



National
Qualifications

X800/76/01

Accounting

Marking Instructions

Please note that these marking instructions have not been standardised based on candidate responses. You may therefore need to agree within your centre how to consistently mark an item if a candidate response is not covered by the marking instructions.



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 **outline** questions, 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

- award **1 mark** for each accurate statement

- (f) For **distinguish** questions, candidates must demonstrate knowledge of the differences between things, features, methods or choices. This does not need to be a comparative sentence.

Up to the total mark allocation for this question

- award **1 mark** for each accurate statement

- (g) For **explain** questions, candidates must make a number of points which relate cause and effect and/or make relationships between things clear, for example by showing connections between a process/situation. These may include theoretical concepts. There is no need to prioritise the reasons.

Up to the total mark allocation for this question

- award **1 mark** for each accurate explanation
- award **1 mark** for further development of an explanation, including exemplification where appropriate

- (h) 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.

Marking instructions for each question

Section 1

Question		Expected response(s)				Max mark	Additional guidance																																								
1.	(a)	<p>Profit or Loss on Revaluation</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: right; border-bottom: 1px solid black;">Old Value</th> <th style="text-align: right; border-bottom: 1px solid black;">New Value</th> <th style="text-align: right; border-bottom: 1px solid black;">Change</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Property</td> <td style="text-align: right;">£80,000</td> <td style="text-align: right;">£130,000</td> <td style="text-align: right;">£50,000*</td> <td></td> </tr> <tr> <td>Vehicles</td> <td style="text-align: right;">£40,000</td> <td style="text-align: right;">£30,000</td> <td style="text-align: right;">-£10,000*</td> <td></td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">£8,000</td> <td style="text-align: right;">£12,000</td> <td style="text-align: right;">£4,000*</td> <td></td> </tr> <tr> <td>Trade Receivables</td> <td style="text-align: right;">£9,000</td> <td style="text-align: right;">£6,000</td> <td style="text-align: right;">-£3,000*</td> <td style="text-align: right;">*(2)</td> </tr> <tr> <td>Increase in provision for Doubtful Debts</td> <td></td> <td></td> <td style="text-align: right;">-£1,000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Revaluation Expenses</td> <td></td> <td></td> <td style="text-align: right;">-£4,000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td><u>Profit on Revaluation</u></td> <td></td> <td></td> <td style="text-align: right;">£36,000</td> <td style="text-align: right;">(1)</td> </tr> </tbody> </table>					Old Value	New Value	Change		Property	£80,000	£130,000	£50,000*		Vehicles	£40,000	£30,000	-£10,000*		Inventory	£8,000	£12,000	£4,000*		Trade Receivables	£9,000	£6,000	-£3,000*	*(2)	Increase in provision for Doubtful Debts			-£1,000	(1)	Revaluation Expenses			-£4,000	(1)	<u>Profit on Revaluation</u>			£36,000	(1)	4	<p>*All correct 2 marks 3 correct 1 mark 2 or fewer correct 0 marks.</p>
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Question			Expected response(s)			Max mark	Additional guidance
			£ At Cost	£ Agg Depn	£ NBV		* 1 mark for current account balances of all 3 partners.
		Current Accounts					
		Donnelly		23,344 *			
		Scott		27,600 *			
		Cahill		10,756 *(1)			
					61,700		
					378,400		
		Revaluation reserve			20,000	(1)	
					398,400		
		Headings, arithmetic and no extraneous (1)					
	(h)	<ul style="list-style-type: none"> • Increased equity is introduced to the business (1) • More expertise or specialist knowledge (1) • Workload can be shared (1) • May allow expansion of the business (1) • Eliminates competition when skills and resources are combined (1) 				2	

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Production	2,560	2,920	3,960	5,960	5,020	(1)*																																								
(b)		<ul style="list-style-type: none"> • Sell preference shares where a fixed dividend is received in return for investing in the company (1) • Sell ordinary shares in return for a share of the profits in the form of a variable dividend (1) a successful year means high dividend/poor year no or low dividend (1) • Debentures - issue of loan/with fixed annual interest (1) 	3																																											

Question		Expected response(s)									Max mark	Additional guidance	
(c)	(i)	Baking Process Account ✓									7	<p>If complete reversal or not shown as an account, award 3 marks.</p> <p>DNA 1 mark max, if nomenclature error.</p> <p>DNA 1 mark, if any quantity is entered other than materials.</p> <p>Normal loss must be based on input material quantity.</p> <p>* If CPU is calculated correctly and applied to both Finished Goods and Abnormal Loss but Balance is incorrect, award 1 mark.</p>	
			Input			Output			Balance				
			Qty	CPU	Value	Qty	CPU	Value	Qty	CPU	Value		
		Opening WIP	500	1.20	600.00				500		600.00		(1)
		Materials	1,500	0.50	500.00				1,000		1,100.00		
		Labour			5,200.00						6,300.00		(1)
		Variable Overheads			800.00						7,100.00		
		Fixed Overheads			1,040.00						8,140.00		(1)
		Normal Loss				75	0.20	15.00	1,425		8,125.00	(1)	
		Closing WIP				425		2,125.00	1,000	6.00	6,000.00	(1)	
		Good Output				900	6.00*	5,400.00	100		600.00		
		Abnormal Loss				100	6.00*	600.00			0.00	(2)*	

Question			Expected response(s)							Max mark	Additional guidance																																																							
	(ii)	Abnormal Loss Account ✓	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th colspan="3">Input</th> <th colspan="3">Output</th> <th colspan="3">Balance</th> <th></th> </tr> <tr> <th></th> <th>Qty</th> <th>CPU</th> <th>Value</th> <th>Qty</th> <th>CPU</th> <th>Value</th> <th>Qty</th> <th>CPU</th> <th>Value</th> <th></th> </tr> </thead> <tbody> <tr> <td>Baking process</td> <td>100</td> <td>6·00</td> <td>600·00</td> <td></td> <td></td> <td></td> <td>100</td> <td>6·00</td> <td>600·00</td> <td>(1)</td> </tr> <tr> <td>Cash & Cash Equivalents</td> <td></td> <td></td> <td></td> <td>100</td> <td>0·20</td> <td>20·00</td> <td></td> <td></td> <td>580·00</td> <td>(1)</td> </tr> <tr> <td>Income Statement</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>580·00</td> <td></td> <td></td> <td>0</td> <td>(1)</td> </tr> </tbody> </table>								Input			Output			Balance					Qty	CPU	Value	Qty	CPU	Value	Qty	CPU	Value		Baking process	100	6·00	600·00				100	6·00	600·00	(1)	Cash & Cash Equivalents				100	0·20	20·00			580·00	(1)	Income Statement						580·00			0	(1)	4	
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Section 2

Question	Expected response(s)											Max mark	Additional guidance
3. PART A	Inventory Record Card for Component KFC01 ✓											6	
		Receipts				Issues			Balance				<p>* Award 1 mark for correct heading and opening balance.</p> <p>If date/details column not included, do not award first available mark.</p>
	Date	Details	Qty	Price £	Value £	Qty	Price £	Value	Qty	Price £	Value £		
	01/09	Opening balance							2,500	6·00	15,000	(1)*	
	07/09	Purchases	1,500	6·40	9,600				4,000	6·15	24,600	(1)	
	12/09	Issue to Job 307				1,000	6·15	6,150	3,000	6·15	18,450	(1)	
	15/09	Purchases	2,000	6·95	13,900				5,000	6·47	32,350	(1)	
	17/09	Returns				200	6·95	1,390	4,800	6·45	30,960	(1)	
	24/09	Issue to Job 310				1,200	6·45	7,740	3,600	6·45	23,220	(1)	

Question		Expected response(s)		Max mark	Additional guidance												
3. PART B																	
	(a)		<table border="1"> <thead> <tr> <th></th> <th>Andrews plc</th> <th>Bhuvan plc</th> </tr> </thead> <tbody> <tr> <td>Fixed Interest Funding</td> <td>750,000+2,000,000</td> <td>2,500,000+3,000,000</td> </tr> <tr> <td>Ordinary Shares</td> <td>2,750,000</td> <td>2,000,000</td> </tr> <tr> <td>Gearing</td> <td>1:1</td> <td>2.75:1</td> </tr> </tbody> </table>		Andrews plc	Bhuvan plc	Fixed Interest Funding	750,000+2,000,000	2,500,000+3,000,000	Ordinary Shares	2,750,000	2,000,000	Gearing	1:1	2.75:1	2	1 mark for Andrews; 1 mark for Bhuvan
	Andrews plc	Bhuvan plc															
Fixed Interest Funding	750,000+2,000,000	2,500,000+3,000,000															
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Fixed Interest Funding	3,500,000+2,000,000																
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		(ii)	<p>The ordinary shareholders will receive a lower rate of return as there will be less profit available for payment to ordinary shareholders (due to the increased number of preference shareholders). (1)</p> <p>Ordinary shareholders stand to possibly lose out in periods of lower profits as there are more shareholders to receive a share of the profits. (1)</p> <p>However, in periods of higher profits the ordinary shareholders would stand to benefit as there would be more profit available for distribution to them. (1)</p>	1	Accept either an impact when profits are low or when profits are high.												

Question		Expected response(s)			Max mark	Additional guidance
(c)	(i)	Profit available for distribution to ordinary shareholders			3	
			Bhuvan plc			
		Profit for Year before finance cost and taxation	£1,750,000			
		Less Debenture Finance Cost	£150,000	(1)		
			£1,600,000			
		Less Corporation tax (25%)	£400,000	(1)		
		Profit for Year after taxation	£1,200,000			
		Less Preference Dividends (8%)	£200,000	(1)		
	Profit available to Ordinary Shareholders	£1,000,000	(1)			
(ii)		Profit available to Ordinary Shareholders	£1,000,000		2	All or nothing.
		Retained Profit (60%)	£600,000			
		Total dividend paid to ordinary shareholders	£400,000	(2)		

Question		Expected response(s)	Max mark	Additional guidance				
	(iii)	<p>Total percentage dividend to be paid to shareholders</p> $\frac{\text{Total dividend paid}}{\text{Ordinary Share Equity}} \times 100 = \frac{\pounds 400,000}{2,000,000} \times 100$ <p style="text-align: center;">20% (1)</p>	1					
	(iv)	<p>Ordinary Dividend per share = Total dividend paid/number of ordinary shares</p> $\frac{\pounds 400,000}{4,000,000}$ <p>Ordinary dividend per share 10p (1)</p>	1					
	(v)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">Profit for the Year after Tax and Preference Dividends</td> <td style="width: 50%; border-bottom: 1px solid black; text-align: right;">£1,000,000</td> </tr> <tr> <td style="text-align: center;">Number of Ordinary Shares</td> <td style="text-align: right;">4,000,000</td> </tr> </table> <p>Earnings per share £0.25 (1)</p>	Profit for the Year after Tax and Preference Dividends	£1,000,000	Number of Ordinary Shares	4,000,000	1	
Profit for the Year after Tax and Preference Dividends	£1,000,000							
Number of Ordinary Shares	4,000,000							
(d)	(i)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Price Earnings Ratio x Earnings per Share</td> <td style="width: 50%; text-align: right;">7.4 times x 25p</td> </tr> <tr> <td>Market Price per share</td> <td style="text-align: right;">£1.85 (1)</td> </tr> </table>	Price Earnings Ratio x Earnings per Share	7.4 times x 25p	Market Price per share	£1.85 (1)	1	
Price Earnings Ratio x Earnings per Share	7.4 times x 25p							
Market Price per share	£1.85 (1)							
	(ii)	$\frac{\text{Ordinary dividend per share}}{\text{Market Price per share}} \times 100 = \frac{\pounds 0.10}{\pounds 1.85} \times 100$ <p>Dividend Yield 5.41% (1)</p>	1					

Question			Expected response(s)	Max mark	Additional guidance
4.	(a)	(i)	<p><u>Profits earned for Project 1 = cash inflow - depreciation charge</u></p> <p>Depreciation = (initial investment - residual value)/life of project</p> <p>Project 1 = (£305,000 - £80,000)/5 = £45,000 per annum (2)</p> <p>Profit earned Year 1 (£132,000-£45,000) = £87,000 Year 2 (£104,000-£45,000) = £59,000 Year 3 (£82,000-£45,000) = £37,000 Year 4 (£71,750-£45,000) = £26,750 Year 5 (£64,000-£45,000) = £19,000</p> <p style="text-align: right;">} (1)</p> <p><u>Profits earned for Project 2 = cash inflow - depreciation charge</u></p> <p>Depreciation = (initial investment - residual value)/life of project</p> <p>Project 2 = (£220,000 - £100,000)/5 = £24,000 per annum (2)</p> <p>Profit earned Year 1 (£150,000-£24,000) = £126,000 Year 2 (£60,000-£24,000) = £36,000 Year 3 (£40,000-£24,000) = £16,000 Year 4 (£36,000-£24,000) = £12,000 Year 5 (£32,000-£24,000) = £8,000</p> <p style="text-align: right;">} (1)</p>	6	If Depreciation is missing award 2 marks.

Question	Expected response(s)	Max mark	Additional guidance																																				
	<p>(ii) Accounting Rate of Return (ARR)</p> <p>Project 1 Average profits $(87,000+59,000+37,000+26,750+19,000)/5 = £45,750$ (1) ARR = $£45,750/£305,000 = 15\%$ (1)</p> <p>Project 2 Average profits $(126,000+36,000+16,000+12,000+8,000)/5 = £39,600$ (1) ARR = $£39,600/£220,000 = 18\%$ (1)</p> <p>Payback</p> <p>Project 1 – investment £305,000</p> <table border="1" data-bbox="327 659 1252 874"> <thead> <tr> <th></th> <th>Inflows</th> <th>Cumulative inflows</th> </tr> </thead> <tbody> <tr> <td>Year 1</td> <td>£132,000</td> <td>£132,000</td> </tr> <tr> <td>Year 2</td> <td>£104,000</td> <td>£236,000</td> </tr> <tr> <td>Year 3</td> <td>£82,000</td> <td>£318,000</td> </tr> <tr> <td>Year 4</td> <td>£71,750</td> <td></td> </tr> <tr> <td>Year 5</td> <td>£64,000</td> <td></td> </tr> </tbody> </table> <p>Payback in Year 3 To nearest day: 2 years plus $(£69,000(1)/£82,000 (1) *365$ days) = 2 years 308 days (1)</p> <p>Project 2 - investment £220,000</p> <table border="1" data-bbox="327 1078 1252 1294"> <thead> <tr> <th></th> <th>Inflows</th> <th>Cumulative inflows</th> </tr> </thead> <tbody> <tr> <td>Year 1</td> <td>£150,000</td> <td>£150,000</td> </tr> <tr> <td>Year 2</td> <td>£60,000</td> <td>£210,000</td> </tr> <tr> <td>Year 3</td> <td>£40,000</td> <td>£250,000</td> </tr> <tr> <td>Year 4</td> <td>£36,000</td> <td></td> </tr> <tr> <td>Year 5</td> <td>£32,000</td> <td></td> </tr> </tbody> </table> <p>Payback in Year 3 To nearest day: 2 years plus $(£10,000(1)/£40,000 (1) *365$ days) = 2 years 92 days (1)</p>		Inflows	Cumulative inflows	Year 1	£132,000	£132,000	Year 2	£104,000	£236,000	Year 3	£82,000	£318,000	Year 4	£71,750		Year 5	£64,000			Inflows	Cumulative inflows	Year 1	£150,000	£150,000	Year 2	£60,000	£210,000	Year 3	£40,000	£250,000	Year 4	£36,000		Year 5	£32,000		10	
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Question		Expected response(s)	Max mark	Additional guidance
	(iii)	Project 2 should be chosen because ARR is highest (1) or paid back more quickly (1).	1	
	(b)	<p>Advantages of Accounting Rate of Return</p> <ul style="list-style-type: none"> • ARR is easy to understand and simple to calculate • ARR focuses on the overall profit generated by the project • It is similar to other accounting ratios used for making comparisons <p>Disadvantages of Accounting Rate of Return</p> <ul style="list-style-type: none"> • Timings of cash inflows are ignored • ARR ignores the time value of money • ARR only focuses on total profit over the life of the project • No benchmark/guidelines of what is an acceptable rate of return • Where time scales are different, the ARR is not suitable • ARR is not suitable for comparing projects with different investment amounts • Profit for year can be subject to different definitions • The benefits of high profits in the earlier years is ignored 	3	<p>2 marks maximum for advantages.</p> <p>1 mark maximum for disadvantages.</p>

[END OF MARKING INSTRUCTIONS]