



National  
Qualifications  
2015

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# 2015 Accounting

## New Higher

### Finalised Marking Instructions

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## General Marking Principles for Higher Accounting

This information is provided to help you understand the general principles you must apply when marking candidate responses to questions in this paper. These principles must be read in conjunction with the detailed marking instructions, which identify the key features required in candidate responses.

- (a) Marks for each candidate response must always be assigned in line with these General Marking Principles and the Detailed Marking Instructions for this assessment.
- (b) Marking should always be positive. This means that, for each candidate response, marks are accumulated for the demonstration of relevant skills, knowledge and understanding: they are not deducted from a maximum on the basis of errors or omissions.
- (c) If a specific 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.
- (d) Consequentiality subsequent to a calculative error must be followed through, with credit being given for any errors in subsequent calculations or working.
- (e) Scored out or erased working which has not been replaced should be marked where still legible. However, if the scored out or erased working has been replaced, only the work which has not been scored out should be marked.
- (f) (i) For questions that ask candidates to “Describe ...”

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:

- **1 mark** should be given for each relevant factual point.
- **1 mark** should be given for any further development of a relevant point, including exemplification when appropriate.

- (ii) For questions that ask candidates to “Outline ...”

Candidates must make a number of brief statements appropriate to the question asked. These may include facts, features or characteristics.

Up to the total mark allocation for this question:

- **1 mark** should be given for each accurate statement.

Detailed Marking Instructions for each question

Section 1

Question			Expected Answer(s)	Max Mark	Additional Guidance			
1.	(a)	(i)	Income Statement (Trading, Profit and Loss) for Thomson and Affleck for year ending 30 December Year 2 ✓					
				£	£	£		
			Revenue (Sales)			160,000	1 for both	
			Less Revenue Returns (Sales Returns)			10,000		
						150,000		
			LESS COST OF SALES (GOODS SOLD)					
			Opening Inventory (Stock)		15,000		1 for opening and closing	
			Add Purchases	30,000			1 for both	
			Add Carriage In	<u>2,000</u>	<u>32,000</u>			
					47,000			
			Less Closing Inventory (Stock)		<u>5,000</u>			
					42,000			
			Add Warehouse Wages	2,000			1 for here and expenses	Wrong effect lose award for both Warehouse expenses.
			Add Warehouse Rent	<u>1,500</u>	<u>3,500</u>		1 for here and expenses	
			COST OF SALES (GOODS SOLD)			45,500		
			GROSS PROFIT ✓			104,500		

Question	Expected Answer(s)	Max Mark	Additional Guidance
	LESS EXPENSES		
	Wages	1,000	As above
	Rates (4-1)	3,000	1
	Electricity (6+2)	8,000	1
	Rent	500	As above
	Interest on Partners Loan (20*5%/2)	500	1
	Depreciation on Vehicles	8,000	1
	Depreciation on Machinery	32,500	1
	Discounts allowed	2,000	55,500
			49,000
	ADD INCOME		
	Decrease in provision for bad debts	1,000	1
	Add Discount Received	3,000	4,000
	PROFIT FOR THE YEAR (NET PROFIT)		53,000
	ADD INTEREST ON DRAWINGS		
	Thomson	320	
	Affleck	240	560
			53,560
	LESS APPROPRIATIONS		
	Interest on Equity (Capital)		
	Thomson	1,500	
	Affleck	750	1 for both
	Salary - Thomson	5,500	7,750
	Residual Profit		45,810
	SHARE OF PROFIT		
	Thomson (2/3)	30,540	
	Affleck (1/3)	15,270	45,810
	ONE FOR ALL LABELS AND HEADINGS CORRECT		17 total

Question	Expected Answer(s)	Max Mark	Additional Guidance																																																																																																
(ii)	<p>CURRENT ACCOUNT THOMSON</p> <table border="1"> <thead> <tr> <th>DATE</th> <th>DETAILS</th> <th>DR</th> <th>CR</th> <th>BALANCE</th> <th></th> </tr> </thead> <tbody> <tr> <td></td> <td>Balance</td> <td></td> <td>7,000</td> <td>7,000</td> <td></td> </tr> <tr> <td></td> <td>Interest on Drawings</td> <td>320</td> <td></td> <td>6,680</td> <td></td> </tr> <tr> <td></td> <td>Drawings</td> <td>8,000</td> <td></td> <td>1,320</td> <td></td> </tr> <tr> <td></td> <td>Interest on Capital</td> <td></td> <td>1,500</td> <td>180</td> <td></td> </tr> <tr> <td></td> <td>Salary</td> <td></td> <td>5,500</td> <td>5,680</td> <td>c</td> </tr> <tr> <td></td> <td>Share of Profit</td> <td></td> <td>30,540</td> <td>36,220</td> <td>c</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>CURRENT ACCOUNT AFFLECK</p> <table border="1"> <thead> <tr> <th>DATE</th> <th>DETAILS</th> <th>DR</th> <th>CR</th> <th>BALANCE</th> <th></th> </tr> </thead> <tbody> <tr> <td></td> <td>Balance</td> <td>2,000</td> <td></td> <td>2,000</td> <td>1 for opening balances, layout and nomenclature.</td> </tr> <tr> <td></td> <td>Interest on Drawings</td> <td>240</td> <td></td> <td>2,240</td> <td>1 for both.</td> </tr> <tr> <td></td> <td>Drawings</td> <td>6,000</td> <td></td> <td>8,240</td> <td>1 for both.</td> </tr> <tr> <td></td> <td>Interest on Capital</td> <td></td> <td>750</td> <td>7,490</td> <td>1 for both.</td> </tr> <tr> <td></td> <td>Interest on Loan</td> <td></td> <td>500</td> <td>6,990</td> <td>1 for interest on loan and salary - c</td> </tr> <tr> <td></td> <td>Share of Profit</td> <td></td> <td>15,270</td> <td>8,280</td> <td>1 for both - c</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td>6 total</td> </tr> </tbody> </table>	DATE	DETAILS	DR	CR	BALANCE			Balance		7,000	7,000			Interest on Drawings	320		6,680			Drawings	8,000		1,320			Interest on Capital		1,500	180			Salary		5,500	5,680	c		Share of Profit		30,540	36,220	c							DATE	DETAILS	DR	CR	BALANCE			Balance	2,000		2,000	1 for opening balances, layout and nomenclature.		Interest on Drawings	240		2,240	1 for both.		Drawings	6,000		8,240	1 for both.		Interest on Capital		750	7,490	1 for both.		Interest on Loan		500	6,990	1 for interest on loan and salary - c		Share of Profit		15,270	8,280	1 for both - c						6 total		
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Question	Expected Answer(s)	Max Mark	Additional Guidance			
	STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) OF THOMSON AND AFFLECK AS AT 31 DECEMBER YEAR 2 ✓ 1*					
		£COST	£DEPN	£NBV		
	NON-CURRENT ASSETS (FIXED ASSETS)					
	Vehicles	70,000	38,000	32,000	1 for row	
	Machinery	130,000	52,500	77,500	1 for row	
		<u>200000</u>	<u>90500</u>	109500		
	CURRENT ASSETS					
	Trade receivables (Debtors) (30-3)	27,000			1	
	Inventory (Stock)	5,000			2 for stock, VAT and Prepayments	One mistake - wrong, missing, additional items - award 1 mark.
	VAT	4,000				
	Other receivables (Prepayments)	<u>1,000</u>	37,000			
	CURRENT LIABILITIES					
	Trade payables (Creditors)	20,000			2 for Accruals, Bank and Creditors	One mistake - wrong, missing, additional items - award 1 mark.
	Other payables (Accruals)	2,000				
	Cash and cash equivalents (Bank)	<u>15,000</u>	<u>37,000</u>	0		
				109500		
	LESS NON-CURRENT LIABILITIES (LONG TERM LIABILITIES)					
	Loan - Affleck			<u>20,000</u>	1	
	NET WORTH			<u>89,500</u>		
	FINANCED BY					
	EQUITY (CAPITAL) ACCOUNTS					
	Thomson		30,000			
	Affleck		<u>15,000</u>	45000	1 for both	
	CURRENT ACCOUNTS					
	Thomson		36,220			If no current accounts then accept 2000 Dr and 7000 Cr or any other adjusted figure.
	Affleck		<u>8,280</u>	<u>44,500</u>	1 for both	
				<u>89,500</u>		Loan must be last item in top or bottom section to gain mark.
	<b>* 1 FOR CORRECT HEADING</b>				<b>11 TOTAL</b>	

Question		Expected Answer(s)	Max Mark	Additional Guidance			
	(b) (i)	New Profit Sharing Ratio					
			Thomson	Affleck	Spence		Names of partners do not need attached, accept any order.
		Current	2/3	1/3			
		On Admission	2/3 of 60%	1/3 of 60%			
			40%	20%	40%	1 for line	
OR	2/5	1/5	2/5				
	(ii)	Calculation of New Balances					
			Thomson	Affleck	Spence		
		Original Balances	30,000	15,000	30,000		If Revaluation and Share of Profit then lose award for Revaluation.
		Revaluation Surplus	4,800	2,400		1 for line	
			34,800	17,400			If Loan and Goodwill is included then lose award for Goodwill.
		Goodwill	8,000	4,000		1 for line	
			42,800	21,400	30,000		Ignore the inclusion of current account balances.
Goodwill Written down	4,800	2,400	4,800	1 for line			
New Balances	38,000	19,000	25,200				
(c)		<p>From shareholders through the issue of Shares - Preference fixed dividend in return for investing in the company (1) or Ordinary - in return for a share of the profits in the form of a variable dividend (1) - successful year high dividend/poor year no or low dividend.</p> <p>Debentures - issue of loan/with fixed annual interest (1).</p>	2				

Section 2

Question		Expected Answer(s)	Max Mark	Additional Guidance																																																																																
2.	(a)	<p>J Wilson and L Donnelly Cash Budget for 3 months/September - November Year 2 ✓</p> <p>(a)</p> <table border="1"> <thead> <tr> <th></th> <th>September</th> <th>October</th> <th>November</th> <th></th> </tr> </thead> <tbody> <tr> <td><b>Opening Balance</b></td> <td>35,500✓</td> <td>63,618</td> <td>74,598</td> <td></td> </tr> <tr> <td><b>Receipts</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Cash Sales</td> <td>76,800</td> <td>45,600</td> <td>33,600</td> <td>2</td> </tr> <tr> <td>Credit Sales - 1 Month</td> <td>20,900</td> <td>24,320</td> <td>14,440</td> <td>3</td> </tr> <tr> <td>Credit Sales - 2 Months</td> <td>21,168</td> <td>21,560</td> <td>25,088</td> <td>3</td> </tr> <tr> <td></td> <td>118,868</td> <td>91,480</td> <td>73,128</td> <td></td> </tr> <tr> <td><b>Payments</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Material</td> <td>22,000</td> <td>15,000</td> <td>12,000</td> <td>2</td> </tr> <tr> <td>Labour</td> <td>18,000</td> <td>13,200</td> <td>9,000</td> <td>1</td> </tr> <tr> <td>Labour - bonus</td> <td>750</td> <td>1,500</td> <td>300</td> <td>2</td> </tr> <tr> <td>Variable Overhead - 1/3</td> <td>12,000</td> <td>8,800</td> <td>6,000</td> <td>1</td> </tr> <tr> <td>Variable overhead - 2/3</td> <td>20,000</td> <td>24,000</td> <td>17,600</td> <td>2</td> </tr> <tr> <td>Fixed Costs</td> <td>18,000</td> <td>18,000</td> <td>18,000</td> <td>1</td> </tr> <tr> <td></td> <td>90,750</td> <td>80,500</td> <td>62,900</td> <td></td> </tr> <tr> <td>Closing Balance</td> <td>63,618</td> <td>74,598</td> <td>84,826</td> <td>✓ 1</td> </tr> </tbody> </table> <p>Heading, layout and opening and closing balances 1 mark</p>		September	October	November		<b>Opening Balance</b>	35,500✓	63,618	74,598		<b>Receipts</b>					Cash Sales	76,800	45,600	33,600	2	Credit Sales - 1 Month	20,900	24,320	14,440	3	Credit Sales - 2 Months	21,168	21,560	25,088	3		118,868	91,480	73,128		<b>Payments</b>					Material	22,000	15,000	12,000	2	Labour	18,000	13,200	9,000	1	Labour - bonus	750	1,500	300	2	Variable Overhead - 1/3	12,000	8,800	6,000	1	Variable overhead - 2/3	20,000	24,000	17,600	2	Fixed Costs	18,000	18,000	18,000	1		90,750	80,500	62,900		Closing Balance	63,618	74,598	84,826	✓ 1	18	If no distinction between receipts and payments award marks to receipts only unless payments implied in the final total.
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Question	Expected Answer(s)	Max Mark	Additional Guidance
(b)	<p>Two advantages of using a spreadsheet to prepare cash budgets are:  <b>(1 mark for each advantage given)</b></p> <p>Calculations with the use of formulae are more accurate.            Graphs/charts can be prepared quite easily to present management accounting information.            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 – ripple effect.            Templates can be used.</p>	2	<p>Candidates must give 2 specific examples of using a spreadsheet.</p> <p>Accept any other advantages given.</p>

Question			Expected Answer(s)	Max Mark	Additional Guidance																						
3.	(a)	(i)	Gearing ratio = Fixed Interest funding/Ordinary Share Equity  Alpha = $(£2,000,000+£2,000,000) / £2,000,000 = 2:1$ <b>1</b> Beta = $(£1,000,000+£1,400,000) / £3,200,000 = 0.75:1$ <b>1</b>	2	Ratio must be x:1																						
		(ii)	Alpha <b>1</b> as this is the highest geared and therefore fixed dividends/interest would have limited drain on profits, leaving more available for distribution to ordinary shareholders <b>1</b> .	2																							
	(b)	(i) and (ii)	<i>the Profit for the Year after tax and interest;</i>  <i>the profit available for ordinary dividends if company policy dictates that 25% is retained in the business.</i>	2  2	Award corporation tax for 1 mark if Debenture Interest not included.  If no preference dividend included award 1 to Proposed Dividend Payment of 75% of profit for the year.																						
			<table border="1"> <thead> <tr> <th></th> <th>£</th> </tr> </thead> <tbody> <tr> <td>Profit for the Year (before interest and tax)</td> <td>960,000</td> </tr> <tr> <td>Debenture Interest (<math>£2,000,000 \times 8\%</math>) <b>1</b></td> <td>160,000</td> </tr> <tr> <td></td> <td>800,000</td> </tr> <tr> <td>Corporation Tax (<math>£800,000 \times 30\%</math>) <b>1</b></td> <td>240,000</td> </tr> <tr> <td><b>Profit for the Year after Interest and Tax</b></td> <td><b>560,000</b></td> </tr> <tr> <td><b>(b)(ii)</b></td> <td></td> </tr> <tr> <td>Preference Dividends Payable (<math>£2,000,000 \times 10\%</math>) <b>1</b></td> <td>200,000</td> </tr> <tr> <td></td> <td>360,000</td> </tr> <tr> <td>Desired Retained Profit (<math>£360,000 \times 25\%</math>)</td> <td>90,000</td> </tr> <tr> <td><b>Proposed Dividend Payment</b></td> <td><b>270,000</b> <b>1</b></td> </tr> </tbody> </table>		£	Profit for the Year (before interest and tax)	960,000	Debenture Interest ( $£2,000,000 \times 8\%$ ) <b>1</b>	160,000		800,000	Corporation Tax ( $£800,000 \times 30\%$ ) <b>1</b>	240,000	<b>Profit for the Year after Interest and Tax</b>	<b>560,000</b>	<b>(b)(ii)</b>		Preference Dividends Payable ( $£2,000,000 \times 10\%$ ) <b>1</b>	200,000		360,000	Desired Retained Profit ( $£360,000 \times 25\%$ )	90,000	<b>Proposed Dividend Payment</b>	<b>270,000</b> <b>1</b>		
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Question	Expected Answer(s)	Max Mark	Additional Guidance
	<p>(iii) <b>Dividend cover;</b></p> <p>Alpha            = (Profit for the Year after Tax &amp; Interest - Preference Dividend)/Ordinary Share Dividend            = £360,000 / £270,000 = 1.33 times <b>1</b></p> <p>Beta            = (Profit for the Year after Tax &amp; Interest - Preference Dividend)/Ordinary Share Dividend            = £388,000 / £250,000 = 1.5 times <b>1</b></p>	2	Times is not required to be stated for award.
	<p>(iv) <b>Earnings Per Share;</b></p> <p>Alpha            = (Profit for the Year after Tax &amp; Interest - Preference Dividend)/Ordinary Shares            = £360,000/2,000,000 = £0.18 per share <b>1</b></p> <p>Beta            = (Profit for the Year after Tax &amp; Interest - Preference Dividend)/Ordinary Shares            = £388,000/3,200,000 = £0.12 per share <b>1</b></p>	2	Profit for year after tax and interest - preference dividend may be consequential on (iii).
	<p>(v) <b>Price/Earnings Ratio</b></p> <p>Alpha            = Market Price per share/Earnings per Share            = £1.35/£0.18 = 7.5 times <b>1</b></p> <p>Beta            = Market Price per share/Earnings per Share            = £1.35/£0.12 = 11.25 times <b>1</b></p>	2	Times is not required to be stated for award.

Question		Expected Answer(s)	Max Mark	Additional Guidance
	(c)	<p>Short term investors may favour Alpha as EPS/PE Ratio more attractive. <b>1</b></p> <p>EPS is 3p per share better than Beta and earning in relation to share price (7.5 times) may indicate a good time to buy in Alpha. <b>1</b> Those investors looking for a more secure, longer term investment may be attracted to the fact that Beta reinvested more profits back into the business, with a dividend cover of almost 2 times. <b>1</b> This is the cheapest form of funding available and may mean less need to borrow/further dilute equity in the future. <b>1</b></p>	<b>3</b>	Pupils can recommend any company as long as it is justified.
	(d)	(i) <p><b>Accounting Rate of Return</b></p> <p>This is the ratio of average annual Profit for the Year before interest and tax to the equity invested in the project. <b>1</b></p> <p><b>Payback</b></p> <p>Based upon an estimate of the time it will take a project to earn enough cash to cover its initial cost. <b>1</b></p>	<b>1</b>	<p>Accept either of the above techniques.</p> <p>One mark per description.</p>

Question	Expected Answer(s)	Max Mark	Additional Guidance
	<p>(ii) <b>Accounting Rate of return</b></p> <p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>• It is an identifiable and familiar profitability ratio similar to Return on Equity Employed so is understandable to most managers. <b>1</b></li> <li>• Easy to calculate. <b>1</b></li> <li>• Emphasises the necessity of profit. <b>1</b></li> </ul> <p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>• Does not consider the time value of money. <b>1</b></li> <li>• It ignores the timing of cash outflows and inflows. <b>1</b></li> <li>• There is no target rate of return. <b>1</b></li> <li>• It may lead to choosing a project which will only begin to maximise profits in later years, risking losses if market conditions change. <b>1</b></li> </ul> <p><b>Payback</b></p> <p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>• Very easy to understand and calculate. <b>1</b></li> <li>• Can compare mutually exclusive projects. <b>1</b></li> <li>• May encourage growth by favouring projects providing a quick return. <b>1</b></li> <li>• Reduces the time during which liquidity is at risk. <b>1</b></li> </ul> <p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>• Calculation and timing of net cash flows may be difficult. <b>1</b></li> <li>• Ignores profitability. <b>1</b></li> <li>• Ignores net cash inflows after payback period. <b>1</b></li> <li>• Ignores time value of money. <b>1</b></li> </ul>	2	At least one advantage or disadvantage must be given for full marks.

## Solution

1. No of planned meals for year 3 -  $(3,000/0.75) \times 0.9 \times 50 = 180,000$  **2**
2. Working Note for all running costs

Cost	£	Marks	Additional Guidance
Renovation Costs (450 x 250)	112,500	<b>1</b>	Award marks on Statement if provided.
Depreciation on kitchen equipment (105,000 x 10%)	10,500	<b>1</b>	
Wages - Canteen Supervisor	29,360	<b>1 for both</b>	Award marks on Working Note regardless of labels.
Wages - cooks (17,500 x 2)	35,000		
Wages - kitchen assistants (Mon-Fri) (4 x 6 x 5 x 50 x 9) £ 51,840	54,000	<b>1</b>	Lose Depreciation award if Kitchen Equipment is included.
Wages - kitchen assistants (Sat-Sun) ( 2 x 2 x 4 x 18 x 50)	14,400	<b>1</b>	
Wages - holidays (4 x 6 x 5 x 2 x 9) £4,320	2,160	<b>1</b>	
Wages - temporary staff (4 x 6 x 5 x 2 x 7)	1,680	<b>1</b>	
Food supplies (2500 x 50)	125,000	<b>1</b>	
Cleaning and laundry (1,800 x 4)	7,200	<b>1</b>	
Consumables (180,000 <b>c</b> x 0.06)	10,800	<b>1</b>	
Other costs (1,700 x 12)	20,400	<b>1</b>	
<b>Total Annual Running Cost</b>	<b>423,000</b>		

Cost per meal =  $\frac{423,000}{180,000}$  **c** £2.35 per meal **1**

Question			Expected Answer(s)	Max Mark	Additional Guidance
4.	(a)	(i)	<p><b>Estimated Service Cost Statement for AJP plc for year 3</b></p> <p>See previous page.</p>	14	
		(ii)	<p>Cost to AJP plc - £2.35 per meal            Current cost per meal (Bell Catering) = (£9,000 x 50 weeks)/150,000 meals = £3.00 per meal. (1)            Advice: Go ahead with the plan to take the catering in-house as cost per meal is cheaper. (1)</p> <p><b>(Be aware of consequentiality)</b></p>	2	
	(b)		<p><b>Abnormal Loss</b></p> <p><b>Treatment:</b></p> <ul style="list-style-type: none"> <li>• abnormal loss CPU is calculated to be same as “good” output (1) and entered in the “output” or “credit” side of the process account (1)</li> <li>• abnormal loss transferred to abnormal loss account on the input side/debit side of the account (1)</li> <li>• any scrap value earned from the abnormal loss is entered into the credit side of the abnormal loss account and debited to the bank account (1)</li> <li>• balance of abnormal loss account is transferred to the P&amp;L Account by crediting the abnormal loss account and debiting the P&amp;L Account. (1)</li> </ul> <p><i>One mark per correctly outlined stage in the procedure for dealing with abnormal loss.</i></p>	4	

[END OF MARKING INSTRUCTIONS]

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