



National  
Qualifications  
2016

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# **2016 Accounting**

## **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, ie marks should be awarded for what is correct and not deducted for 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.

Marking Instructions for each question

Section 1

Question			Expected Answer(s)					Max Mark	Additional Guidance
1.	(a)	(i)		Basic	Delux	Super Delux	Total	3	2 marks for the hours for the 3 products, if 2 correct and one incorrect award 1 mark.  1 mark for the total hours.
			Hrs per Unit	2	5	5			
			Units Demanded	5,000	5,500	6,500			
			Hours at 80% capacity	10000	27500	32500	70,000 Hrs	1	
				2					
		(ii)						5	Award marks for correct Contribution per Product if Contribution per Unit is not shown.
			Selling Price	£150		£200		£260	
			Less Variable Cost	£110		£165		£215	
			Contribution Per Unit	£40	1	£35	1	£45	1
			Units Demanded	5,000		5,500		6,500	
			Contribution per Product	£200,000	£192,500	£292,500	£685,000		1
			Fixed Costs				£450,000		
			Profit - Year 1				£235,000		1

Question		Expected Answer(s)				Max Mark	Additional Guidance
	(b) (i)	80% Capacity in Year 1 =	70,000			1	Consequential to 1(a)(i).
		Year 2 = 100% Capacity =	87,500	1			
	(ii)		Basic	Delux	Super-Delux		<p>2 marks for calculating contribution per machine hour for product. Award mark lost, 1 each to a maximum of 2.</p> <p>If quantities calculated not based on Contribution per Machine Hour Limiting Factor all award marks lost.</p>
		Contribution per unit	£40	£35	£45		
		Machine hours per unit	2	5	5		
		Contribution per machine Hour	£20	£7	£9	2	
		Order of priority	1st	3rd	2nd	1	
		Hours available		87,500			
		Hours required for Basic (6,500 x 2)		13,000			
		Hours remaining		74,500			
		Hours required for Super Delux (8,000 x 5)		40,000			
		Hours remaining		34,500			
		Units of Delux (34,500 / 5)		6,900 units			
		Units produced	6,500	6,900	8,000		
				2			
				1			

Question			Expected Answer(s)					Max Mark	Additional Guidance
		(iii)							
				Basic	Delux	Super-Delux	Total		
			Units	6,500	<b>6,900</b>	8,000			
			CPU	£40	£35	£45			
			Total Cont	£260,000	£241,500	£360,000	£861,500	3	
			Less FC				<u>£540,000</u>	1	
			Profit				<u>£321,500</u>	1	

5

3 marks for total contribution, any incorrect contribution for individual product, award mark lost 1 each.

Accept consequential answers from (ii).

Question	Expected Answer(s)	Max Mark	Additional Guidance																																																																																																					
(c)	<p>Ultimate Delux Selling Price £300 Variable Costs 175+60+25 £260 Unit Contribution £40 Contribution per machine hour £40 / 5 = £8 New machine capacity - Year 3 105,000</p> <table border="0"> <thead> <tr> <th></th> <th>Basic</th> <th>Delux</th> <th>Super Delux</th> <th>Ultimate Delux</th> <th></th> </tr> </thead> <tbody> <tr> <td>Contribution per machine hour</td> <td>£20</td> <td>£7</td> <td>£9</td> <td>£8</td> <td></td> </tr> <tr> <td>New order of priority</td> <td>1st</td> <td>4th</td> <td>2nd</td> <td>3rd</td> <td>1</td> </tr> <tr> <td>Hours Available</td> <td></td> <td>105,000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Hours for Basic (6,500 x 2)</td> <td></td> <td><u>13,000</u></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Hours Left</td> <td></td> <td>92,000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Hours for Super Delux (8,000 x 5)</td> <td></td> <td><u>40,000</u></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Hours Left</td> <td></td> <td>52,000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Hours for Ultimate Delux (5,500 x 5)</td> <td></td> <td><u>27,500</u></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Hours Left for Delux</td> <td></td> <td>24,500</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Units of Delux (24,500 / 5)</td> <td></td> <td>4,900</td> <td>3</td> <td></td> <td></td> </tr> <tr> <td>Product Units</td> <td>6,500</td> <td>4,900</td> <td>8,000</td> <td>5,500</td> <td></td> </tr> <tr> <td>Contribution per unit</td> <td>40</td> <td>35</td> <td>45</td> <td>40</td> <td></td> </tr> <tr> <td>Contribution per product</td> <td>£260,000</td> <td>£171,500</td> <td>£360,000</td> <td>£220,000</td> <td></td> </tr> <tr> <td>Total contribution</td> <td></td> <td></td> <td></td> <td>£1,011,500</td> <td>1</td> </tr> <tr> <td>Fixed Costs</td> <td></td> <td></td> <td></td> <td>£585,000</td> <td rowspan="2">}</td> </tr> <tr> <td>Profit - Year 3</td> <td></td> <td></td> <td></td> <td>£426,500</td> </tr> </tbody> </table> <p>Elegant Enterprises should make the new product (1) as profit will increase by (£426,500 - £321,500) £105,000 (1)</p>		Basic	Delux	Super Delux	Ultimate Delux		Contribution per machine hour	£20	£7	£9	£8		New order of priority	1st	4th	2nd	3rd	1	Hours Available		105,000				Hours for Basic (6,500 x 2)		<u>13,000</u>				Hours Left		92,000				Hours for Super Delux (8,000 x 5)		<u>40,000</u>				Hours Left		52,000				Hours for Ultimate Delux (5,500 x 5)		<u>27,500</u>				Hours Left for Delux		24,500				Units of Delux (24,500 / 5)		4,900	3			Product Units	6,500	4,900	8,000	5,500		Contribution per unit	40	35	45	40		Contribution per product	£260,000	£171,500	£360,000	£220,000		Total contribution				£1,011,500	1	Fixed Costs				£585,000	}	Profit - Year 3				£426,500	12	<p>If no limiting factor used then Contribution per machine hour and order of priority award marks lost. Thereafter treat as consequential.</p> <p>If Order of Priority used correctly within Profit Statement, then award one mark for implied New Order of Priority.</p> <p>Machine hours x contribution per machine hour acceptable.</p> <p>Award 1 mark for correct advice and 1 mark for the financial reasoning.</p>
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(d)	<p>Special Order - Ultimate Delux</p> <table border="0"> <tr> <td>Selling price</td> <td>280</td> <td></td> </tr> <tr> <td>Less Variable Costs</td> <td><u>260</u></td> <td></td> </tr> <tr> <td>Contribution per unit</td> <td>20</td> <td>1</td> </tr> </table> <table border="0"> <tr> <td>Hours for Ultimate Delux Special Order</td> <td>2,000 x 5 = 10,000 hours</td> <td></td> </tr> <tr> <td>Increased Contribution</td> <td>2,000 x 20 = £40,000</td> <td>1</td> </tr> <tr> <td>Therefore units decrease for Delux</td> <td>10,000 / 5 = 2,000 units</td> <td></td> </tr> <tr> <td>Decreased Contribution</td> <td>2,000 x 35 = £70,000</td> <td>1</td> </tr> <tr> <td>Decreased Profit</td> <td>70,000 - 40,000 = 30,000</td> <td></td> </tr> <tr> <td>New Profit</td> <td>426,500 - 30,000 = 396,500</td> <td>1</td> </tr> </table> <p>Elegant Enterprises should <b>reject</b> (1) the special order as profits will decrease by £30,000 (1)</p>	Selling price	280		Less Variable Costs	<u>260</u>		Contribution per unit	20	1	Hours for Ultimate Delux Special Order	2,000 x 5 = 10,000 hours		Increased Contribution	2,000 x 20 = £40,000	1	Therefore units decrease for Delux	10,000 / 5 = 2,000 units		Decreased Contribution	2,000 x 35 = £70,000	1	Decreased Profit	70,000 - 40,000 = 30,000		New Profit	426,500 - 30,000 = 396,500	1	6	<p>Candidates may calculate this in a number of ways.</p> <p>New profit and accept/reject must be indicated.</p>
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(e)	<ul style="list-style-type: none"> <li>• The opportunity cost represents the amount of contribution lost by making less of an existing product. (1)</li> <li>• Opportunity cost is the cost of not producing the next best option. (1)</li> <li>• The actual cost of making the new product will include the 'extra' or opportunity cost equal to the contribution lost. (1)</li> <li>• Relevant example eg the loss of contribution from Delux if choosing to make Ultimate Delux (1)</li> </ul> <p><b>Any 2 relevant points.</b></p>	2	Accept economics explanation and example.																											

Section 2

Question		Expected Answer(s)							Max Mark	Additional Guidance																																														
2	(a)	<table border="1"> <thead> <tr> <th></th> <th>Rate</th> <th>Total</th> <th>Machining</th> <th>Assembly</th> <th>Finishing</th> <th>Canteen</th> <th>Maintenance</th> <th></th> </tr> </thead> <tbody> <tr> <td>Total Overheads</td> <td><b>Total OH</b></td> <td>£146,400</td> <td>£26,000</td> <td>£66,400</td> <td>£20,000</td> <td>£16,000</td> <td>£18,000</td> <td></td> </tr> <tr> <td>(i) Reapportion maintenance</td> <td>Direct machine hours</td> <td>0.50</td> <td>£18,000</td> <td>£11,000</td> <td>£5,000</td> <td>£2,000</td> <td></td> <td>2</td> </tr> <tr> <td>(ii) Reapportion canteen</td> <td>No of employees</td> <td>£250</td> <td>£16,000</td> <td>£7,000</td> <td>£5,000</td> <td>£4,000</td> <td></td> <td>2</td> </tr> <tr> <td colspan="3">Total Departmental overheads</td> <td>£44,000</td> <td>£76,400</td> <td>£26,000</td> <td></td> <td></td> <td>1</td> </tr> </tbody> </table> <p>(i) 2 marks for reapportionment of maintenance and 1 mark for total departmental overheads            (ii) 2 marks for reapportionment of canteen</p>									Rate	Total	Machining	Assembly	Finishing	Canteen	Maintenance		Total Overheads	<b>Total OH</b>	£146,400	£26,000	£66,400	£20,000	£16,000	£18,000		(i) Reapportion maintenance	Direct machine hours	0.50	£18,000	£11,000	£5,000	£2,000		2	(ii) Reapportion canteen	No of employees	£250	£16,000	£7,000	£5,000	£4,000		2	Total Departmental overheads			£44,000	£76,400	£26,000			1		
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(e)	<ul style="list-style-type: none"> <li>An apportionment of overheads takes place when the overhead cost cannot be identified with a particular department whereas an allocation of overheads takes place when the overhead cost can be identified with a particular department/it is a cost which is unique to that particular department and the department is charged with the actual overhead it has incurred.</li> </ul>	1	Candidates must correctly explain apportionment <b>and</b> allocation to gain the mark.																																																																																										

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	(iii)	<p><b><u>Up-dated Equity Accounts</u></b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;"></th> <th style="width: 15%; text-align: center;">Claire McKay</th> <th style="width: 15%; text-align: center;">Sean Cahill</th> <th style="width: 15%; text-align: center;">Rachael Young</th> <th style="width: 20%;"></th> </tr> </thead> <tbody> <tr> <td>Opening Equity Accounts</td> <td style="text-align: right;">£50,000</td> <td style="text-align: right;">£25,000</td> <td style="text-align: right;">£25,000</td> <td></td> </tr> <tr> <td>Loss on Revaluation</td> <td style="text-align: right;">£6,000</td> <td style="text-align: right;">£3,000</td> <td></td> <td style="text-align: right;">1</td> </tr> <tr> <td></td> <td style="text-align: right;">£44,000</td> <td style="text-align: right;">£22,000</td> <td style="text-align: right;">£25,000</td> <td></td> </tr> <tr> <td>Share of Goodwill</td> <td style="text-align: right;">£8,000</td> <td style="text-align: right;">£4,000</td> <td></td> <td style="text-align: right;">2</td> </tr> <tr> <td></td> <td style="text-align: right;">£52,000</td> <td style="text-align: right;">£26,000</td> <td style="text-align: right;">£25,000</td> <td></td> </tr> <tr> <td>Goodwill written off</td> <td style="text-align: right;">£6,000</td> <td style="text-align: right;">£3,000</td> <td style="text-align: right;">£3,000</td> <td style="text-align: right;">1</td> </tr> <tr> <td>Closing Equity Accounts*</td> <td style="text-align: right;">£46,000</td> <td style="text-align: right;">£23,000</td> <td style="text-align: right;">£22,000</td> <td></td> </tr> </tbody> </table>		Claire McKay	Sean Cahill	Rachael Young		Opening Equity Accounts	£50,000	£25,000	£25,000		Loss on Revaluation	£6,000	£3,000		1		£44,000	£22,000	£25,000		Share of Goodwill	£8,000	£4,000		2		£52,000	£26,000	£25,000		Goodwill written off	£6,000	£3,000	£3,000	1	Closing Equity Accounts*	£46,000	£23,000	£22,000		4	<p>If a candidate omits Opening and Closing Equity lose one mark from Share of Goodwill.</p> <p>If any item treated incorrectly lose award.</p> <p>If Share of Profit is included lose the Loss on Revaluation award.</p> <p>If Current Account balances are included, ignore.</p>
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[END OF MARKING INSTRUCTIONS]