



National
Qualifications

2017 Accounting Assignment

Higher

Finalised Marking Instructions

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General marking principles for the assignment

This information is provided to help you understand the general principles you must apply when marking candidate responses to this assignment. These principles must be read in conjunction with the detailed marking instructions, which identify the key features required in candidate responses.

- (a) Marks for each candidate response must always be assigned in line with these general marking principles and the detailed marking instructions for this assessment.
- (b) Marking should always be positive. This means that, for each candidate response, marks are accumulated for the demonstration of relevant skills, knowledge and understanding: they are not deducted from a maximum on the basis of errors or omissions.

Treatment of errors

Guidance on the treatment of errors such as extraneous items, arithmetical errors and consequential errors will be provided in the detailed marking instructions.

Layouts

Layouts in the detailed marking instructions are provided for illustrative purposes only. Candidates should not be penalised for using appropriate alternative layouts.

Consequential errors

Consequential errors will be taken into account and candidates will receive credit for following the correct accounting processes and spreadsheet formula.

Formulae

It is possible for candidates to use a variety of different formulae to resolve the problem and provide the information needed in the spreadsheet. Marks will be awarded where a formulae has been used that provides the correct answer, the formulae provided in the marking instructions is not the only correct answer.

Printouts

Candidates are clearly directed, within the instructions, as to the printing requirements. Where a printout for a task is missing, marks will be awarded on any available alternative printout.

International Accounting Standards

With the introduction of the new Higher Accounting specification revised IAS terminology will be used in the preparation of financial statements. However, candidates using the traditional approach and terminology in these questions will be rewarded. In addition, centres need to be aware of the requirements of IAS 1 which specifies the presentation of accounts and the changes in the treatment of proposed dividends.

In order to make this new specification relevant and current the preparation of an appropriation account will, in future, be replaced by a statement of changes in equity. Only dividends that have been approved will be included in final accounts, with any proposed dividends no longer being shown in the statements. The Detailed Marking Instructions which follow show the new terminology with the current terminology in brackets.

Task 1 - Solution

Pet Kingdom

CODE MARKS

Income Statement for Year ended 31 December 2016 ✓

	£000	£000	£000		
Sales Revenue			540	A	
Less Sales Returns			15	A	1
Net Sales			525		
Cost of Sales					
Opening Inventory		40		B	
Add Purchases	210			C	
Less Purchases Returns	6	204		C	1
			244		
Less Closing Inventory		50	194	B	
Gross Profit ✓			331		
Less Expenses					
Discount Allowed*		8		D	
Increase in Provision for Doubtful Debts (12-7)		5			1
General Expenses (24-4)		20		E	
Depreciation:					
Motor Vehicles (80x10%)		8			1
Equipment (160-20x20%)		28			1
Finance Charges (80x5%x1/4)		1			1
Staff Salaries (90+10)		100	170	F	
			161		
Add Other Income					
Discount Received*			10	D	1
Profit for the Year ✓			171		
Interest on Drawings					
Naqvi (40x10%)		4		G	
Siddiqui (50X10%)		5	9	G	1
			180		
Less					
Salary (Siddiqui)		24		H	
Interest on Equity					
Naqvi (200x6%)	12			H	
Siddiqui (100x6%)	6	18	42	H	1
			138		
Profit Share					
Naqvi (2/3)		92		J	
Siddiqui (1/3)		46	138	J	1

Headings - Income Statement for year ended and Statement of Financial Position as at. **Labels** - Gross Profit, Profit for the Year. **Layout** – expenses before income, Cost of Sales order and Statement of Financial Position Order. **Arithmetic**. Award as HLLA 1.

*If shown as Discount (Net) of 2 in Income award mark.

Accept salary and bonus separated.

Total 11 marks

1

Task 1 - Solution

Pet Kingdom (Partnership - Current Accounts)

CODE MARKS

Current Account - Naqvi

Date	Details	Dr	Cr	Balance	
01 January 2016	Balance	-30		-30	K
31 December 2016	Interest on Equity		12	-18	L
31 December 2016	Share of Profit		92	74	M
31 December 2016	Interest on Loan		1	75	N
31 December 2016	Interest on Drawings	4		71	O
31 December 2016	Drawings	40		31	P

Current Account - Siddiqui

Date	Details	Dr	Cr	Balance		
01 January 2016	Balance		60	60	K	1
31 December 2016	Interest on Equity		6	66	L	1
31 December 2016	Share of Profit		46	112	M	1
31 December 2016	Salary		24	136	N	1
31 December 2016	Interest on Drawings	5		131	O	1
31 December 2016	Drawings	50		81	P	1

Total 6 marks

If not shown as a Current Account but all items treated correctly do not award opening balances mark.

If complete reversal award half marks (3/6)

If opening balance correct and all other items reversed only award opening balances mark.

If interest on loan is repeated in Statement of Financial Position do not award mark in the Current Account. *

If drawings repeated, do not award mark in the Current Account. *

* Indicate by scoring through the mark or ✓.

If arithmetic mistake made in final balances do not award the opening balance mark.

Task 1 - Solution

Pet Kingdom

CODE MARKS

Statement of Financial Position as at 31 December 2016 ✓

	£000	£000	£000		
Non-Current Assets	Cost	Depn	NBV		
Property	300	(20)	320	Q	
Equipment	160	48	112	R	
Motor Vehicles	80	18	62	R	1
	540	46	494		
Current Assets					
Inventory		50		B	1
Trade Receivables (120-12)		108			1
General Expenses Receivable		4		E	1
		162			
Current Liabilities					
Trade Payables	75			S	
Staff Salary Bonus Payable	10			F	1
VAT	34			S	
Cash and Cash Equivalents	25	144		S	1
Working Equity			18		
Net Assets Employed			512		
Less Non-Current Liabilities					
Loan Naqvi			80	T	
Net Assets			432		
Equity					
Equity Accounts					
Naqvi		200		T	
Siddiqui		100	300	T	1
Current Accounts					
Naqvi		31		U	
Siddiqui		81	112	U	1
			412		
Revaluation Reserve			20	Q	1
			432		

Total 9 marks

If any items repeated in Statement of Financial Position eg Discounts, do not award mark in Income Statement and vice versa. Indicate by scoring through the mark or ✓.

Task 2 - Solution

PROCESS 1 ACCOUNT				MARKS					MARKS			
	Dr				Cr				Balance			
	Qty (kg)	CPU	£		Qty (kg)	CPU	£		Qty (kg)	CPU	£	
Dry Ingredients	500	7	3,500	1					500		3,500	
Wet Ingredients	250	10	2,500	1					750		6,000	
Direct Labour			300	A							6,300	
Var Overhead			500	B							6,800	
Fixed Overhead			630	B 1							7,430	
Normal Loss					45	4	180	C	705		7,250	
WIP					100		1,200	C 1	605	10	6,050	
Trs to Process 2					570	10	5,700	D *	35	10	350	
Abnormal Loss					35	1	*10	E *	0	0	0	

PROCESS 2 ACCOUNT				MARKS					MARKS			
	Dr				Cr				Balance			
	Qty (kg)	CPU	£		Qty (kg)	CPU	£		Qty (kg)	CPU	£	
Trs from Process 1	570	10	5,700	D *					570		5,700	
Additional Materials	130	10	1,300	D 1					700		7,000	
Direct Labour			1,500	A 1					700		8,500	
Fixed Overhead			3,800	F					700		12,300	
Var Overhead			300	F 1					700		12,600	
Normal Loss					70	0	0	G	630	20	12,600	
Trs to Process 3					630	20	12,600	G 1	0	0	0	

ABNORMAL LOSS ACCOUNT				MARKS					MARKS			
	Dr				Cr				Balance			
	Qty (kg)	CPU	£		Qty (kg)	CPU	£		Qty (kg)	CPU	£	
From Process 1	35	10	350	E * 1					35	10	350	
Cash and cash equivalent					35	4	140	H			210	
Income statement							210	H 1			0	

Layout running balance 1

Total 12 marks

All materials must show kg and cost per unit/kg to gain row award.

* In Process 1 if CPU for Transfer to Process 2 and Abnormal Loss is not shown lose award then mark consequentially in Process 2 and Abnormal Loss Accounts.

If any entry in Quantity and/or CPU for Labour, do not award Labour mark.

If nomenclature error do not award mark on first occasion.

Task 3 - Data View

	A	B	C	D	E	F	G	H	I
1	INVESTMENT APPRAISAL								
2	ACCOUNTING RATE OF RETURN								
3									
4	PROJECT 1		NEW EQUIPMENT			PROJECT 2	NEW VEHICLES		
5									
6	Cost		£60,000			Cost	£60,000		
7	Depreciation Rate		20%			Residual Sale Value	£5,000		
8									
9	YEAR	CASH INFLOW	DEPN	PROFIT		YEAR	CASH INFLOW	DEPN	PROFIT
10	Year 1	£30,000	£12,000	£18,000		Year 1	£34,000	11000	£23,000
11	Year 2	£25,000	£12,000	£13,000		Year 2	£32,000	11000	£21,000
12	Year 3	£20,000	£12,000	£8,000		Year 3	£20,000	11000	£9,000
13	Year 4	£18,000	£12,000	£6,000		Year 4	£16,000	11000	£5,000
14	Year 5	£9,000	£12,000	£-3,000		Year 5	£11,000	11000	£0
15									
16			Total Profit	£42,000				Total Profit	£58,000
17									
18			Average Profit	£8,400				Average Profit	£11,600
19			Annual Rate of Return as a % of original equity invested	14%				Annual Rate of Return as a % of original equity invested	19%
20	RECOMMENDATION			Project 2					

Task 3 - Formula View

	A	B	C	D	E	F	G	H	I	
1	INVESTMENT APPRAISAL									
2	ACCOUNTING RATE OF RETURN									
3										
4	PROJECT 1		NEW EQUIPMENT			PROJECT 2		NEW VEHICLES		
5										
6	Cost		60000			Cost		60000		
7	Depreciation Rate		0.2			Residual Sale Value		5000		1
8										
9	YEAR	CASH INFLOW	DEPN	PROFIT		YEAR	CASH INFLOW	DEPN	PROFIT	
10	Year 1	30000	= $\$C\$6*\$C\7	=B10-C10		Year 1	34000	=($\$H\$6-\$H\7)/5	=G10-H10	
11	Year 2	25000	= $\$C\$6*\$C\7	=B11-C11		Year 2	32000	=($\$H\$6-\$H\7)/5	=G11-H11	
12	Year 3	20000	= $\$C\$6*\$C\7	=B12-C12		Year 3	20000	=($\$H\$6-\$H\7)/5	=G12-H12	
13	Year 4	18000	= $\$C\$6*\$C\7	=B13-C13		Year 4	16000	=($\$H\$6-\$H\7)/5	=G13-H13	
14	Year 5	9000	= $\$C\$6*\$C\7	=B14-C14		Year 5	11000	=($\$H\$6-\$H\7)/5	=G14-H14	
15			1	1				1	1	
16			Total Profit	=SUM(D10:D14) or =SUM(D10:D15)				Total Profit	=SUM(I10:I14) or =SUM(I10:I15)	1
17										
18			Average Profit	=D16/5 or =Average(D10:D14)				Average Profit	=I16/5 =Average(I10:I14)	1
19			Annual Rate of Return as a % of original equity invested	=D18/C6				Annual Rate of Return as a % of original equity invested	=I18/H6	1
20	RECOMMENDATION			=IF(D19>I19,"Project 1","Project 2") or =IF(I19>D19,"Project 2","Project 1") or =IF(I19<D19,"Project 1","Project 2") or =IF(D19<I19,"Project 2","Project 1") or you may see the project number referred to as A4,F4						1

Accept named cells. SUM and range must be used for Total Profit.

Total 9 marks

Task 3 (c) - Solution

Reason for recommendation 1 mark

Project 2, as ARR is higher than Project 1, or consequential based on candidates work.

Advantages of Accounting Rate of Return maximum 1 mark

1. The ARR is easy to understand and simple to calculate
2. ARR focuses on the overall profit generated by the project
3. It is similar to other accounting ratios used for making comparisons

Disadvantages of Accounting Rate of Return maximum 1 mark

1. Timings of cash inflows are ignored
2. ARR ignores the time value of money
3. ARR only focuses on total profit over the life of the project
4. No benchmark/guidelines of what is an acceptable rate of return
5. Where time scales are different, the ARR is not suitable
6. ARR is not suitable for comparing projects with different investment amounts
7. Profit for year can be subject to different definitions
8. The benefits of high profits in the earlier years is ignored

Total 3 marks

[END OF MARKING INSTRUCTIONS]