (i) Share Premium

This is the difference between the issue price and the par/nominal value of a share where the issue price is higher **(1)**. It is shown in the Balance Sheet as a Reserve **(1)**

It is not available for distribution to shareholders **(1)**

It can be used to write off preliminary expenses **(1)** or make a bonus issue of shares **(1)**

**(max 2)**

### (ii) Rights Issue of Shares

Method of raising finance by issuing shares to existing shareholders in proportion to existing shareholding (eg 1 for every 4 held) **(1)**

Shareholders have to pay for the shares ie not a bonus issue **(1)**

It is a cheap method of raising finance **(1)**

Usually done at a discount below the current market price to encourage shareholders to buy **(1)**

Shareholders who do not take up the offer to buy may be able to sell the rights to others **(1)**  
**(max 2)**

### (iii) Royalties

A royalty is a fee paid for the right to use an original idea or an asset **(1)** which has been given a patent or copyright **(1)**

The amount of royalty will usually depend on the usage **1** as agreed in advance by the parties concerned. Royalties are charged as a Direct Cost in the Manufacturing Account and are part of Prime Cost **(1)**  
**(max 2)**

### (iv) Factoring

This is a situation where a firm transfers the responsibility for collecting its debts to a Factor **(1)**. In return the factor will pay up to, say, 80% of the value of the firm's invoices by return **(1)**

The factor will handle all the relevant expenses, correspondence and possible legal action to recover debts **(1)** they will also provide regular information on the sales ledger accounts **(1)**

By using factoring a business will receive funds for immediate use **(1)** will have a reduction in its bad debts **(1)** and will save time in debt collecting **(1)**  
**(max 2)**

**(v) Capital Expenditure**

Capital and Revenue Expenditure must be differentiated for the calculation of profit **(1)**

Capital Expenditure is spending on the acquisition of assets which are for long term use (ie more than a year) in the business rather than purchased for resale **(1)**

Items of Capital Expenditure are shown in the Balance Sheet under Fixed Assets in the Balance Sheet **(1)**

Capital Expenditure can also be expenditure which improves (ie increases the value) of an existing asset eg building an extension or upgrading existing fittings **(1)**

There can be doubt as to whether expenditure is treated as capital or revenue eg fitting new tyres to a vehicle – in such cases of doubt it is prudent to write off the expenditure as revenue in the Profit and Loss Ac **(1)**

Any example of Capital Expenditure **(1 max)**

**(max 2)**

**(10)**

## Section B

### Question 6

#### (a) Production Budget for January to May Year 2

	Jan	Feb	Mar	Apr	May	
Sales (units)	1,700	1,800	2,300	1,850	1,900	(1) for line
Add: Stock (end)	180 (1)	200 (3)	185 (1)	190 (1)	200 (2)	
	1,880	2,000	2,485	2,040	2,100	
Less: stock (start)	170	180	200	185	190	(2) for line
<b>Production (units)</b>	<b>1,710</b>	<b>1,820</b>	<b>2,285</b>	<b>1,855</b>	<b>1,910</b>	<b>(11)</b>

#### (b) Cash Budget for February to April Year 2 ✓

	Feb £	Mar £	Apr £	
Opening balance	5,300 (1)	5,372	6,811	(1)
<u>Receipts</u>				
Cash sales	7,200 (1)	9,200 (1)	7,400 (1)	(3)
Credit sales : 1 month	14,688 (2)	15,552 (2)	19,872 (2)	(6)
: 2 months	12,160 (2)	10,336 (2)	10,944 (2)	(6)
Ordinary Shares			4,000 (1)	(1)
Share Premium			500 (1)	(1)
Delivery Van			15,500 (2)	(2)
	<b>39,348</b>	<b>40,460</b>	<b>65,027</b>	
<u>Payments</u>				
Material	18,280 (1)	14,840 (1)	15,280 (1)	(3)
Labour	9,100 (1)	11,425 (1)	9,275 (1)	(3)
Production bonus			285 (2)	(2)
Variable overhead – 80%	2,912 (2)	3,656 (2)	2,968 (2)	(6)
Variable overhead – 20%	684 (1)	728 (1)	914 (1)	(3)
Fixed overhead	3,000	3,000	3,000	(2 for line)
	<b>33,976</b>	<b>33,649</b>	<b>31,722</b>	
Closing balance	5,372	6,811	33,305	(39)

(50)

### Question 7 Part A

(a)

Statement of Annual Costs		£	
Cost of Golf	$\begin{array}{ccc} \text{(1)} & \text{(1)} & \text{(1)} \\ 5 \times \text{£}60 \times 12 \times 30 & & \\ \text{£}90 \times 12 \times 30 & & \\ \text{(1)} & \text{(1)} & \text{(1)} \end{array}$	108,000 (3)	
		32,400 (3)	
Accommodation	$\begin{array}{ccc} \text{£}700 \times 12 & \times & 30 \\ \text{(1)} & & \text{(1)} \end{array}$	252,000 (2)	
Bus depreciation	$(\text{£}40,000 - \text{£}10,000)/5$	6,000 (2)	
Fuel	$\begin{array}{ccc} \text{(1)} & \text{(1)} & \text{(1)} & \text{(1)} & \text{Miles} \\ 980/10 \times 30 \times \text{£}1.50 & & & (2 \times 100) + (6 \times 130) = 980 & \end{array}$	4,410 (4)	
Insurance etc		1,200	} (1)
Sundry		10,706	
Driver's wages	$\begin{array}{l} \text{£}500 \times 30 \\ \text{£}300 \times 30 \\ \text{£}150 \times 22 \end{array}$	15,000 (2)	
		9,000 (2)	
		3,300 (2)	
Tyres	$\begin{array}{ccc} \text{(1)} & \text{(1)} & \text{(1)} & \text{(1)} \\ (980 \times 30)/12,000 \times 4 \times \text{£}80 & & & \end{array}$	<u>784</u> (4)	
<b>TOTAL ANNUAL COST</b>		<u>442,800</u>	<b>(25)</b>

(b)

Cost per person	$\text{£}442,800/(30 \times 12) = \text{£}1,230$	(2)	
Plus profit	<u>410</u>	(3)	
	<u>1,640</u>		(5)
			<b>(30)</b>

**Question 7 Part A – Alternative – 6 days**

**(a)**

Statement of Annual Costs		£	
Cost of Golf	$\begin{array}{ccc} \textcircled{1} & \textcircled{1} & \textcircled{1} \\ 5 \times \textcircled{1}60 \times 12 \times 30 & & \\ \textcircled{1}90 \times 12 \times 30 & & \\ \textcircled{1} & \textcircled{1} & \textcircled{1} \end{array}$	<p>108,000 <b>(3)</b></p> <p>32,400 <b>(3)</b></p>	
Accommodation	$\begin{array}{ccc} \textcircled{1} & & \textcircled{1} \\ \textcircled{1}700 \times 12 & \times & 30 \\ & & \textcircled{1} \end{array}$	252,000 <b>(2)</b>	
Bus depreciation	$(\textcircled{1}40,000 - \textcircled{1}30,000)/5$	6,000 <b>(2)</b>	
<b>Fuel</b>	$\begin{array}{ccc} \textcircled{1} & \textcircled{1} & \textcircled{1} & \textcircled{1} \\ 780/10 \times 30 \times \textcircled{1}1.50 & & & \textbf{Miles} \\ & & & (6 \times 130) = 780 \end{array}$	3,510 <b>(4)</b>	
Insurance etc		1,200	} <b>(1)</b>
Sundry		10,706	
<b>Driver's wages</b>	$\begin{array}{l} \textcircled{1}500 \times 30 \\ \textcircled{1}150 \times 30 \\ \textcircled{1}150 \times 22 \end{array}$	<p>15,000 <b>(2)</b></p> <p>4,500 <b>(2)</b></p> <p>3,300 <b>(2)</b></p>	
<b>Tyres</b>	$\begin{array}{ccc} \textcircled{1} & \textcircled{1} & \textcircled{1} & \textcircled{1} \\ (780 \times 30)/12,000 \times 4 \times \textcircled{1}80 & & & \end{array}$	<p><u>624</u> <b>(4)</b></p>	
<b>TOTAL ANNUAL COST</b>		<u>437,240</u>	<b>(25)</b>

**(b)**

Cost per person	$\textcircled{1}437,240 / (30 \times 12) = \textcircled{1}1,215$	<b>(2)</b>	
Plus profit	<u>405</u>	<b>(3)</b>	
	<u>1,620</u>		<b>(5)</b>
			<b>(30)</b>

**Question 7 Part B**

**SOLUTION**

$$(i) \quad \text{Selling Price per unit} = \overset{(1)}{\text{£15}} + \overset{(1)}{\text{£10}} + \overset{(1)}{\text{£5}} + \text{£10} = \text{£40} \quad (3)$$

$$(ii) \quad \text{Fixed Costs} = \text{BEP} \times \text{Contribution per unit} \\ = 10,000 \text{ units} \times \text{£10} = \text{£100,000} \quad (2)$$

$$(iii) \quad \text{Profit after Tax} = \text{£40,000}$$

$$\text{Profit before Tax} = \frac{\text{£40,000}}{4} \times 5$$

$$= \text{£50,000} \quad (2)$$

$$\text{Number of Extra Units to be sold} = \frac{\text{£50,000}}{\text{£10}} = 5,000 \text{ units} \quad (2)$$

$$\text{Number of units to be sold} = \text{BEP} + \text{Extra Units} \\ \quad \quad \quad (1) \\ = 10,000 + 5,000 = 15,000 \text{ units}$$

$$\text{OR} \quad (2) \left[ \frac{\text{£50,000} + \text{£100,000}}{\text{£10}} \right] (1) = 15,000 \text{ units} \quad (5) \\ (10)$$



### Question 8 Part A

(a)

#### Process 2 Account

	Litres		£		Litres		£
Process 1	400 (1)	12	4,800 (1)	Normal Loss	30	2	60 (1)
New Material	200	4	800 (1)	WIP	50		420 (1)
Labour			1,000 (1)	FG	500	14	7,000
Variable Overhead			500 (1)	Ab Loss	20 (1)	14	(3) 280
Fixed Overhead			<u>660 (2)</u>				
	<u>600</u>		<u>7,760</u>		<u>600</u>		<u>7,760</u>

(13)

Cost per litre = (£7,760 - £480)/520

(b)

#### Abnormal Loss

Process 2	20	14	<u>280 (1)</u>	Cash/Bank	20	2	40 (1)
			<u>280</u>	Profit and Loss/Loss			<u>240 (2)</u>
							<u>280 (4)</u>

#### Alternative solution

	DR			CR			Bal		
	Qty	£	£	Qty	£	£	Qty	£	£
Process 1	400 (1)	12	4,800 (1)				400		4,800
New Material	200	4	800 (1)				600		5,600
Labour			1,000 (1)						6,600
Variable Overhead			500 (1)						7,100
Fixed Overhead			<u>660 (2)</u>						<u>7,760</u>
Normal Loss				30	2	60 (1)	570		7,700
Work in Progress				50		420 (1)	520	14	7,280
Finished Goods				500	14	(3) 7,000	20	14	280
Abnormal Loss				20 (1)	14	280			-
									<u>(13)</u>

#### Abnormal Loss Account

	DR			CR			Bal		
£	Q	£	£	Q	£	£	Q	£	
Process 2	20	14	<u>280 (1)</u>					280	
Cash				20	2	40 (1)		240	
Profit and Loss						<u>240 (2)</u>		-	
								<u>(4)</u>	

(c)

Cost per litre	£14		
Profit	<u>£6 (3)</u>		
Selling Price	<u>£20</u>		(3)

(20)

### Question 8 Part B

(a)		A	B	C	Total
(i)	Total labour cost	£12,000x100 /80 £15,000 <b>(1)</b>	£3,200x100 /80 £4,000 <b>(1)</b>	£4,800x100 /80 £6,000 <b>(1)</b>	
(ii)	Direct material cost	£9,000	£2,800	£5,200	
	Direct labour cost	£15,000	£4,000	£6,000	
	Variable overhead cost	£12,000	£3,200	£4,800	
	Total variable cost	£36,000	£10,000	£16,000	
	Variable cost per unit	£36,000/ 3,000 £12 <b>(1)</b>	£10,000/ 2,000 £5 <b>(1)</b>	£16,000/ 4,000 £4 <b>(1)</b>	
(iii)	Selling price per unit	£15	£7.50	£6	
	Contribution per unit	£15 - £12 £3 <b>(1)</b>	£7.50 - £5 £2.50 <b>(1)</b>	£6 - £4 £2 <b>(1)</b>	
(iv)	Output/Sales (units)	3,000	2,000	4,000	
		3,000 x £3	2,000 x £2.50	4,000 x £2	
	Total contribution	£9,000 <b>(1)</b>	£5,000 <b>(1)</b>	£8,000 <b>(1)</b>	£22,000
	Less Fixed Costs				£20,000
	Profit/(loss) ✓				<u>2,000</u> <b>(1)(13)</b>

(b)		A	B	C	
	Contribution per Labour Hour	£3/3 £1 <b>(1)</b>	£2.50/5 £0.50 <b>(1)</b>	£2/1 £2 <b>(1)</b>	
	ORDER OF PRIORITY	2	3	1 <b>(1)</b>	
	Maximum hours:	14,000			
	C	4,000 units	} <b>(1)</b>	4,000 hours	
	A	3,000 units		9,000 hours	
	B	200 units	<b>(2)</b>	1,000 hours/5 hrs per unit	<b>(7)</b>
					<b>(20)</b>
					<b>(40)</b>

### Question 9

(a)

An apportionment of overheads takes place when the overhead cost cannot be identified with a particular department **(1)**. Each department is charged with its share of the total overhead using an equitable basis **(1)** eg Rent according to floor area occupied by each department **(1)** **(max 2)**

An allocation of overheads takes place when the overhead cost can be identified with a particular department **(1)** it is a cost which is unique to that particular department **(1)** and the department is charged with the actual overhead it has incurred **(1)** eg indirect materials, indirect wages **(1)**

**(max 2)**  
**(4)**

(b)

#### Methods of calculating Overhead Absorption Rates

(Rate per) Direct Labour Hour	<b>(1)</b>	$\frac{\text{Overhead Cost}}{\text{No of Direct Labour Hours}}$	<b>(1)</b>
(Rate per) Machine Hour	<b>(1)</b>	$\frac{\text{Overhead Cost}}{\text{No of Machine Hours}}$	<b>(1)</b>
(Rate per) Units Produced	<b>(1)</b>	$\frac{\text{Overhead Cost}}{\text{No of Units Produced}}$	<b>(1)</b>
Percentage of Prime Cost	<b>(1)</b>	$\frac{\text{Overhead Cost}}{\text{Prime Cost}} \times 100$	<b>(1)</b>
Percentage of Direct Material Cost	<b>(1)</b>	$\frac{\text{Overhead Cost}}{\text{Direct Material Cost}} \times 100$	<b>(1)</b>
Percentage of Direct Labour Cost	<b>(1)</b>	$\frac{\text{Overhead Cost}}{\text{Direct Labour Cost}} \times 100$	<b>(1)</b>

Any 3 for 2 marks each

**(max 6)**

**(10)**

## Question 10

### (i) AVCO

AVCO is a method of pricing issues of stock and stock valuation **(1)**

Stores are issued using the average price which has to be recalculated after each purchase **(1)**. The cost/quantity of the purchase is added to the value/quantity of the balance of stock in hand and the total is averaged by dividing by the new quantity **(1)**

It overcomes the problem of over/understating the value of stocks/profits **(1)** and is relatively simple to operate **(1)**. It is accepted by the Inland Revenue **(1)**. Although it leads to additional clerical work in calculating new averages **(1)**

**(max 2)**

### (ii) Piece Rate

This is a method of paying workers according to the amount of work which they produce. **(1)**

The method is suitable for the production of large quantities of identical products **(1)** and is sometimes used to supplement a low basic pay. **(1)**

It gives workers an incentive to work harder as higher output = higher wages **(1)**. Quality of work may decline with workers trying to maximise their wages **(1)**.

**(max 2)**

### (iii) Limiting Factor

Limiting Factor is a scarce resource which limits the total production possible **(1)**

Where a firm has a range of products a decision has to be taken on the order of production **(1)** based on the contribution per unit divided by the limiting factor **(1)** which can be: machine hours, labour hours, availability of workers or material **(1 only example)**

The product with the highest contribution/limiting factor will be made first in order to maximise profits **(1)**

**(max 2)**

### (iv) PV Ratio

PV Ratio shows the relationship between contribution and sales /the formula is Contribution/Sales % **(1)**

The higher the ratio, the greater the profit **(1)**

The ratio can be improved by higher unit selling prices or lower variable costs **(1)**

The ratio can be used for any level of sales and net profit can be found by deducting fixed costs from the contribution **(1)**

If a firm sells several products the ratio is useful to compare the profitability of each product **(1)**

**(max 2)**

### (v) Cost Centre

Any part of a business to which costs can be charged **(1)** eg department, item of equipment, machine or person **(1)** Cost centres can be Production or Service **(1)** Cost centres are used to collect overheads for charging on to products which use the cost centre **(1)**

**(max 2)**

**(10)**

[END OF MARKING INSTRUCTIONS]



**2014 Accounting**

**Higher Special Instructions**

**Finalised Marking Instructions**

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## **General Marking Principles for: Accounting Higher Special Instructions**

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 specific Marking Instructions for each question.

- (a)** Marks for each candidate response must always be assigned in line with these general marking principles and the specific Marking Instructions for the relevant question. If a specific candidate response does not seem to be covered by either the principles or detailed Marking Instructions, and you are uncertain how to assess it, you must seek guidance from your Team Leader/Principal Assessor.
- (b)** Marking should always be positive ie, marks should be Marked for what is correct and not deducted for errors or omissions.

## **GENERAL MARKING ADVICE: Accounting Higher Special Instructions**

The marking schemes are written to assist in determining the “minimal acceptable answer” rather than listing every possible correct and incorrect answer. The following notes are offered to support Markers in making judgements on candidates’ evidence, and apply to marking both end of unit assessments and course assessments.

## 2014 ACCOUNTING

### MARKING CONVENTIONS

CONVENTION	EXPLANATION	MARK(S) ON CANDIDATE PAPER
Extraneous	Item entered which should not be in the answer or section – for example Fixed Assets entered in the Profit and Loss Account or Income and Expenditure Account	-2E
Consequential	If a figure in the question is wrong, any further calculations are Marked marks if correct, as a consequence of using that figure	C
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 Marked = 6
Plus/Minus Rule	If an entry is shown correctly it is Marked the mark (+)  If the same entry then appears again 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 Debtors in Current Assets Mark Marked 1 (+-)  £60,000 Debtors repeated under Current Liabilities 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 question asks for an account or statement	-1P
Arithmetical error	Error made in addition/subtraction etc	-1A/E
General	The answers given are more than required (4 given instead of 3) and one of them is wrong	-1P

## General

- 1 Assess pencil figures and working. If the script is predominantly in pencil, mark and DO NOT refer to the Principal Assessor unless a whole centre completes the exam in pencil.
- 2 Work which has been deleted gains no marks even if it is correct. However if question is not redone, or no alternative question attempted, mark deleted work.
- 3 Consequential errors MUST NOT be penalised, subject to the marking instructions for each question.
- 4 Mark workings whether or not they are incorporated in the final answer. Deduct a penalty of -1 mark per question for working which is not incorporated in the final answer.
- 5 Incorrect figures, supported by adequate workings – Mark marks for any correct operations performed.
- 6 Incorrect figures, not supported by adequate workings – lose Marks, unless the marking instructions specify otherwise. If arithmetic error – lose 1 mark.
- 7 **EXTRANEIOUS ITEMS:** see instructions for specific questions.

Deduct in appropriate section of question – not at end from total.

Penalties should be shown beside the figure and encircled, eg  $\textcircled{-1P}$   $\textcircled{-2E}$   $\textcircled{-1 +/-}$

Penalties must be deducted in the appropriate section of the question and not at the end from the final total for that question.

- 8 If right and wrong – give value of Mark where right, deduct value of Mark where wrong (cross reference +/- against relevant figures).
- 9 Indicate Marks given for each item, eg £1,500 1
- 10 In essay type questions indicate marks Marked beside the point made by candidate – NOT IN THE MARGIN.
- 11 Sub-totals for sections should be indicated and encircled, eg  $\textcircled{4/6}$
- 12 Final total should be clearly indicated and easy to check, eg Q1 = 45/50.
- 13 If 2 choice questions are attempted – mark both, even if one is scored out, and accept the question with the higher mark.



**Question 1**

	<b>Marks Lost</b>	<b>Penalties</b>
<p><b>(a) ACCUMULATED FUND</b></p> <p>Accept the correct calculated fund in any layout.</p> <p>Any of the bracketed figures missing results in the loss of the mark for that set of figures.</p> <p>Extraneous Receipts and Payments, year end figures</p> <p><b>(b) BAR TRADING ACCOUNT</b></p> <p>Ignore heading</p> <p>Extraneous items – Income and Expenditure or Balance Sheet</p> <p>BUT Accept gaming machine profit shown in Bar Trading Account and apply marks to the Income and Expenditure Account +1 or 2 BT</p> <p>If Surplus on Gaming machines not shown ie 6 as income and 3 as expenditure mark only to the 3.</p> <p><b>Both</b> gaming machine figures must be shown in the same account to gain the marks</p> <p>Creditors adjustments must be attached to purchases for marks</p> <p>Final Profit on the Bar not labelled/profit not shown</p>	<p><b>1</b></p>	<p><b>-2 each (max -4)</b></p> <p><b>-2 each (max -4)</b></p> <p><b>-1P</b></p>

	Marks Lost	Penalties
<b>(c) INCOME AND EXPENDITURE ACCOUNT</b>		
If heading wrong/omitted eg "as at" – APPLY penalty		-1P
EXTRANEIOUS ITEMS – Any Balance Sheet items		-2E each (Max -6)
Subscriptions of 155 on own with no workings	4	
Profit/Loss on bar consequential on (b)		
Life Membership fees right/wrong		
Repeated bar items lose profit on bar mark and apply a penalty	1	-2P once
No Bar Profit entered but repeated bar items		-2P once
Bar items entered <b>only</b> in the Income and Expenditure ignore		
If Surplus on Gaming machines not shown ie 6 in income and 3 in expenditure mark only to the 3 in expenditure.	1	
Professionals Salary – any wrong answer check workings	1 or 2	
Gas and Electricity – any wrong answer check workings	1 or 2	
Grass seed right/wrong		
Depreciation 4 marks lost	2	
Surplus not shown and appropriately labelled apply penalty		-1P

	<b>Marks Lost</b>	<b>Penalties</b>
<p><b>(d) BALANCE SHEET</b></p> <p>If heading wrong/omitted eg “for year ending” – APPLY penalty</p> <p>EXTRANEIOUS ITEMS Any Bar Trading Items or Income and Expenditure items</p> <p>Depreciation consequential on earlier figures</p> <p>Bank right/wrong</p> <p>Life Membership fees right/wrong</p> <p>If Financed by does not start with Accumulated Fund lose Accumulated Fund mark</p>	<b>1</b>	<p><b>-1P</b></p> <p><b>-2 each (Max -6 )</b></p>

## Question 2

	Marks Lost	Penalties
If Manufacturing or Trading Account headings wrong/omitted – APPLY PENALTY		-1P once
The following labels wrong/omitted:  Factory Cost of Production Factory Profit Gross Profit Net Profit (before tax) Unappropriated Profit (c/f)		-1P each
<b>(i) MANUFACTURING ACCOUNT = 14 MARKS</b>		
Mark as per solution – any figure wrong/omitted/wrong effect – lose mark.  If Factory Overheads stated less  If Factory Overheads stated add and actually subtracted  EXTRANEOUS – ANY BALANCE SHEET ITEMS	1 or 2    -1A	-3P    -2 each (Max 4)
<b>(ii) TRADING, PROFIT AND LOSS AND APPROPRIATION ACCOUNT = 26 MARKS</b>  All figures right/wrong  EXTRANEOUS – ANY BALANCE SHEET ITEMS  Items in the wrong account eg Debenture Interest in the Appropriation Account – lose appropriate mark <b>BUT NO PENALTY</b>  Items in 2 sections/accounts – apply the +/- rule but <b>NO PENALTY</b> – give Mark where correct and deduct the same mark where incorrect  Corporation Tax is consequential on candidate's Net Profit – <b>ACCEPT</b> Tax figure rounded up or down.  Accept Unappropriated Profit b/f correctly treated anywhere in the Appropriation Account	    1 or 2  1 or 2  1	-2 each (Max 6)

**Question 3 Part A**

	<b>Marks Lost</b>	<b>Penalties</b>
<p><b>(a) Profit or Loss on Revaluation</b></p> <p>If goodwill is included in the Profit/Loss on Revaluation ignore but award marks in the Capital Accounts (d)</p> <p><b>(b) Share of Profit on Revaluation</b></p> <p>Watch consequentiality of share of profit on revaluation based on Profit on Revaluation.</p> <p><b>(c) New Profit Sharing Ratios</b></p> <p>Accept 3:5:2 or 3/10, 5/10, 2/10</p> <p><b>(d) Calculation of new capital balances</b></p> <p>Share of profit on revaluation consequential on (b)</p> <p>If goodwill included in part (a) award £24,750 and £41,250 2 marks each or consequential figure</p> <p>Share of goodwill written off consequential on (c)</p> <p>No new Capital Balances shown</p>		-1P

**Question 3 Part B**

	<b>Marks Lost</b>	<b>Penalties</b>
<p><b>WATCH CONSEQUENTIALITY THROUGHOUT THIS QUESTION</b></p> <p><b>(ii)</b> Cost of Sales is consequential on Gross Profit calculation in <b>(i)</b></p> <p><b>(iii)</b> Opening Stock is consequential on Cost of Sales calculation in <b>(ii)</b></p> <p><b>(iv)</b> Purchases is consequential on Stock figures</p> <p><b>(v)</b> Expenses figure is consequential on Net Profit and Gross Profit calculation</p> <p><b>(vi)</b> Award ONE mark for Credit Sales calculation</p> <p><b>(vii)</b> answer is right or wrong</p> <p style="padding-left: 40px;">If 1-4 on its own</p> <p><b>(b)</b> accept any other suitable answer for one mark each</p> <p>However, if the candidate <b>indicates</b> an increase for (a) and gives a logical answer and longer for (b) and gives a logical answer award the marks.</p>	1	

**Question 4**

	<b>Marks Lost</b>	<b>Penalties</b>
Mark as per solution Award marks for valid points not in solution		

**Question 5**

	<b>Marks Lost</b>	<b>Penalties</b>
Mark as per solution Award marks for valid points not in solution		

**Question 6**

	<b>Marks Lost</b>	<b>Penalties</b>
<p><b>(a) Production Budget = 11 marks</b></p> <p>Opening stock is consequential on closing stock</p> <p>Closing stock – Feb 230 and/or May 220 award 1 each</p> <p>If opening stock added and closing stock subtracted or not treated</p>	<p><b>1 or 2</b></p>	<p><b>-4P</b></p>
<p><b>(b) Cash Budget = 39 marks</b></p> <p>Heading wrong/omitted – must include the time period</p> <p>Bad debts shown in payments or receipts – lose 2 month credit sales marks</p> <p>Production bonus – lose marks if additional figure(s) on this line – unless consequential</p> <p>Variable overheads 20% line, if it is <math>\frac{1}{4}</math> of the 80% variable overheads line for the previous month give marks</p> <p>No closing balances</p> <p>No distinction between receipts and payments ie a list</p> <p>List with + and –</p>	<p><b>6</b></p> <p><b>2</b></p> <p><b>19</b></p>	<p><b>-1P</b></p> <p><b>-1P</b></p> <p><b>-4P</b></p>



**Question 7 Part A**

	<b>Marks Lost</b>	<b>Penalties</b>
<b>(a)</b> No Heading		<b>-1P</b>
Not in the form of a statement with column of figures		<b>-2P</b>
No final total		<b>-1P</b>
<b>(b)</b> Cost per person will be consequential on answer to <b>(a)</b>		

**Question 7 Part B**

	<b>Marks Lost</b>	<b>Penalties</b>
<p><b>WATCH CONSEQUENTIALITY IN THIS QUESTION</b></p> <p>Selling Price is consequential on Variable Cost calculation</p> <p>Fixed Costs are right or wrong</p>		

### Question 8 Part A

	Marks Lost	Penalties
<p><b>(a)</b></p> <p>Abnormal loss and finished goods cost per litre must be same to gain the 3 marks allocated to £14.</p> <p>Normal loss consequential on input quantity</p> <p>Not shown in account form</p>		-3
<p><b>(b)</b> Abnormal loss transfer is consequential on answer in <b>(a)</b></p> <p>Profit and loss entry is consequential on other entries in a/c</p> <p>Not in account form</p> <p>Any incorrect/missing nomenclature</p>		-1 -1 once
<p><b>(c)</b> Cost per litre consequential on (a)</p>		

**Question 8 Part B**

Watch for consequentiality throughout this question	Marks Lost	Penalties
<p><b>(a)</b></p> <p><b>(ii)</b> Total variable cost is consequential on <b>(a)(i)</b></p> <p><b>(iii)</b> Contribution is consequential on <b>(a)(ii)</b></p> <p><b>(iv)</b> Total contribution is consequential on <b>(a)(iii)</b></p> <p>The total Profit/Loss must be shown and labelled to receive mark</p> <p><b>(b)</b> New Contribution per labour hour is consequential on <b>(a)(iii)</b></p> <p>If order of priority correct but no contribution per labour hour shown award 3 marks for the implied figures</p> <p>Units calculated consequential on <b>(a)(iii)</b>.</p> <p>If no contribution per labour hour calculated and order of priority based on contribution per unit award 3 marks to the final correct/consequentially calculated units*.</p> <p>* The correct figures in this case: A 3,000 <b>(1)</b>, B 1,000 <b>(2)</b></p>	4	

**Question 9**

	<b>Marks Lost</b>	<b>Penalties</b>
Mark as per solution  (a) Must have an explanation for one mark and an for one mark  Award marks for valid points not in solution  (b) If percentage formulae not multiplied by 100	<b>1 once</b>	

**Question 10**

	<b>Marks Lost</b>	<b>Penalties</b>
Mark as per solution  Award marks for valid points not in solution		

[END OF MARKING INSTRUCTIONS]