
Webinar – Accounting (Higher)

Marked candidate evidence

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Higher Accounting Theory Questions

1.	Outline three duties of a financial accountant.	3 marks
	<p>One duty of a financial accountant is to report back to the owners any effects their decisions may have on finance. This helps owners make the best decision to help their financial performance.</p> <p>Another duty is to always check the business financial documents. They should be checking for errors to ensure the documents are accurate and to reduce fraud.</p> <p>A financial accountant prepares any documents that are to be published for the public and other companies to view.</p>	3/3
	<p>One duty of a financial accountant is to prepare the periodic financial statements such as the income statement and a statement of financial position.</p> <p>Another duty of a financial accountant is to keep a record of all financial transactions to help reduce fraud within the business.</p> <p>A final duty of a financial accountant is to check the financial transaction records in order to maintain efficiency.</p>	3/3
2.	Describe the features of a public limited company with regards to ownership, control and sources of finance.	3 marks
	<p>A public limited company is owned by shareholders. The shares can be bought on the stock exchange and each shareholder has limited liability. This means if the business goes into debt they only lose the money that they invested.</p> <p>A PLC is controlled by a board of directors. They are elected by shareholders of the company and they assist in making important decisions.</p> <p>A PLC mainly gets their finance by selling shares. The shares are sold on the stock exchange and can be bought by anyone in the public.</p>	3/3
	<p>A public limited company (PLC) can get their finance by selling shares to the public which come in as equity. They can also issue debentures.</p>	1/3

3.	(i)	Describe two sources of finance <u>only</u> available to a PLC.	2 marks
		<p>One source of finance available to a PLC is leasing. This is where a business will rent assets rather than buy them. Equipment is always repaired quickly and regularly maintenance is included in the rent price. X</p> <p>Another source of finance available to a PLC is debentures. These are sold to the public as a loan X and are less risky compared to shares. Interest is paid back depending on how much profit or loss is made.</p>	$\frac{0}{2}$
		<p>one source of finance only available to a plc is debentures These are loans to the company which carry a fixed rate of interest. Another source of finance only available to a plc is shares issued by ordinary and preference shareholders.</p> <p style="text-align: right;">not described</p>	$\frac{1}{2}$
	(ii)	Describe three sources of finance available which would also be available to a partnership.	3 marks
		<p>One source of finance available to a partnership is a government grant. This is where the government will give the business money that they don't need to pay back however they must meet certain criteria. This could be having your business in a certain location.</p> <p>Another source is a bank loan. The partnership may receive a loan that needs to be paid back over a period of time. Interest may be added on.</p> <p>The partners may invest their own capital. This would be a sum of money provided by one partner when they join the business. This money doesn't need to be paid back. X</p>	$\frac{2}{3}$
		<p>one source of finance available to a plc and a partnership is loans from a partner or a shareholder. X Another source of finance available to a plc and a partnership is equity. X A final source of finance available to a plc and a partnership is goodwill. X</p>	$\frac{0}{3}$
4.		Describe two advantages of forming a plc rather than a partnership.	2 marks
		<p>(Investors become shareholders and can only lose their investment if the business goes bust. If one investor doesn't want to invest any more they can just sell their shares.) X</p>	$\frac{2}{2}$
		<p>One advantage of forming a plc rather than a partnership is that there is limited liability. X another is that it is easier to get more investment. X</p> <p style="text-align: right;">not described</p>	$\frac{0}{2}$

5.		Explain how a manufacturing profit is treated in the Financial Statements.	1 mark
		The manufacturing profit is included in the manufacturing account. It is added on to the factory cost of production to show the market value. Therefore this allows the business to see how much profit or loss was made from producing the product in case they have to make changes to how it is produced. X	%
		The manufacturing profit is the profit the business makes producing products themselves rather than buying them through another warehouse / factory. (This amount is then added to the gross profit in the income statement)	%
6.		Describe the term Equity Gearing.	1 mark
		(Equity gearing shows a business's long term debts compared to their ordinary shares. It is worked out as (preference shares + long term loans) : ordinary shares. If a highly geared business had low profits then ordinary shareholders are less likely to receive a large dividend. Therefore if a business is highly geared they know they must try selling more ordinary shares to pay off debt.	%
		Equity gearing is the proportion of debt to equity in a plc. X If the debts are a lot higher than the equity it is considered a highly geared company. If the debts are less than the equity, this would be better for shareholders as they receive the majority of the income the company makes as profits.	%
7.	(i)	Explain two uses of ratio analysis.	2 marks
		(One use of ratio analysis is to identify trends within the business and compare them to another business. Therefore this will allow a business to identify if their performance is satisfactory compared to competitors.) (Another use of ratio analysis is to identify if the business have made an improvement from previous years therefore allowing a business to know where they are doing well and if any other changes are to be made.)	2/2
		one use of ratio analysis is (to compare budgets etc to see where additional costs may be required. X This allows the business to see where to try and save in the future.) Another use of ratio analysis is (to provide more financial information to existing shareholders and potential investors which will help them to decide whether or not to invest.)	2/2

	(ii)	Explain two limitations of ratio analysis.	2 marks
		<p>(One limitation of ratio analysis is that you have to compare your ratios with a business of a similar size within the same industry.)</p> <p>(Another limitation is that different businesses may use different methods of inventory control or depreciation calculations which make comparisons invalid.)</p>	$\frac{2}{2}$
		<p>(One limitation of ratio analysis is that the account do not tell the whole story, not give any non-financial indicators such as staff turnover and ethnicity.)</p> <p>(Another limitation of ratio analysis is that the information recorded in financial statements relates to the previous time period, historical. This means it doesn't indicate the current reports of the company.)</p>	$\frac{2}{2}$
8.		Describe how a potential shareholder would make use of investment ratios.	2 marks
		<p>(A potential shareholder will compare the ratios from one year to another. They will also compare the ratios with other firms in the same industry.)</p>	$\frac{2}{2}$
		<p>(To see if the business is financially stable) and to work out their return to see if it is a good investment.</p>	$\frac{1}{2}$
9.		Explain two advantages for a management accountant of using a spreadsheet to prepare a Cash Budget.	2 marks
		<p>(One advantage of using a spreadsheet to prepare a cash budget is that calculations are completed for you. This means that all information will be accurate and correct therefore reduces financial errors for a business.)</p> <p>Another advantage of using a spreadsheet is you can use tools in the spreadsheet to help easily identify where there is a surplus or deficit therefore a business knows when and where they need to make changes.</p>	$\frac{1}{2}$
		<p>One advantage of using a spreadsheet is that the formulas allow the task / account to be completed easier and quicker. Another advantage of using a spreadsheet is that naming cells allows formula to be copied and would help the accountant by making the tasks easier.</p>	$\frac{0}{2}$

10.	Explain non-financial performance indicators of an organisation.	2 marks
	(Well trained staff which will means that the firm should be more profitable in future years) (Staff being motivated so that they will work harder if needed.)	$\frac{2}{2}$
	One non-financial indicator would be well-trained staff. Another would be the number of accidents that the firm has. not explained	$\frac{0}{2}$
11.	Outline three duties of a management accountant.	3 marks
	(One duty of the management accountant would be to prepare statements for management which detail possible spending. Another duty would be to give advice about whether to take a contract or not. A last duty would be to prepare charts for the AGM.)	$\frac{2}{3}$
	Management Accountant duties: (Prepare Cash Budgets) (Prepare financial reports about investment opportunities for management) (Advise whether to make or buy raw materials)	$\frac{3}{3}$
12.	Describe the use of weighted average (AVCO) inventory valuation.	2 marks
	(AVCO is an average purchase price which must be calculated every time goods are purchased. It is an easy and accurate way to allocate the price of raw materials for production.)	$\frac{1}{2}$
	AVCO is when the total cost of purchases is added together and divided by the number of units purchased.	$\frac{0}{2}$
13.	Describe two advantages and one disadvantage of the weighted average method of inventory control.	3 marks
	One advantage of weighted average is that it is an easy and accurate way to allocate the price of raw materials for production. Another advantage is that The accountant might make a mistake when they are working out the average price.	$\frac{0}{3}$

		<p>(It is accepted by HMRC) and it is easy to use a formula in a spreadsheet to calculate it. x</p> <p>(A disadvantage is that it needs to be recalculated after each purchase.)</p>	2/3
14.		Explain the difference between "apportionment" and "allocation" of overheads	1 mark
		<p>This is used when there are lots of different sections to a production process. For example, cutting, machining, packaging etc. If the organisation can work out how much of each overhead cost is used in each process then they will allocate the overheads, but if it is too difficult to work out how much of each overhead is used then they will apportion the overheads. x</p>	0/1
		<p>Apportionment is when every department has the same cost, but allocation is when every department has their own overhead cost. x</p>	0/1
15.		Describe the main benefits of using departmental overhead recovery rates rather than a simple factory wide recovery rate.	2 marks
		<p>Using departmental overhead rates is allocating overheads, using a factory wide overhead rate is apportioning overheads. (It is better to allocate the overheads because it is a more accurate measure of the costing for each department). ie management accountant is able to monitor the spending more accurately and can identify where costs can be saved. x</p>	1/2
		<p>Advantages of using departmental rates:</p> <p>(Each department uses different resources, therefore the overhead cost is more accurate.)</p> <p>If there was an increase in use of an overhead it would be easy to see which department the issue was with. x</p>	1/2

16.	(i)	Describe the meaning of process costing.	1 mark
		There are lots of different sections to a production process. For example, cutting, machining, packaging etc. (One process is the input to the next process this means that they are all linked so that the final product is produced.) It will allow workers to specialise in an area so should be more efficient.	1/1
		Process costing is where the organisation has lots of areas making one product. It allows the organisation to allocate overhead costs to each process so helps each area become more accountable for their own finances. X	0/1
	(ii)	In connection with process costing, distinguish between normal loss and abnormal loss.	2 marks
		(Normal Loss is eg offcuts of material that happen because templates are used, abnormal loss is eg when the material is damaged by the machine which is cutting it.)	1/2
		Normal loss is the loss the organisation knows it will make, but it is not expecting to make an abnormal loss. X	0/2
17.		With reference to process costing, outline the procedure for recording abnormal loss in the accounts of a business.	4 marks
		Abnormal loss is shown at the end of the process costing statement. It is the difference from the expected output minus normal loss and the actual output. (It is an expense in the income statement and reduces the overall profit of the organisation.)	1/4
		Abnormal loss has its own account. It has a value that is the same as the final amount of the good. It must be deducted from the profit for the year in the final accounts. X	0/4

18.	<p>Explain the uses of the following accounting systems:</p> <ul style="list-style-type: none"> ♦ Process costing ♦ Budgeting 	3 marks
	<p>18 One purpose of process costing is to help identify all costs occurred with each production process to identify the cost per unit which allows the business to set a price which gives the desired profit margin.</p> <p>Budgets are used for decision making and monitoring progress toward any objectives. This allows for action to be taken to ensure objectives will be met as well as avoiding poor cash flow.</p> <p>Budgets are used to ensure that production and sales demand marry up and that sales targets can actually be met. This allows for the appropriate production levels to be set as well as ensuring that the marketing is correct for the supply of the product.</p>	3/3
	<p>Process Costing is used in manufacturing industries where products are mass produced and have to go through various processes. This identifies the costs associated with each process allowing a cost per unit to be found.</p> <p>Budgets are used within businesses to help guide them financially towards their objectives. This keeps the business in a profitable state.</p>	1/3
19.	<p>Outline two advantages of using a spreadsheet to prepare a cash budget.</p>	2 marks
	<p>19 Using a spreadsheet allows for formulas to be used which reduces human error due to the computer carrying out all calculations.</p> <p>Another is that spreadsheets save time as templates can be used and because formulas automatically recalculate if a value gets updated.</p>	2/2
	<p>Formulas can be used to make calculations quick and easy.</p> <p>Cells can be named to allow for multiple calculations (drag over cells) to be made with correct figures.</p> <p>Calculated figures are automatically updated if a value or value cell changes.</p>	2/2

20.	Explain the purpose of preparing a cash budget.	3 marks
	<p>20. (One purpose of preparing a cash budget is that it can highlight when the business will have a surplus of cash which allows for investments to be planned around this.)</p> <p>(Another is that it can identify when the business will have a poor cash flow situation and this allows for additional cash via an overdraft or loan to be bought in to stop this from occurring.)</p> <p>(Another is that it can identify if sales are projected to fall and it allows for the business to introduce a new marketing campaign or discount offering curbing the decrease of sales.)</p>	3/3
	<p>(Cash budgets are used to discover surplus when there will be a surplus or shortage of cash in advance. This allows the business to prepare in advance and arrange a loan or bank overdraft if required.)</p>	1/3
21.	Explain three benefits of using spreadsheets when preparing a cash budget.	3 marks
	<p>21. (Using a spreadsheet allows for formulas to be used which reduces human error due to the computer carrying out all calculations this ensures that decision making will be better as it is made based on accurate data.)</p> <p>(Another is that spreadsheets save time as templates can be used and because formulas automatically recalculate if a value gets updated this means that the business will be more productive which will help reduce response times to any identified problem.)</p> <p>(Another is that if statements can be used to identify if bonuses are needed and the value of this to be calculated quicker this means that time can be saved as the required bonus level does not need to be worked out after an if statement has been set up.)</p>	3/3
	<p>(The use of formulas speeds up the process of filling in the cash budget as it saves the user making the calculation.) and multiple cells can be calculated simultaneously.</p> <p>(Naming cells used for formulae speeds up the process of filling in the cash budget as if needed multiple cells can be calculated at the same time by inputting a formula and dragging over multiple cells.)</p>	2/3

22.		Explain the meaning of the term opportunity cost.	2 marks
		<p>22. Opportunity cost is the sacrifice that has to be made between two options when budget is limited for example getting a car means that the holiday is unaffordable resulting in the cost of the car being the holiday. This allows the business to identify which option would be better after the sacrifice is taken into account resulting in better decision making and could lead to higher profits.</p>	$\frac{2}{2}$
		<p>Opportunity cost is the idea that if you have 2 options of equal value and you can only choose one, that choice has the cost of that choice is the other option. For example if you had to choose to produce product A or product B and you chose selected B, the cost of producing B would be A.</p>	$\frac{2}{2}$
23.		Explain reasons a special order may be rejected.	2 marks
		<p>23. A special order may be rejected if it does not improve the profit of the overall manufacturing after a limiting factor has been taken into account this means that the business would not accept if the order does not result in any financial gain preventing any loss of profits.</p> <p>Another is that it may have a lower unit contribution than the product that would lose manufacturing time if accepted this would result in a lower total contribution meaning that the business will be making less just based on variable cost.</p>	$\frac{2}{2}$
		<p>A special order may be rejected if it has a lower contribution per limiting factor than the standard product as it would produce less profit.</p>	$\frac{1}{2}$
24.	(i)	Describe two methods of investment appraisal.	2 marks
	(ii)	State one advantage and one disadvantage of each method.	4 marks
		<p>24. Payback shows the time taken for the business to get its money back on an investment based on its cash inflows. One advantage is that it is easy to calculate. One disadvantage is that an inflow after the money is fully paid back is not considered.</p> <p>Accounting rate of return shows the profits that are coming in to the business from an investment and is based on earnings after tax and depreciation divided by the original or average cost of the product. One advantage is that it is easy to calculate. One disadvantage is that the time value of money is not considered.</p>	$\frac{2}{2}$ $\frac{3}{4}$

25	Describe how the use of computer software might aid the finance department when carrying out an investment appraisal exercise.	2 marks
	<p>25 (A spreadsheet would be helpful as it would carry out calculations automatically after a formula has been entered this means that less time will be spent on calculations and improves accuracy.)</p> <p>(If statements can also be used to immediately show which project should be chosen after the method has been chosen and after it has been set up to identify the lowest period or highest % it will immediately show the desired project and this improves accuracy as figures will not be incorrectly lifted or any errors in calculation which would change the chosen project and this would mean that performance won't be effected by an error which lead to a worse performing project being chosen)</p> <p>MAX</p>	2/2