



National
Qualifications
SPECIMEN ONLY

S800/77/11

Accounting

Date — Not applicable

Duration — 2 hours 30 minutes

Total marks — 140

SECTION 1 — 80 marks

Attempt ALL questions.

SECTION 2 — 60 marks

Attempt ALL questions.

You may use a calculator.

You must show your working fully and label it clearly. You will receive no marks for any incorrect figures not supported by working.

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.

You must leave your answer booklet on your desk; if you do not, you could lose all the marks for this paper.



* S 8 0 0 7 7 1 1 *

Formulae Sheet for Variance Analysis

Total Material Cost Variance	$(\text{Standard Quantity for Production} \times \text{Standard Price}) - (\text{Actual Quantity used} \times \text{Actual Price})$
Material Price Variance	$(\text{Standard Price} - \text{Actual Price for Unit}) \times \text{Actual Quantity used}$
Material Usage Variance	$(\text{Standard Quantity for Production} - \text{Actual Quantity used}) \times \text{Standard Price}$
Total Labour Cost Variance	$(\text{Standard Rate} \times \text{Standard Hours for Production}) - (\text{Actual Rate} \times \text{Actual Hours worked})$
Labour Rate Variance	$(\text{Standard Rate} - \text{Actual Rate}) \times \text{Actual Hours worked}$
Labour Efficiency Variance	$(\text{Standard Hours for Production} - \text{Actual Hours worked}) \times \text{Standard Rate}$
Variable Overhead Cost Variance	$(\text{Standard Hours for Production} \times \text{Variable Overhead Absorption Rate}) - \text{Actual Variable Overhead Cost}$
Variable Overhead Expenditure Variance	$(\text{Actual Hours worked} \times \text{Variable Overhead Absorption Rate}) - \text{Actual Variable Overhead Cost}$
Variable Overhead Efficiency Variance	$(\text{Standard Hours for Production} - \text{Actual Hours worked}) \times \text{Variable Overhead Absorption Rate}$
Fixed Overhead Cost Variance	$(\text{Standard Hours/Units for Production} \times \text{Fixed Overhead Absorption Rate}) - \text{Actual Fixed Overhead Cost}$
Fixed Overhead Expenditure Variance	$\text{Budgeted Fixed Overheads} - \text{Actual Fixed Overhead Cost}$
Fixed Overhead Volume Variance	<ol style="list-style-type: none"> 1. $(\text{Standard Hours/Units for Production} \times \text{Fixed Overhead Absorption Rate}) - \text{Budgeted Fixed Overheads}$ 2. $(\text{Actual Activity} - \text{Normal Activity}) \times \text{Fixed Overhead Absorption Rate}$
Total Sales Revenue Variance	$(\text{Actual Selling Price} \times \text{Actual Quantity}) - (\text{Budgeted Selling Price} \times \text{Budgeted Quantity})$
Sales Price Variance	$(\text{Actual Selling Price} - \text{Budgeted Selling Price}) \times \text{Actual Quantity}$
Sales Volume Variance	$(\text{Actual Quantity} - \text{Budgeted Quantity}) \times \text{Budgeted Selling Price}$

[Turn over for next question

DO NOT WRITE ON THIS PAGE

SECTION 1 — 80 marks

MARKS

Attempt ALL questions

1. The following Year 3 information is available for McTeer Ltd which makes a single product.

	Budget	Actual
Sales/Production	60,000 units	55,000 units
Selling Price	£6.50 per unit	£6.70 per unit
Material Quantity	18,000 kg	17,000 kg
Material Price	£4.90 per kg	£4.70 per kg
Labour Hours	12,600 hours	12,100 hours
Labour Cost	£7.80 per hour	£96,380 in total
Variable Overheads	£2.50 per hour	£30,400 in total
Fixed Overheads	£126,000	£120,500

- Variable Overheads are recovered as a rate per direct labour hour
- Fixed Overheads are recovered as a rate per unit produced

(a) Calculate the standard profit of actual sales.

8

For the following year, McTeer Ltd expands output and the following figures are available.

Year 4	Budget	Actual	Variance
Sales/Production (units)	80,000	100,000	
Selling Price	£7.00	£6.40	
DIRECT MATERIALS			
Materials Consumed (kgs)	24,000	28,000	
Total Material Cost	£102,000	£133,000	
DIRECT LABOUR			
Rate per Hour	£8.40	£8.20	
Efficiency Variance			£2,100 A
Rate Variance			£3,800 F
VARIABLE OVERHEADS			
Efficiency Variance			£700 A
Expenditure Variance			£1,800 A
FIXED OVERHEADS	£180,000	£210,000	

1. (continued)

(b) Calculate the following:

- | | |
|---------------------------------------|---|
| (i) • Total Sales Revenue Variance | |
| • Sales Volume Variance | |
| • Sales Price Variance | 4 |
| (ii) • Material Usage Variance | |
| • Material Price Variance | 5 |
| (iii) • Fixed Overhead Cost Variance | |
| • Fixed Overhead Volume Variance | |
| • Fixed Overhead Expenditure Variance | 5 |

(c) Based on your answers to (b), outline one possible reason why each of the following variances may have arisen.

- | | |
|---|---|
| (i) Sales Volume Variance | 1 |
| (ii) Material Price Variance | 1 |
| (iii) Fixed Overhead Expenditure Variance | 1 |

(d) Calculate the following:

- | | |
|---|---|
| (i) Actual Labour Hours worked | 2 |
| (ii) Standard Labour Hours for Production | 2 |
| (iii) Budgeted Labour Hours | 1 |
| (iv) Standard Variable Overhead Absorption Rate | 2 |
| (v) Actual Variable Overheads | 2 |
| (vi) Budgeted Variable Overheads | 1 |

(e) Explain how the causes of the following variances in a firm may be interlinked.

- | | |
|--|---|
| (i) Material Price Variance and Material Usage Variance | 1 |
| (ii) Material Usage Variance and Labour Efficiency Variance | 1 |
| (iii) Labour Rate Variance and Variable Overhead Efficiency Variance | 1 |

(f) Outline 2 factors that managers should consider when using information gathered from a Standard Costing system.

2

[Turn over

2. Craigmuir plc specialises in selling tennis rackets in its chain of shops throughout the UK. Its trial balance at 31 March Year 2 is given below.

	£000	£000
Purchases and Revenue	19,390	32,130
Inventory at 1 April Year 1	4,500	
Finished Goods Warehouse Staff Costs	850	
Sales Staff Salaries and Commission	1,850	
Administration Salaries	3,090	
General Administration Expenses	580	
Advertising Costs	470	
Directors' Remuneration	870	
Debenture Interest paid	50	
Property Cost	15,000	
Property Depreciation at 1 April Year 1		4,500
Shop Fittings: Cost	4,000	
Shop Fittings: Depreciation 1 April Year 1		2,400
Trade Receivables and Payables	7,080	3,800
Cash and Cash Equivalents		2,080
10% Debentures — repayable Year 10		1,000
Ordinary Shares of 50p each		4,000
Share Premium Account		1,300
Retained Earnings at 1 April Year 1		5,720
Suspense Account		1,650
Ordinary Dividend paid	850	
	58,580	58,580

Additional information

1. Inventory at 31 March Year 2 consisted of 3 models of tennis rackets valued as follows.

	Cost	Net Realisable Value
	£000	£000
Junior Jocko	1,320	1,760
Murray Marvel	2,080	2,480
Rafa Reliant	<u>1,800</u>	<u>1,620</u>
	<u>5,200</u>	<u>5,860</u>

2. (continued)

Additional information continued

2. The Suspense Account contains 2 items that have been correctly entered in the company's Bank Account but the other entries have not yet been made.
 - The receipt of £1.5m from a new issue of 500,000 ordinary shares, which have a par value of 50p each.
 - The sale of some surplus property for £150,000 that originally cost £1m and had a net book value at the date of sale of £100,000.
3. The Board of Directors comprises 3 members: a Finance Director, a Sales Director and a Purchasing Director. The directors are all paid the same level of remuneration.
4. Included in property is land at a cost of £3,000,000. Following the advice of an independent surveyor, the Board of Directors wishes to revalue the land at £3,500,000.
5. The company depreciation policy is as follows.

Property (excluding land)	5% per annum on a straight line basis
Shop Fittings	15% per annum on a reducing balance basis

Depreciation on property is to be split 10% to cost of sales, 20% to administration and 70% to selling and distribution expenses.

Depreciation on shop fittings is all charged to selling and distribution expenses.

There is no depreciation charged in the year of sale.
6. Corporation tax for the year is estimated to be £1,240,000.

In accordance with IAS 1: Presentation of Financial Statements, you are required to prepare the following for Craigmuir plc.

- | | |
|---|----|
| (a) An Income Statement for the year ended 31 March Year 2 | 17 |
| (b) A Statement of Retained Earnings for the year ended 31 March Year 2 | 3 |
| (c) A Statement of Financial Position as at 31 March Year 2 | 20 |

[Turn over

SECTION 2 — 60 marks

Attempt ALL questions

3. PART A

Lyall and Rogers have equity of £160,000 and £90,000, respectively, in their partnership. They have decided to end their partnership, and at this time, the current account balances are £21,800 (Cr) and £28,000 (Cr) respectively.

The value of assets and liabilities are as follows.

	£
Assets	
Property	320,000
Fittings and Equipment	40,000
Vehicles	13,300
Inventory	7,000
Trade Receivables	5,000
Cash and Cash Equivalents	3,600
Liabilities	
Trade Payables	7,100
Mortgage	62,000
Loan from Lyall	20,000

The following information relates to the dissolution of the partnership.

1. Rogers agreed to take over the following assets. Their valuations are as follows.

Fittings and Equipment	£41,000
Vehicles	£11,300
Inventory	£6,000

2. Proceeds from the sale of property are £306,000.
3. Discounts allowed are £200. Bad debts written off amount to £800.
4. Payments made by cheque are as follows.

Dissolution expenses	£13,300
Mortgage payment	£62,000
Loan repayment to Lyall	£20,000
Trade Payables	£6,800

5. Profits and losses are split in the ratio of equity invested.
6. Cash and Cash Equivalents represent the balance in the partnership bank account.

3. PART A (continued)

You are required to:

- (a) calculate the profit or loss on dissolution attributable to both Lyall and Rogers. 7
- (b) show the entries necessary to record the dissolution of the partnership in
- (i) the equity accounts of both partners 4
- (ii) the firm's bank account. 8

3. PART B

Clova plc makes all its investment in 2 mutually exclusive projects. It makes all decisions based on the Internal Rate of Return.

Clova plc has calculated the following financial information.

	Year	Project A
Initial Cost		£200,000
Additional Cost	2	£10,000
Cash Inflows	1	£110,000
	2	£65,000
	3	£50,000
	4	£47,000

The cost of borrowing for the firm is 10%.

DISCOUNT TABLE (FROM 10% TO 15%)						
Present value of £1 received after n years discounted at i%						
i	10	11	12	13	14	15
n						
1	0.909	0.901	0.893	0.885	0.877	0.870
2	0.826	0.812	0.797	0.783	0.769	0.756
3	0.751	0.731	0.712	0.693	0.675	0.658
4	0.683	0.659	0.636	0.613	0.592	0.572
5	0.621	0.593	0.567	0.543	0.519	0.497

Project B has an Internal Rate of Return of 13.7%.

- (i) Calculate the Internal Rate of Return for Project A. 9
- (ii) Explain which project Clova plc should invest in. 2

[Turn over

4. Johnstone plc manufactures a range of confectionery products including Red Strip chocolate bars. The following information has been made available for the production and sale of these chocolate bars.

Red Strip chocolate bars

Unit costs

Variable overheads	£0.15
Direct materials	£0.45
Direct labour	£0.20

- Selling price per box of 20 bars — £30
- Normal production is expected to be 30,000 bars per month
- Fixed overheads are estimated at £6,000 per month

The following data applies to the 3 months ended 30 September Year 3.

Production (units)		Inventories held (units)		Actual fixed overheads incurred	
		1 July	1,400		
July	27,000	31 July	1,800	July	£6,000
August	26,000	31 August	2,800	August	£4,200
September	31,000	30 September	4,000	September	£5,400

- | | |
|--|----|
| (a) Calculate the fixed overhead absorption rate to be applied. | 1 |
| (b) Calculate the sales value for the months of July to September Year 3. | 7 |
| (c) Calculate the closing inventory values for each of the 3 months using Marginal and Absorption Costing. | 6 |
| (d) Prepare the Absorption Costing Profit Statement for each of the 3 months July to September Year 3. | 13 |
| (e) Justify the use of Marginal Costing for a business. | 3 |

[END OF SPECIMEN QUESTION PAPER]

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.

Marking instructions for each question

Section 1

Question			Expected response(s)					Max mark	Additional guidance
1.	(a)			£		£		8	<p>Materials</p> <p>(18,000 kg/60,000 units) × 55,000 units = 16,500 standard kg.</p> <p>Labour</p> <p>(12,600 hours/60,000 units) × 55,000 units = 11,550 standard hours.</p> <p>Standard profit of actual sales must be labelled for the mark. Check consequentiality.</p>
			Sales (55,000 × £6.50)			357,500	(1)		
			Materials (16,500 (1) × £4.90)	80,850	(1)				
			Labour (11,550 (1) × £7.80)	90,090	(1)				
			Variable OH (11,550 × £2.50)	28,875	(1)				
			Fixed OH (£126,000 × 55,000/60,000)	115,500	(1)	<u>315,315</u>			
			Standard profit of actual sales			42,185	(1)		

Question			Expected response(s)	Max mark	Additional guidance
	(b)	(i)	Total Sales Revenue Variance $(100,000 \times £6.40) - (80,000 \times £7.00) =$ $640,000 - 560,000 = \quad \quad \quad £80,000 \text{ F} \quad (1)$ Sales Volume Variance $(100,000 - 80,000) \times £7.00 = \quad \quad \quad £140,000 \text{ F} \quad (1)$ Sales Price Variance $(£6.40 - £7.00) \times 100,000 = \quad \quad \quad £60,000 \text{ A} \quad (1)$ Correct identification of ALL variances as favourable (F) or adverse (A) (1)	4	Accept declaration of variances consequential to calculation.
		(ii)	Material Usage Variance $(24,000/80,000) \times 100,000 = 30,000 \text{ (1)}$ $£102,000/24,000 = £4.25 \text{ (1)}$ $(30,000 - 28,000) \times £4.25 = \quad \quad \quad £8,500 \text{ F} \text{ (1)}$ Material Price Variance $(£4.25 - £4.75) \times 28,000 = \quad \quad \quad £14,000 \text{ A} \text{ (1)}$ Correct identification of ALL variances as favourable (F) or adverse (A) (1)	5	Accept declaration of variances consequential to calculation.

Question			Expected response(s)	Max mark	Additional guidance
		(iii)	<p>Fixed Overhead Cost Variance</p> <p>$(£180,000/80,000) \times 100,000 =$ £225,000 (1)</p> <p>$£225,000 - £210,000 =$ £15,000 F (1)</p> <p>Fixed Overhead Volume Variance</p> <p>$£225,000 - £180,000 =$ £45,000 F (1)</p> <p>Fixed Overhead Expenditure Variance</p> <p>$£180,000 - £210,000 =$ £30,000 A (1)</p> <p>Correct identification of ALL variances as favourable (F) or adverse (A) (1)</p>	5	Accept declaration of variances consequential to calculation. Answer consequential on Cost Variance.

Question			Expected response(s)	Max mark	Additional guidance
	(c)	(i)	<ul style="list-style-type: none"> • an unexpected rise in market demand due to the product being in fashion • competitors raise their prices, resulting in a higher demand for your product • unexpected new contracts • unexpected orders • extra advertising or marketing resulting in higher sales 	1	<p>Award 1 mark for any relevant point.</p> <p>Answer can be the opposite as consequential on answer to (b)(i).</p>
		(ii)	<ul style="list-style-type: none"> • price unexpectedly raised by suppliers (must indicate that price rise was unexpected) • shortage of materials has raised prices • buying better quality materials • higher than expected inflation • not taking advantage of bulk buying • ordering smaller quantities of materials 	1	<p>Award 1 mark for any relevant point.</p> <p>Answer can be the opposite as consequential on answer to (b)(ii).</p>
		(iii)	<ul style="list-style-type: none"> • an unexpected rise in costs, for example rent • additional advertising or marketing costs to boost sales • new machinery purchased which has led to higher depreciation 	1	<p>Award 1 mark for any relevant point.</p> <p>Answer can be the opposite as consequential on answer to (b) (iii).</p>

Question			Expected response(s)	Max mark	Additional guidance
	(d)	(i)	<p>Labour Rate Variance = (Standard Rate – Actual Rate) × Actual Hours worked</p> <p>Actual Hours worked = $\frac{\text{Labour Rate Variance}}{(\text{Standard Rate} - \text{Actual Rate})}$</p> <p>£8.40 – £8.20 = £0.20 (1)</p> <p>£3,800/£0.20 = 19,000 hours (1)</p>	2	
		(ii)	<p>Labour Efficiency Variance = (Standard Hours for Production – Actual Hours worked) × Standard Rate</p> <p>Standard Hours for Production = Actual Hours worked – $\frac{\text{Labour Efficiency Variance}}{\text{Standard Rate}}$</p> <p>£2,100/£8.40 = 250 (1)</p> <p>19,000 – 250 = 18,750 hours (1)</p>	2	Answer is consequential on answer to (d)(i).
		(iii)	18,750/100,000 × 80,000 = 15,000 hours	1	Answer is consequential on answer to (d)(ii).

Question			Expected response(s)	Max mark	Additional guidance
		(iv)	<p>Variable Overhead Efficiency Variance = (Standard Hours for Production – Actual Hours worked) × Variable Overhead Absorption Rate</p> <p>Variable Overhead Absorption Rate = $\frac{\text{Variable Overhead Efficiency Variance}}{(\text{Standard Hours for Production} - \text{Actual Hours worked})}$</p> <p>18,750 – 19,000 = 250 (1)</p> <p>£700/250 = £2.80 (1)</p>	2	Answer is consequential on answers to (d)(i) and (ii).
		(v)	<p>Variable Overhead Expenditure Variance = (Actual Hours worked × Variable Overhead Absorption Rate) – Actual Variable Overhead Cost</p> <p>Actual Variable Overhead Cost = (Actual Hours worked × Variable Overhead Absorption Rate) + Variable Overhead Expenditure Variance</p> <p>19,000 × £2.80 = £53,200 (1)</p> <p>£53,200 + £1,800 = £55,000 (1)</p>	2	Answer is consequential on answer to (d)(iv).
		(vi)	15,000 × £2.80 = £42,000	1	Answer is consequential on answers to (d)(iii) and (iv).

Question			Expected response(s)	Max mark	Additional guidance
	(e)	(i)	<ul style="list-style-type: none"> There may be a favourable Material Price Variance due to poorer quality material being used (ID). This may result in a high wastage level, leading to an adverse Material Usage Variance (EXP). <p>(Note: answer may be vice versa – explaining adverse Material Price Variance and favourable Material Usage Variance)</p>	1	Award 1 mark for any relevant point.
		(ii)	<ul style="list-style-type: none"> There may be an adverse Material Usage Variance due to machine breakdowns or high levels of breakages or high wastage (ID). This may result in more time for production, leading to an adverse Labour Efficiency Variance (EXP). <p>(Note: answer may be vice versa – explaining 2 favourable variances)</p>	1	Award 1 mark for any relevant point.
		(iii)	<ul style="list-style-type: none"> There may be an adverse Labour Rate Variance due to higher quality (more expensive) workers being hired (ID). This may result in increased efficiency, causing a favourable Variable Overhead Efficiency Variance (EXP). <p>(Note: answer may be vice versa – explaining favourable Labour Rate Variance and adverse Variable Overhead Efficiency Variance)</p>	1	Award 1 mark for any relevant point.
	(f)		<ul style="list-style-type: none"> standards can become outdated and unrepresentative changes can occur in production methods, machinery, labour rates or efficiency the time and cost of constantly updating standards could mean they are not up to date fluctuations in the value of money or inflation data for standards could be misleading if the information is not collected accurately existing standards may not reflect the current or near-future situation staff may have manipulated the data, to ensure favourable variances 	2	Award 1 mark for any relevant point.

Question			Expected response(s)	Max mark	Additional guidance																																							
2.	(a)		<p>Craigmuir plc</p> <p>Income Statement for the year ended 31 March Year 2</p> <table><tr><td></td><td>£000</td><td></td></tr><tr><td>Revenue</td><td>32,130</td><td>(1)</td></tr><tr><td>Cost of Sales</td><td>(19,215)</td><td>(see working below ♦) (3)</td></tr><tr><td>Gross Profit</td><td>12,915</td><td></td></tr><tr><td>Selling and Distribution Expenses (S & D)</td><td>(4,085)</td><td>(see working below *) (3)</td></tr><tr><td>Administration Expenses</td><td>(4,070)</td><td>(see working below ø) (6)</td></tr><tr><td>Profit from Operations</td><td>4,760</td><td></td></tr><tr><td>Gain on Sale of Property</td><td><u>50</u></td><td>150 (1) – 100 (1)</td></tr><tr><td>Profit before Finance Costs</td><td>4,810</td><td></td></tr><tr><td>Finance Costs</td><td>(<u>100</u>)</td><td>(10% × 1,000) (1)</td></tr><tr><td>Profit before Tax</td><td>4,710</td><td></td></tr><tr><td>Tax</td><td>(<u>1,240</u>)</td><td>(1)</td></tr><tr><td>Profit for the Year</td><td>3,470</td><td></td></tr></table>		£000		Revenue	32,130	(1)	Cost of Sales	(19,215)	(see working below ♦) (3)	Gross Profit	12,915		Selling and Distribution Expenses (S & D)	(4,085)	(see working below *) (3)	Administration Expenses	(4,070)	(see working below ø) (6)	Profit from Operations	4,760		Gain on Sale of Property	<u>50</u>	150 (1) – 100 (1)	Profit before Finance Costs	4,810		Finance Costs	(<u>100</u>)	(10% × 1,000) (1)	Profit before Tax	4,710		Tax	(<u>1,240</u>)	(1)	Profit for the Year	3,470		17	The table below shows detailed working for these figures and allocation of specific marks.
	£000																																											
Revenue	32,130	(1)																																										
Cost of Sales	(19,215)	(see working below ♦) (3)																																										
Gross Profit	12,915																																											
Selling and Distribution Expenses (S & D)	(4,085)	(see working below *) (3)																																										
Administration Expenses	(4,070)	(see working below ø) (6)																																										
Profit from Operations	4,760																																											
Gain on Sale of Property	<u>50</u>	150 (1) – 100 (1)																																										
Profit before Finance Costs	4,810																																											
Finance Costs	(<u>100</u>)	(10% × 1,000) (1)																																										
Profit before Tax	4,710																																											
Tax	(<u>1,240</u>)	(1)																																										
Profit for the Year	3,470																																											

Question			Expected response(s)						Max mark	Additional guidance
			Detailed working for question 2(a)							
				Cost of Sales ♦		S & D *		Admin ø		
				£000		£000		£000		
			Purchases	19,390	} (1)					
			Opening Inventory	4,500						
			Staff Costs: FG warehouse			850	} (1)			
			Staff Costs: Sales			1,850				
			Staff Costs: Administration					3,090	} (1)	
			General Administration					580		
			Advertising			470	(1)			
			Directors' Remuneration	290		290		290		For correct split across ALL 3 categories (1)
			Depreciation: Property (net of land)							£15,000 – £3,000 (1) = £12,000
			Value (net of disposed asset)							(£12,000 – £1,000) (1) × 5% (1) = £550
			Depreciation: Property	550 × 10% = 55		550 × 70% = 385		550 × 20% = 110		For correct apportionment across 3 expense areas (1)
			Depreciation: Shop Fittings			240	(1)			
			Closing Inventory	5,020	(1,320 + 2,080) (1) + 1,620 (1)					
				19,215		4,085		4,070		

Question			Expected response(s)					Max mark	Additional guidance																																																																														
2.	(b)		<p>Craigmuir plc</p> <p>Statement of Retained Earnings for the year ended 31 March Year 2</p> <table><tr><td></td><td>£000</td><td></td></tr><tr><td>Opening Retained Earnings</td><td>5,720</td><td>(1)</td></tr><tr><td>Profit for the Year</td><td>3,470</td><td>(1)</td></tr><tr><td>Dividends Paid</td><td>(850)</td><td>(1)</td></tr><tr><td>Closing Retained Earnings</td><td>8,340</td><td></td></tr></table>						£000		Opening Retained Earnings	5,720	(1)	Profit for the Year	3,470	(1)	Dividends Paid	(850)	(1)	Closing Retained Earnings	8,340		3																																																																
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	(c)		<p>Craigmuir plc</p> <p>Statement of Financial Position as at 31 March Year 2</p> <table><tr><td></td><td></td><td>£000</td><td></td><td>£000</td><td></td></tr><tr><td>Non-Current Assets</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Property</td><td>See working below (5)</td><td>10,350</td><td></td><td></td><td></td></tr><tr><td>Shop Fittings</td><td>4,000 (1) – (2,400 + 240) (1)</td><td><u>1,360</u></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td>11,710</td><td></td></tr><tr><td>Current Assets</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Inventory</td><td></td><td>5,020</td><td>(1)</td><td></td><td></td></tr><tr><td>Trade Receivables</td><td></td><td><u>7,080</u></td><td>(1)</td><td><u>12,100</u></td><td></td></tr><tr><td>Total Assets</td><td></td><td></td><td></td><td>23,810</td><td></td></tr><tr><td>Current Liabilities</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Trade and Other Payables</td><td>3,800 (1) + 50 (1)</td><td>(3,850)</td><td></td><td></td><td></td></tr><tr><td>Cash and Cash Equivalents</td><td></td><td>(2,080)</td><td>(1)</td><td></td><td></td></tr><tr><td>Taxation Payable</td><td></td><td>(1,240)</td><td>(1)</td><td>(7,170)</td><td></td></tr></table>							£000		£000		Non-Current Assets						Property	See working below (5)	10,350				Shop Fittings	4,000 (1) – (2,400 + 240) (1)	<u>1,360</u>								11,710		Current Assets						Inventory		5,020	(1)			Trade Receivables		<u>7,080</u>	(1)	<u>12,100</u>		Total Assets				23,810		Current Liabilities						Trade and Other Payables	3,800 (1) + 50 (1)	(3,850)				Cash and Cash Equivalents		(2,080)	(1)			Taxation Payable		(1,240)	(1)	(7,170)		20	
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Question			Expected response(s)						Max mark	Additional guidance																																																																								
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Question 3 PART A

Question			Expected response(s)					Max mark	Additional guidance																																																																										
	(a)		<div><div>Realisation Account</div><table><thead><tr><th></th><th>Dr</th><th></th><th>Cr</th><th></th><th>Balance</th></tr></thead><tbody><tr><td>Property</td><td>£320,000</td><td></td><td></td><td></td><td>£320,000 Dr</td></tr><tr><td>Fittings and Equipment</td><td>£40,000</td><td rowspan="4">} (1)</td><td></td><td></td><td>£360,000 Dr</td></tr><tr><td>Vehicles</td><td>£13,300</td><td></td><td></td><td>£373,300 Dr</td></tr><tr><td>Trade Receivables</td><td>£5,000</td><td></td><td></td><td>£378,300 Dr</td></tr><tr><td>Inventory</td><td>£7,000</td><td></td><td></td><td>£385,300 Dr</td></tr><tr><td>Sale of Property</td><td></td><td></td><td>£306,000</td><td>(1)</td><td>£79,300 Dr</td></tr><tr><td>Actual Trade Receivables</td><td></td><td></td><td>£4,000</td><td>(1)</td><td>£75,300 Dr</td></tr><tr><td>Assets transferred to Rogers</td><td></td><td></td><td>£58,300</td><td>(1)</td><td>£17,000 Dr</td></tr><tr><td>Discount Received</td><td></td><td></td><td>£300</td><td>(1)</td><td>£16,700 Dr</td></tr><tr><td>Dissolution Expenses</td><td>£13,300</td><td>(1)</td><td></td><td></td><td>£30,000 Dr</td></tr><tr><td>Loss on Dissolution – Lyall</td><td></td><td></td><td>£19,200</td><td rowspan="2">} (1)</td><td>£10,800 Dr</td></tr><tr><td>Loss on Dissolution – Rogers</td><td></td><td></td><td>£10,800</td><td>£0</td></tr></tbody></table></div>						Dr		Cr		Balance	Property	£320,000				£320,000 Dr	Fittings and Equipment	£40,000	} (1)			£360,000 Dr	Vehicles	£13,300			£373,300 Dr	Trade Receivables	£5,000			£378,300 Dr	Inventory	£7,000			£385,300 Dr	Sale of Property			£306,000	(1)	£79,300 Dr	Actual Trade Receivables			£4,000	(1)	£75,300 Dr	Assets transferred to Rogers			£58,300	(1)	£17,000 Dr	Discount Received			£300	(1)	£16,700 Dr	Dissolution Expenses	£13,300	(1)			£30,000 Dr	Loss on Dissolution – Lyall			£19,200	} (1)	£10,800 Dr	Loss on Dissolution – Rogers			£10,800	£0	7	<div>Be aware of consequentiality for the ‘Loss of Dissolution’.</div> <div>No need for actual ledger account to be prepared.</div>
	Dr		Cr		Balance																																																																														
Property	£320,000				£320,000 Dr																																																																														
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Question			Expected response(s)				Max mark	Additional guidance
	(b)	(i)	Equity Accounts Opening Balance £160,000 Cr £90,000 Cr (1) Current Account £21,800 Cr £28,000 Cr (1) Transfer of Assets £58,300 Dr (1) Loss on Realisation <u>£19,200</u> Dr <u>£10,800</u> Dr (1) Bank £162,600 Cr £48,900 Cr				4	Be aware of consequentiality. No need for actual ledger account to be prepared.
		(ii)	Bank Account <div style="display: flex; justify-content: space-around;"> Dr Cr Balance </div> Balance £3,600 (1) £3,600 Dr Trade Receivables £4,000 (1) £7,600 Dr Property £306,000 (1) £313,600 Dr Dissolution Expenses £13,300 (1) £300,300 Dr Mortgage £62,000 (1) £238,300 Dr Loan £20,000 (1) £218,300 Dr Trade Payables £6,800 (1) £211,500 Dr Equity – Lyall £162,600 (1) £48,900 Dr Equity – Rogers £48,900 } £0				8	Be aware of consequentiality. Ignore balances. Final equity figures must be from 'Equity Accounts'. Do not award mark if the figures are split 64%/36%. No need for actual ledger account to be prepared.

Question 3 PART B

Question			Expected response(s)					Max mark	Additional guidance																																																																							
		(i)	<p>PROJECT A</p> <table><tr><th>Year</th><th>Net cash in</th><th>Factor 10%</th><th>NPV</th><th>Factor 15%</th><th>NPV</th><th></th></tr><tr><td>1</td><td>£110,000</td><td>0.909</td><td>£99,990</td><td>0.870</td><td>£95,700</td><td>(1)</td></tr><tr><td>2</td><td>£55,000 (1)</td><td>0.826</td><td>£45,430</td><td>0.756</td><td>£41,580</td><td>(1)</td></tr><tr><td>3</td><td>£50,000</td><td>0.751</td><td>£37,550</td><td>0.658</td><td>£32,900</td><td>(1)</td></tr><tr><td>4</td><td>£47,000</td><td>0.683</td><td>£32,101</td><td>0.572</td><td>£26,884</td><td>(1)</td></tr><tr><td colspan="2">Total present value</td><td></td><td>£215,071</td><td></td><td>£197,064</td><td></td></tr><tr><td colspan="2">Less initial cost</td><td></td><td>£200,000</td><td></td><td>£200,000</td><td></td></tr><tr><td colspan="2">NET PRESENT VALUE</td><td></td><td>£15,071</td><td></td><td>(£2,936)</td><td>(1)</td></tr></table> <p>INTERNAL RATE OF RETURN (IRR) – PROJECT A</p> <table><tr><td>(1)</td><td>(1)</td><td>(1)</td><td></td><td></td></tr><tr><td colspan="3">10 + (15,071 / (15,071 + 2,936) × 5)</td><td></td><td></td></tr><tr><td colspan="3">IRR is 14.185%</td><td></td><td></td></tr></table>					Year	Net cash in	Factor 10%	NPV	Factor 15%	NPV		1	£110,000	0.909	£99,990	0.870	£95,700	(1)	2	£55,000 (1)	0.826	£45,430	0.756	£41,580	(1)	3	£50,000	0.751	£37,550	0.658	£32,900	(1)	4	£47,000	0.683	£32,101	0.572	£26,884	(1)	Total present value			£215,071		£197,064		Less initial cost			£200,000		£200,000		NET PRESENT VALUE			£15,071		(£2,936)	(1)	(1)	(1)	(1)			10 + (15,071 / (15,071 + 2,936) × 5)					IRR is 14.185%					9	
Year	Net cash in	Factor 10%	NPV	Factor 15%	NPV																																																																											
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10 + (15,071 / (15,071 + 2,936) × 5)																																																																																
IRR is 14.185%																																																																																
		(ii)	<p>Project A should be supported, as the IRR is greater than that of project B. (1)</p> <p>The higher the IRR, the more profitable the project is likely to be. (1 dev)</p> <p>While both IRR figures are greater than the cost of equity, project A is the highest. (1 dev)</p> <p>Accept any other reasonable answer.</p>					2	<p>Award 1 mark per valid explanation, up to a maximum of 2 marks.</p> <p>Award 1 mark for a suitable development.</p> <p>Be aware of consequentiality.</p>																																																																							

Question			Expected response(s)	Max mark	Additional guidance																																			
4.	(a)		£6,000/30,000 units = £0.20 per unit	1																																				
	(b)		<table><tr><th>Sales</th><th>July</th><th>August</th><th>September</th><th></th></tr><tr><td>Opening Inventory</td><td>1,400</td><td>1,800</td><td>2,800</td><td>(#)</td></tr><tr><td>Production</td><td>27,000</td><td>26,000</td><td>31,000</td><td>(1)</td></tr><tr><td>Closing Inventory</td><td>1,800</td><td>2,800</td><td>4,000</td><td>(#1)</td></tr><tr><td>Sales in bars</td><td>26,600</td><td>25,000</td><td>29,800</td><td>(2*)</td></tr><tr><td>Sales in boxes</td><td>1,330</td><td>1,250</td><td>1,490</td><td>(2*)</td></tr><tr><td>Sales value</td><td>£39,900</td><td>£37,500</td><td>£44,700</td><td>(1 line)</td></tr></table>	Sales	July	August	September		Opening Inventory	1,400	1,800	2,800	(#)	Production	27,000	26,000	31,000	(1)	Closing Inventory	1,800	2,800	4,000	(#1)	Sales in bars	26,600	25,000	29,800	(2*)	Sales in boxes	1,330	1,250	1,490	(2*)	Sales value	£39,900	£37,500	£44,700	(1 line)	7	# Award 1 mark for correct entry of ALL opening and closing inventory figures. * Award 1 mark for July and 1 mark for replication (August and September).
Sales	July	August	September																																					
Opening Inventory	1,400	1,800	2,800	(#)																																				
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	(c)		Marginal Costing July – $(0.15 + 0.45 + 0.20) \times 1,800 = \text{£}1,440$ (*1 + 1) August – $\times 2,800 = \text{£}2,240$ September – $\times 4,000 = \text{£}3,200$ (**1) Absorption Costing July – $(0.15 + 0.45 + 0.20 + 0.20) \times 1,800 = \text{£}1,800$ (*1 + 1) August – $\times 2,800 = \text{£}2,800$ September – $\times 4,000 = \text{£}4,000$ (**1)	6	* Award 1 mark each for calculating the marginal and absorption rate. Award 1 mark each for the closing inventory values (July) for marginal and absorption costing. ** Award 1 mark each for replication of inventory values (August and September) for marginal costing and absorption costing.																																			

Question			Expected response(s)	Max mark	Additional guidance																																																		
	(d)		<p>Absorption Costing Profit Statement</p> <table><tr><th></th><th>July £</th><th>August £</th><th>September £</th><th></th></tr><tr><td>Sales</td><td>39,900</td><td>37,500</td><td>44,700</td><td>(1 line)</td></tr><tr><td>Opening Inventory</td><td>(1) 1,400</td><td>1,800</td><td>2,800</td><td>(#)</td></tr><tr><td>Variable Cost</td><td>21,600</td><td>20,800</td><td>24,800</td><td>(2*)</td></tr><tr><td>F/O Absorbed</td><td>5,400</td><td>5,200</td><td>6,200</td><td>(2*)</td></tr><tr><td>Closing Inventory</td><td>1,800</td><td>2,800</td><td>4,000</td><td>(1#)</td></tr><tr><td>Total Costs</td><td>26,600</td><td>25,000</td><td>29,800</td><td>(1 line)</td></tr><tr><td>Profit</td><td>13,300</td><td>12,500</td><td>14,900</td><td>(1 line @)</td></tr><tr><td>Over/Under Absorption</td><td>(600)</td><td>1,000</td><td>800</td><td>(3**)</td></tr><tr><td>Profit</td><td>12,700</td><td>13,500</td><td>15,700</td><td>(1 line @)</td></tr></table>		July £	August £	September £		Sales	39,900	37,500	44,700	(1 line)	Opening Inventory	(1) 1,400	1,800	2,800	(#)	Variable Cost	21,600	20,800	24,800	(2*)	F/O Absorbed	5,400	5,200	6,200	(2*)	Closing Inventory	1,800	2,800	4,000	(1#)	Total Costs	26,600	25,000	29,800	(1 line)	Profit	13,300	12,500	14,900	(1 line @)	Over/Under Absorption	(600)	1,000	800	(3**)	Profit	12,700	13,500	15,700	(1 line @)	13	<p>Award 1 mark for the July opening inventory entry being correct.</p> <p># Award 1 mark for ALL other opening and closing inventory entries being correct.</p> <p>* Award 1 mark for calculation of July, 1 mark for replication (August and September).</p> <p>@ must be labelled.</p> <p>** Award 1 mark for calculation of July, and 1 mark for replication (Aug and Sept). Award final mark where under/over absorption is clearly shown for ALL 3 months. Accept separate line stating under or over or use of () or - symbol within calculations.</p>
	July £	August £	September £																																																				
Sales	39,900	37,500	44,700	(1 line)																																																			
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Question			Expected response(s)	Max mark	Additional guidance
	(e)		<ul style="list-style-type: none"> • easier to understand than absorption costing • useful for management and pricing policies • unit cost does not vary with level of activity, as with absorption of fixed costs • adjustment for over/under absorption of fixed costs is unnecessary • contribution is a good basis for short-term decision making, for example, what product mix to produce, whether to accept a special order, make or buy decisions 	3	Award 1 mark per valid justification, up to a maximum of 3 marks .

[END OF SPECIMEN MARKING INSTRUCTIONS]

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Change since last published:

Change in the Formulae sheet.

Change to the responses to Question 1(b)(iii) in marking instructions.

Review of the housestyle guideline throughout the document.