Webinar – Accounting (Higher)

Theory questions and marking guidelines

The marking guidelines show possible answers and are not exhaustive.

1.		Outline three duties of a financial accountant.	**3 marks**
		♦ reports to the owners of a firm the effect of managerial decisions on the performance of the firm ♦ keeps accurate records of the daily financial transactions of the firm ♦ checks the financial records to maintain accuracy and reduce fraud ♦ prepares periodic financial statements to show profit/loss for the year eg Statement of Financial Position ♦ prepares accounts for auditing as and if required ♦ ensures that the firm is operating within the rules laid down by legislation from government or professional bodies ♦ calculate ratios to consider how the firm compares with other firms or with previous years	
2.		Describe the features of a public limited company with regards to ownership, control and sources of finance.	**3 marks**
		♦ a public limited company is owned by its shareholders who have a financial investment ♦ a public limited company is controlled by a board of directors who have been elected by shareholders ♦ sources of finance for a public limited company include: — shares: preference, fixed dividend in return for investing in ordinary, in return for a share of the profits in the form of a variable dividend — debentures — loans — retained profits — reserves — grant	
3.	(i)	Describe two sources of finance only available to a PLC.	**2 marks**
		♦ preference shares - organisations/individuals buy these to receive a fixed dividend in return for investing in the company ♦ ordinary shares - organisations/individuals buy these to receive a variable dividend in return for investing in the company ♦ shares - organisations/individuals buy these to receive a dividend in return for investing in the company - only award if preference and ordinary shareholders are not specified ♦ debentures - issue of loan/with fixed annual interest, over a fixed period of time	

	(ii)	Describe three sources of finance available which would also be available to a partnership.	**3 marks**
		♦ bank loan – borrowing a sum of money over a period of time which is paid back in instalments with interest ♦ sale of unused assets – selling assets that are no longer essential to the operation of the organisation to recoup finance ♦ debt factoring – selling debts to a third party, so that the organisation receives finance immediately and does not need to chase up debts	
4.		Describe two advantages of forming a plc rather than a partnership.	**2 marks**
		♦ additional finance can be obtained as shares can be freely sold on the stock market ♦ shareholders in a PLC benefit from limited liability as they only lose the value of their investment if the business goes bankrupt ♦ share ownership is transferable which enables continuity of the business ♦ large amounts of finance can be gained by selling debentures	
5.		Explain how a manufacturing profit is treated in the Financial Statements.	**1 mark**
		The manufacturing profit is added to Gross Profit in the Income Statement.	
6.		Describe the term Equity Gearing.	**1 mark**
		Equity Gearing is the comparison of ordinary share equity to preference share equity and debentures which carry a fixed rate of return.	
7.	(i)	Explain two uses of ratio analysis.	**2 marks**
		♦ to compare with competitors in the same industry so that benchmarks can be devised ♦ to compare with previous years to make decisions about future investments ♦ to compare with budgets/targets to see where additional cost has been incurred/decide where to try to save in future ♦ to analyse a company and decide whether to invest/integrate in/with it	

	(ii)	Explain two limitations of ratio analysis.	**2 marks**
		♦ it is historical, so may be out of date ♦ it can be difficult to compare with competitors as they may use different methods to calculate ♦ it does not take into account non-financial factors which may have a big influence on the business	
8.		Describe how a potential shareholder would make use of investment ratios.	**2 marks**
		♦ potential shareholders can draw conclusions on the financial wellbeing of a business ♦ shareholders can use investment ratios to compare the viability of investing in different businesses ♦ shareholders can use investment ratios to interpret financial statements ♦ dividend Yield can tell an investor the % return they will receive **in relation to** the **current market price** of the shares ♦ 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 ♦ gearing ratios can be used by potential ordinary shareholders to establish if they wish to invest in a high or a low geared company ♦ earnings per share is useful to potential shareholders to compare with another investment ♦ price/Earnings ratio gives an indication of how expensive a share is compared with its earning potential	
9.		Explain two advantages for a management accountant of using a spreadsheet to prepare a Cash Budget.	**2 marks**
		♦ use of formulae to calculate figures reduces human error ♦ can show the effects of 'what if' scenarios in, for example purchase of new non-current assets ♦ changes to any data in the spreadsheet are automatically updated with the use of formulae so it is future proofed ♦ use of multiple worksheets to link statements which reduces time spent completing the task ♦ use of templates from year to year, avoids the same information having to be recreated Answers MUST relate to preparing a cash budget on a spreadsheet	

10.		Explain non-financial performance indicators of an organisation.	**2 marks**
		♦ good employee relations which reduces long term costs of training new staff ♦ customer satisfaction which encourages loyalty ♦ a good health and safety record will reduce the need for investigation and investment in new safety procedures ♦ introduction of ethical and environmental policies which will reduce wastage so reduce costs in future ♦ product development/innovation which will increase profits in future years	
11.		Outline three duties of a management accountant.	**3 marks**
		♦ provides management with information to enable decision-making ♦ supplies data to make the most efficient use of limiting factors ♦ provides management with data for internal use ♦ prepares budgets, break-even statements, charts etc (1 each max 2)	
12.		Describe the use of weighted average (AVCO) inventory valuation.	**2 marks**
		♦ this is a method used to place a value on the inventory held by a business ♦ the cost/quantity of the purchase is added to the value/quantity of the balance of inventory and the total is averaged by dividing by the new quantity. ♦ new averages may be calculated on receipt of each new delivery of inventory or calculated weekly or monthly to minimise the work involved. ♦ inventory values are usually acceptable to the accountant/accepted by HMRC	
13.		Describe two advantages and one disadvantage of the weighted average method of inventory control.	**3 marks**
		Advantages of AVCO: ♦ it is based on actual costs incurred ♦ it evens out price changes ♦ inventory is valued at one price at any one time ♦ it involves less clerical work than FIFO and LIFO ♦ inventory value will usually be accepted for financial accounting purposes Disadvantages of AVCO: ♦ where prices are constantly changing, the calculation of the average can involve a considerable amount of work	
14.		Explain the difference between ‘apportionment’ and ‘allocation’ of overheads.	**1 mark**

		An apportionment of overheads takes place when the overhead cost cannot be identified with a particular department whereas an allocation of overheads takes place when the overhead cost can be identified with a particular department/it is a cost which is unique to that particular department and the department is charged with the actual overhead it has incurred**.**	
15.		Describe the main benefits of using departmental overhead recovery rates rather than a simple factory wide recovery rate.	**2 marks**
		♦ each cost centre/department can apply the most relevant overhead absorption rate ♦ departmental overhead recovery rate leads to a more accurate/fair measurement of overhead costs	
16.	(i)	Describe the meaning of process costing.	**1 mark**
		♦ process production consists of a succession of continuous operations or processes ♦ each process represents a different stage of manufacture ♦ the output of one process becomes the input of another ♦ this continues until the units are complete and are transferred to a Finished Goods Account	
	(ii)	In connection with process costing, distinguish between normal loss and abnormal loss.	**2 marks**
		NORMAL LOSS: Anticipated waste of material or efficiency Can be predetermined Generally has a scrap value which offsets costs of production ABNORNMAL LOSS: Unanticipated waste of material or efficiency irrespective of normal loss Cannot be predetermined Cost must be valued as a good output	
17.		With reference to process costing, outline the procedure for recording abnormal loss in the accounts of a business.	**4 marks**
		♦ abnormal loss CPU is calculated to be same as ‘good’ output ♦ entered in the ‘output’ or ‘credit’ side of the process account ♦ abnormal loss transferred to abnormal loss account on the input/debit side of the account ♦ any scrap value earned from the abnormal loss is entered into the output/credit side of the abnormal loss account and debited to the bank account ♦ balance of abnormal loss account is transferred to the Income Statement by crediting the abnormal loss account and debiting the Income Statement	

NORMAL LOSS	ABNORNMAL LOSS
Anticipated waste of material or efficiency Can be predetermined Generally has a scrap value which offsets costs of production	Unanticipated waste of material or efficiency irrespective of normal loss Cannot be predetermined Cost must be valued as a good output

18.		Explain the uses of the following accounting systems: ♦ Process costing ♦ Budgeting	**3 marks**
		Process costing ♦ Used to find the unit cost of making a product which passes through several processes. ♦ It is used by firms which mass-produce identical or standardised products, eg canning/bottling. Budgeting ♦ a budget is prepared to estimate and control the activities of a firm in order to achieve a previously agreed objective ♦ a production budget is prepared to calculate production volume ♦ the production budget shows the number of units to be made to meet sales volume ♦ a cash budget is an estimate of the receipts and payments for a given period ♦ when completed, the budget will show when there is a surplus or shortage of funds ♦ cash budgets aid decision-making, eg with regard to future capital expenditure ♦ cash budgets anticipate possible shortages, allowing credit facilities to be arranged ♦ cash budgets enable target setting, eg to achieve objectives ♦ cash budgets allow for comparisons, eg actual results with expected results ♦ a sales budget is prepared to show possible units available for sale	
19.		Outline two advantages of using a spreadsheet to prepare a cash budget.	**2 marks**
		♦ calculations with the use of formulae are more accurate ♦ forecasting is much easier with the use of 'what if' statements ♦ changes can be made easily as the formulae will mean everything else changes as a result ♦ templates can be used Answers MUST relate to preparing a cash budget on a spreadsheet	
20.		Explain the purpose of preparing a cash budget.	**3 marks**
		♦ to forecast the financial activities of an organisation in order to achieve a previously agreed objective ♦ to control the financial activities of an organisation in order to achieve a previously agreed objective. It identifies when there is a deficit of funds in order that steps can be taken to meet the shortfall ♦ to identify when there is enough cash available to fulfil day-to-day operations	

21.		Explain three benefits of using spreadsheets when preparing a cash budget.	**3 marks**
		♦ templates can be used from year to year which reduces time spent completing the task ♦ fewer arithmetical mistakes will be used with the use of formulae ♦ 'what if' scenarios can be tried out, eg if a new van is bought, is it affordable? ♦ if the cash budget needs updated with the use of formulae, all changes will ripple through the statement Answers MUST relate to preparing a cash budget on a spreadsheet	
22.		Explain the meaning of the term opportunity cost.	**2 marks**
		♦ the opportunity cost represents the amount of contribution lost by making less of an existing product ♦ opportunity cost is the cost of not producing the next best option ♦ the actual cost of making the new product will include the 'extra' or opportunity cost equal to the contribution lost ♦ relevant example eg the loss of contribution from one product if choosing to make another product	

23.		Explain reasons a special order may be rejected.	**2 marks**
		♦ it is not financially viable for the organisation as the contribution per limiting factor is lower than other products ♦ if it is a socially damaging product then it will have a negative impact on the reputation of the business ♦ the contribution gained is less than current products, which have to be restricted in production if the special order is accepted	
24.	(i)	Describe two methods of investment appraisal.	**2 marks**
		♦ **Accounting Rate of Return** This is the ratio of average annual Profit for the Year before interest and tax to the equity invested in the project. ♦ **Payback** Based upon an estimate of the time it will take a project to earn enough cash to cover its initial cost.	
	(ii)	Identify one advantage and one disadvantage of each method.	**4 marks**
		Accounting Rate of Return Advantages ♦ is an identifiable and familiar profitability ratio similar to Return on Equity Employed so is understandable to most managers	

		♦ emphasises the necessity of profit Disadvantages ♦ does not consider the time value of money ♦ ignores the timing of cash outflows and inflows ♦ no target rate of return ♦ may lead to choosing a project which will only begin to maximise profits in later years, risking losses if market conditions change **Payback** Advantages ♦ very easy to understand and calculate ♦ can compare mutually exclusive projects ♦ may encourage growth by favouring projects providing a quick return ♦ reduces the time during which liquidity is at risk Disadvantages ♦ calculation and timing of net cash flows may be difficult ♦ ignores profitability ♦ ignores net cash inflows after payback period ♦ ignores time value of money	

25.		Describe how the use of computer software might aid the finance department when carrying out an investment appraisal exercise.	**2 marks**
		♦ spreadsheets would contain the formulae necessary for the range of calculations for any given method of appraisal so any changes would ripple through, so results would automatically update if alternative profits or inflows were entered ♦ once the spreadsheet template is set up appraisals could be carried out efficiently from year to year ♦ using spreadsheet software reduces the chance of human error in the calculations Answers MUST relate to preparing an investment appraisal exercise on a spreadsheet	