H

National
Qualifications
SPECIMEN ONLY

S800/76/11 Accounting

Date — Not applicable

Duration — 2 hours 30 minutes

Total marks — 120

SECTION 1 — 80 marks

Attempt ALL questions.

SECTION 2 — 40 marks

Attempt ALL questions.

You may use a calculator.

All working should be shown fully, and clearly labelled.

Write your answers clearly in the answer booklet provided. In the answer booklet, you must clearly identify the question number you are attempting.

Use **blue** or **black** ink.

Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.

SECTION 1 — 80 marks

Attempt ALL questions

1. Chapman and Elrick are in partnership, sharing profits and losses in the ratio of equity invested. The following is their Trial Balance as at 31 December Year 3, **after** the preparation of the Income Statement to Gross Profit.

	£000	**£000**
Gross Profit		131
Inventory at 31 December Year 3	12	
Warehouse Expenses payable		1
Wages	20	
Rates	9	
Rent Received		20
Heat and Light	18	
Property at cost	190	
Equipment at cost	80	
Delivery Vans at cost	32	
Provisions for Depreciation at 1 January Year 3:		
Equipment		11
Delivery Vans		12
Cash and Cash Equivalents	62	
Trade Receivables	40	
Trade Payables		30
Provision for Doubtful Debts at 1 January Year 3		6
VAT	17	
Discounts		3
Equity Accounts:		
Chapman		200
Elrick		100
Current Accounts at 1 January Year 3:		
Chapman		10
Elrick	9	
Drawings:		
Chapman	50	
Elrick	25	
Loan — Elrick		40
	£564	£564

1. (continued) **MARKS**

NOTES AT 31 DECEMBER YEAR 3:

1. The partnership agreement of Chapman and Elrick states:
    - interest on equity will be paid at 5% per annum
    - interest on drawings will be charged at 4% per annum
    - a partnership salary of £23,000 will be paid to Chapman.
2. Inventory at 31 December Year 3 had a market value of £14,000.
3. Heat and Light receivable £2,000.
4. Wages payable £3,000.
5. The Rates payment for the final quarter of the year is payable.
6. Equipment, which was purchased on 31 May Year 1 and cost £30,000, was sold on 31 October Year 3 for £20,000 by cheque. It is the firm's policy to charge a full year's depreciation in the year of purchase and none in the year of sale. No entries have been made in respect of this sale.
7. Provide for depreciation per annum as follows:
    - (i) Equipment — 10% on cost.
    - (ii) Delivery Vans — 20% of the reduced balance.
8. The Provision for Doubtful Debts is to be adjusted to 5% of Trade Receivables.
9. Finance costs on the loan from Elrick are payable at 5% per annum.
10. Property was professionally revalued at £200,000.

(a) Prepare:

(i) an Income Statement for the year ended 31 December Year 3 **16**

(ii) the updated Current Accounts **6**

(iii) a Statement of Financial Position as at 31 December Year 3. **17**

(b) Describe how a manufacturing profit is treated in financial statements. **1**

[Turn over

2. PART A

The following budgeted data relates to the manufacturing firm Crawford plc for the period May to November Year 2.

	May	June	July	August	September	October	November
Sales in units	6,000	6,200	7,000	8,000	8,350	9,800	10,100

Closing inventory at the end of each month is equal to 20% of the sales of the following month.

(a) Prepare the Production Budget for the period May to October. **4**

The following information is available:

1. The Cash and Cash Equivalents balance at 1 July is expected to be £43,000.
2. The retail selling price per unit is £50.
    - Credit sales represent 80% of total sales.
    - Credit sales are sold to trade customers at a discount of 10% on the retail selling price, providing they pay within one month.
    - It is estimated that 75% of credit customers pay within one month.
    - The remaining credit customers pay within 2 months of sale, however 2% of the amount due from these customers is expected to be bad debts.
3. Costs per unit are as follows:
    - Materials — £20 per unit, payable in the month before production
    - Labour — £18 per unit, payable in the month of production
    - Variable overheads — £10 per unit, ⅔ payable in the month of production and the remainder in the month following production.
4. Fixed overheads, including depreciation of £2,000, are £8,000 per month.
5. Part of the firm’s premises is sublet at an annual rental of £20,000. This is payable quarterly in advance, starting in January.
6. New machinery will be purchased in August for £400,000, payable as follows:
    - a deposit of 10% paid in the month prior to purchase
    - the balance paid in 8 equal monthly instalments, beginning one month after purchase.
7. In June, 200,000 £1 ordinary shares will be issued at a premium of £0·50. Payment for these shares will be made 2 months later.

(b) Prepare the Cash Budget for July to September. **25**

2. PART B

Duffus Chemicals plc manufactures a product in 3 separate processes. The details for Process 2 for the month of May are as follows:

Transfer from Process 1	1,000 kgs @ £5 per kg
Materials	2,000 kgs @ £3 per kg
Labour	500 hours
Variable overheads	£2 per labour hour
Good Output transferred to Process 3	2,300 kgs
Closing work-in-progress	500 kgs worth £2,500
Labour rate	£12 per hour
Fixed overheads	£4,925
Normal loss	5% of total input quantity

All losses are sold for £3 per kg.

Using the information shown above, prepare:

(a) the account for Process 2 for the month of May, showing quantities, cost and values

(b) the Abnormal Loss Account for the month of May. **11**

[Turn over

SECTION 2 — 40 marks

Attempt ALL questions

3. PART A

The following information is available for 2 companies:

	Barclay plc	Harlaw plc
Profit for the Year after Tax	£400,000	£200,000
Ordinary Shares of £1 each	£500,000	£400,000
5% Preference Shares	£400,000	-
4% Debentures	£100,000	£200,000
Ordinary Shares Market Price	£2·50	£4·00
Ordinary Dividend per Share	£0·10	£0·12

(a) Calculate for each company:

(i) Dividend Yield **1**

(ii) Dividend Cover **3**

(iii) Earnings per Share. **2**

(b) Analyse the ratios calculated in (i) — (iii) above and give advice to a potential investor. **3**

(c) Describe **2** limitations of ratio analysis. **2**

(d) State **3** non-financial performance indicators. **3**

3. PART B

Thom plc has an opening inventory of 200 kgs at £5·00 per kg of Material A at the beginning of May. The following information is available for Material A for the month.

Date	Transaction	Units	Price
4 May	Purchases	300 kgs	£5·50
9 May	Issues to shop	100 kgs	
15 May	Purchases	400 kgs	£5·70
20 May	Returns of inventory bought on 15 May	300 kgs	
25 May	Purchases	500 kgs	£5·60

Prepare the Inventory Record Card for Material A for the month of May using the Weighted Average (AVCO) valuation system. Show quantity, price and value of units purchased, issued and held. **6**

4. Garioch Enterprises plc has equity available for investment in Project A or Project B. The company's project consultants have provided the following information.

	Project A	**Project B**
Initial investment	£320,000	£325,000
Residual value	£100,000	£175,000
Investment life	5 years	5 years
Estimated net cash flow (excluding initial investment)		
Year 1	£70,000	£94,000
Year 2	£79,000	£85,000
Year 3	£74,000	£79,000
Year 4	£62,000	£68,000
Year 5	£45,000	£40,000

(a) Calculate the profit earned in each year for Project A and for Project B. **6**

(b) Show the results of applying the following methods of investment appraisal to each project:

(i) Accounting Rate of Return (based on average profits earned on the initial investment) **4**

(ii) Payback Period (to the nearest day). **6**

(c) Describe **one** advantage and **one** disadvantage of using each of the following methods of investment appraisal:

(i) Accounting Rate of Return

(ii) Payback Period. **4**

[END OF SPECIMEN QUESTION PAPER]

H

National
Qualifications
SPECIMEN ONLY

S800/76/11 **Accounting**

Marking Instructions

These marking instructions have been provided to show how SQA would mark this specimen question paper.

General marking principles for Higher Accounting

Always apply these general principles. Use them in conjunction with the specific 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 specific 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 **state** questions, candidates must list a number of relevant items or facts. These must relate to the context of the question and do not need to be in any particular order.

Up to the total mark allocation for this question:

- award **1 mark** for each relevant item or fact.

(f) 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.

(g) 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.

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.

Marking instructions for each question

Section 1

<table>
<tr><th colspan="3">Question</th><th>Expected answer(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td>1.</td><td>(a)</td><td>(i)</td><td>

Chapman and Elrick
Income Statement for year ended 31 December Year 3✓

<table>
<tr><th></th><th>£000</th><th>£000</th><th></th><th>£000</th><th></th></tr>
<tr><td>Gross Profit</td><td></td><td></td><td></td><td>131</td><td>(1)</td></tr>
<tr><td><u>Less</u> Expenses</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Wages (20 + 3)</td><td></td><td>23</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Rates (9/3*4)</td><td></td><td>12</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Heat and Light (18 - 2)</td><td></td><td>16</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Loss on sale of Equipment</td><td></td><td>4</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Finance Cost – Elrick</td><td></td><td>2</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Depreciation: Equipment (50*10%)</td><td></td><td>5</td><td>(2)</td><td></td><td></td></tr>
<tr><td>Delivery Vans (32 - 12)*20%</td><td></td><td>4</td><td>(1)</td><td>66</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td>65</td><td></td></tr>
<tr><td><u>Add</u> Income</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Rent Received</td><td></td><td>20</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Discount Received</td><td></td><td>3</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Decrease in provision for bad debts</td><td></td><td>4</td><td>(1)</td><td>27</td><td></td></tr>
<tr><td>PROFIT FOR YEAR✓</td><td></td><td></td><td></td><td>92</td><td></td></tr>
</table>

</td><td>16</td><td>Award 1 mark for correct entry of Trial Balance items (they must appear only once).

It is advisable to check both accounts before awarding marks. If an entry does appear twice, apply +/- rule.

Depreciation: Equipment – award 1 mark if answer is 8.</td></tr>
</table>

Question			Expected answer(s)	Max mark	Additional guidance
			Add Interest on Drawings Chapman 2 Elrick 1 **(1)** 3 95 **Less** Interest on Equity Chapman 10 Elrick 5 **(1)** Salary — Chapman 23 **(1)** 38 57 Share of Profit Chapman 38 Elrick 19 **(1)** 57		The mark for labels, headings and arithmetic is awarded in part (iii).

<table>
<tr><th colspan="3">Question</th><th>Expected answer(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td></td><td></td><td>(ii)</td><td>
<u>Current Account — Chapman</u>
<table>
<tr><th></th><th>Dr</th><th>Cr</th><th colspan="2">Bal</th><th></th></tr>
<tr><td>Opening Balance</td><td></td><td>10</td><td>10</td><td>Cr</td><td></td></tr>
<tr><td>Interest on Equity</td><td></td><td>10</td><td>20</td><td>Cr</td><td></td></tr>
<tr><td>Salary</td><td></td><td>23</td><td>43</td><td>Cr</td><td></td></tr>
<tr><td>Share of Profit</td><td></td><td>38</td><td>81</td><td>Cr</td><td></td></tr>
<tr><td>Interest on Drawings</td><td>2</td><td></td><td>79</td><td>Cr</td><td></td></tr>
<tr><td>Drawings</td><td>50</td><td></td><td>29</td><td>Cr</td><td></td></tr>
</table>
<u>Current Account — Elrick</u>
<table>
<tr><th></th><th>Dr</th><th>Cr</th><th colspan="2">Bal</th><th></th></tr>
<tr><td>Opening Balance</td><td>9</td><td></td><td>9</td><td>Dr</td><td>(1)</td></tr>
<tr><td>Interest on Equity</td><td></td><td>5</td><td>4</td><td>Dr</td><td>(1)</td></tr>
<tr><td>Share of Profit</td><td></td><td>19</td><td>15</td><td>Cr</td><td>(1)</td></tr>
<tr><td>Interest on Loan</td><td></td><td>2</td><td>17</td><td>Cr</td><td>(1)*</td></tr>
<tr><td>Interest on Drawings</td><td>1</td><td></td><td>16</td><td>Cr</td><td>(1)</td></tr>
<tr><td>Drawings</td><td>25</td><td></td><td>9</td><td>Dr</td><td>(1)</td></tr>
</table>
</td><td>6</td><td>Award 1 mark for correct entry in both current accounts.

* Award 1 mark if both salary and loan interest are entered correctly in the appropriate Current Accounts, but not if Loan is included.

Award 3 marks if complete reversal of debits and credits.

If an error is made in the running balance or if no current account is shown, lose award mark for first item only.

If Equity balance is included, do not award Interest on Equity mark.</td></tr>
</table>

<table>
<tr><th colspan="3">Question</th><th>Expected answer(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td></td><td></td><td>(iii)</td><td>

Statement of Financial Position as at 31 December Year 3✓

<table>
<tr><th></th><th>£000</th><th></th><th>£000</th><th></th><th>£000</th><th></th></tr>
<tr><td><u>Non-current Assets</u></td><td><u>Cost</u></td><td></td><td><u>Agg Dep</u></td><td></td><td><u>NBV</u></td><td></td></tr>
<tr><td>Property</td><td>190</td><td></td><td>- 10</td><td></td><td>200</td><td>(1)</td></tr>
<tr><td>Equipment</td><td>50</td><td></td><td>10</td><td></td><td>40</td><td>(2)</td></tr>
<tr><td>Delivery Vans</td><td>32</td><td></td><td>16</td><td></td><td>16</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td>256</td><td></td></tr>
<tr><td><u>Current Assets</u></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Inventory</td><td></td><td></td><td>12</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Cash and Cash Equivalents (62 + 20)</td><td></td><td></td><td>82</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Trade Receivables (40 - 2)</td><td></td><td></td><td>38</td><td>(1)</td><td></td><td></td></tr>
<tr><td>VAT</td><td></td><td></td><td>17</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Heat and Light receivable</td><td></td><td></td><td>2</td><td>(1)</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>151</td><td></td><td></td><td></td></tr>
<tr><td><u>Less Current Liabilities</u></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Trade Payables</td><td>30</td><td>(1)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Wages Payable</td><td>3</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Warehouse Expenses Payable</td><td>1</td><td>(2)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Rates Payable</td><td>3</td><td></td><td>37</td><td></td><td></td><td></td></tr>
<tr><td>Working Equity</td><td></td><td></td><td></td><td></td><td>114</td><td></td></tr>
<tr><td>Net Assets Employed</td><td></td><td></td><td></td><td></td><td>370</td><td></td></tr>
<tr><td><u>Non-current Liabilities</u></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Loan — Elrick</td><td></td><td></td><td></td><td></td><td>40</td><td>(1)</td></tr>
<tr><td>Net Assets</td><td></td><td></td><td></td><td></td><td>330</td><td></td></tr>
</table>

</td><td>17</td><td>Apply the +/- rule to this question.

<u>Non-current Assets</u>
Equipment — award 1 mark if answer is 61.

<u>Current Liabilities</u>
Award 2 marks if all 3 items are correct and 1 mark if only 2 items are correct. Do not award marks if 1 or 0 items are correct.</td></tr>
</table>

<table>
<tr><th colspan="3">Question</th><th>Expected answer(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td></td><td></td><td></td><td>
EQUITY
<table>
<tr><td>Equity – Chapman</td><td>200</td><td></td><td></td><td></td></tr>
<tr><td>Elrick</td><td>100</td><td>(1)</td><td>300</td><td></td></tr>
<tr><td>Current Account – Chapman</td><td>29</td><td></td><td></td><td></td></tr>
<tr><td>Elrick</td><td>- 9</td><td>(1)</td><td>20</td><td></td></tr>
<tr><td>Revaluation Reserves</td><td></td><td></td><td>10</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>330</td><td></td></tr>
</table>
Headings, labels (✓) and arithmetic across both statements (1)

<u>Working</u>
<table>
<tr><td>Cost</td><td>30</td><td>Equipment at cost = 30</td></tr>
<tr><td>Depreciation to Date</td><td>6</td><td>Depreciation = 6</td></tr>
<tr><td>Net Book Value (NBV)</td><td>24</td><td></td></tr>
<tr><td>Proceeds</td><td>20</td><td>Cash and Cash Equivalent + 20</td></tr>
<tr><td>Loss</td><td>4</td><td>Expenses – loss on sale of equipment = 4</td></tr>
</table>
</td><td></td><td></td></tr>
<tr><td></td><td>(b)</td><td></td><td>The Manufacturing Profit would be added to the Gross Profit. (1)</td><td>1</td><td></td></tr>
</table>

<table>
<tr><th colspan="3">Question</th><th>Expected answer(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td>2.</td><td>(a)</td><td></td><td>PART A

PRODUCTION BUDGET FOR MAY TO OCTOBER✓

<table>
<tr><th></th><th>MAY</th><th>JUNE</th><th>JULY</th><th>AUGUST</th><th>SEPTEMBER</th><th>OCTOBER</th><th></th></tr>
<tr><td>Sales units</td><td>6,000</td><td>6,200</td><td>7,000</td><td>8,000</td><td>8,350</td><td>9,800</td><td rowspan="2">(1)</td></tr>
<tr><td>less Opening Inventory</td><td>1,200</td><td>1,240</td><td>1,400</td><td>1,600</td><td>1,670</td><td>1,960</td></tr>
<tr><td></td><td>4,800</td><td>4,960</td><td>5,600</td><td>6,400</td><td>6,680</td><td>7,840</td><td></td></tr>
<tr><td>add Closing Inventory</td><td>1,240</td><td>1,400</td><td>1,600</td><td>1,670</td><td>1,960</td><td>2,020</td><td>(2)</td></tr>
<tr><td>Production units</td><td>6,040</td><td>6,360</td><td>7,200</td><td>8,070</td><td>8,640</td><td>9,860</td><td>(1)</td></tr>
</table>
</td><td>4</td><td>Award 1 mark if Sales units and Opening Inventory are correct.

Award 2 marks if all Closing Inventory entries are correct, but only 1 mark if there is one error. Do not award marks if there are 2 or more errors.

Award 1 mark if Opening Inventory is deducted and Closing Inventory is added, and all arithmetic correct.</td></tr>
</table>

<table>
<tr><th colspan="3">Question</th><th>Expected answer(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td></td><td>(b)</td><td></td><td>
CASH BUDGET FOR JULY TO SEPTEMBER✓
<table>
<tr><th></th><th>July</th><th>August</th><th>September</th><th></th></tr>
<tr><td>OPENING BALANCE✓</td><td>43,000</td><td>- 62,000</td><td>165,900</td><td>(1)</td></tr>
<tr><td>ADD RECEIPTS✓</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Cash Sales</td><td>70,000</td><td>80,000</td><td>83,500</td><td>(2)*</td></tr>
<tr><td>Credit Sales one month</td><td>167,400</td><td>189,000</td><td>216,000</td><td>(4)</td></tr>
<tr><td>Credit Sales 2 months</td><td>58,800</td><td>60,760</td><td>68,600</td><td>(4)</td></tr>
<tr><td>Rent of Premises</td><td>5,000</td><td></td><td></td><td>(1)</td></tr>
<tr><td>Shares Issued</td><td></td><td>300,000</td><td></td><td>(1)</td></tr>
<tr><td>TOTAL RECEIPTS</td><td>301,200</td><td>629,760</td><td>368,100</td><td></td></tr>
<tr><td>LESS PAYMENTS✓</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Materials</td><td>161,400</td><td>172,800</td><td>197,200</td><td>(2)*</td></tr>
<tr><td>Labour</td><td>129,600</td><td>145,260</td><td>155,520</td><td>(2)*</td></tr>
<tr><td>Variable Overheads ⅔</td><td>48,000</td><td>53,800</td><td>57,600</td><td>(2)*</td></tr>
<tr><td>Variable Overheads ⅓</td><td>21,200</td><td>24,000</td><td>26,900</td><td>(2)*</td></tr>
<tr><td>Fixed Overheads</td><td>6,000</td><td>6,000</td><td>6,000</td><td>(1)</td></tr>
<tr><td>Machinery</td><td>40,000</td><td></td><td>45,000</td><td>(2)</td></tr>
<tr><td>TOTAL PAYMENTS</td><td>406,200</td><td>401,860</td><td>488,220</td><td></td></tr>
<tr><td>CLOSING BALANCE✓</td><td>- 62,000</td><td>165,900</td><td>45,780</td><td></td></tr>
</table>
Headings, including time periods, and labels (✓), Opening and Closing Balance and Cash Budget arithmetic. (1)
</td><td>25</td><td>
* Award 2 marks if all months are correct, but only 1 mark if there is one error.

Award 2 marks if the July Credit Sales one-month figure is correct, and then 1 mark each for correct August and July figures.

Total Receipts figures should only include Receipts and should not include the Opening Balance.

Award 1 mark for each machinery figure.
</td></tr>
</table>

Question			Expected answer(s)	Max mark	Additional guidance
	(a)		**PART B**	**11**	Award mark if the entry and balance are correct. Do not award Labour mark if any entry in Quantity and/or CPU for Labour. Award **1 mark** if Labour, Variable Overheads and Fixed Overheads are correct. ***** Award **2 marks** for Transfer to Process 3 entry — all or nothing. Watch for consequentiality with Abnormal Loss account. If nomenclature incorrect, do not award mark on first occasion.

PROCESS 2 ACCOUNT

	DR			CR			Bal			
	Qty (kg)	**CPU £**	**£**	**Qty (kg)**	**CPU £**	**£**	**Qty (kg)**	**CPU £**	**£**	
From Process 1	1,000	5·00	5,000				1,000		5,000	**(1)**
New Material	2,000	3·00	6,000				3,000		11,000	**(1)**
Labour			6,000						17,000	
Variable Overheads			1,000						18,000	**(1)**
Fixed Overheads			4,925						22,925	
Normal Loss				150	3·00	450	2,850		22,475	**(1)**
Work in Progress				500		2500	2,350	8·50	19,975	**(1)**
Transfer to Process 3				2,300	8·50	19,550	50	8·50	425	**(2)***
Abnormal Loss				50	8·50	425	0		0	**(1)**

(b)

ABNORMAL LOSS ACCOUNT

			DR			**CR**			**Bal**	
	Qty (kg)	**CPU £**	**£**	**Qty (kg)**	**CPU £**	**£**	**Qty (kg)**	**CPU £**	**£**	
From Process 2	50	8·50	425				50	8·50	425	**(1)**
Cash and Cash Equivalents				50	3·00	150	0		275	**(1)**
Income Statement						275			**0**	**(1)**

Section 2

Question			Expected answer(s)	Max mark	Additional guidance
3.	(a)	(i)	**PART A** **Dividend Yield:** Ordinary Dividend per Share/Market Price per Share * 100 Barclay plc 0·10/2·5 4% Harlaw plc 0·12/4 3% **(1)**	**1**	Award **1 mark** if both figures are correct.
		(ii)	**Dividend Cover:** (Profit for the Year after Tax - Preference Share Dividend)/Ordinary Share Dividend Barclay plc (400,000 - (5%*400,000))/(0·1*500,000) (400,000 - 20,000)/50,000 7·6 times **(2)** Harlaw plc 200,000/(0·12*400,000) 4·17 times **(1)**	**3**	Award **2 marks** if figure for Barclay plc is correct – all or nothing. No need to state 'times'.
		(iii)	**Earnings per Share:** (Profit for the Year after Tax - Preference Share Dividend)/Number of Ordinary Shares Barclay plc (400,000 - 20,000)/500,000 £0·76 **(1)** Harlaw plc 200,000/400,000 £0·50 **(1)**	**2**	

Question			Expected answer(s)	Max mark	Additional guidance
	(b)		• Short-term investors may favour Barclay plc, as the Dividend Yield Ratio is more attractive, indicating the return is higher. **(1)** • Investors looking for a more secure, longer-term investment may be attracted, as Barclay plc has reinvested more profits back into the business, with a Dividend Cover of over 7 times. **(1)** • Earnings per Share is 26p per share more than Harlaw plc and earning in relation to share price may indicate that it is a good time to buy in Barclay plc. **(1)**	**3**	Award **1 mark** for each piece of advice related to the ratio information calculated in 3(a).
	(c)		• As the information the ratios are based on is historical, it is out of date. **(1)** • Companies use different accounting policies, so are difficult to compare. **(1)** • Owing to inflation, comparisons across years are less meaningful. **(1)** • Differing company strategies make comparison between companies difficult. **(1)** • For comparisons to be meaningful, organisations must be similar in size and operate in the same industry. **(1)** • External factors are not taken into account. **(1)**	**2**	Award **1 mark** for each description.
	(d)		• employee relations **(1)** • customer satisfaction **(1)** • health and safety record **(1)** • environmental policies, including net carbon footprint **(1)** • number of customers **(1)** • number of new shops opened **(1)** • new products developed/innovation **(1)** • ethical policies **(1)** • market share **(1)**	**3**	Award **1 mark** for each statement.

<table>
<tr><th colspan="3">Question</th><th>Expected answer(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td>3.</td><td></td><td></td><td>
PART B

Inventory Record Card — AVCO
<table>
<tr><th></th><th></th><th colspan="3">Receipts</th><th colspan="3">Issues</th><th colspan="3">Balance</th><th></th></tr>
<tr><th>Date</th><th>Details</th><th>Qty (kg)</th><th>CPU</th><th>Total</th><th>Qty (kg)</th><th>CPU</th><th>Total</th><th>Qty (kg)</th><th>CPU</th><th>Total</th><th></th></tr>
<tr><td>01 May</td><td>Balance</td><td>200</td><td>5·00</td><td>1,000</td><td></td><td></td><td></td><td>200</td><td>5·00</td><td>1,000</td><td>(1)</td></tr>
<tr><td>04 May</td><td>Purchases</td><td>300</td><td>5·50</td><td>1,650</td><td></td><td></td><td></td><td>500</td><td>5·30</td><td>2,650</td><td>(1)</td></tr>
<tr><td>09 May</td><td>Issues to shop</td><td></td><td></td><td></td><td>100</td><td>5·30</td><td>530</td><td>400</td><td>5·30</td><td>2,120</td><td>(1)</td></tr>
<tr><td>15 May</td><td>Purchases</td><td>400</td><td>5·70</td><td>2,280</td><td></td><td></td><td></td><td>800</td><td>5·50</td><td>4,400</td><td>(1)</td></tr>
<tr><td>20 May</td><td>Returns</td><td></td><td></td><td></td><td>300</td><td>5·70</td><td>1,710</td><td>500</td><td>5·38</td><td>2,690</td><td>(1)</td></tr>
<tr><td>25 May</td><td>Purchases</td><td>500</td><td>5·60</td><td>2,800</td><td></td><td></td><td></td><td>1,000</td><td>5·49</td><td>5,490</td><td>(1)</td></tr>
</table>
</td><td>6</td><td>Award mark if both the entry and balance are correct.
If nomenclature incorrect, do not award mark on first occasion.</td></tr>
</table>

Question			Expected answer(s)	Max mark	Additional guidance
4.	(a)		**PROFITS EARNED FOR PROJECT A** Initial investment £320,000 Residual value £100,000 £220,000 **(1)** Life of project 5 £44,000 per year **(1)** PROFIT EARNED YEAR 1 £70,000 £44,000 £26,000 YEAR 2 £79,000 £44,000 £35,000 YEAR 3 £74,000 £44,000 £30,000 YEAR 4 £62,000 £44,000 £18,000 YEAR 5 £45,000 £44,000 £1,000 **(1)** **PROFITS EARNED FOR PROJECT B** Initial investment £325,000 Residual value £175,000 £150,000 **(1)** Life of project 5 £30,000 per year **(1)** PROFIT EARNED YEAR 1 £94,000 £30,000 £64,000 YEAR 2 £85,000 £30,000 £55,000 YEAR 3 £79,000 £30,000 £49,000 YEAR 4 £68,000 £30,000 £38,000 YEAR 5 £40,000 £30,000 £10,000 **(1)**	**6**	Award **1 mark** for calculating the profit earned in each year over 5 years for Project A and the same for Project B.

Question			Expected answer(s)	Max mark	Additional guidance
	(b)	(i)	**ACCOUNTING RATE OF RETURN (ARR)** PROJECT A £26,000 ARR 6·9% **(1)** £35,000 £30,000 £18,000 £1,000 £110,000 Average profits £22,000 **(1)** **ACCOUNTING RATE OF RETURN (ARR)** PROJECT B £64,000 ARR 13·3% **(1)** £55,000 £49,000 £38,000 £10,000 £216,000 Average profits £43,200 **(1)**	4	

<table>
<tr><th colspan="3">Question</th><th>Expected answer(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td></td><td></td><td>(ii)</td><td>

PAYBACK PERIOD

<table>
<tr><td>Project A</td><td></td><td>Investment</td><td>£320,000</td><td></td><td></td></tr>
<tr><td></td><td>INFLOWS</td><td>CUMULATIVE INFLOWS</td><td></td><td></td><td></td></tr>
<tr><td>YEAR 1</td><td>£70,000</td><td>£70,000</td><td></td><td></td><td></td></tr>
<tr><td>YEAR 2</td><td>£79,000</td><td>£149,000</td><td></td><td></td><td></td></tr>
<tr><td>YEAR 3</td><td>£74,000</td><td>£223,000</td><td></td><td></td><td></td></tr>
<tr><td>YEAR 4</td><td>£62,000</td><td>£285,000</td><td>4 years +</td><td></td><td>((£320,000 - £285,000) (1)/£45,000 (1))*365</td></tr>
<tr><td>YEAR 5</td><td>£45,000</td><td>£330,000</td><td>283·89</td><td>days</td><td></td></tr>
<tr><td></td><td></td><td></td><td>4 years</td><td>284 days</td><td>(1)*</td></tr>
</table>

PAYBACK PERIOD

<table>
<tr><td>Project B</td><td></td><td>Investment</td><td>£325,000</td><td></td><td></td></tr>
<tr><td></td><td>INFLOWS</td><td>CUMULATIVE INFLOWS</td><td></td><td></td><td></td></tr>
<tr><td>YEAR 1</td><td>£94,000</td><td>£94,000</td><td></td><td></td><td></td></tr>
<tr><td>YEAR 2</td><td>£85,000</td><td>£179,000</td><td></td><td></td><td></td></tr>
<tr><td>YEAR 3</td><td>£79,000</td><td>£258,000</td><td></td><td></td><td></td></tr>
<tr><td>YEAR 4</td><td>£68,000</td><td>£32,6000</td><td>3 years +</td><td></td><td>((£325,000 - £258,000) (1)/£68,000 (1))*365</td></tr>
<tr><td>YEAR 5</td><td>£40,000</td><td>£36,6000</td><td>359·63</td><td>days</td><td></td></tr>
<tr><td></td><td></td><td></td><td>3 years</td><td>360 days</td><td>(1)*</td></tr>
</table>

</td><td>6</td><td>* Award marks only if expressed in years and days (rounded up).</td></tr>
</table>

Question			Expected answer(s)	Max mark	Additional guidance
	(c)	(i)	**Accounting Rate of Return (ARR)** **Advantages** • Similar to other accounting ratios used for making accounting comparisons. **(1)** • Easy to understand and simple to calculate. **(1)** • Emphasises the necessity of profit. **(1)** **Disadvantages** • Does not consider the time value of money. **(1)** • Ignores the timing of cash inflows and outflows. **(1)** • No target rate of return. **(1)** • Where timescales are different, ARR is not suitable. **(1)** • ARR is not suitable for comparing projects with different investment amounts. **(1)** • Benefits of high profits in the early years is ignored. **(1)**	**4**	Award maximum **1 mark** for describing **one** advantage and **one** disadvantage of each method.
		(ii)	**Payback Period** **Advantages** • Very easy to understand and calculate. **(1)** • Can compare mutually exclusive projects. **(1)** • May encourage growth, by favouring projects providing a quick return. **(1)** • Reduces the time during which liquidity is at risk. **(1)** **Disadvantages** • Calculation and timing of net cash flows may be difficult. **(1)** • Ignores profitability. **(1)** • Ignores net cash inflows after payback period. **(1)** • Ignores time value of money. **(1)**		

[END OF SPECIMEN MARKING INSTRUCTIONS]

Published: October 2018

Change since last published:

Amends to marking instructions.