National Qualifications 2018

2018 Accounting

Higher

Finalised Marking Instructions

General marking principles for Higher Accounting

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 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, ie marks should be awarded for what is correct and not deducted for errors or omissions.

(c) 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.

(d) Consequentiality subsequent to a calculative error must be followed through, with credit being given for any errors in subsequent calculations or working.

(e) Scored out or erased working which has not been replaced should be marked where still legible. However, if the scored out or erased working has been replaced, only the work which has not been scored out should be marked.

(f) **(i)** For questions that ask candidates to "Describe …"

Candidates must make a number of relevant factual points, which may be characteristics and/or features, as appropriate to the question asked. These points may relate to a concept, process or situation.

Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question:

1 mark should be given for each relevant factual point.
1 mark should be given for any further development of a relevant point, including exemplification when appropriate.

(ii) For questions that ask candidates to "Outline …"

Candidates must make a number of brief statements appropriate to the question asked. These may include facts, features or characteristics.

Up to the total mark allocation for this question:

1 mark should be given for each accurate statement.

Detailed marking instructions for each question

Section 1

Question			Expected answer(s)	Max mark	Additional guidance
1.	(a)	(i)	**Income Statement for the Year Ended 31 December Year 6 for Grant plc** ✓	**19**	

Income Statement for the Year Ended 31 December Year 6 for Grant plc ✓

	£000	£000	£000
Sales Revenue			2,024 **(1)**
LESS: Cost of Sales			
Opening Inventory		153 ✓	
ADD: Purchases	1,505 ✓		
ADD: Carriage Inwards	35 **(1)**		
	1,540		
LESS: Purchase Returns	40 **(1)**	1,500 **(1)**	
		1,653	
Closing Inventory		120	
		1,533	
ADD: Rates for Warehouse (10%*110)		11 **(1)**	
COST OF SALES			1,544
GROSS PROFIT ✓			480
LESS: Expenses			
Bad Debts		3	
Insurance		8	
Finance Costs - Debentures		16 **(2)**	
Auditors' Fees		6	
Rates (90%*110)		99 **(1)**	
Selling and Distribution Expenses (60 – 3 (5% x 60))		57 **(1)**	
Wages and Salaries (132 + 4)		136 **(1)**	
Depreciation: Motor Vehicles (44 – 24)*25%		5 **(1)**	
Depreciation: Fittings (120*15%)		18 **(1)**	348
			132

Additional guidance:

Award
2 marks for 4 correct and
1 mark for 3 correct

Question			Expected answer(s)	Max mark	Additional guidance
			ADD: Incomes		
			Net Discounts 16 **(1)**		
			Dividend on Quoted Investments (4 + 2) 6 **(1)**		
			Reduction in Provision for Doubtful Debts 2 **(1)** 24		
			Profit for the Year Before Tax ✓ 156		
			Corporation Tax (25%) 39 **(1)**		
			Profit for the Year After Tax 117		
			ADD: Unappropriated Profit from Previous Year 54*		*If any **one** of the 3 figures are missing or incorrectly treated, award **1 mark**.
			171		
			LESS: Dividends		
			Ordinary Dividend 26* **(2)**		
			Preference Dividend 12*		
			38		
			Unappropriated Profit ✓ 133		
			Headings, Labels, Arithmetic and no Extraneous Items **(1)**		

Question			Expected answer(s)	Max mark	Additional guidance
		(ii)	**Statement of Financial Position as at 31 December Year 6 for Grant plc** ✓	**19**	

	£000 At Cost	£000 Agg Depn	£000 NBV	
Non-Current Assets				
Property	500	−40	540	**(1)**
Motor Vehicles	44	29	15	**(1)**
Fittings	120	40	80	**(1)**
Investments			78	**(1)**
			713	
Current Assets				
Closing Inventory		120 ✓		
Cash and Cash Equivalents		250		**(1)**
Trade Receivables (80 − 4)		76		**(1)**
Dividend on Investments Receivable		2		**(1)**
Selling and Distribution Receivable		3		**(1)**
		451		
LESS: Current Liabilities				
Trade Payables	118			
VAT	44			
Corporation Tax	39			**(3)**
Auditors' Fees Payable	6			
Wages and Salaries Payable	4			
		211		
WORKING EQUITY			240	
NET ASSETS EMPLOYED			953	
LESS: Non-Current Liabilities				
10% Debentures			160	**(1)**
NET ASSETS			793	

Additional guidance:

All 3 entries must be present and correct to gain mark

Award
3 marks for all 5 correct,
2 marks for 4 correct and
1 mark for 3 correct

Question			Expected answer(s)	Max mark	Additional guidance

			EQUITY:
			357,000 Ordinary Shares of **£1** 357 ⎤
			200,000 6% Preference Shares of **£1** 200 ⎦ **(2)**
			                                                557
			
			RESERVES:
			Unappropriated Profit 133 **(1)**
			Share Premium 80 - 10 **(1)** -7 **(1)** 63 **(2)**
			Property Revaluation 40 **(1)**
			                                            236
			                                            793
			
			Headings, Arithmetic and no Extraneous Items **(1)**
			
			If share premium 70, 73, 77 or 83 award **1 mark**
			Only award Preliminary Expenses adjustment to Share Premium if it is not shown elsewhere in the SoFP
					Value or no of shares missing award **1 mark.**
					
					If Ordinary Shares 350 and Preference shares 200 award **1 mark.**

	(b)		• Additional finance can be obtained as shares can be freely sold on the stock market **(1)** • Shareholders in a PLC benefit from limited liability as they only lose the value of their investment if the business fails **(1)** • Share ownership is transferable which enables continuity of the business **(1)**	**2**	

Section 2

Question			Expected answer(s)	Max mark	Additional guidance
2.	(a)		**Depreciation** = £400,000*7·5% = £30,000 per annum **(1)** | Inflows	Outflows	Profit | |---|---|---| | £175,000 | £25,000 + (£60,000+£30,000) | £60,000 | | £142,000 | £27,000 + (£45,000+£30,000) | £40,000 | | £120,000 | £28,000 + (£30,000+£30,000) | £32,000 | | £112,000 | £30,000 + (£24,000+£30,000) | £28,000 | | £100,000 | £33,000 + (£15,000+£30,000) | £22,000 | **(1)** **(1)** **(1)**	4	If Depreciation is missing award **2** marks Do not award Profit mark if '000 is not used
	(b)	(i)	**Accounting Rate of Return (ARR)** **Project 1** Average Profits (4,000 + 8,000 + 16,000 + 24,000 + 24,000)/5 = £15,200 ARR = (£15,200/£180,000) x 100 = 8·44% **(2)** **Project 2** Average Profits (60,000 + 40,000 + 32,000 + 28,000 + 22,000)/5 = £36,400 ARR = (£36,400/£400,000) x 100 = 9·10% **(2)**	4	If arithmetic error in profit calculation or % calculation award **1** mark

Question			Expected answer(s)	Max mark	Additional guidance
		(ii)	**Payback** **Project 1 – Investment £180,000**	6	Days must be rounded up

Payback   **Project 1 – Investment £180,000**

	Inflows	Cumulative Inflows
Year 1	£32,000	£32,000
Year 2	£44,000	£76,000
Year 3	£60,000	£136,000
Year 4	£92,000	**£228,000**
Year 5	£100,000	

Payback in Year 4

To nearest day: 3 years plus (180,000 – 136,000 + £44,000 **(1)**/£92,000 **(1)**) *365 days)
= 3 years 175 days **(1)**

Project 2 – Investment £400,000

	Cash Inflows	Costs	Net Cash Inflows	Cumulative Inflows
Year 1	£175,000	(£25,000 + £60,000)	£90,000	£90,000
Year 2	£142,000	(£27,000 + £45,000)	£70,000	£160,000
Year 3	£120,000	(£28,000 + £30,000)	£62,000	£222,000
Year 4	£112,000	(£30,000 + £24,000)	£58,000	£280,000
Year 5	£100,000	(£33,000 + £15,000)	£52,000	£332,000
	(1)	**(1)**		

Therefore, Project 2 does not pay back **(1)**

Question			Expected answer(s)	Max mark	Additional guidance
	(c)		Advice – Project 1 should be accepted **(1)** Justification – Project 1 gives the best Payback **(1)** *Consequential based on 2b*	2	

Question			Expected answer(s)	Max mark	Additional guidance
	(d)		**Payback – Advantages** • Simple to understand and calculate **(1)** • Allows comparison of mutually exclusive projects **(1)** • Favours quick return projects which may produce faster growth for the business **(1)** **Payback – Disadvantages** • Does not measure profitability on projects **(1)** • Total amounts invested not taken into account **(1)** • Ignores cash flow after payback period **(1)** • Time value of money ignored unless discounted **(1)** • Difficult to calculate net cash flows when they arise **(1)**	2	Award MAX **1 mark** for advantage and **1 mark** for disadvantage
	(e)		• Potential shareholders can draw conclusions on the financial wellbeing of a business **(1)** • Shareholders can use investment ratios to compare the viability of investing in different businesses **(1)** • Shareholders can use investment ratios to interpret financial statements **(1)** • Dividend Yield can tell an investor the % return they will receive **in relation to** the **current market price** of the shares **(1)** • Dividend Cover can tell an investor how much profit the business is retaining which could potentially be paid out as dividends to the ordinary shareholder **(1)** • Gearing ratios can be used by potential ordinary shareholders to establish if they wish to invest in a high or a low geared company **(1)** • Earnings per share is useful to potential shareholders to compare with another investment **(1)** • Price/Earnings ratio gives an indication of how expensive a share is compared with its earning potential **(1)**	2	

Question			Expected answer(s)	Max mark	Additional guidance
3	(a)		Inventory Record Card for Material X ✓*	6	*Award **1 mark** for correct heading and opening balance If no dates are included, do not award 1st mark

Inventory Record Card for Material X ✓*

Date	Details	Receipts			Issue			Balance			Marks
		Kg	CPU	£	Kg	CPU	£	Kg	CPU	£	
01-June	Opening balance	150	8·00	1200				150	8·00	1200	**1***
08-June	Purchases	100	8·50	850				250	8·20	2050	**1**
10-June	Issues to Process 1				100	8·20	820	150	8·20	1230	**1**
18-June	Purchases	250	8·60	2150				400	8·45	3380	**1**
22-June	Issues to Process 2				120	8·45	1014	280	8·45	2366	**1**
25-June	Returns				70	8·60	602	210	8·40	1764	**1**

Question			Expected answer(s)													Max mark	Additional guidance

Process 2 Account ✓

	DR				CR				BALANCE			
	QTY	CPU	Value		QTY	CPU	Value		QTY	CPU	Value	
Transfer from Process 1	75	13·00	975	**(1)**					75	13	975	
Issues of Material X	120	8·45	1,014	**(2)**					195		1,989	
Labour			2,500	**(1)**							4,489	
Fixed OHs			236								4,725	
				(1)								
Variable OHs			875								5,600	
Closing WIP					20		480	**(1)**	175		5,120	
Normal Loss					5	4	20	**(1)**	170	30	5,100	
Finished Goods					160	30*	4,800	***(2)**	10	30	300	
Abnormal Loss					10	30*	300		0	0	0·00	✓

Abnormal Loss Account ✓

	DR				CR				BALANCE			
	QTY	CPU	Value		QTY	CPU	Value		QTY	CPU	Value	
From Process 2	10	30	300	**(1)**					10	30	300	
C&CE					10	4	40	✓			260	
Income Statement							260	**(1)**			0	

Account Names, Running Balance and no arithmetical errors in balance column (1)

Max mark: **12**

Additional guidance:

If complete reversal, award half marks

If nomenclature error, do not award mark on first occasion

If any quantity is entered other than materials, do not award mark

If CPU is calculated correctly and applied to both Finished Goods and Abnormal Loss but Balance is incorrect, award **1 mark**

Question			Expected answer(s)	Max mark	Additional guidance
		(ii)	Cost per Kg = £30·00 Profit Margin = 40% = (30·00 x 4)/6 = £20·00 **Selling Price = £30·00 + £20·00 = £50·00 (2)**	2	
4	(a)		**Production Budget (for the 6 months July to December Year 2)** ✓	5	*award **1 mark** for the heading and Sales row **1 mark** for correct July opening and Dec closing. **2 marks** for Deducting Opening Inventory AND Adding Closing Inventory

Production Budget table:

	July	Aug	Sep	Oct	Nov	Dec	Marks
Cash Sales	1,000	1,200	800	700	600	700	
Credit Sales	3,000	3,400	4,000	5,000	5,400	5,300	
Sales	4,000	4,600	4,800	5,700	6,000	6,000	*1
Less Opening Inventory	200**	240	160	140	120	140	1 both rows
	3,800	4,360	4,640	5,560	5,880	5,860	
Add Closing Inventory	240	160	140	120	140	400 (1)**	
PRODUCTION	4,040	4,520	4,780	5,680	6,020	6,260	(2)

Question			Expected answer(s)	Max mark	Additional guidance
	(b)		Cash Budget for 2 months October to November Year 2 ✓	15	

	October	Marks	November	Marks
Opening Balance ✓	20,000	✓	50,250	
ADD RECEIPTS ✓				
Cash Sales	17,500		15,000	**(1)**
Credit Sales 1 Month	76,800	**(1)**	96,000	**(1)**
Credit Sales 2 Months	16,150	**(1)**	19,000	**(1)**
Proceeds – Sale of Machinery	19,500	**(2)**		
TOTAL RECEIPTS	129,950		130,000	
LESS PAYMENTS ✓				
Raw Materials	48,160	**(1)**	50,080	**(1)**
Labour	28,400		30,100	**(1)**
Bonus			1,360	**(1)**
Variable Overheads	14,340		17,040	**(1)**
Fixed Overheads	2,000		2,000	**(1)**
Selling Expenses	6,800		8,000	**(1)**
TOTAL PAYMENTS	99,700		108,580	
CLOSING BALANCE ✓	50,250		71,670	✓

Additional guidance: If Cash Discount shown, do not award Credit Sales (1 month) for both months

If Bad Debts shown, do not award Credit Sales (2 months) for both months

Heading, labels, layout, opening and closing balance (1)

[END OF MARKING INSTRUCTIONS]