



National
Qualifications
2023

2023 Accounting

Advanced Higher

Finalised Marking Instructions

© Scottish Qualifications Authority 2023

These marking instructions have been prepared by examination teams for use by SQA appointed markers when marking external course assessments.

The information in this document may be reproduced in support of SQA qualifications only on a non-commercial basis. If it is reproduced, SQA must be clearly acknowledged as the source. If it is to be reproduced for any other purpose, written permission must be obtained from permissions@sqa.org.uk.

General marking principles for Advanced Higher Accounting

Always apply these general principles. Use them in conjunction with the detailed marking instructions, which identify the key features required in candidates' responses.

- (a) Always use positive marking. This means candidates accumulate marks for the demonstration of relevant skills, knowledge and understanding; marks are not deducted for errors or omissions.
- (b) If a 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.
- (c) Always follow through consequentiality subsequent to a calculative error and give credit for any errors in subsequent calculations or working.
- (d) Mark scored out or erased working which has not been replaced where still legible. However, if the scored out or erased working has been replaced, mark only the work which has not been scored out.
- (e) For **describe** questions, 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
- award **1 mark** for each relevant factual point
 - award **1 mark** for any further development of a relevant point, including exemplification when appropriate.
- (f) For **explain** questions, candidates must make accurate relevant points that relate cause and effect and/or make relationships clear. These points may relate to a concept, process or situation. Candidates may provide straightforward points of explanation or a smaller number of developed points, or a combination of these.
Up to the total mark allocation for this question
- award **1 mark** for each relevant point of explanation
 - award **1 mark** for any further development of a relevant point, including exemplification when appropriate.
- (g) For **justify** questions, candidates must give good reasons for a cause of action or decision.
Up to the total mark allocation for this question
- award **1 mark** for each relevant statement or opinion
 - award marks for any further development of a relevant statement or opinion.
- (h) For **analyse** questions, candidates must demonstrate their ability to identify, describe and explain relevant parts and the relationships between the parts and/or the whole. Candidates must be able to draw out and relate any implications and/or analyse data.
Up to the total mark allocation for this question
- award **1 mark** for each relevant point of analysis
 - award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (i) For **discuss** questions, candidates must make points that communicate issues, ideas or information about a given topic or context that make a case for and/or against. Candidates do not always need to give both sides of the debate in their response.

Up to the total mark allocation for this question

- award **1 mark** for each accurate point of knowledge that is clearly relevant
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (j) For **compare** questions, candidates must demonstrate knowledge and understanding of the similarities and/or differences between, for example, things, methods or choices. Candidates may include relevant theoretical concepts in their points.

Up to the total mark allocation for this question

- award **1 mark** for each accurate point of analysis
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (k) For **evaluate** questions, candidates must demonstrate knowledge and understanding of the similarities and/or differences between, for example, things, methods or choices. Candidates may include relevant theoretical concepts in their points.

Up to the total mark allocation for this question

- award **1 mark** for each accurate point of evaluation
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

- (l) For **outline** questions, 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

- award **1 mark** for each accurate statement

Marking instructions for each question

Section 1

Question			Expected response(s)	Max mark	Additional guidance
1.	(a)	(i)	Preference Dividend $10\% \text{ of } 50 = 5$ (1)	1	Ordinary Dividend is consequential on the answer to (a) (i).
		(ii)	Ordinary Dividend $40 - 5 = 35$ (1)	1	

Question	Expected response(s)	Max mark	Additional guidance																																																																																																												
(b)	<p>Statement of Cash Flows for Fine Tech plc for year ended 31 December Year 6</p> <table border="0"> <thead> <tr> <th style="text-align: left;"><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></th> <th style="text-align: right;">£m</th> <th style="text-align: right;">£m</th> <th style="text-align: right;">Marks</th> </tr> </thead> <tbody> <tr> <td>Operating profit</td> <td style="text-align: right;">89</td> <td></td> <td style="text-align: right;">(3)</td> </tr> <tr> <td>Adjustments for:</td> <td></td> <td></td> <td></td> </tr> <tr> <td> Depreciation</td> <td style="text-align: right;">63</td> <td></td> <td style="text-align: right;">(3)</td> </tr> <tr> <td> Loss on disposal of Plant</td> <td style="text-align: right;">6</td> <td></td> <td style="text-align: right;">(2)</td> </tr> <tr> <td> Gain on disposal of Investments</td> <td style="text-align: right;">-9</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Operating cash flow before working equity changes</td> <td style="text-align: right;">149</td> <td></td> <td></td> </tr> <tr> <td>Decrease in inventory</td> <td style="text-align: right;">3</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Increase in trade receivables</td> <td style="text-align: right;">-7</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Increase in other payables</td> <td style="text-align: right;">4</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Decrease in trade payables</td> <td style="text-align: right;">-5</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Cash generated from operations</td> <td style="text-align: right;">144</td> <td></td> <td></td> </tr> <tr> <td>Taxation paid</td> <td style="text-align: right;">-10</td> <td></td> <td style="text-align: right;">(4)</td> </tr> <tr> <td>Interest paid</td> <td style="text-align: right;">-6</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Net cash from operating activities</td> <td></td> <td style="text-align: right;">128</td> <td></td> </tr> <tr> <td colspan="4"> <u>CASH FLOWS FROM INVESTING ACTIVITIES</u></td> </tr> <tr> <td>Proceeds from sale of Non-Current Assets</td> <td style="text-align: right;">92</td> <td></td> <td style="text-align: right;">(3)</td> </tr> <tr> <td>Purchase of Non-Current Assets</td> <td style="text-align: right;">-224</td> <td></td> <td style="text-align: right;">(5)</td> </tr> <tr> <td>Net cash used in investing activities</td> <td></td> <td style="text-align: right;">-132</td> <td></td> </tr> <tr> <td colspan="4"> <u>CASH FLOWS FROM FINANCING ACTIVITIES</u></td> </tr> <tr> <td>Debenture Redemption</td> <td style="text-align: right;">-20</td> <td></td> <td style="text-align: right;">(2)*</td> </tr> <tr> <td>Proceeds from issue of ordinary shares</td> <td style="text-align: right;">30</td> <td></td> <td style="text-align: right;">(2)</td> </tr> <tr> <td>Redemption of Preference Shares</td> <td style="text-align: right;">-10</td> <td></td> <td style="text-align: right;">(2)</td> </tr> <tr> <td>Share Premium</td> <td style="text-align: right;">5</td> <td></td> <td style="text-align: right;">(2)</td> </tr> <tr> <td>Dividend paid</td> <td style="text-align: right;">-40</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Net cash used in financing activities</td> <td></td> <td style="text-align: right;">-35</td> <td></td> </tr> <tr> <td>Net decrease in cash and cash equivalents</td> <td></td> <td style="text-align: right;">-39</td> <td style="text-align: right;">(1)</td> </tr> </tbody> </table>	<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	£m	£m	Marks	Operating profit	89		(3)	Adjustments for:				Depreciation	63		(3)	Loss on disposal of Plant	6		(2)	Gain on disposal of Investments	-9		(1)	Operating cash flow before working equity changes	149			Decrease in inventory	3		(1)	Increase in trade receivables	-7		(1)	Increase in other payables	4		(1)	Decrease in trade payables	-5		(1)	Cash generated from operations	144			Taxation paid	-10		(4)	Interest paid	-6		(1)	Net cash from operating activities		128		 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				Proceeds from sale of Non-Current Assets	92		(3)	Purchase of Non-Current Assets	-224		(5)	Net cash used in investing activities		-132		 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>				Debenture Redemption	-20		(2)*	Proceeds from issue of ordinary shares	30		(2)	Redemption of Preference Shares	-10		(2)	Share Premium	5		(2)	Dividend paid	-40		(1)	Net cash used in financing activities		-35		Net decrease in cash and cash equivalents		-39	(1)	36	<p>Must be correct effect for entry marks to be awarded.</p> <p>Items in wrong section: Award marks for correct calculations (where applicable). Do not award entry mark (where applicable).</p> <p>Items repeated in different sections apply +/- rule.</p> <p>Financing Activities (other than divs) - 1 each for calcs, 1 each for entries.</p> <p>Issue of Ordinary Share Equity and Share Premium can be combined for 35 for 4 marks.</p> <p>Dividends paid may be shown separately. (35+5)</p> <p>Final mark is for correct arithmetic throughout the statement, no extraneous (eg Overdraft) and correct consequential total.</p> <p>* 1 mark for correct calculation; 1 mark for correct entry/treatment. Apply to all Financing activities worth 2 marks.</p>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	£m	£m	Marks																																																																																																												
Operating profit	89		(3)																																																																																																												
Adjustments for:																																																																																																															
Depreciation	63		(3)																																																																																																												
Loss on disposal of Plant	6		(2)																																																																																																												
Gain on disposal of Investments	-9		(1)																																																																																																												
Operating cash flow before working equity changes	149																																																																																																														
Decrease in inventory	3		(1)																																																																																																												
Increase in trade receivables	-7		(1)																																																																																																												
Increase in other payables	4		(1)																																																																																																												
Decrease in trade payables	-5		(1)																																																																																																												
Cash generated from operations	144																																																																																																														
Taxation paid	-10		(4)																																																																																																												
Interest paid	-6		(1)																																																																																																												
Net cash from operating activities		128																																																																																																													
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>																																																																																																															
Proceeds from sale of Non-Current Assets	92		(3)																																																																																																												
Purchase of Non-Current Assets	-224		(5)																																																																																																												
Net cash used in investing activities		-132																																																																																																													
 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>																																																																																																															
Debenture Redemption	-20		(2)*																																																																																																												
Proceeds from issue of ordinary shares	30		(2)																																																																																																												
Redemption of Preference Shares	-10		(2)																																																																																																												
Share Premium	5		(2)																																																																																																												
Dividend paid	-40		(1)																																																																																																												
Net cash used in financing activities		-35																																																																																																													
Net decrease in cash and cash equivalents		-39	(1)																																																																																																												

Question	Expected response(s)	Max mark	Additional guidance												
	<p>Workings:</p> <p>Operating Profit</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Profit for the Year</td> <td style="text-align: right;">64</td> <td></td> </tr> <tr> <td>Debenture Interest (10% of 60)</td> <td style="text-align: right;">6</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Corporation Tax</td> <td style="text-align: right;">19</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">89</td> <td style="text-align: right;">(1) For entry</td> </tr> </table> <p>Depreciation</p> <p>Dep on plant sold (65-34) = 31¹</p> <p>Adjusted Year 5 Dep (60-31) = 29¹</p> <p>Year 6 Dep (92-29) = 63¹ (3)</p> <p>Loss on Disposal of Plant</p> <p>(34-28) = 6¹</p> <p>Correct Treatment¹ (2)</p> <p>Tax Paid</p> <p>(23¹ + 19¹ - 32¹) = 10¹ for entry (4)</p> <p>Proceeds from sale of assets</p> <p>(55+9) = 64¹ + 28¹ = 92¹ for entry (3)</p> <p>Purchase of Assets</p> <p>Adjusted Year 5 Plant (300-65) = 235¹</p> <p>380-235 = 145¹</p> <p>Adjusted Year 5 Investments (115-55) = 60¹</p> <p>139-60 = 79¹</p> <p>145+79 = 224¹ for entry (5)</p>	Profit for the Year	64		Debenture Interest (10% of 60)	6	(1)	Corporation Tax	19	(1)		89	(1) For entry		Award entry marks consequentially, only where calculation of figure is shown for consideration.
Profit for the Year	64														
Debenture Interest (10% of 60)	6	(1)													
Corporation Tax	19	(1)													
	89	(1) For entry													

Question		Expected response(s)	Max mark	Additional guidance
	(c)	<p>Statement of Retained Earnings (SORE)</p> <ul style="list-style-type: none"> • A financial statement outlining the changes in retained earnings for a specified period. • Retained earnings are the portion of a company's income that management retains for internal operations instead of paying it to owners in form of dividends. • Prepared in accordance with generally accepted accounting principles (GAAP) and is underpinned by the recommendations contained within IAS 1. • Reconciles the beginning and ending retained earnings for the period, using information such as profit for the year from the other financial statements. • Calculated by adding profit for the year and subtracting dividends from the balance of retained earnings at the beginning of the period. 	2	<p>Any 2 for 1 mark each.</p> <p>Accept any other reasonable answer.</p>

Question		Expected response (s)	Max mark	Additional guidance
2. PART A				
(a)	(i)	<p>Total Material Cost Variance</p> <p>$(35,000 \text{ kgs} / 20,000 \text{ units}) \times 22,000 \text{ units} = 38,500 \text{ kgs (1)}$</p> <p>$(38,500 \text{ kgs} \times \text{£}5.00) - \text{£}183,150 = \text{£}9,350 \text{ F (1)}$</p> <p>Material Usage Variance</p> <p>$(38,500 \text{ kg} - 37,000) \times \text{£}5.00 = \text{£}7,500 \text{ F (1)}$</p> <p>Material Price Variance</p> <p>$\text{£}183,150 / 37,000 \text{ kgs} = \text{£}4.95 \text{ (1)}$</p> <p>$(\text{£}5.00 - \text{£}4.95) \times 37,000 \text{ kgs} = \text{£}1,850 \text{ F (1)}$</p> <p>Correct identification of ALL variances as F/A (1)</p>	6	If standard quantities for actual output incorrectly calculated, do not award (DNA) calculation mark. Accept declaration of variances consequential to this calculation.

Question	Expected response (s)	Max mark	Additional guidance
(ii)	<p>Labour Cost Variance $(76,000 \text{ hours}/20,000 \text{ units}) \times 22,000 \text{ units} = 83,600 \text{ hours (1)}$ $(83,600 \text{ hours} \times \text{£}9.50) - \text{£}783,100 = \text{£}11,100 \text{ F (1)}$</p> <p>Labour Efficiency Variance $(83,600 \text{ hours} - 82,000 \text{ hrs}) \times \text{£}9.50 = \text{£}15,200 \text{ F (1)}$</p> <p>Labour Rate Variance $\text{£}783,100/82,000 \text{ hours} = \text{£}9.55 \text{ (1)}$ $(\text{£}9.50 - \text{£}9.55) \times 82,000 = \text{£}4,100 \text{ A (1)}$ Correct identification of ALL variances as F/A (1)</p>	6	If standard quantities for actual output incorrectly calculated, DNA calculation mark. Accept declaration of variances consequential to this calculation.
(iii)	<p>Variable OH Efficiency Variance $\text{£}273,600/76,000 \text{ hours} = \text{£}3.60 \text{ (1)}$ $(83,600 \text{ hours} - 82,000 \text{ hours}) \times \text{£}3.60 = \text{£}5,760 \text{ F (1)}$</p> <p>Variable OH Expenditure Variance $(\text{£}3.60 \times 82,000 \text{ hours}) - \text{£}299,000 = \text{£}3,800 \text{ A (1)}$</p> <p>Fixed OH Volume Variance $(\text{£}190,000/20,000 \text{ units}) = \text{£}9.50 \text{ (1)}$ $(22,000 - 20,000) \times \text{£}9.50 = \text{£}19,000 \text{ F (1)}$</p> <p>Fixed OH Expenditure Variance $\text{£}190,000 - \text{£}197,500 = \text{£}7,500 \text{ A (1)}$ Correct identification of ALL variances as F/A (1)</p>	7	If standard quantities for actual output incorrectly calculated, DNA calculation mark. The same rule applies for calculation of overhead absorption rates. Accept declaration of variances consequential to this calculation. Answers consequential on (a) (ii)

Question		Expected response (s)	Max mark	Additional guidance
	(b) (i)	<p>Standard Quantity: $(35,000 \text{ kgs}/20,000 \text{ units}) \times 24,000 \text{ units} = 42,000 \text{ kgs}$ (1)</p> <p>Material Usage Variance = $(\text{Standard Quantity} - \text{Actual Quantity}) \times \text{Standard Price}$</p> <p>Actual Quantity = $\text{Standard Quantity} + \frac{\text{Material Usage Variance}}{\text{Standard Price}}$</p> <p>$\text{£}5,000/\text{£}5 = 1,000 \text{ kgs}$ (1)</p> <p>$1,000 \text{ kgs} + 42,000 \text{ kgs} = 43,000 \text{ kgs}$ (1)</p>	3	
	(ii)	<p>Material Price Variance = $(\text{Standard Price} - \text{Actual Price}) \times \text{Actual Quantity}$</p> <p>Actual Price = $\text{Standard Price} - \frac{\text{Material Price Variance}}{\text{Actual Quantity}}$</p> <p>$\text{£}8,600 / 43,000 \text{ kgs} = \text{£}0.20$ (1)</p> <p>$\text{£}5.00 - \text{£}0.20 = \text{£}4.80$ (1)</p> <p>OR</p> <p>$(43,000 \text{ kgs} \times \text{£}5.00) - \text{£}8,600 = \text{£}206,400$ (1)</p> <p>$\text{£}206,400/43,000 \text{ kgs} = \text{£}4.80$ (1)</p> <p>OR</p> <p>$(\text{£}42,000 \times \text{£}5.00) + \text{£}5,000 - \text{£}8,600 = \text{£}206,400$ (1)</p> <p>$\text{£}206,400/43,000 \text{ kgs} = \text{£}4.80$ (1)</p>	2	Answer is consequential on (b) (i)
	(iii)	$\text{£}6,900 - (-\text{£}4,500) = \text{£}11,400 \text{ F}$ (1)	1	
	(iv)	<p>Standard Hours: $(76,000 \text{ hours}/20,000 \text{ units}) \times 24,000 \text{ units} = 91,200 \text{ hours}$ (1)</p> <p>Total Labour Cost Variance = $(\text{Standard Rate} \times \text{Standard Hours}) - \text{Actual Labour Cost}$</p> <p>Actual Labour Cost = $(\text{Standard Rate} \times \text{Standard Hours}) - \text{Total Labour Cost Variance}$</p> <p>$91,200 \times \text{£}9.50 = \text{£}866,400$ (1)</p> <p>$\text{£}866,400 - \text{£}6,900 = \text{£}859,500$ (1)</p>	3	

Question		Expected response (s)	Max mark	Additional guidance
	(c)	<ul style="list-style-type: none"> • There may have been a favourable Material Price Variance due to poorer quality material being used (ID) which may have resulted in a high wastage level (EXP). 	1	<p>Award 1 mark for any relevant point.</p> <p>Accept any other reasonable answer.</p>
	(d)	<ul style="list-style-type: none"> • Hiring better grades of worker who cost more • The minimum wage increases • Increased pay due to trade union negotiations • Overtime needing to be paid because of delays • Unexpected bonuses being paid • Shortage of labour driving wage rate up 	1	<p>Award 1 mark for any relevant point.</p> <p>Accept any other reasonable answer.</p>

Question	Expected response(s)	Max mark	Additional guidance																																													
2. PART B																																																
	<p data-bbox="342 260 981 288">Flexible Budget Statement for Month 6 of Year 3</p> <p data-bbox="342 328 853 357">Maximum Output (100%) - 60,000 units</p> <table border="1" data-bbox="342 395 1525 786"> <thead> <tr> <th>Level of Production</th> <th>80%</th> <th>Marks</th> <th>90%</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>Units</td> <td>48,000</td> <td></td> <td>54,000</td> <td></td> </tr> <tr> <td>Raw Materials:</td> <td>£</td> <td></td> <td>£</td> <td></td> </tr> <tr> <td>X</td> <td>57,600</td> <td>(1)</td> <td>64,800</td> <td>(1)</td> </tr> <tr> <td>Y</td> <td>4,800</td> <td>(1)</td> <td>5,400</td> <td>(1)</td> </tr> <tr> <td>Direct Labour</td> <td>120,000</td> <td>(1)</td> <td>135,000</td> <td>(1)</td> </tr> <tr> <td>Maintenance</td> <td>17,000</td> <td>(1)</td> <td>18,500</td> <td>(1 for fixed element; 1 for correct variable element)</td> </tr> <tr> <td>Other Fixed Costs</td> <td>16,000</td> <td></td> <td>16,000</td> <td>(1 for both)</td> </tr> <tr> <td>Total</td> <td>215,400</td> <td></td> <td>239,700</td> <td></td> </tr> </tbody> </table> <p data-bbox="342 823 869 852">Detailed workings with mark allocation:</p> <p data-bbox="342 890 483 919">Material X</p> <p data-bbox="342 925 949 954">(8,000kg/40,000 units x £6 per kg) = £1.20 (1)</p> <p data-bbox="342 960 837 989">@80%: £1.20 x 48,000 units = £57,600</p> <p data-bbox="342 995 994 1024">@90%: £1.20 per kg x 54,000 = £64,800 (1) (both)</p> <p data-bbox="342 1062 483 1091">Material Y</p> <p data-bbox="342 1098 680 1126">(8,000 kg/4kg) = 2,000 kg</p> <p data-bbox="342 1133 958 1161">(2,000 kg/40,000 units x £2 per kg) = £0.10 (1)</p> <p data-bbox="342 1168 819 1197">@80%: £0.10 x 48,000 units = £4,800</p> <p data-bbox="342 1203 958 1232">@90%: £0.10 x 54,000 units = £5,400 (1) (both)</p>	Level of Production	80%	Marks	90%	Marks	Units	48,000		54,000		Raw Materials:	£		£		X	57,600	(1)	64,800	(1)	Y	4,800	(1)	5,400	(1)	Direct Labour	120,000	(1)	135,000	(1)	Maintenance	17,000	(1)	18,500	(1 for fixed element; 1 for correct variable element)	Other Fixed Costs	16,000		16,000	(1 for both)	Total	215,400		239,700		10	<p data-bbox="1677 260 2092 461">If candidate incorrectly calculates the 80% & 90% units, do not award first mark, then award mark for the 90% output if the responses are consequentially correct.</p> <p data-bbox="1677 499 2056 598">Award Maintenance marks (fixed/variable) as shown, if presented on separate lines.</p> <p data-bbox="1677 636 2045 700">Arithmetic error - DNA final mark awarded.</p>
Level of Production	80%	Marks	90%	Marks																																												
Units	48,000		54,000																																													
Raw Materials:	£		£																																													
X	57,600	(1)	64,800	(1)																																												
Y	4,800	(1)	5,400	(1)																																												
Direct Labour	120,000	(1)	135,000	(1)																																												
Maintenance	17,000	(1)	18,500	(1 for fixed element; 1 for correct variable element)																																												
Other Fixed Costs	16,000		16,000	(1 for both)																																												
Total	215,400		239,700																																													

Question	Expected response(s)	Max mark	Additional guidance
	<p>Direct Labour (10,000 hours / 40,000 units x £10 per hour) = £2.50 (1) @80%: £2.50 x 48,000 units = £120,000 @90%: £2.50 per hour x 54,000 units = £135,000 (1) (both)</p> <p>Maintenance (£15,000-£5,000 1)/40,000 units = £0.25 (1) @80%: (£0.25 x 48,000 = £12,000) + £5,000 = £17,000 @90%: (£0.25 x 54,000) + £5,000 = £18,500 (1) (both)</p>		

Section 2

Question			Expected response(s)	Max mark	Additional guidance
3.	(a)	(i)	Goodwill Shares bought: $(80\% \times \text{£}100,000) \times \text{£}2 = \text{£}160,000$ (1) Value of Company bought = $80\% \times \text{£}119,600 = \text{£}95,680$ (1) Goodwill = $\text{£}160,000 - \text{£}95,680 = \text{£}64,320$ (1)	3	
		(ii)	NCI = $\text{£}119,600 \times 20\% = \text{£}23,920$ (1)	1	
	(b)	(i)	Post-acquisition profits = $(\text{£}13,640 - \text{£}9,600)$ (1) $\times 80\%$ (1) = $\text{£}3,232$	2	
		(ii)	NCI post-acquisition = $\text{£}123,640 \times 20\% = \text{£}24,728$ (1)	1	
		(iii)	Cash in transit Current Account (Napier) $\text{£}6,000$ Current Account (Duffy) $\text{£}4,500$ Cash in transit $\text{£}1,500$ (1)	1	
		(iv)	Retained earnings Opening Retained Earnings $\text{£}171,900$ Add post-acquisition profit $\text{£}3,232$ (1) Less Goodwill impairment $(\text{£}14,304)$ (1) At end $\text{£}160,828$	2	

Question	Expected response(s)	Max mark	Additional guidance																																																																																																
(c)	<p data-bbox="360 204 1435 272">Napier and Duffy Group: Consolidated Statement of Financial Position as at 30 September Year 3</p> <table border="1" data-bbox="360 304 1464 1337"> <thead> <tr> <th></th> <th>£</th> <th>£</th> <th></th> </tr> </thead> <tbody> <tr> <td>Non-current assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Tangible</td> <td></td> <td>1,022,300</td> <td>(1)</td> </tr> <tr> <td>Intangible: Goodwill (64,320-14,304)</td> <td></td> <td>50,016</td> <td>(1)</td> </tr> <tr> <td></td> <td></td> <td>1,072,316</td> <td></td> </tr> <tr> <td>Current Assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Inventories (11,800+6,400)</td> <td>18,200</td> <td></td> <td>(1)</td> </tr> <tr> <td>Trade receivables (11,200+10,480)</td> <td>21,680</td> <td></td> <td>(1)</td> </tr> <tr> <td>Cash and cash equivalents (17,600-1,440 (1) +1,500 (1))</td> <td>17,660</td> <td></td> <td>(2)</td> </tr> <tr> <td></td> <td></td> <td>57,540</td> <td></td> </tr> <tr> <td>TOTAL ASSETS</td> <td></td> <td>1,129,856</td> <td></td> </tr> <tr> <td>Current Liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Trade payables (6,000+7,000)</td> <td>13,000</td> <td></td> <td>(1)</td> </tr> <tr> <td>Other payables (1,000+300)</td> <td>1,300</td> <td></td> <td>(1)</td> </tr> <tr> <td></td> <td>14,300</td> <td></td> <td></td> </tr> <tr> <td>Non-current liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Debentures (30,000+20,000)</td> <td>50,000</td> <td></td> <td>(1)</td> </tr> <tr> <td>TOTAL LIABILITIES</td> <td></td> <td>64,300</td> <td></td> </tr> <tr> <td>NET ASSETS</td> <td></td> <td>1,065,556</td> <td></td> </tr> <tr> <td>Equity and reserves</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Ordinary shares</td> <td>800,000</td> <td></td> <td>(1)</td> </tr> <tr> <td>Share premium</td> <td>80,000</td> <td></td> <td>(1)</td> </tr> <tr> <td>Retained earnings</td> <td>160,828</td> <td></td> <td>(1)</td> </tr> <tr> <td>NCI</td> <td>24,728</td> <td>1,065,556</td> <td>(1)</td> </tr> </tbody> </table> <p data-bbox="360 1361 1025 1458">1 mark for labels and heading (L) (marked in bold) 1 mark for arithmetic accuracy (A) 1 mark for no extraneous entries (E)</p>		£	£		Non-current assets				Tangible		1,022,300	(1)	Intangible: Goodwill (64,320-14,304)		50,016	(1)			1,072,316		Current Assets				Inventories (11,800+6,400)	18,200		(1)	Trade receivables (11,200+10,480)	21,680		(1)	Cash and cash equivalents (17,600-1,440 (1) +1,500 (1))	17,660		(2)			57,540		TOTAL ASSETS		1,129,856		Current Liabilities				Trade payables (6,000+7,000)	13,000		(1)	Other payables (1,000+300)	1,300		(1)		14,300			Non-current liabilities				Debentures (30,000+20,000)	50,000		(1)	TOTAL LIABILITIES		64,300		NET ASSETS		1,065,556		Equity and reserves				Ordinary shares	800,000		(1)	Share premium	80,000		(1)	Retained earnings	160,828		(1)	NCI	24,728	1,065,556	(1)	16	Be aware of consequentiality throughout the question.
	£	£																																																																																																	
Non-current assets																																																																																																			
Tangible		1,022,300	(1)																																																																																																
Intangible: Goodwill (64,320-14,304)		50,016	(1)																																																																																																
		1,072,316																																																																																																	
Current Assets																																																																																																			
Inventories (11,800+6,400)	18,200		(1)																																																																																																
Trade receivables (11,200+10,480)	21,680		(1)																																																																																																
Cash and cash equivalents (17,600-1,440 (1) +1,500 (1))	17,660		(2)																																																																																																
		57,540																																																																																																	
TOTAL ASSETS		1,129,856																																																																																																	
Current Liabilities																																																																																																			
Trade payables (6,000+7,000)	13,000		(1)																																																																																																
Other payables (1,000+300)	1,300		(1)																																																																																																
	14,300																																																																																																		
Non-current liabilities																																																																																																			
Debentures (30,000+20,000)	50,000		(1)																																																																																																
TOTAL LIABILITIES		64,300																																																																																																	
NET ASSETS		1,065,556																																																																																																	
Equity and reserves																																																																																																			
Ordinary shares	800,000		(1)																																																																																																
Share premium	80,000		(1)																																																																																																
Retained earnings	160,828		(1)																																																																																																
NCI	24,728	1,065,556	(1)																																																																																																

Question			Expected response(s)	Max mark	Additional guidance
	(d)	(i)	<p>The purpose of carrying out an impairment review of Goodwill is to:</p> <ul style="list-style-type: none"> • provide a true and fair view of the company's value • reduce the risk of overstating the value of the company • gradually remove the intangible asset from the Statement of Financial Position 	1	<p>Award 1 mark for any relevant point.</p> <p>Accept any other reasonable answer.</p>
		(ii)	<p>Unrealised profits occur when goods sold between parent and subsidiary remain unsold and retained within the group.</p>	1	<p>Award 1 mark for any relevant point.</p> <p>Accept any other reasonable description/definition.</p>
		(iii)	<p>The process for dealing with unrealised profits is:</p> <ol style="list-style-type: none"> 1. Deduct the value of unrealised profits from the consolidated inventory figure 2. Deduct the value of unrealised profits from the retained earnings calculation 	2	

Question		Expected response(s)	Max mark	Additional guidance																																																														
4.	(a)	<p>Marginal Costing Profit Statement - Year 4</p> <table> <tr> <td>Sales</td> <td></td> <td>£852,500</td> <td>(1)</td> </tr> <tr> <td>Op Inventory</td> <td>£145,200</td> <td></td> <td>(2*)</td> </tr> <tr> <td>Material</td> <td>£126,000</td> <td></td> <td>(1)</td> </tr> <tr> <td>Labour</td> <td>£360,000</td> <td></td> <td>(1)</td> </tr> <tr> <td>Var OH</td> <td><u>£108,000</u></td> <td></td> <td>(1)</td> </tr> <tr> <td></td> <td>£739,200</td> <td></td> <td></td> </tr> <tr> <td>Cl Inventory</td> <td><u>£227,700</u></td> <td></td> <td>(3*)</td> </tr> <tr> <td>Production Costs</td> <td></td> <td><u>£511,500</u></td> <td></td> </tr> <tr> <td>Contribution</td> <td></td> <td>£341,000</td> <td>(1)</td> </tr> <tr> <td>Fixed Costs</td> <td></td> <td><u>£108,000</u></td> <td>(1)</td> </tr> <tr> <td>Profit</td> <td></td> <td>£233,000</td> <td>(1)</td> </tr> </table> <p><u>*Workings:</u></p> <p>Opening Inventory</p> <table> <tr> <td>Material</td> <td>£7</td> </tr> <tr> <td>Labour (2*10)</td> <td>£20</td> </tr> <tr> <td>Var OH (2*3)</td> <td><u>£6</u></td> </tr> <tr> <td></td> <td>£33 (1) x 4,400 (1) = £145,200</td> </tr> </table> <p>Closing Inventory</p> <table> <tr> <td>Op Inventory</td> <td>4,400</td> </tr> <tr> <td>Production</td> <td><u>+18,000</u> (1)</td> </tr> <tr> <td></td> <td>22,400</td> </tr> <tr> <td>Sales</td> <td><u>-15,500</u> (1)</td> </tr> <tr> <td></td> <td>6,900 x £33 (1) = 227,700</td> </tr> </table>	Sales		£852,500	(1)	Op Inventory	£145,200		(2*)	Material	£126,000		(1)	Labour	£360,000		(1)	Var OH	<u>£108,000</u>		(1)		£739,200			Cl Inventory	<u>£227,700</u>		(3*)	Production Costs		<u>£511,500</u>		Contribution		£341,000	(1)	Fixed Costs		<u>£108,000</u>	(1)	Profit		£233,000	(1)	Material	£7	Labour (2*10)	£20	Var OH (2*3)	<u>£6</u>		£33 (1) x 4,400 (1) = £145,200	Op Inventory	4,400	Production	<u>+18,000</u> (1)		22,400	Sales	<u>-15,500</u> (1)		6,900 x £33 (1) = 227,700	12	<p>Award 3 marks of variable costs correctly calculated (£594,000) and shown as single figure; wrong figure without supporting notes - no award.</p> <p>Profit mark is for having all arithmetic correct and no deviation from established layout/procedure.</p> <p>Contribution MUST be labelled to gain the mark.</p>
Sales		£852,500	(1)																																																															
Op Inventory	£145,200		(2*)																																																															
Material	£126,000		(1)																																																															
Labour	£360,000		(1)																																																															
Var OH	<u>£108,000</u>		(1)																																																															
	£739,200																																																																	
Cl Inventory	<u>£227,700</u>		(3*)																																																															
Production Costs		<u>£511,500</u>																																																																
Contribution		£341,000	(1)																																																															
Fixed Costs		<u>£108,000</u>	(1)																																																															
Profit		£233,000	(1)																																																															
Material	£7																																																																	
Labour (2*10)	£20																																																																	
Var OH (2*3)	<u>£6</u>																																																																	
	£33 (1) x 4,400 (1) = £145,200																																																																	
Op Inventory	4,400																																																																	
Production	<u>+18,000</u> (1)																																																																	
	22,400																																																																	
Sales	<u>-15,500</u> (1)																																																																	
	6,900 x £33 (1) = 227,700																																																																	

Question		Expected response(s)	Max mark	Additional guidance																																																
(b)		<p>Opening Inventory for Year 5</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Material</td> <td style="width: 10%; text-align: right;">£7</td> <td rowspan="4" style="font-size: 3em; vertical-align: middle;">}</td> <td rowspan="4" style="vertical-align: middle;">(1 for all 3)</td> </tr> <tr> <td>Labour (2*10.50)</td> <td style="text-align: right;">£21</td> </tr> <tr> <td>Var OH (2*3)</td> <td style="text-align: right;">£6</td> </tr> <tr> <td>Fix OH (100/20)</td> <td style="text-align: right;">£5 (1)</td> </tr> <tr> <td colspan="2"></td> <td style="text-align: right;">£39</td> <td>× 6,900 (1) = £269,100</td> </tr> </table>	Material	£7	}	(1 for all 3)	Labour (2*10.50)	£21	Var OH (2*3)	£6	Fix OH (100/20)	£5 (1)			£39	× 6,900 (1) = £269,100	3																																			
Material	£7	}	(1 for all 3)																																																	
Labour (2*10.50)	£21																																																			
Var OH (2*3)	£6																																																			
Fix OH (100/20)	£5 (1)																																																			
		£39	× 6,900 (1) = £269,100																																																	
(c)		<p>Absorption Costing Profit Statement Year 5</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Sales</td> <td style="width: 20%;"></td> <td style="width: 10%; text-align: right;">£1,023,000</td> <td style="width: 10%; text-align: right;">(1)</td> </tr> <tr> <td>Op Inventory</td> <td style="text-align: right;">£269,100</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Material</td> <td style="text-align: right;">£144,900</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Labour</td> <td style="text-align: right;">£434,700</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Var OH</td> <td style="text-align: right;">£124,200</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Fixed OH</td> <td style="text-align: right;">£103,500</td> <td></td> <td style="text-align: right;">(2*)</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>£1,076,400</u></td> <td></td> <td></td> </tr> <tr> <td>Cl Inventory</td> <td style="text-align: right;"><u>£351,000</u></td> <td></td> <td style="text-align: right;">(2*)</td> </tr> <tr> <td>Production Costs</td> <td></td> <td style="text-align: right;"><u>£725,400</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">£297,600</td> <td></td> </tr> <tr> <td>Under absorbed (1)</td> <td></td> <td style="text-align: right;"><u>-£2,500</u></td> <td style="text-align: right;">(2*)</td> </tr> <tr> <td>Profit</td> <td></td> <td style="text-align: right;">£295,100</td> <td style="text-align: right;">(1)</td> </tr> </table>	Sales		£1,023,000	(1)	Op Inventory	£269,100		(1)	Material	£144,900		(1)	Labour	£434,700		(1)	Var OH	£124,200		(1)	Fixed OH	£103,500		(2*)		<u>£1,076,400</u>			Cl Inventory	<u>£351,000</u>		(2*)	Production Costs		<u>£725,400</u>				£297,600		Under absorbed (1)		<u>-£2,500</u>	(2*)	Profit		£295,100	(1)	13	<p>Award 3 marks of variable costs correctly calculated (£703,800) and shown as single figure; wrong figure without supporting notes - no award.</p> <p>Profit mark is for having all arithmetic correct</p> <p>*See workings below</p>
Sales		£1,023,000	(1)																																																	
Op Inventory	£269,100		(1)																																																	
Material	£144,900		(1)																																																	
Labour	£434,700		(1)																																																	
Var OH	£124,200		(1)																																																	
Fixed OH	£103,500		(2*)																																																	
	<u>£1,076,400</u>																																																			
Cl Inventory	<u>£351,000</u>		(2*)																																																	
Production Costs		<u>£725,400</u>																																																		
		£297,600																																																		
Under absorbed (1)		<u>-£2,500</u>	(2*)																																																	
Profit		£295,100	(1)																																																	

Question	Expected response(s)	Max mark	Additional guidance																
	<p><u>*Workings:</u></p> <p>New Sales: $15,500 \times 1.2 = 18,600$</p> <p>New Production: $18,000 \times 1.15 = 20,700$</p> <p>Fixed OH: $\text{£}5 (1) \times 20,700 (1) = \text{£}103,500$</p> <p>Closing Inventory</p> <table style="margin-left: 20px;"> <tr> <td>Op Inventory</td> <td style="text-align: right;">6,900</td> </tr> <tr> <td>Production</td> <td style="text-align: right;"><u>20,700</u></td> </tr> <tr> <td></td> <td style="text-align: right;">27,600</td> </tr> <tr> <td>Sales</td> <td style="text-align: right;"><u>18,600</u></td> </tr> <tr> <td></td> <td style="text-align: right;">9,000 (1) x £39(1) = 351,000</td> </tr> </table> <p>Over/Under Absorption</p> <table style="margin-left: 20px;"> <tr> <td>$20,700 \times 5 =$</td> <td style="text-align: right;">103,500 (1)</td> </tr> <tr> <td>$(108,000 - 2,000)$</td> <td style="text-align: right;"><u>106,000 (1)</u></td> </tr> <tr> <td></td> <td style="text-align: right;">-2,500</td> </tr> </table>	Op Inventory	6,900	Production	<u>20,700</u>		27,600	Sales	<u>18,600</u>		9,000 (1) x £39(1) = 351,000	$20,700 \times 5 =$	103,500 (1)	$(108,000 - 2,000)$	<u>106,000 (1)</u>		-2,500		
Op Inventory	6,900																		
Production	<u>20,700</u>																		
	27,600																		
Sales	<u>18,600</u>																		
	9,000 (1) x £39(1) = 351,000																		
$20,700 \times 5 =$	103,500 (1)																		
$(108,000 - 2,000)$	<u>106,000 (1)</u>																		
	-2,500																		
(d)	<ul style="list-style-type: none"> • Absorption costing treats Fixed Costs as a product cost; Marginal costing treats Fixed Costs as a period cost • Inventory values under Marginal costing tend to be lower, as they are valued only on variable cost • This leads to lower Cost of Sales and a higher profit figure 	2	<p>Any 2 for 1 mark each</p> <p>Accept the opposite explanation using Absorption Costing.</p>																

[END OF MARKING INSTRUCTIONS]