



National  
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# Accounting Assignment Assessment task

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This is the assessment task for the assignment Component of Higher Accounting Course assessment.

It must be read in conjunction with the general assessment information for this Component of Course assessment.

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**Valid for session 2014/15 only**

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# Introduction

This is the assessment task for the Higher Accounting assignment.

This assignment is worth 50 marks out of the total of 150 marks for the Course assessment. The Course will be graded A-D.

Marks for all Course Components are added up to give a total Course assessment mark which is then used as the basis for grading decisions.

This is one of two Components of Course assessment. The other Component is a question paper.

This document gives instructions for candidates.

It must be read in conjunction with the general assessment information for this Component of Course assessment.

The assessment instructions for candidates are provided and should be detached and given to the candidate.

## Equality and inclusion

This Course assessment has been designed to ensure that there are no unnecessary barriers to assessment. Assessments have been designed to promote equal opportunities while maintaining the integrity of the qualification.

For guidance on assessment arrangements for disabled candidates and/or those with additional support needs, please follow the link to the assessment arrangements web page: [www.sqa.org.uk/sqa/14977.html](http://www.sqa.org.uk/sqa/14977.html)

Guidance on inclusive approaches to delivery and assessment in this Course is provided in the *Course Support Notes*.



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# Accounting Assignment

**Three Tiers Ltd**

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# Instructions for candidates

This assessment applies to the assignment for Higher Accounting.

This assignment is worth 50 marks. The Course will be graded A-D.

It assesses the following skills, knowledge and understanding:

- ◆ selecting appropriate data
- ◆ making appropriate use of spreadsheets
- ◆ completing calculations with accuracy
- ◆ comparing and analysing a range of accounting information
- ◆ making decisions based on the analysis
- ◆ preparing a report outlining reasons for the decisions taken

Your assessor will let you know how the assessment will be carried out and any required conditions for doing it.

In this assessment, you will:

- ◆ work through a series of tasks which will test the skills, knowledge and understanding listed above
- ◆ complete the tasks in the order presented
- ◆ be allowed three hours to complete the assignment
- ◆ include your name on all printouts

## Assignment task

Three Tiers Ltd is a family run private limited company based in Dundee which manufactures and sells wedding cakes on both a wholesale and retail basis. Currently the business produces 3 main products:

3-tier Traditional  
3-tier Contemporary  
3-tier Simplicity

You have recently taken up the position of trainee accountant and will work alongside Mr J Brean, one of two Senior Accountants employed by the company. Mr Brean wishes your assistance in completing the tasks outlined below.

Task	Description	Marks
1	<p>Using information taken from the Accounts of Three Tiers Ltd, prepare a Manufacturing Account and an Income Statement (Trading Account) to determine <b>Gross Profit</b> for the year ended 31 December 2014.</p> <p>Note: the profit and loss section is not required.</p> <p><b>Task 1 can be completed as a handwritten task or completed using spreadsheet software.</b></p>	14 marks
2	<ul style="list-style-type: none"><li>• Prepare an overhead analysis statement.</li><li>• Calculate departmental overhead recovery rates.</li><li>• Prepare a job cost statement for Job 227.</li></ul> <p><b>Task 2 Parts (b) and (c) must be completed using spreadsheet software and printouts submitted as evidence.</b></p>	20 marks
3	<p>Analyse accounting information and prepare a short report to aid decision-making within Three Tiers Ltd.</p> <p><b>Task 3 can be completed as a handwritten task or completed using spreadsheet/word processing software.</b></p>	16 marks
Total marks		50 marks

## Task 1

Mr Brean has provided you with the following data taken from the accounts of Three Tiers Ltd. Using this information and the additional notes he has provided, prepare a Manufacturing Account for year ended 31 December 2014 and an Income Statement (Trading Account) which clearly shows **Gross Profit** as at that date.

	£000
Inventories (Stocks) at 1 January 2014	
Raw Materials	5
Work-in-Progress	16
Finished Goods	50
Sales Revenue (Sales) from Finished Goods	716
Rent	40
Vehicles at cost	200
Purchases of Raw Materials	252
Trade Receivables (Debtors)	42
Carriage on Raw Materials	2
Equity - Ordinary Shares (Share Capital)	120
Purchases returns (finished goods)	5
Wages	160
Factory Supervision Salaries	28
Cash and cash equivalents (Bank and Cash)	10
Factory Heat and Light	15
Factory Machinery at Cost	240
Provision for Depreciation on Factory Machinery at 1 January 2014	100
Royalties	8
Insurance of Factory Machinery and Office Equipment	18
Administration Expenses	25
Discount Allowed	5
Trade Payables (Creditors)	30
Provision for Depreciation on Vehicles as at 1 January 2014	60
Purchases of Finished Goods	50
Factory Power (indirect)	20

## NOTES

	£000
1	Inventories (Stocks) at 31 December 2014:
	Raw Materials 4
	Work-in-Progress 10
	Finished Goods 40
2.	All Fixed Assets are depreciated at 20% - reducing balance method.
3.	Wages are to be shared:
	<ul style="list-style-type: none"><li>• 70% manufacturing</li><li>• 20% indirect wages</li><li>• 10% warehouse.</li></ul>
4.	Sales revenue has been understated by £10,000.
5.	Rent of £10,000 is unpaid at 31 December 2014.
6.	Insurance has been prepaid by £2,000
7.	Purchases of finished goods worth £5,000 have been included in purchases of raw materials by mistake.
8.	Rent is to be apportioned to the Factory and Office in the ratio of 3:2 respectively.
9.	Insurance has to be split as follows:
	<ul style="list-style-type: none"><li>• Factory machinery (7/8)</li><li>• Office equipment (1/8)</li></ul>
10.	Finished Goods are transferred to the warehouse at an estimated wholesale value of £600,000.

## Task 2

Three Tiers Ltd currently recovers overheads on a factory-wide basis, based on prime cost. Mr Brean estimates that all costs for 2015 (both direct and indirect) will remain exactly the same as in 2014.

- (a) Using the relevant information from your answer to Task 1, calculate the factory-wide overhead recovery rate (to 2 decimal places) for 2015.

Three Tiers Ltd has 3 production departments: Mixing, Baking and Decorating and one service department: Cleaning. Mr Brean is thinking about introducing departmental overhead recovery rates for 2015 and provides you with the following information:

	Mixing	Baking	Decorating	Cleaning	Totals
Labour Hours	1,000	300	3,000	700	5,000
No of Workers	4	2	7	1	14
Value of Machinery	£180,000	£80,000	£20,000	-	£280,000
Machine Hours	3,000	2,000	1,000	-	6,000
Area (m <sup>2</sup> )	60	40	35	15	150
Indirect Wages	£13,000	£7,000	£8,000	£4,000	£32,000
Kilowatt Hours (Kw Hrs)	4,000	8,000	2,000	2,000	16,000
Direct Materials	£100,000	£75,000	£75,000	-	£250,000

- (b) Using the spreadsheet template provided (filename: HAT20A) and the relevant information from Task 1, prepare an overhead analysis statement for 2015.
- (c) Re-apportion the Service Department total overheads to the Production Departments on the basis of number of workers.
- (d) Production cost centre overheads are recovered as follows:
- Mixing - machine hours
  - Baking - machine hours
  - Decorating - labour hours

Calculate the overhead recovery rate for each Production cost centre.



- (e) From the following information, calculate the cost of Job 227, using the departmental overhead recovery rates calculated in (d) above. Three Tiers Ltd will continue to have a profit margin of 20%:

	Mixing	Baking	Decorating
Direct Materials	£800	£100	£300
Machine Hours	12	8	6
Labour Hour Rate	£16	£16	£20
Labour Hours	15	5	24

- (f) If at the end of 2015 the actual figures are as follows:

	Mixing	Baking	Decorating
Total Overheads	£80,000	£50,000	£40,000
Machine Hours	3,100	2,050	2,200
Labour Hours	2,750	2,690	2,800

Calculate the amount of overhead over-absorbed or under-absorbed in each department.

**On completion of all tasks print out one copy of your spreadsheet in value view and one copy in formulae view.**

File HAT20A for use with Task 2

	A	B	C	D	E	F	G	H
1	(a)							
2	Overheads			d				
3	Prime Cost			d				
4	Factory Wide Absorption Rate			f				
5								
6								
7	Cost Centre Information							
8			Mixing	Baking	Decorating	Cleaning	Total	
9	Labour Hours		1,000	300	3,000	700	5,000	
10	No of Workers		4	2	7	1	14	
11	Value of Machinery		£180,000	£80,000	£20,000	£0	£280,000	
12	Machine Hours		3,000	2,000	1,000	0	6,000	
13	Area (m <sup>2</sup> )		60	40	35	15	150	
14	Indirect Wages		£13,000	£7,000	£8,000	£4,000	£32,000	
15	Kilowatt Hours (Kw Hrs)		4,000	8,000	2,000	2,000	16,000	
16	Direct Materials		£100,000	£75,000	£75,000	£0	£250,000	
17								
18	(b) and (c)							
19	Overhead Analysis Statement							
20	Name of Overhead	Basis of Apportionment	Rate	Total	Mixing	Baking	Decorating	Cleaning
21	Indirect Wages	d		d	d	d	d	d
22	d	d	f	d	f	f	f	f
23	d	d	f	d	f	f	f	f

24	d	d	f	d	f	f	f	f
25	d	d	f	d	f	f	f	f
26	d	d	f	d	f	f	f	f
27	d	d	f	d	f	f	f	f
28	Total Departmental Overheads			f	f	f	f	f
29	Service Centre Overheads re-apportioned							
30	Cleaning	d	f	f	f	f	f	
31	Total Production Cost Centre Overheads				f	f	f	
32	(d)							
33	Departmental Recovery Rates				f	f	f	
34					Per machine hour	Per machine hour	Per labour hour	
35	(e)							
36	JOB 227 DATA				Mixing	Baking	Decorating	Total
37	Labour Hours				d	d	d	
38	Machine Hours				d	d	d	
39	Labour Hour Rate				d	d	d	
40	JOB COST STATEMENT							
41	Direct Materials				d	d	d	f
42	Direct Labour				f	f	f	f
43	Prime Cost							f
44	Overheads				f	f	f	f
45	Total Cost							f
46	Profit Margin							f

47	Selling Price				f
48	(f)	Mixing	Baking	Decorating	
49	Actual Overheads	d	d	d	
50	Machine Hours	d	d	d	
51	Labour Hours	d	d	d	
52	Overheads Absorbed	f	f	f	
53	Overheads under or over absorbed	f	f	f	
54	State whether overheads are under absorbed or over absorbed	d	d	d	

### Task 3

Three Tiers Ltd produces 3 main products: 3-tier traditional, 3-tier contemporary and 3-tier simplicity. The company is planning on raising the selling price of these 3 products in an attempt to increase profits. Mr Brean has provided you with the following information for 2015:

	3-tier Traditional	3-tier Contemporary	3-tier Simplicity
Selling Price per unit	£480	£432	£350
Variable Costs per unit:			
Material Cost per unit	£120	£140	£100
Labour Cost per machine hour	£10	£8	£10
Machine Hours per unit	8	4	5
Projected Sales and production	400	200	400

Three Tiers Ltd would **continue** to operate at (80%) of machine capacity.

Fixed Costs/overheads will also remain the same as in 2014.

- (a) Using the above information, calculate the expected total profit from all 3 products for Three Tiers Ltd during 2015.
- (b) Calculate total machine hours at full capacity.
- (c) Three Tiers Ltd intends to allocate the additional hours from operating at full capacity to the product that would maximise profits. Calculate the maximum total profit for Three Tiers Ltd at full machine capacity.

Mr Brean wishes you to investigate the following alternative options for Three Tiers Ltd, operating at full machine capacity during 2015:

#### Option A

Reduce the selling price of 3-tier Simplicity by £10 per unit and the material cost of producing 3-tier Simplicity by £30 per unit. Output and sales of this product would be increased by an additional 300 units. Fixed costs/overheads would increase by £5,000. All information for the other 2 products would remain unchanged.

#### Option B

Expected sales and costs of all 3 products would remain unchanged. However Three Tiers Ltd would accept a special order for an **additional** 575 units of the product with the highest contribution per machine hour. Price per unit for the special order would be reduced by £20 and the special order would involve a delivery cost of £1,500. Fixed costs/overheads would remain at the same level as in 2014.

- (d) Calculate the revised **total profit** for Three Tiers Ltd from each of these options.
- (e) Prepare a short report for Mr Brean to:
  - (i) advise Three Tiers Ltd if it should implement either of the 2 options outlined above during 2015;
  - (ii) outline the main benefits of using departmental overhead recovery rates rather than a simple factory wide recovery rate.

File HAT3R is available for use with task (3e)

## Report

**To:** Mr J Brean

**From:** *Your name*

**Date:** *Today's*

**Subject:** *Insert an appropriate subject*

## Administrative information

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### History of changes

Version	Description of change	Authorised by	Date

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