2015 Accounting

Advanced Higher Solutions

Finalised Marking Instructions

2015 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. Asses 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. EXTRANEOUS 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 £1,500^{1}.

    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

Question 1

WORKING NOTES

Marks

1 Depreciation of delivery vehicles
(1000 − 500) × 20% 100

2 Calculation of Expenses:

	Paid	Prepaid	Accrued	Actual
General Expenses	180	25		155
Audit Fee			15	15
Wages and Salaries	120		20	140

3 Allocation of Expenses

	Expenses	COGS	Distribution	Administration
General Expenses	155	31	31	93
Wages and Salaries	140	14	98	28
Audit Fee	15			15
Delivery Vehicle Depreciation	100	40	60	
		85	189	136

4

Debenture Interest due	(400 − 100) × 10% ÷ 2 =	15	1	
Paid	400 × 10% ÷ 2	20	1	
Total for year		35		
				2

5

Calculation of Cost of goods sold:				
Opening Stock	360		1	
Add Factory cost of production	600		1	
Add Purchases of Finished Goods	750		1	
Carriage inwards - Finished Goods	10	1,720	1	
Less closing stock		250	1	
		1,470		
Add Expenses				
General Expenses	31		1	
Wages and Salaries	14		1	
Delivery Vehicles Depreciation	40	85	1	8
Cost of Goods Sold		1,555		

6 Calculation of Distribution and Administration Expenses

		Distribution	Administration	Distn	Admin	
				Marks		
General Expenses		31	93	1	1	
Wages and Salaries		98	28	1	1	
Audit Fee			15		1	
Delivery Vehicles Depreciation		60		1		
Directors Fees			125		1	
		189	261	3	4	7

	Tangible assets	Cost	Agg Dep/ Rev	NBV		
7						
	Premises	1,800	200	2,000	1	
	Delivery Vehicles	1,000	600	400	1	
	Plant and Machinery	800	410	390	1	
				2,790		3

8 Prepayments

General Expenses	25	1	
Manufacturing Expenses	15	1	2
	40		

9 Accruals

Manufacturing Wages	10	1	
Audit Fee	15	1	
Wages and Salaries	20	1	
Debenture Interest	15	1	4
	60		

Profit and Loss Account
for year ended 31 December Year 3

	£000s	£000s	Marks	
Sales		2,750	1	
Less Cost of Goods Sold		1,555	8	
Gross Profit		1,195		
Less Expenses				
Distribution	189		3	
Administration	261	450	4	
Operating Profit		745		
Investment Income		30	1	
		775		
Interest Payable		35	2	
Profit before tax		740		
Corporation tax		50	1	
Profit after tax		690		
Dividends paid				
Preference Dividend	30		1	
Ordinary Share Dividend	250	280	1	
Retained Profits		410		22

Balance Sheet of Omega plc
as at 31 December Year 3

	£	£		
FIXED ASSETS				
Tangible Assets		2,790	3	
Investments		1,000	2	
		3,790		
Current Assets				
Stocks (150 + 75 + 250)	475		1	all 3
Debtors	325		1	
Cash	55		1	
Prepayments (25 + 15)	40		2	
	895			
Creditors: amounts falling due within 1 year				
Bank overdraft	70		1	
Creditors	150		1	
Debentures	100		2	
VAT	20		1	
Corporation tax	50		1	
Accruals (10 + 15 + 15 + 20)	60		4	
	450			
Net Current Assets		445		
		4,235		
Creditors: amounts falling due after 1 year				
10% Debentures (Years 1−4)		200	2	
		4,035		
Capital and Reserves				
Preference Shares		600	1	
Ordinary Shares		2,500	1	
Share Premium		200	1	
Revaluation Reserves		200	1	
Retained Profits (410 + 125)		535	2	
		4,035		28
			Total	50

Question 2

		Year 2		Year 3	
a	**PROFITABILITY/PERFORMANCE RATIOS**				
	MARK-UP %				
	Gross Profit × 100 / Cost of goods sold	450 × 100 / (900 − 450)	**1**	690 × 100 / (1575 – 690)	**1**
		100%		77·97%	
	GROSS PROFIT %				
	Gross Profit × 100 / Turnover	450 × 100 / 900	**1**	460 × 100 / 1,050	**1**
		50%		43·81%	
	NET PROFIT %				
	Net Profit before tax × 100 / Turnover	120 × 100 / 900	**1**	366 × 100 / 1,575	**1**
		13·33%		23·24%	
	RETURN ON CAPITAL EMPLOYED %				
	Net Profit after tax × 100 / (FA + Net CA – LTL)	95 × 100 / (850 + 174) – 120	**1**	261 × 100 / (1,735 + 461 – 165) – 300	**1**
		10·51%		15·08%	

Question 2 (continued)

(a) **EFFICIENCY RATIOS**

Rate of Stock Turnover				
Cost of goods sold	900 – 450	**1**	1,575 – 690	**1**
Average Stock	75		162	
	= 6 times		= 5·46 times	
Expenses Ratio				
Expenses × 100	(450-180) × 100	**1**	(690 − 380) × 100	**1**
Turnover	900		1,575	
	30%		19·68%	
Debtors collection period				
Average Debtors × 365	99 × 365	**1**	254 × 365	**1**
Credit Sales	900		1,575	
	= 41 days		= 59 days	
Creditors payment period				
Average Creditors × 365	60 × 365	**1**	60 × 365	**1**
Credit Purchases	(900 – 450)		(1,575 – 690)	
	= 49 days		= 25 days	
Turnover: Fixed Assets				
Turnover	900	**1**	1,575	**1**
Fixed Assets	850		1,735	
	= 1·06:1		= 0·91:1	
LIQUIDITY RATIOS				
Current Ratios				
Current Assets	174	**1**	461	**1**
Current Liabilities	120		165	
	= 1·45:1		= 2·79:1	
Acid Test Ratios				
Current Assets − Stock	174 − 75	**1**	461 − 162	**1**
Current Liabilities	120		165	
	= 0·83:1		**=**1·81:1	

Maximum 8 ratios × 2 = 16

Question 2 a Comments

Profitability

	Year 2	**Year 3**
Markup	100%	77·97%
Gross Profit	50%	43·81%
Net Profit	13·33%	23·24%
ROCE	10·51%	15·08%

Mark-up and Gross Profit Percenta ges

- In Year 3 Hamilton plc mark-up deteriorated by almost 23% and as expected the Gross Profit percentage has also deteriorated. **(2)**
- The deterioration in mark-up may have been caused by reducing selling price.
- The deterioration in gross profit percentage may have been caused by either a fall in selling price or an increase in cost prices.

Net Profit Percentages

- The Net Profit % has improved in Year 3 meaning that Hamilton plc has been more efficient at controlling its expenses as evidenced by the decrease in the Expenses Ratio. **(2)**

Return on Capital Employed

- Hamilton plc's capital employed significantly increased due to increase in share capital. The return on capital employed has also improved by almost one third. **(2)**
- The increase may also be due to their improved Net Profit. **(1)**
- It may also be due to their improved expenses control. **(1)**

EFFICIENCY

	Year 2	Year 3	
Rate of Stock Turnover	6	5·46	times
Expenses Ratio	30·00%	19·68%	
Debtors Collection	41	59	days
Creditors payment	49	25	days
Turnover to Fixed Assets	1·06:1	0·91:1	

Rate of Stock Turnover

- Despite the reduction in the Mark-up the Rate of Stock turnover has deteriorated in year 3. **(2)**
- There is a significant increase in stock held in year 3 compared to year 2 and this could be affecting the Rate of Stock turnover level. **(2)**

Expenses Ratio

- Hamilton plc has been much more efficient in controlling expenses in year 3 with a reduction of more than 10%. **(2)**

Debtors Collection Period

- During year 3 they have been less efficient at controlling their debtors, allowing debtors significantly longer to pay for their goods. **(2)**
- Despite the reduction in the mark-up this may have been the only way that they were able to increase their Sales Turnover. **(2)**
- Hamilton plc should be concerned about the length of time they are allowing their debtors to pay as this could result in bad debts occurring and may result in cash flow problems. **(2)**

Creditors Payment Period

- Hamilton plc is much more efficient at paying off their creditors but this may not be a wise move. **(2)**
- As a result of their prompt payment it would mean that they would have no trouble gaining credit from their suppliers. **(2)**
- The need to take care because by allowing their debtors longer to pay and with them paying off their creditors more quickly they might run into cash flow problems. **(2)**

Turnover to Fixed Assets

- There has been a slight deterioration in the Turnover to Fixed Assets Ratio. (1)
- Although there has been a significant increase in Turnover the increase has not matched the large investment in Fixed Assets. (1)

LIQUIDITY

	Year 2	**Year 3**
Current	1·45:1	2·79:1
Acid Test	0·83:1	1·81:1

Current Ratio

- In both years the current ratio is acceptable. It has improved in Year 3 probably as a result of the change in the bank figure from an overdraft to a positive balance. **(2)**
- However this ratio could also have increased because of the huge increase in the stock held **(2)**
- The company may consider that the ratio is too high in year 3 due to increased in stocks and debtor figures. **(2)**

Acid Test Ratio

- In year 3 the Acid Test ratio has improved significantly possibly due to the reduction in Bank overdraft. **(2)**
- However this could be the result of the significant increase in the debtors figure and the reduction in the bank overdraft. **(2)**
- The ratios show that the company is in a more liquid position. **(1)**

Maximum of 8 comments × 2 marks = 16

2b	**(i)**	<u>Market Price per share</u> Dividend per share <u>68,000</u> 1,050,000 6·5 p per share		
		<u>100 × 6·5p **(1)**</u> 7·5% **(1)** 86·7p	**2**	**2**
	(ii)	**Earnings per share**		
		<u>(NP after tax – Preference Dividend)</u> Number of Ordinary Shares		
		<u>(261 – 54) **(1)**</u> 1050 **(1)** 19·7p	**2**	**2**
	(iii)	**Price Earnings Ratio**		
		<u>Market price per share</u> Earnings per share		
		<u>86·7p</u> 19·7p **(1)** 4·4 times	**2**	**2**
	(iv)	**Dividend Cover**		
		<u>Net Profit after tax – Preference Dividends</u> Dividend on Ordinary Shares <u>(261 – 54) **(1)**</u> 68 **(1)** 3·04 times	**2**	**2**
				(8)
				Total (40)

Question 3 Suggested Solution

Question 3

Working Notes:

1 Calculation of NBV of Assets 1 January Year 5

Equipment Cost	35,000
Annual Depreciation Year 2−4 = 35,000 × 10% × 3 = 10·500	
NBV 1 Jan Year 5 =	35,000 − 10,500 = 24,500 (2)
Depreciation:	
Year 5 original asset	3,500
Year 5 new asset 2,000 × 10% × 0·5	100
	3,600

New Cost = 35,000 + 2,000 = 37,000

Total Depreciation 10,500 + 3,600 = 14,100

Vehicles	20%	Cost/NBV	Depn	NBV	
Year 2 Cost − 1 January		15,000	3,000	12,000	**1**
Year 3 NBV − 1 January			2,400	9,600	**1**
Year 4 NBV − 1 January			1,920	7,680	**1**
Year 4 1 July New Vehicle	20% × 10000 × 0·5	10,000	1,000	9,000	**1**
Year 5 Jan 1 NBV				16,680	
Year 5 Jan 1		16,680	3,336		
NBV 31 12 5		13,344			
Aggregate Depreciation 31/12/5			11,656		

(a) (i) Calculation of Capital on 1 January Year 5

	£	£		Marks	
Equipment	24,500			**2**	
Vehicles	16,680			**4**	
Stock	14,920			**2**	
Debtors	11,350				
Bank overdraft		10,350	for all three	**1**	
Creditors		2,610			
Lighting and Heating due		300			
Totals	67,450	13,260			
Capital at start		54,190			
	67,450	67,450			**9**

(a) (ii) Calculation of Total Sales

	£	£		
Bank Receipts	18,830		**1**	
Discount allowed	400		**1**	
Bad Debts	1,800		**1**	
Closing Balance	7,800	28,830	**1**	
Less				
Opening Balance		11,350	**1**	
Credit Sales		17,480		
Cash Sales		28,240	**1**	
Total Sales		45,720		**6**

(a) (iii) Calculation of Total Purchases

	£	£		
Bank Payments	19,220		**1**	
Discount received	250		**1**	
Closing Balance	5,600	25,070	**1**	
Less Opening Balance		2,610	**1**	
Credit Purchases		22,460		
Cash Purchases		4,200	**1**	
Total Purchases		26,660		**5**

Working Notes:

Calculation of Bank Balance	Dr	Cr	
Opening Balance		10,350	
Cash Sales	28,240		
Debtors	18,830		
Wages		10,940	
Rent and Rates		8,200	
New Equipment		2,000	
Cash Purchases		4,200	
Creditors		19,220	
Drawings		15,000	
Vehicle Running Expenses		4,860	
Heat and Light		1,330	
	47,070	76,100	
Closing Bank overdraft		29,030	**1**

(b) Trading and Profit and Loss Account for year ended 31 December Year 5

	£	£	£		
Sales			45,720		
Less Cost of goods sold					
Opening Stock	14,920				
Add Purchases	26,660	41,580			
Less Stock at end		11,000		**1**	For both stocks
			30,580		
Gross Profit			15,140		
Add Discount Received			250	**1**	
			15,390		
Less Expenses					
Wages		10,940		**1**	
Rent and rates (8200 + 90)		8,290		**1**	
Vehicle Running Expenses (4860 − 190)		4,670		**1**	
Heat and Light (1330 + 120 − 300)		1,150		**2**	
Bad Debts		1,800		**1**	
Provision for doubtful debts		390		**1**	
Discount Allowed		400		**1**	
Provision for depreciation					
Equipment		3,600		**1**	
Vehicles		3,336	34,576	**1**	

Net Loss		19,186			12

Balance Sheet of B Butler
as at 31 December Year 5

	£	£	£		
		Agg			
Fixed Assets	Cost	Depn	NBV		
Equipment	37,000	14,100	22,900	**1**	
Vehicles	25,000	11,656	13,344	**1**	
	62,000	25,756	36,244		
Current Assets					
Stock	11,000				
Debtors (7800 − 390)	7,410				
Prepayments	190	18,600		**1**	
Current Liabilities					
Creditors	5,600				
Bank Overdraft	29,030			**1**	
Accruals (90 + 120)	210	34,840	16,240	**1**	
			20,004		
Financed by					
Opening Capital	54,190			**1**	
Less Net Loss	19,186	35,004		**1**	
Less Drawings		15,000	20,004	**1**	**8**
				Total	**40**

Question 4

(a) Steps to be taken when dissolving a partnership

1. Transfer the balances on the Provision Accounts to the relevant asset accounts Debit the Provision Account/s and credit the Asset Account/s. **(2)**

2. Transfer the net balances on these assets accounts to the Realisation Account. Credit the Asset Account/s and debit the Realisation Account. **(2)**

3. All asset accounts should then be closed with the exception of Bank. **(2)**

4. If there is a Cash Account, the balance on it is transferred to the Bank Account. **(2)**

5. Liability accounts are not transferred to the Realisation Account. **(2)**

6. Any cheques received on sale of assets are debited in the Bank Account and credited in the Realisation Account. **(2)**

7. Debit the Bank Account and credit the Realisation Account with actual value of cheques received from debtors. Note that this figure will be the gross figure of debtors (the figure before the provision for doubtful debts was deducted) less actual bad debts and any discounts allowed. **(2)**

8. Any assets taken over by a partner, debit the appropriate Capital Accounts and credit the Realisation Account with the values. **(2)**

9. Credit the Bank Account and debit the appropriate liability account with amounts paid. **(2)**

10. If the amount paid to creditors is less than the balance owing, debit the Creditors Account and credit the Realisation Account with the difference, ie discounts received. **(2)**

11. Credit the Bank Account and debit the Realisation Account with the amount paid in respect of dissolution expenses. **(2)**

12. The balances on partners' current accounts are transferred to their capital accounts. **(2)**

13. If the credit of the Realisation Account is larger than the debit, a profit has been earned on realisation. This profit is transferred to the partners' capital accounts in their respective profit/loss sharing ratios by debiting the Realisation Account and crediting the partners' Capital Accounts. **(2)**

14. If there is a debit balance on the Realisation Account is larger than the credit, a loss has been made on realization. This loss is shared by the partners in their profit sharing ratios. It is deducted from the Partners by debiting their capital accounts and crediting the Realisation Account. **(2)**

15. If a partner has a debit balance on his or her capital account he/she will be required to pay the firm the amount of this balance. The Capital Account is credited and the Bank Account is debited. **(2)**

16. If such a partner is unable to pay any or all of the balance owing, the other partners must share the loss in the manner laid down in the partnership agreement, eg in their respective profit/loss sharing ratios, or in proportion to the balances on their capital accounts prior to dissolution. **(2)**

17. The partners with credit balances on their capital accounts are then paid the amount of these balances by crediting the Bank Account and debiting the appropriate Capital Accounts. **(2)**

18. On completion of the dissolution, all ledger accounts should be closed. **(2)**

(20)

2 marks for each valid point, maximum 20

Question 4 b

SOURCE	FEATURES	ADVANTAGES	• DISADVANTAGES
Mortgage	• Long term loan used to purchased land or buildings • Loan secured on land or buildings purchased • Mortgages usually paid off over a fairly long period of time eg 25 years	• Fixed rate of interest charged annually charged against the profits • Interest paid chargeable against profits • Interest rate is relatively low • Least expensive source of long term finance for the plc	• Interest paid annually
Unsecured loans	• Banks and other financial institutions may make unsecured loans to businesses	• Funds may be available for expansion	• Interest rate is higher because money is lent without security • Loan will need to be paid back
Venture Capital	• Specialist organisations provide funds for businesses which have problems raising capital from traditional sources • Provided funds for small to medium sized businesses	• Provide capital when traditional sources such as banks will not • Provides capital when more traditional sources are not available • Large source of capital available • May bring expertise or contacts to the plc	• Offer finance for a share in the business • No repayments to consider
Business Angels	• Provide funds for businesses they believe have potential	• In addition to capital they may prefer business expertise • Can often secure investment quickly	• Will expect a high return for capital provided • Infrequent investors

SOURCE	FEATURES	ADVANTAGES	DISADVANTAGES
Government and EU sources	• Wide range of grants available to businesses from central and local government agencies and from EU • Funds provided are structured funds – allocated to regions	• Money may be in the form of a grant which does not have to be paid back • Money may be in the form of a low fixed interest loan • Funds may not need to be paid back	• May be restriction placed on the loan/grant
Leasing	• Contract where the firm uses a specific asset in return for a regular payment. • Usually leased for 3 year period. • At end of leasing period firm may have the option to purchase the asset	• Acquires the use of expensive fixed assets without having to pay out large sums of money for them • Cash flow is improved because payments are spread over a period of time • Usually company has the use of a most up-to-date asset • Easier for a new company to obtain assets by leasing them rather than borrowing money to purchase them	• Assets never belong to the plc • If assets are leased for a long period of time costs can be very high, even higher than the purchase price • Other loans cannot be secured against the fixed assets of the plc

Minimum of Two marks for each method providing features/advantages/disadvantages given.

Additional marks can be awarded for detailed answer, maximum for each method 4.

Question 5

Procedures in setting new accounting standard.

- ASB identifies topic that that become the subject of FRSs either from their own research or from submissions made by interested parties. **(2)**
- Research carried out by ASB into the topic and consultation takes place with relevant bodies. **(2)**
- Research includes looking at what happens in the United Kingdom, Republic of Ireland and overseas. **(2)**
- Discussion draft may be produced and circulated to any parties who have registered their interest if matter requires additional discussion and consideration. **(2)**
- After discussion a FRED (Financial Reporting Exposure Draft) is produced setting out proposals for comment by interested parties. **(2)**
- Feedback received is used to refine FRED. **(2)**
- FRED may be modified in light of suggestions. **(2)**
- Once satisfactory FRS is issued and is put into practice by accountants its effectiveness is monitored. **(2)**
- A review will take place as necessary and further modifications made and revised standards issued. **(2)**

Maximum 16

Question 5 (b)

Social Accounting is used by businesses to report on how their business affects society as a whole. **(2)**

A business will carry out a social audit for the following reasons:

- Internal audit carried out by the organisation to assess the social and environmental impact of their business. **(2)**
- To ensure that the organisation has clear environmental policies. **(2)**
- To ensure that its activities comply with any environmental policies. **(2)**
- To allow the organisation to determine what its social objectives should be. **(2)**
- To determine how its business impacts on the environment. **(2)**
- Used to produce a measure of the social responsibility of an organisation. **(2)**
- Used to determine how well the firm has taken account of the stakeholders' views and concerns. **(2)**
- To determine whether the organisation is meeting its social and environmental objectives. **(2)**
- To be clear about what it is trying to do both internally and externally. **(2)**
- To have a plan which sets out how objectives are going to be achieved. **(2)**
- To decide how it is going to record and measure how successful it is about achieving its objectives. **(2)**

Maximum 14
(30)

Question 6

(a)

(i) Sales Budget for 4 months ended 31 January Year 2.

		Oct	Nov	Dec	Jan	
Sales: Traditional retailers	Units	4000	5000	5000	1000	
	Value	£320,000	£400,000	£400,000	£80,000	**4**
Online retailers (30%)	Units	3000	3000	3000	0	
	Value	£168,000	£168,000	£168,000	£0	**3**
Online retailers (50%)	Units	0	0	0	3000	
	Value				£120,000	**1**
Factory Shop (10%)	Units	1000	2000	2000	0	
	Value	£72,000	£144,000	£144,000	£0	**3**
Total Sales	Units	8000	10000	10000	4000	**1**
	Value	£560,000	£712,000	£712,000	£200,000	**1**

(ii) Production Budget for 4 Months ended 31 January Year 2.

	Oct	Nov	Dec	Jan	Feb	
Sales (units)	8000	10000	10000	4000	2000	**1**
Stock at end	7000	7000	2800	400		**2**
	15000	17000	12800	4400		
Stock at start	5600	7000	7000	2800		**2**
Production (units)	**9400**	**10000**	**5800**	**1600**		**1**

(iii) Production Cost Budget for 4 months ended 31 January Year 2.

		Oct	Nov	Dec	Jan	
Production (units)		**9400**	**10000**	**5800**	**1600**	**1**
Material	£21	£197,400	£210,000	£121,800	£33,600	**2**
Labour	£18	£169,200	£180,000	£104,400	£28,800	**2**
Other Direct Costs	£10	£94,000	£100,000	£58,000	£16,000	**2**
Overheads						
Total Production Cost		**£460,600**	**£490,000**	**£284,200**	**£78,400**	**1**

(iv) Material Purchases Budget for the 4 months ended 31 January Year 2.

		Oct	Nov	Dec	Jan	Feb	
Production (units)		**9400**	**10000**	**5800**	**1600**	2000	
Kg used in Production	1·5	14100	15000	8700	2400	3000	**2**
Stock at end		3750	2175	600	750	750	**2**
		17850	17175	9300	3150	3750	
Stock at start		3525	3750	2175	600	750	**2**
Purchases (Kg)		14325	13425	7125	2550	3000	**1**
Purchases (Value)	£14	£200,550	£187,950	£99,750	£35,700	£42,000	**1**
							35

(b) Cash Budget for the 3 Months ended 31 January Year 2.

	Nov	Dec	Jan	
Opening balance	−213,000	−265,550	47,700	**1**
Sales receipts:				
Cash (10%)	144,000	144,000		**1**
Traditional	304,000	380,000	380,000	**3**
Online (30%)		159,600	159,600	**1**
Online (50%)				
	448,000	683,600	539,600	
Payments:				
Materials	200,550	187,950	99,750	**3**
Labour	180,000	104,400	28,800	**1**
Other direct costs	100,000	58,000	16,000	**1**
Fixed costs	20,000	20,000	20,000	**1**
Loan and interest			110,000	**2**
	500,550	370,350	274,550	
Closing balance	−265,550	47,700	312,750	**1**
				15
				50

Question 7

(a)

(i) Marginal Costing Profit Statement (£000)

			Year 2		Year 3		
Sales	£	45		315·0		405·0	**1**
Less Variable Costs:							
Opening Stock	£	25	20·0		5·0		**2**
Materials	£	10	64·0		94·0		**2**
Labour	£	10	64·0		94·0		**2**
Variable Costs	£	5	32·0		47·0		**2**
			180·0		240·0		
Closing Stock	£	25	5·0	175·0	15·0	225·0	**2**
Contribution				140·0		180·0	**2**
Less Fixed Costs				33·0		31·0	**1**
Profit				107·0		149·0	

(ii) Absorption Costing Profit Statement (£000)

			Year 2		Year 3		
Sales				315·0		405·0	
Less Costs							
Opening Stock	£	29	23·2		5·8		**2**
Marginal Costs	£	25	160·0		235·0		**4**
Fixed Costs	£	4	25·6		37·6		**2**
			208·8		278·4		
Closing Stock	£	29	5·8		17·4		**2**
				203·0		261·0	
				112·0		144·0	
Under)(−)/Over Absorbed Fixed Costs				−7·4		6·6	**4**
Profit				104·6		150·6	
							28

(b)

(i) Marginal Costing Profit Statement (£000)

			Year 4			
Sales	£	40		400·0		**1**
Less Variable Costs:						
Opening Stock	£	25	15·0			
Materials	£	10	98·0			**1**
Labour	£	10	98·0			**1**
Variable Costs	£	5	49·0			**1**
			260·0			
Closing Stock	£	25	10·0			**1**
				250·0		
Contribution				150·0		
Fixed Costs				40·0		**1**
Profit				**110·0**		
						6

(ii)

	(£000)	
Contribution required for £160000 profit (160 + 40)	200·0	**1**
Year 4 Contribution	150·0	**1**
Increase required (so Year 4 marginal cost reduction)	50·0	

Year 4 production	9800		
Less Closing Stock	400		
Cost saving on net production of	9400		**2**
Saving per unit required	**£5·32**	(50000/9400)	**2**
			6
			40

Question 8

						Marks
(a)			£			
	Budgeted Sales		700,000	20000	(units)	**1**
	Costs:					
	Materials	100,000				**1**
	Labour	288,000				**1**
	Variable Overhead	40,800				
	Fixed Overhead	50,400				**1**
			479,200			
	Budgeted Profit		£220,800			**4**
			£			
(b)	Actual Sales		884,000	26000	(units)	**1**
	Costs:					
	Materials	128,700				**1**
	Labour	400,000				**1**
	Variable Overhead	45,000				
	Fixed Overhead	70,000				**1**
			643,700			
	Actual Profit		£240,300			**4**

(c) Standard Cost of Actual Sales

	£		
Materials	130,000	100000/20000 × 26000	**1**
Labour	374,400	288000/20000 × 26000	**1**
Variable Overhead	53,040	40800/20000 × 26000	**1**
Fixed Overhead	65,520	50400/20000 × 26000	**1**
	£622,960		
			4

(d) Variances

(i)	Sales Price	£26,000	(26000 × 35) − (26000 × 34)	Adverse	**2**
(ii)	Sales Volume	−£210,000	35 × (26000 − 20000)	Favourable	**2**
(iii)	Material Price	£1,300	(13000 × 10) − 128700	Favourable	**2**
(iv)	Material Usage	£0	10 × (13000 − 13000)		**2**
(v)	Labour Rate	−£16,000	(12 × 32000) − 400000	Adverse	**2**
(vi)	Labour Efficiency	−£9,600	(12 × 31200) − 32000	Adverse	**2**
(vii)	Var O/h Expenditure	£9,400	(1·7 × 32000) − 45000	Favourable	**3**
(viii)	Var O/h Efficiency	−£1,360	1·7 × (31200 – 32000)	Adverse	**3**
(ix)	Fixed O/h Volume	£15,120	(2·1 × 31200) − 50400	Favourable	**3**
(x)	Fixed O/h Expenditure	−£19,600	50400 − 70000	Adverse	**3**
					24

Standard Costing Profit Statement

	£	£	£	
Standard (Budgeted) Sales			700,000	
Sales Variances	Favourable	Adverse		
Price		26000		
Volume	210000			
			184000	**1**
Actual Sales			884000	
Less Standard Cost of Actual Sales			622960	
Standard Profit for Actual Sales			261040	**2**
Cost Variances	Favourable	Adverse		
Material Price	1300			
Material Usage				
Labour Rate		16000		
Labour Efficiency		9600		
Variable Overhead Expenditure	9400			
Variable Overhead Efficiency		1360		
Fixed Overhead Volume	15120			
Fixed Overhead Expenditure		19600		
Net Variance	(25820)	46560	20740 A	**1**
Actual Profit			240,300	
Completion of profit statement				**4**

(40)

Question 9

(a) (i)

- Special orders are normally orders for a product at a lower price than usual.
- Marginal costing will be used to evaluate the order by comparing the total contribution and profit before the order is accepted to that which would be earned after accepting the order.
- If additional contribution from the special order covers any increases in fixed costs the order may be accepted on a purely financial basis.

Other factors which would affect a special order decision would be:

- Resource provision – does the firm have enough productive capacity (physical space machinery, labour, etc) to undertake the work? Can this reasonably be increased?
- Are the current resources already being used to capacity?
- If not then an order may be accepted to provide some work for the firm – as long as it makes some profit.
- Special orders at a low price may lead to larger orders in future.
- Large existing customers may place special orders at times and these may be accepted in order to retain their business.
- Must be aware that special orders undercut normal prices to other customers. Such orders must be in confidence to avoid antagonising customers who pay the full price.

Award 2 marks for each correct point given – max 4 marks

(ii)

- Make or buy decisions are usually about making a component for a primary product compared with buying in the component from another supplier.
- Marginal costing is used to compare the variable cost of manufacturing against buying in – whichever is lower is the one to choose.
- Fixed factory overheads are ignored as they would likely have to be paid either way.

Other factors include:

- Would productive resources made available if the firm bought in components?
- What could these be used for – rent out space, increase production of primary product?
- Must also consider the reliability of supplier's service and
- quality of the bought in components.
- Must be careful not to lose expertise (or capacity) to begin making the component in future if necessary.

Award 2 marks for each correct point given – max 4 marks

(iii)

- Marginal costing is used to assist decision-making when there are factors which limit the capacity to produce.
- Examples are shortages of labour, materials, machine capacity (hours available) and physical manufacturing space.
- The contribution earned from each product is related to the limiting factor to give, for example, the contribution per labour or machine hour worked or kg of materials used.
- The product which earns the greatest contribution per hour or kg will be given first priority for manufacture.
- Other products will then be prioritised for the remaining time or materials available.

Other factors include:
- Company policy in respect of a product.
- This may mean prioritising a product with an inferior contribution to meet the overall aims of the firm.
- A product with an inferior contribution in respect of the limiting factor may be prioritised over others if the directors consider that a reduction in production may result in losing other orders from customers affected by the decision.

Award 2 marks for each correct point given – max 4 marks

(iv)

- Marginal costing can be used in pricing decisions to set prices which will give an acceptable contribution to cover fixed costs.
- Prices can be set low to introduce a new product or break into a new market, whist still giving an acceptable profit.
- Low introductory prices may be raised if a new product is successful and generates an ongoing demand from its market.

Other factors include:
- must avoid a low price giving a 'low quality' image of a product.
- a high introductory price may be preferable to establish quality.
- marginal costing will then be employed to decide on future lower prices when the market for the product expands.

Award 2 marks for each correct point given – max 4 marks

Maximum for part (a) 14 marks

(b)

In order to conduct a break even analysis the following assumptions are made:

- all costs can be split into fixed and variable
- total fixed costs will remain constant
- variable cost per unit will be constant over a given range of production
- selling price per unit will remain constant over the same range
- the sales mix will not change (in a multi-product firm)
- all production will be sold.

These assumptions are necessary:

- to establish a contribution per unit which will not vary over a given range of production
- to be divided into fixed cost to establish a break even quantity
- and can be used to calculate margin of safety and profits/losses at a variety of levels of activity.

The assumptions are flawed in reality because:

- certain costs cannot be defined as purely fixed or variable eg power which might have a fixed (standing charge) element and a variable element which depends upon usage
- fixed costs may change due to outside influences not in control of the firm
- some variable costs per unit may tend to fall as output rises due to economies of scale
- the selling price may have to change in response to market influences outwith the control of the company
- the sales mix may also change in response to changing demands from customers
- companies cannot guarantee that all production will be sold.

Award 2 marks for each correct point given – max 10 marks

(c)

- all the basic assumptions of break even analysis will apply
- each product will have its own contribution per unit which, on its own, cannot be used with the fixed costs to calculate break even
- must calculate a weighted average contribution from a given sales mix and use in the formula to work out break even point
- if sales mix changes, so will the weighted average contribution – break even will have to be recalculated.

Award 2 marks for each correct point given – max 6 marks

Question 10

(a)

The use of process costing is appropriate when:

- production consists of a continuous sequence of operations through which all units pass
- output from one stage advances to become the input of the next
- only final finished goods can be identified as single units of production
- several products may be manufactured simultaneously
- losses are inevitable throughout the process of manufacture

Award 2 marks for each correct point given – max 10 marks

(b) (i)

- Waste is the output of a process which has no use
- and is of no sales value
- and cannot be recycled in the process
- may incur costs of disposal
- entire cost borne by finished production
- waste credited in the process account at no value

- Scrap is the spoiled output of a process
- which has a resale value (often at a loss)
- may be recycled in the process
- loss on sale borne by finished production
- waste credited to the process account at resale value

Award 2 marks for each correct point given – max 6 marks

(ii)

- Normal losses are those expected in production
- may be waste with no value
- or scrap with a resale value
- costs borne by finished production
- normal loss credited to the process at scrap value if appropriate

- Abnormal losses are unexpected losses in a process
- may be waste or scrap
- usually (but not always) they are not identified until completion of a process so assumed to have incurred the full cost of production
- credited to process account at full cost
- so do not affect the cost per unit of good output
- debited to abnormal loss account at full cost
- scrap value when sold credited to abnormal loss account
- balance transferred to profit and loss account as a loss.

Award 2 marks for each correct point given – max 6 marks

(iii)

- Joint products are those outputs of a single process which are approximately equal in value
- each product is considered of equal importance to the firm
- process costs must be apportioned between these products
- based upon either sales in units
- or sales value
- each product is credited to the process account at its own full cost

- By-products are the unavoidable result of some processes
- they are significantly less valuable than the main product(s)
- usually treated similarly to normal loss
- credited to the process account at the resale value
- which reduces the cost per unit of finished product(s)

Award 2 marks for each correct point given – max 6 marks

(iv)

- Work in progress in process accounting is unfinished production identified at the end of an accounting period
- the degree of completion of each element of cost will be different so labour may be 60% complete, whilst materials are 100% complete
- necessitating valuation using an estimation of equivalent units produced
- 10 units of production only 60% complete for labour is shown as 6 equivalent units completed
- work in progress is credited to the process account reducing the current period's production costs and hence the cost per unit
- and carrying the cost of wip forward to the next process

Award 2 marks for each correct point given – max 6 marks

A minimum of 2 marks must be gained from each part (i) – (iv)

[END OF MARKING INSTRUCTIONS]

2015 Accounting

Advanced Higher Special Instructions

Finalised Marking Instructions

2015 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. EXTRANEOUS 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 £1,500^1.

    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 – Omega plc			
Part A			
(a)	**Profit and Loss Account – 22 marks**		-1
	Heading wrong/omitted		
	Sales wrong	**1**	
	Cost of goods sold (Note 5)		
	Opening stock wrong	**1**	
	Factory cost of production wrong	**1**	
	Purchase of finished goods	**1**	
	Carriage inwards wrong	**1**	
	Closing stock wrong	**1**	
	General Expenses not 31	**1**	
	Wages and Salaries not 14	**1**	
	Delivery Vehicle Depreciation not 40	**1**	
	Gross profit wrong, not consequential, not labelled		**−1**
	Distribution Expenses (Note 6):		
	General Expenses not 31 or consequential	**1**	
	Wages and Salaries not 98 or consequential	**1**	
	Delivery Vehicle Depreciation not 60 or consequential	**1**	
	Administration Expenses (Note 6):		
	General Expenses not 93 or consequential	**1**	
	Wages and Salaries not 28 or consequential	**1**	
	Audit Fee not 15	**1**	
	Directors' Fees	**1**	
	Operating profit wrong, not consequential		**−1**
	Investment Income wrong	**1**	
	Interest payable (Note 4) – paid not 15	**1**	
	Interest payable – due not 20	**1**	
	Profit before tax wrong, not labelled, not consequential		-1
	Corporation tax not 50	**1**	
	Preference Dividend not 30	**1**	
	Ordinary Share Dividend not 250	**1**	
	Retained profits, wrong, not consequential, not labelled		-1
	Extraneous items		**−2 each, Max 4**

	Award marks lost	Penalties applied
QUESTION 1 (continued)		
Balance Sheet – 28 Marks		
Heading wrong/omitted		**-1**
Tangible Assets (Note 7):		
Premises not 2000	**1**	
Delivery Vehicles not 400 or consequential on Note 1	**1**	
Plant and Machinery not 390	**1**	
Investments not 1000	**2**	
Current Assets:		
Stock not 475	**1**	
Debtors not 325	**1**	
Cash not 55	**1**	
Creditors: amounts falling due within 1 year		
Dividends included apply +/-		
Bank overdraft not 70	**1**	
Creditors not 150	**1**	
Debentures not 100	**2**	
VAT not 20	**1**	
Corporation tax not 50	**1**	
Creditors: amounts falling due after 1 year		
Debentures not 200 (if in Capital section award 1 for 200)	**2**	
Debentures of 300 and 0 in Current Liabilities	**1**	
Capital and Reserves		
Preference Shares wrong	**1**	
Ordinary Shares wrong	**1**	
Share Premium wrong	**1**	
Revaluation Reserves wrong	**1**	
Retained profits not 410 or consequential	**1**	
Plus 125	**1**	
Retained profit not final item		**-1**
Extraneous items		**−2 each, max 4**

		Award marks lost	Penalties applied
QUESTION 2 – Hamilton plc			
(a)	**Ratio calculations – 16 marks**		
	Mark as per solution.		
	Maximum of 8 ratios to be calculated, 2 areas max 28, one area max 24		
	Wrong formula lose award for ratio	**1**	
	Arithmetic error lose award for each ratio	**1 each**	
	Ratio comments on changes – 16 marks		
	Accept any valid reason for changes in ratios calculated	**1**	
	No indication of improvement/deterioration	**1**	
(b)	Ratio calculations wrong, wrong formula	**2 each**	
	Expressed wrongly ie £ instead of numbers	**1 once**	

	Award marks lost	Penalties applied
QUESTION 3 – B Butler		
(a) (i) Calculation of Opening Capital – 9 marks		
Equipment not 24500	**2**	
Vehicle Depreciation year 2 not 3000	**1**	
Year 3 not 2400 or consequential	**1**	
Year 4 not 1920 for original vehicle or consequential	**1**	
Year 4 new vehicle not 1000	**1**	
One mark each for stocks and Debtors total	**2**	
Bank overdraft, Creditors and Lighting and Heating total not 13260	**1**	
(a) (ii) Calculation of Total Sales – 6 marks		
Mark as per solution, one mark awarded for each correct figure. Any figure wrong lose award	**1 each**	
(a) (iii) Calculation of Total Purchases – 5 marks		
Mark as per solution, one mark awarded for each correct figure. Any figure wrong lose award	**1 each**	
(b) Trading and Profit and Loss Account – 14 marks		
Heading wrong or omitted		**-1 once**
Purchases and Sales not consequential on (a) (ii) and (iii)		**-1 once**
Both opening and closing stocks must be correct otherwise	**1**	
Discount Received wrong or omitted, treated as an expense	**1**	
Wages wrong or omitted	**1**	
Rent and rates wrong, omitted not adjusted	**1**	
Vehicle running expenses wrong not adjusted	**1**	
Heat and light wrong, not adjusted for amount due for last year	**1**	
Heat and light not adjusted for amount due for current year	**1**	
Bad Debts wrong, omitted	**1**	
Provision for doubtful debts wrong, omitted	**1**	
Equipment depreciation not 3600	**1**	
Vehicle depreciation not 3336 or consequential	**1**	
Net loss omitted/labelled wrongly		**-1**
Extraneous items		**−2 each, max 4**

	Award marks lost	Penalties applied
QUESTION 3 – (continued)		
B Butler		
Balance Sheet – 12 marks		
Fixed Assets:		
Equipment NBV wrong, not consequential	**1**	
Vehicles NBV wrong, not consequential	**1**	
Current Assets:		
Stock, Debtors, Prepayments wrong or omitted	**1**	
Current Liabilities:		
Creditors and accruals wrong, omitted	**1**	
Bank overdraft wrong, omitted, no working	**1**	
Extraneous items	**−2 each, max 4**	

	Award marks lost	Penalties applied
QUESTION 4 and 5 **4 (a) Maximum mark for this section – 20 marks** Mark as per solution, 2 marks for each valid point. Maximum 20 **4 (b) Maximum mark for this section – 10 marks** Each feature, advantage, disadvantage award one mark each. Three sources should be described, only 2 maximum of 7, only one max 4 **5 (a) Maximum mark for this section – 16 marks** 2 marks awarded for each valid point, maximum 16 marks **5 (b) Maximum mark for this section – 14 marks** 2 marks awarded for each valid point, maximum 14 marks		

	Award marks lost	Penalties applied
Question 6 – Andrew Automatons		
(a) (i) Sales Budget		
Sales value to Traditional Retailers not as per solution	**1 each**	
Sales value to Online retailers (30%) not as per solution	**1 each**	
Sales value to Online retailers (50%) not as per solution	**1**	
Sales value in Factory Shop not as per solution	**1 each**	
Total sales in units, any one wrong	**1**	
Total sales value cons on sale discounts, any one wrong/not cons	**1**	
(ii) Production Budget		
Sales in units cons on (a)(i), any one wrong/not cons	**1**	
Stocks cons on Sales		
Stock at start, each one wrong/not cons	**1 (max 2)**	
Stock at end, each one wrong/not cons	**1 (max 2)**	
Production units cons on sales and stocks, any one wrong/not cons	**1**	
Stock figure adjustments reversed	**5**	
(iii) Production Cost Budget		
Production units cons on (a)(ii), any one wrong/not cons	**1**	
Material, labour and overhead costs per unit not as per solution	**1 each**	
Monthly material costs cons on material cost per unit, any one wrong/not cons	**1**	
Monthly labour costs cons on labour cost per unit, any one wrong/not cons	**1**	
Monthly overhead costs cons on overhead cost per unit, any one wrong/not cons	**1**	
Total production costs cons on production units and monthly costs, any one wrong/not cons	**1**	
(iv) Material Purchases Budget		
Production units cons on (a)(ii),		
Kg used cons on production in units, any one wrong/not cons	**1, max 2**	
Stocks cons on production		
Stock at start, each one wrong/not cons	**1 (max 2)**	
Stock at end, each one wrong/not cons	**1 (max 2)**	
Purchases (kg) cons on kg used and stocks, any one wrong/not cons	**1**	
Purchase value cons on purchased (kg), any one wrong/not cons	**1**	

	Award marks lost	Penalties applied
Question 6 – (continued)		
(b) **Cash Budget**		
Bad debts included lose Credit Sales Award	**4**	
Opening balances given or cons on entries, any one wrong/not cons	**1**	
Closing balances cons on entries, any one wrong/not cons	**1**	
Traditional sales and material payments 1 mark each cons on (a)(i)−(iv), each wrong/not cons	**1**	
Loan and interest 1 mark for each element, each one wrong	**1**	
All other figures cons on (a)(i)−(iv), any one wrong/not cons lose line mark	**1**	

	Award marks lost	Penalties applied
Question 7 – Emily Enterprises		
(a) (i) Marginal Costing Profit Statement years 2/3		
Sales, stock and cost figures as per solution		
Sales, either one wrong	**1**	
Stock wrong	**1 each**	
Materials, labour, variable cost wrong	**1 each**	
Contribution cons on sales and costs, if wrong/not cons	**1 each**	
Fixed costs wrong	**1 each**	
Profit figure cons on entries, if wrong/not cons/omitted		**1 mark once**
(a) (ii) Absorption Costing Profit Statement Years 2/3		
Sales and marginal costs cons on (a)(i) or as per solution		
Sales, either on wrong/not cons		**1 mark once**
Stocks as per solution, if wrong	**1 each**	
Marginal cost wrong/not cons	**2 each**	
Fixed costs as per solution, if wrong	**1 each**	
Under/over absorbed fixed costs cons on entries, if wrong/not cons	**2 each**	
Profit figure cons on entries, if wrong/not cons/omitted		**1 mark once**
(b) (i) Marginal Costing Profit Statement Year 4		
All figures as per solution (except opening stock and profit), if wrong/omitted	**1 each**	
Opening stock wrong/omitted/not cons on (a)(i)		**1 mark each**
Profit cons on entries, if wrong/omitted/not cons		**1 mark each**
(b) (ii) Savings per unit required		
Contribution required of £200,000 as per solution, if wrong	**1**	
Year 4 contribution cons on (b)(i) or as per solution, if wrong/not cons	**1**	
Year 4 marginal cost reduction wrong/not cons		**1 mark once**
Year 4 production/net production cons on (b)(i) or as per solution	**1**	
Net production wrong/not cons	**2**	
Saving per unit not as per solution or cons on workings in (b)(ii)	**2**	

	Award marks lost	Penalties applied
Question 8 – McLaughlin Ltd		
(a) Budgeted Profit Statement		
Sales and materials and labour costs as per solution, if wrong	**1 each**	
Variable and fixed overhead costs as per solution, either wrong	**1 once**	
Budgeted profit wrong/not cons/omitted		**1 mark once**
(b) Actual Profit Statement		
Sales and materials and labour costs as per solution, if wrong	**1 each**	
Variable and fixed overhead costs as per solution, either wrong	**1 once**	
Actual profit wrong/not cons/omitted		**1 mark once**
(c) Standard Cost of Actual sales		
All costs cons on (a), if wrong/not cons	**1 each**	
Total cost wrong/not cons/omitted		**1 mark once**
(d) Variances		
If no label check profit statement for indication		
All variances if wrong formula given or implied by working – **NO MARKS**	**2 or 3 each**	
Sales and direct cost variances award 1 mark to correct value and 1 mark to correct label, otherwise **but** material usage variance of £0 award 2 marks with no label	**1 each**	
Variable and fixed overheads award 2 marks to correct value and 1 mark to correct label, otherwise	**1 or 2 each**	
Profit Statement		
Watch cons on (a), (b) and (c)		
Award: 1 mark to net sales variance of £184,000 or cons 2 marks to standard profit for actual sales of £261,040 or cons 1 mark to net cost variance of £20,740 or cons Otherwise if wrong/not cons/omitted	**1 or 2 each**	
Any other figure omitted/not implied by above		**1 mark each**

		Award marks lost	Penalties applied
	Question 9		
(a)	**(i)−(iv)** Award 2 marks per point as per suggested answers and for other relevant points where appropriate Maximum for (i)−(iv) is 4 per section Maximum for part (a) is 14 marks		
(b)	Award 1 mark per point as per suggested assumption and 2 marks for each flaw Maximum for part (b) is 10 marks		
(c)	Award 2 marks per point as per suggested answers and for other relevant points where appropriate Maximum for part (c) is 6 marks		

		Award marks lost	Penalties applied
	Question 10		
(a)	Award 2 marks per point as per suggested answers and for other relevant points where appropriate Maximum for part (a) is 10 marks		
(b)	**(i)−(iv)** Award 2 marks per point as per suggested answers In part (i) both waste and scrap must be discussed to gain all six marks, otherwise maximum 4 marks In part (ii) both normal and abnormal loss must be discussed to gain all six marks, otherwise maximum 4 marks In part (iii) both joint and by-products must be discussed to gain all six marks, otherwise maximum 4 marks Maximum mark for (i)−(iv) is 6 marks per section Maximum for part (b) is 20 marks		

[END OF MARKING INSTRUCTIONS]