



National
Qualifications
2018

2018 Accounting

Higher

Finalised Marking Instructions

© Scottish Qualifications Authority 2018

The information in this publication may be reproduced to support SQA qualifications only on a non-commercial basis. If it is reproduced, SQA should be clearly acknowledged as the source. If it is to be used for any other purpose, written permission must be obtained from permissions@sqa.org.uk.

Where the publication includes materials from sources other than SQA (secondary copyright), this material should only be reproduced for the purposes of examination or assessment. If it needs to be reproduced for any other purpose it is the centre's responsibility to obtain the necessary copyright clearance. SQA's NQ Assessment team may be able to direct you to the secondary sources.

These marking instructions have been prepared by examination teams for use by SQA appointed markers when marking external course assessments. This publication must not be reproduced for commercial or trade purposes.



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.

Detailed marking instructions for each question

Section 1

Question			Expected answer(s)			Max mark	Additional guidance																																																																																																																																																												
1.	(a)	(i)	<p><u>Income Statement for the Year Ended 31 December Year 6 for Grant plc</u> ✓</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;"></th> <th style="width: 15%; text-align: right;">£000</th> <th style="width: 15%;"></th> <th style="width: 15%; text-align: right;">£000</th> <th style="width: 15%;"></th> <th style="width: 15%; text-align: right;">£000</th> </tr> </thead> <tbody> <tr> <td>Sales Revenue</td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;">2,024 (1)</td> </tr> <tr> <td>LESS: Cost of Sales</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Opening Inventory</td> <td></td> <td></td> <td style="text-align: right;">153</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>ADD: Purchases</td> <td style="text-align: right;">1,505</td> <td style="border-left: 1px solid black;"></td> <td></td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>ADD: Carriage Inwards</td> <td style="text-align: right;">35</td> <td style="border-left: 1px solid black;"></td> <td></td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">1,540</td> <td style="border-left: 1px solid black;"></td> <td></td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>LESS: Purchase Returns</td> <td style="text-align: right;">40</td> <td style="border-left: 1px solid black;"></td> <td style="text-align: right;">1,500</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td></td> <td style="border-top: 1px solid black;"></td> <td style="border-left: 1px solid black;"></td> <td style="text-align: right;">1,653</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>Closing Inventory</td> <td></td> <td style="border-left: 1px solid black;"></td> <td style="text-align: right;">120</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="border-left: 1px solid black;"></td> <td style="text-align: right; border-top: 1px solid black;">1,533</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>ADD: Rates for Warehouse (10%*110)</td> <td></td> <td></td> <td style="text-align: right;">11</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>COST OF SALES</td> <td></td> <td></td> <td style="border-top: 1px solid black;"></td> <td style="border-left: 1px solid black;"></td> <td style="text-align: right;">1,544</td> </tr> <tr> <td>GROSS PROFIT ✓</td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">480</td> </tr> <tr> <td>LESS: Expenses</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Bad Debts</td> <td></td> <td></td> <td style="text-align: right;">3</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>Insurance</td> <td></td> <td></td> <td style="text-align: right;">8</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>Finance Costs - Debentures</td> <td></td> <td></td> <td style="text-align: right;">16</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>Auditors' Fees</td> <td></td> <td></td> <td style="text-align: right;">6</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>Rates (90%*110)</td> <td></td> <td></td> <td style="text-align: right;">99</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>Selling and Distribution Expenses (60 - 3 (5% x 60))</td> <td></td> <td></td> <td style="text-align: right;">57</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>Wages and Salaries (132 + 4)</td> <td></td> <td></td> <td style="text-align: right;">136</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>Depreciation: Motor Vehicles (44 - 24)*25%</td> <td></td> <td></td> <td style="text-align: right;">5</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td>Depreciation: Fittings (120*15%)</td> <td></td> <td></td> <td style="text-align: right;">18</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="border-top: 1px solid black;"></td> <td style="border-left: 1px solid black;"></td> <td style="text-align: right;">348</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">132</td> </tr> </tbody> </table>				£000		£000		£000	Sales Revenue					2,024 (1)	LESS: Cost of Sales						Opening Inventory			153			ADD: Purchases	1,505					ADD: Carriage Inwards	35						1,540					LESS: Purchase Returns	40		1,500						1,653			Closing Inventory			120						1,533			ADD: Rates for Warehouse (10%*110)			11			COST OF SALES					1,544	GROSS PROFIT ✓					480	LESS: Expenses						Bad Debts			3			Insurance			8			Finance Costs - Debentures			16			Auditors' Fees			6			Rates (90%*110)			99			Selling and Distribution Expenses (60 - 3 (5% x 60))			57			Wages and Salaries (132 + 4)			136			Depreciation: Motor Vehicles (44 - 24)*25%			5			Depreciation: Fittings (120*15%)			18								348						132	19	Award 2 marks for 4 correct and 1 mark for 3 correct
	£000		£000		£000																																																																																																																																																														
Sales Revenue					2,024 (1)																																																																																																																																																														
LESS: Cost of Sales																																																																																																																																																																			
Opening Inventory			153																																																																																																																																																																
ADD: Purchases	1,505																																																																																																																																																																		
ADD: Carriage Inwards	35																																																																																																																																																																		
	1,540																																																																																																																																																																		
LESS: Purchase Returns	40		1,500																																																																																																																																																																
			1,653																																																																																																																																																																
Closing Inventory			120																																																																																																																																																																
			1,533																																																																																																																																																																
ADD: Rates for Warehouse (10%*110)			11																																																																																																																																																																
COST OF SALES					1,544																																																																																																																																																														
GROSS PROFIT ✓					480																																																																																																																																																														
LESS: Expenses																																																																																																																																																																			
Bad Debts			3																																																																																																																																																																
Insurance			8																																																																																																																																																																
Finance Costs - Debentures			16																																																																																																																																																																
Auditors' Fees			6																																																																																																																																																																
Rates (90%*110)			99																																																																																																																																																																
Selling and Distribution Expenses (60 - 3 (5% x 60))			57																																																																																																																																																																
Wages and Salaries (132 + 4)			136																																																																																																																																																																
Depreciation: Motor Vehicles (44 - 24)*25%			5																																																																																																																																																																
Depreciation: Fittings (120*15%)			18																																																																																																																																																																
					348																																																																																																																																																														
					132																																																																																																																																																														

Question	Expected answer(s)	Max mark	Additional guidance																																																																
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">ADD: Incomes</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Net Discounts</td> <td style="text-align: right;">16</td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Dividend on Quoted Investments (4 + 2)</td> <td style="text-align: right;">6</td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Reduction in Provision for Doubtful Debts</td> <td style="text-align: right;">2</td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">24</td> <td></td> <td></td> </tr> <tr> <td>Profit for the Year Before Tax ✓</td> <td></td> <td></td> <td style="text-align: right;">156</td> </tr> <tr> <td>Corporation Tax (25%)</td> <td></td> <td></td> <td style="text-align: right;">39 (1)</td> </tr> <tr> <td>Profit for the Year After Tax</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">117</td> </tr> <tr> <td>ADD: Unappropriated Profit from Previous Year</td> <td></td> <td></td> <td style="text-align: right;">54*</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">171</td> </tr> <tr> <td>LESS: Dividends</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Ordinary Dividend</td> <td style="text-align: right;">26*</td> <td></td> <td></td> </tr> <tr> <td>Preference Dividend</td> <td style="text-align: right;">12*</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">38</td> <td></td> <td style="text-align: right;">(2)</td> </tr> <tr> <td>Unappropriated Profit ✓</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">133</td> </tr> <tr> <td>Headings, Labels, Arithmetic and no Extraneous Items</td> <td></td> <td></td> <td style="text-align: right;">(1)</td> </tr> </table>	ADD: Incomes				Net Discounts	16	(1)		Dividend on Quoted Investments (4 + 2)	6	(1)		Reduction in Provision for Doubtful Debts	2	(1)			24			Profit for the Year Before Tax ✓			156	Corporation Tax (25%)			39 (1)	Profit for the Year After Tax			117	ADD: Unappropriated Profit from Previous Year			54*				171	LESS: Dividends				Ordinary Dividend	26*			Preference Dividend	12*				38		(2)	Unappropriated Profit ✓			133	Headings, Labels, Arithmetic and no Extraneous Items			(1)		<p>*If any one of the 3 figures are missing or incorrectly treated, award 1 mark.</p>
ADD: Incomes																																																																			
Net Discounts	16	(1)																																																																	
Dividend on Quoted Investments (4 + 2)	6	(1)																																																																	
Reduction in Provision for Doubtful Debts	2	(1)																																																																	
	24																																																																		
Profit for the Year Before Tax ✓			156																																																																
Corporation Tax (25%)			39 (1)																																																																
Profit for the Year After Tax			117																																																																
ADD: Unappropriated Profit from Previous Year			54*																																																																
			171																																																																
LESS: Dividends																																																																			
Ordinary Dividend	26*																																																																		
Preference Dividend	12*																																																																		
	38		(2)																																																																
Unappropriated Profit ✓			133																																																																
Headings, Labels, Arithmetic and no Extraneous Items			(1)																																																																

Question	Expected answer(s)	Max mark	Additional guidance																																																																																																																																																																								
(ii)	<p>Statement of Financial Position as at 31 December Year 6 for Grant plc ✓</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 10%; text-align: right;">£000</th> <th style="width: 10%; text-align: right;">£000</th> <th style="width: 10%; text-align: right;">£000</th> <th style="width: 10%;"></th> <th style="width: 10%;"></th> </tr> <tr> <td></td> <td style="text-align: right;">At</td> <td style="text-align: right;">Agg</td> <td style="text-align: right;">NBV</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">Cost</td> <td style="text-align: right;">Depn</td> <td></td> <td></td> <td></td> </tr> </thead> <tbody> <tr> <td>Non-Current Assets</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Property</td> <td style="text-align: right;">500</td> <td style="text-align: right;">-40</td> <td style="text-align: right;">540</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Motor Vehicles</td> <td style="text-align: right;">44</td> <td style="text-align: right;">29</td> <td style="text-align: right;">15</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Fittings</td> <td style="text-align: right;">120</td> <td style="text-align: right;">40</td> <td style="text-align: right;">80</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Investments</td> <td></td> <td></td> <td style="text-align: right;">78</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">713</td> <td></td> <td></td> </tr> <tr> <td>Current Assets</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Closing Inventory</td> <td></td> <td style="text-align: right;">120</td> <td></td> <td style="text-align: right;">✓</td> <td></td> </tr> <tr> <td>Cash and Cash Equivalents</td> <td></td> <td style="text-align: right;">250</td> <td></td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Trade Receivables (80 - 4)</td> <td></td> <td style="text-align: right;">76</td> <td></td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Dividend on Investments Receivable</td> <td></td> <td style="text-align: right;">2</td> <td></td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Selling and Distribution Receivable</td> <td></td> <td style="text-align: right;">3</td> <td></td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">451</td> <td></td> <td></td> <td></td> </tr> <tr> <td>LESS: Current Liabilities</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Trade Payables</td> <td style="text-align: right;">118</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>VAT</td> <td style="text-align: right;">44</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Corporation Tax</td> <td style="text-align: right;">39</td> <td style="text-align: right;">(3)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Auditors' Fees Payable</td> <td style="text-align: right;">6</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Wages and Salaries Payable</td> <td style="text-align: right;">4</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">211</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>WORKING EQUITY</td> <td></td> <td></td> <td style="text-align: right;">240</td> <td></td> <td></td> </tr> <tr> <td>NET ASSETS EMPLOYED</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">953</td> <td></td> <td></td> </tr> <tr> <td>LESS: Non-Current Liabilities</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>10% Debentures</td> <td></td> <td></td> <td style="text-align: right;">160</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>NET ASSETS</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">793</td> <td></td> <td></td> </tr> </tbody> </table>		£000	£000	£000				At	Agg	NBV				Cost	Depn				Non-Current Assets						Property	500	-40	540		(1)	Motor Vehicles	44	29	15		(1)	Fittings	120	40	80		(1)	Investments			78		(1)				713			Current Assets						Closing Inventory		120		✓		Cash and Cash Equivalents		250			(1)	Trade Receivables (80 - 4)		76			(1)	Dividend on Investments Receivable		2			(1)	Selling and Distribution Receivable		3			(1)			451				LESS: Current Liabilities						Trade Payables	118					VAT	44					Corporation Tax	39	(3)				Auditors' Fees Payable	6					Wages and Salaries Payable	4						211					WORKING EQUITY			240			NET ASSETS EMPLOYED			953			LESS: Non-Current Liabilities						10% Debentures			160		(1)	NET ASSETS			793			19	<p>All 3 entries must be present and correct to gain mark</p> <p>Award 3 marks for all 5 correct, 2 marks for 4 correct and 1 mark for 3 correct</p>
	£000	£000	£000																																																																																																																																																																								
	At	Agg	NBV																																																																																																																																																																								
	Cost	Depn																																																																																																																																																																									
Non-Current Assets																																																																																																																																																																											
Property	500	-40	540		(1)																																																																																																																																																																						
Motor Vehicles	44	29	15		(1)																																																																																																																																																																						
Fittings	120	40	80		(1)																																																																																																																																																																						
Investments			78		(1)																																																																																																																																																																						
			713																																																																																																																																																																								
Current Assets																																																																																																																																																																											
Closing Inventory		120		✓																																																																																																																																																																							
Cash and Cash Equivalents		250			(1)																																																																																																																																																																						
Trade Receivables (80 - 4)		76			(1)																																																																																																																																																																						
Dividend on Investments Receivable		2			(1)																																																																																																																																																																						
Selling and Distribution Receivable		3			(1)																																																																																																																																																																						
		451																																																																																																																																																																									
LESS: Current Liabilities																																																																																																																																																																											
Trade Payables	118																																																																																																																																																																										
VAT	44																																																																																																																																																																										
Corporation Tax	39	(3)																																																																																																																																																																									
Auditors' Fees Payable	6																																																																																																																																																																										
Wages and Salaries Payable	4																																																																																																																																																																										
	211																																																																																																																																																																										
WORKING EQUITY			240																																																																																																																																																																								
NET ASSETS EMPLOYED			953																																																																																																																																																																								
LESS: Non-Current Liabilities																																																																																																																																																																											
10% Debentures			160		(1)																																																																																																																																																																						
NET ASSETS			793																																																																																																																																																																								

Question	Expected answer(s)	Max mark	Additional guidance																		
	<p>EQUITY: 357,000 Ordinary Shares of £1 200,000 6% Preference Shares of £1</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: right;">357</td> <td rowspan="2" style="font-size: 2em; vertical-align: middle;">}</td> <td rowspan="2" style="vertical-align: middle;">(2)</td> <td></td> </tr> <tr> <td style="text-align: right; border-top: 1px solid black;">200</td> <td style="text-align: right;">557</td> </tr> </table> <p>RESERVES: Unappropriated Profit Share Premium 80 - 10 (1) -7 (1) Property Revaluation</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: right;">133</td> <td style="vertical-align: bottom;">(1)</td> <td></td> </tr> <tr> <td style="text-align: right;">63</td> <td style="vertical-align: bottom;">(2)</td> <td></td> </tr> <tr> <td style="text-align: right; border-top: 1px solid black;">40</td> <td style="vertical-align: bottom;">(1)</td> <td style="text-align: right;">236</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">793</td> </tr> </table> <p>Headings, Arithmetic and no Extraneous Items (1)</p> <p>If share premium 70, 73, 77 or 83 award 1 mark Only award Preliminary Expenses adjustment to Share Premium if it is not shown elsewhere in the SoFP</p>	357	}	(2)		200	557	133	(1)		63	(2)		40	(1)	236			793		<p>Value or no of shares missing award 1 mark.</p> <p>If Ordinary Shares 350 and Preference shares 200 award 1 mark.</p>
357	}	(2)																			
200			557																		
133	(1)																				
63	(2)																				
40	(1)	236																			
		793																			
(b)	<ul style="list-style-type: none"> • Additional finance can be obtained as shares can be freely sold on the stock market (1) • Shareholders in a PLC benefit from limited liability as they only lose the value of their investment if the business fails (1) • Share ownership is transferable which enables continuity of the business (1) 	2																			

Section 2

Question		Expected answer(s)	Max mark	Additional guidance																		
2.	(a)	<p>Depreciation = £400,000*7.5% = £30,000 per annum (1)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Inflows</th> <th>Outflows</th> <th>Profit</th> </tr> </thead> <tbody> <tr> <td>£175,000</td> <td>£25,000 + (£60,000+£30,000)</td> <td>£60,000</td> </tr> <tr> <td>£142,000</td> <td>£27,000 + (£45,000+£30,000)</td> <td>£40,000</td> </tr> <tr> <td>£120,000</td> <td>£28,000 + (£30,000+£30,000)</td> <td>£32,000</td> </tr> <tr> <td>£112,000</td> <td>£30,000 + (£24,000+£30,000)</td> <td>£28,000</td> </tr> <tr> <td>£100,000</td> <td>£33,000 + (£15,000+£30,000)</td> <td>£22,000</td> </tr> </tbody> </table> <p style="text-align: center;"> (1) (1) (1) </p>	Inflows	Outflows	Profit	£175,000	£25,000 + (£60,000+£30,000)	£60,000	£142,000	£27,000 + (£45,000+£30,000)	£40,000	£120,000	£28,000 + (£30,000+£30,000)	£32,000	£112,000	£30,000 + (£24,000+£30,000)	£28,000	£100,000	£33,000 + (£15,000+£30,000)	£22,000	4	<p>If Depreciation is missing award 2 marks</p> <p>Do not award Profit mark if '000 is not used</p>
Inflows	Outflows	Profit																				
£175,000	£25,000 + (£60,000+£30,000)	£60,000																				
£142,000	£27,000 + (£45,000+£30,000)	£40,000																				
£120,000	£28,000 + (£30,000+£30,000)	£32,000																				
£112,000	£30,000 + (£24,000+£30,000)	£28,000																				
£100,000	£33,000 + (£15,000+£30,000)	£22,000																				
	(b) (i)	<p><u>Accounting Rate of Return (ARR)</u></p> <p>Project 1 Average Profits (4,000 + 8,000 + 16,000 + 24,000 + 24,000)/5 = £15,200 ARR = (£15,200/£180,000) x 100 = 8.44% (2)</p> <p>Project 2 Average Profits (60,000 + 40,000 + 32,000 + 28,000 + 22,000)/5 = £36,400 ARR = (£36,400/£400,000) x 100 = 9.10% (2)</p>	4	<p>If arithmetic error in profit calculation or % calculation award 1 mark</p>																		

Question	Expected answer(s)	Max mark	Additional guidance																																																
(ii)	<p>Payback Project 1 - Investment £180,000</p> <table border="1"> <thead> <tr> <th></th> <th>Inflows</th> <th>Cumulative Inflows</th> </tr> </thead> <tbody> <tr> <td>Year 1</td> <td>£32,000</td> <td>£32,000</td> </tr> <tr> <td>Year 2</td> <td>£44,000</td> <td>£76,000</td> </tr> <tr> <td>Year 3</td> <td>£60,000</td> <td>£136,000</td> </tr> <tr> <td>Year 4</td> <td>£92,000</td> <td>£228,000</td> </tr> <tr> <td>Year 5</td> <td>£100,000</td> <td></td> </tr> </tbody> </table> <p>Payback in Year 4</p> <p>To nearest day: 3 years plus $(180,000 - 136,000 + £44,000 \text{ (1)}) / £92,000 \text{ (1)} * 365 \text{ days}$ = 3 years 175 days (1)</p> <p>Project 2 - Investment £400,000</p> <table border="1"> <thead> <tr> <th></th> <th>Cash Inflows</th> <th>Costs</th> <th>Net Cash Inflows</th> <th>Cumulative Inflows</th> </tr> </thead> <tbody> <tr> <td>Year 1</td> <td>£175,000</td> <td>(£25,000 + £60,000)</td> <td>£90,000</td> <td>£90,000</td> </tr> <tr> <td>Year 2</td> <td>£142,000</td> <td>(£27,000 + £45,000)</td> <td>£70,000</td> <td>£160,000</td> </tr> <tr> <td>Year 3</td> <td>£120,000</td> <td>(£28,000 + £30,000)</td> <td>£62,000</td> <td>£222,000</td> </tr> <tr> <td>Year 4</td> <td>£112,000</td> <td>(£30,000 + £24,000)</td> <td>£58,000</td> <td>£280,000</td> </tr> <tr> <td>Year 5</td> <td>£100,000</td> <td>(£33,000 + £15,000)</td> <td>£52,000</td> <td>£332,000</td> </tr> </tbody> </table> <p style="text-align: center;">(1) (1)</p> <p style="text-align: center;">Therefore, Project 2 does not pay back (1)</p>		Inflows	Cumulative Inflows	Year 1	£32,000	£32,000	Year 2	£44,000	£76,000	Year 3	£60,000	£136,000	Year 4	£92,000	£228,000	Year 5	£100,000			Cash Inflows	Costs	Net Cash Inflows	Cumulative Inflows	Year 1	£175,000	(£25,000 + £60,000)	£90,000	£90,000	Year 2	£142,000	(£27,000 + £45,000)	£70,000	£160,000	Year 3	£120,000	(£28,000 + £30,000)	£62,000	£222,000	Year 4	£112,000	(£30,000 + £24,000)	£58,000	£280,000	Year 5	£100,000	(£33,000 + £15,000)	£52,000	£332,000	6	Days must be rounded up
	Inflows	Cumulative Inflows																																																	
Year 1	£32,000	£32,000																																																	
Year 2	£44,000	£76,000																																																	
Year 3	£60,000	£136,000																																																	
Year 4	£92,000	£228,000																																																	
Year 5	£100,000																																																		
	Cash Inflows	Costs	Net Cash Inflows	Cumulative Inflows																																															
Year 1	£175,000	(£25,000 + £60,000)	£90,000	£90,000																																															
Year 2	£142,000	(£27,000 + £45,000)	£70,000	£160,000																																															
Year 3	£120,000	(£28,000 + £30,000)	£62,000	£222,000																																															
Year 4	£112,000	(£30,000 + £24,000)	£58,000	£280,000																																															
Year 5	£100,000	(£33,000 + £15,000)	£52,000	£332,000																																															
(c)	<p>Advice – Project 1 should be accepted (1)</p> <p>Justification – Project 1 gives the best Payback (1)</p> <p><i>Consequential based on 2b</i></p>	2																																																	

Question		Expected answer(s)	Max mark	Additional guidance
	(d)	<p>Payback – Advantages</p> <ul style="list-style-type: none"> • Simple to understand and calculate (1) • Allows comparison of mutually exclusive projects (1) • Favours quick return projects which may produce faster growth for the business (1) <p>Payback – Disadvantages</p> <ul style="list-style-type: none"> • Does not measure profitability on projects (1) • Total amounts invested not taken into account (1) • Ignores cash flow after payback period (1) • Time value of money ignored unless discounted (1) • Difficult to calculate net cash flows when they arise (1) 	2	Award MAX 1 mark for advantage and 1 mark for disadvantage
	(e)	<ul style="list-style-type: none"> • Potential shareholders can draw conclusions on the financial wellbeing of a business (1) • Shareholders can use investment ratios to compare the viability of investing in different businesses (1) • Shareholders can use investment ratios to interpret financial statements (1) • Dividend Yield can tell an investor the % return they will receive in relation to the current market price of the shares (1) • Dividend Cover can tell an investor how much profit the business is retaining which could potentially be paid out as dividends to the ordinary shareholder (1) • Gearing ratios can be used by potential ordinary shareholders to establish if they wish to invest in a high or a low geared company (1) • Earnings per share is useful to potential shareholders to compare with another investment (1) • Price/Earnings ratio gives an indication of how expensive a share is compared with its earning potential (1) 	2	

Question		Expected answer(s)										Max mark	Additional guidance
3	(a)	Inventory Record Card for Material X ✓*										6	*Award 1 mark for correct heading and opening balance If no dates are included, do not award 1 st mark
		Date	Details	Receipts			Issue			Balance			Marks
				Kg	CPU	£	Kg	CPU	£	Kg	CPU	£	
		01-June	Opening balance	150	8·00	1200				150	8·00	1200	1*
		08-June	Purchases	100	8·50	850				250	8·20	2050	1
		10-June	Issues to Process 1				100	8·20	820	150	8·20	1230	1
		18-June	Purchases	250	8·60	2150				400	8·45	3380	1
		22-June	Issues to Process 2				120	8·45	1014	280	8·45	2366	1
		25-June	Returns				70	8·60	602	210	8·40	1764	1

Question		Expected answer(s)										Max mark	Additional guidance																																																																																																																																																																																																																
(b)	(i)	Process 2 Account ✓ <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th colspan="3">DR</th> <th></th> <th colspan="3">CR</th> <th></th> <th colspan="3">BALANCE</th> <th></th> </tr> <tr> <th></th> <th>QTY</th> <th>CPU</th> <th>Value</th> <th></th> <th>QTY</th> <th>CPU</th> <th>Value</th> <th></th> <th>QTY</th> <th>CPU</th> <th>Value</th> <th></th> </tr> </thead> <tbody> <tr> <td>Transfer from Process 1</td> <td>75</td> <td>13.00</td> <td>975</td> <td>(1)</td> <td></td> <td></td> <td></td> <td></td> <td>75</td> <td>13</td> <td>975</td> <td></td> </tr> <tr> <td>Issues of Material X</td> <td>120</td> <td>8.45</td> <td>1,014</td> <td>(2)</td> <td></td> <td></td> <td></td> <td></td> <td>195</td> <td></td> <td>1,989</td> <td></td> </tr> <tr> <td>Labour</td> <td></td> <td></td> <td>2,500</td> <td>(1)</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>4,489</td> <td></td> </tr> <tr> <td>Fixed OHs</td> <td></td> <td></td> <td>236</td> <td rowspan="2">(1)</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>4,725</td> <td></td> </tr> <tr> <td>Variable OHs</td> <td></td> <td></td> <td>875</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>5,600</td> <td></td> </tr> <tr> <td>Closing WIP</td> <td></td> <td></td> <td></td> <td></td> <td>20</td> <td></td> <td>480</td> <td>(1)</td> <td>175</td> <td></td> <td>5,120</td> <td></td> </tr> <tr> <td>Normal Loss</td> <td></td> <td></td> <td></td> <td></td> <td>5</td> <td>4</td> <td>20</td> <td>(1)</td> <td>170</td> <td>30</td> <td>5,100</td> <td></td> </tr> <tr> <td>Finished Goods</td> <td></td> <td></td> <td></td> <td></td> <td>160</td> <td>30*</td> <td>4,800</td> <td>*(2)</td> <td>10</td> <td>30</td> <td>300</td> <td></td> </tr> <tr> <td>Abnormal Loss</td> <td></td> <td></td> <td></td> <td></td> <td>10</td> <td>30*</td> <td>300</td> <td></td> <td>0</td> <td>0</td> <td>0.00</td> <td>✓</td> </tr> </tbody> </table> Abnormal Loss Account ✓ <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th colspan="3">DR</th> <th></th> <th colspan="3">CR</th> <th></th> <th colspan="3">BALANCE</th> <th></th> </tr> <tr> <th></th> <th>QTY</th> <th>CPU</th> <th>Value</th> <th></th> <th>QTY</th> <th>CPU</th> <th>Value</th> <th></th> <th>QTY</th> <th>CPU</th> <th>Value</th> <th></th> </tr> </thead> <tbody> <tr> <td>From Process 2</td> <td>10</td> <td>30</td> <td>300</td> <td>(1)</td> <td></td> <td></td> <td></td> <td></td> <td>10</td> <td>30</td> <td>300</td> <td></td> </tr> <tr> <td>C&CE</td> <td></td> <td></td> <td></td> <td></td> <td>10</td> <td>4</td> <td>40</td> <td>✓</td> <td></td> <td></td> <td>260</td> <td></td> </tr> <tr> <td>Income Statement</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>260</td> <td>(1)</td> <td></td> <td></td> <td>0</td> <td></td> </tr> </tbody> </table> <p>Account Names, Running Balance and no arithmetical errors in balance column (1)</p>											DR				CR				BALANCE					QTY	CPU	Value		QTY	CPU	Value		QTY	CPU	Value		Transfer from Process 1	75	13.00	975	(1)					75	13	975		Issues of Material X	120	8.45	1,014	(2)					195		1,989		Labour			2,500	(1)							4,489		Fixed OHs			236	(1)							4,725		Variable OHs			875								5,600		Closing WIP					20		480	(1)	175		5,120		Normal Loss					5	4	20	(1)	170	30	5,100		Finished Goods					160	30*	4,800	*(2)	10	30	300		Abnormal Loss					10	30*	300		0	0	0.00	✓		DR				CR				BALANCE					QTY	CPU	Value		QTY	CPU	Value		QTY	CPU	Value		From Process 2	10	30	300	(1)					10	30	300		C&CE					10	4	40	✓			260		Income Statement							260	(1)			0		12	<p>If complete reversal, award half marks</p> <p>If nomenclature error, do not award mark on first occasion</p> <p>If any quantity is entered other than materials, do not award mark</p> <p>If CPU is calculated correctly and applied to both Finished Goods and Abnormal Loss but Balance is incorrect, award 1 mark</p>
	DR				CR				BALANCE																																																																																																																																																																																																																				
	QTY	CPU	Value		QTY	CPU	Value		QTY	CPU	Value																																																																																																																																																																																																																		
Transfer from Process 1	75	13.00	975	(1)					75	13	975																																																																																																																																																																																																																		
Issues of Material X	120	8.45	1,014	(2)					195		1,989																																																																																																																																																																																																																		
Labour			2,500	(1)							4,489																																																																																																																																																																																																																		
Fixed OHs			236	(1)							4,725																																																																																																																																																																																																																		
Variable OHs			875									5,600																																																																																																																																																																																																																	
Closing WIP					20		480	(1)	175		5,120																																																																																																																																																																																																																		
Normal Loss					5	4	20	(1)	170	30	5,100																																																																																																																																																																																																																		
Finished Goods					160	30*	4,800	*(2)	10	30	300																																																																																																																																																																																																																		
Abnormal Loss					10	30*	300		0	0	0.00	✓																																																																																																																																																																																																																	
	DR				CR				BALANCE																																																																																																																																																																																																																				
	QTY	CPU	Value		QTY	CPU	Value		QTY	CPU	Value																																																																																																																																																																																																																		
From Process 2	10	30	300	(1)					10	30	300																																																																																																																																																																																																																		
C&CE					10	4	40	✓			260																																																																																																																																																																																																																		
Income Statement							260	(1)			0																																																																																																																																																																																																																		

Question		Expected answer(s)	Max mark	Additional guidance																																																															
	(ii)	Cost per Kg = £30.00 Profit Margin = 40% = $(30.00 \times 4) / 6 = £20.00$ Selling Price = £30.00 + £20.00 = £50.00 (2)	2																																																																
4	(a)	Production Budget (for the 6 months July to December Year 2) ✓ <table border="1" style="margin-left: 20px;"> <thead> <tr> <th></th> <th>July</th> <th>Aug</th> <th>Sep</th> <th>Oct</th> <th>Nov</th> <th>Dec</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>Cash Sales</td> <td>1,000</td> <td>1,200</td> <td>800</td> <td>700</td> <td>600</td> <td>700</td> <td></td> </tr> <tr> <td>Credit Sales</td> <td>3,000</td> <td>3,400</td> <td>4,000</td> <td>5,000</td> <td>5,400</td> <td>5,300</td> <td></td> </tr> <tr> <td>Sales</td> <td>4,000</td> <td>4,600</td> <td>4,800</td> <td>5,700</td> <td>6,000</td> <td>6,000</td> <td>*1</td> </tr> <tr> <td>Less Opening Inventory</td> <td>200**</td> <td>240</td> <td>160</td> <td>140</td> <td>120</td> <td>140</td> <td rowspan="2">] 1 both rows</td> </tr> <tr> <td></td> <td>3,800</td> <td>4,360</td> <td>4,640</td> <td>5,560</td> <td>5,880</td> <td>5,860</td> </tr> <tr> <td>Add Closing Inventory</td> <td>240</td> <td>160</td> <td>140</td> <td>120</td> <td>140</td> <td>400 (1)**</td> <td></td> </tr> <tr> <td>PRODUCTION</td> <td>4,040</td> <td>4,520</td> <td>4,780</td> <td>5,680</td> <td>6,020</td> <td>6,260</td> <td>(2)</td> </tr> </tbody> </table>		July	Aug	Sep	Oct	Nov	Dec	Marks	Cash Sales	1,000	1,200	800	700	600	700		Credit Sales	3,000	3,400	4,000	5,000	5,400	5,300		Sales	4,000	4,600	4,800	5,700	6,000	6,000	*1	Less Opening Inventory	200**	240	160	140	120	140] 1 both rows		3,800	4,360	4,640	5,560	5,880	5,860	Add Closing Inventory	240	160	140	120	140	400 (1)**		PRODUCTION	4,040	4,520	4,780	5,680	6,020	6,260	(2)	5	*award 1 mark for the heading and Sales row 1 mark for correct July opening and Dec closing. 2 marks for Deducting Opening Inventory AND Adding Closing Inventory
	July	Aug	Sep	Oct	Nov	Dec	Marks																																																												
Cash Sales	1,000	1,200	800	700	600	700																																																													
Credit Sales	3,000	3,400	4,000	5,000	5,400	5,300																																																													
Sales	4,000	4,600	4,800	5,700	6,000	6,000	*1																																																												
Less Opening Inventory	200**	240	160	140	120	140] 1 both rows																																																												
	3,800	4,360	4,640	5,560	5,880	5,860																																																													
Add Closing Inventory	240	160	140	120	140	400 (1)**																																																													
PRODUCTION	4,040	4,520	4,780	5,680	6,020	6,260	(2)																																																												

Question	Expected answer(s)	Max mark	Additional guidance																																																																																					
(b)	<p>Cash Budget for 2 months October to November Year 2✓</p> <table border="1"> <thead> <tr> <th></th> <th>October</th> <th>Marks</th> <th>November</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>Opening Balance✓</td> <td>20,000</td> <td>✓</td> <td>50,250</td> <td></td> </tr> <tr> <td>ADD RECEIPTS✓</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Cash Sales</td> <td>17,500</td> <td></td> <td>15,000</td> <td>(1)</td> </tr> <tr> <td>Credit Sales 1 Month</td> <td>76,800</td> <td>(1)</td> <td>96,000</td> <td>(1)</td> </tr> <tr> <td>Credit Sales 2 Months</td> <td>16,150</td> <td>(1)</td> <td>19,000</td> <td>(1)</td> </tr> <tr> <td>Proceeds - Sale of Machinery</td> <td>19,500</td> <td>(2)</td> <td></td> <td></td> </tr> <tr> <td>TOTAL RECEIPTS</td> <td>129,950</td> <td></td> <td>130,000</td> <td></td> </tr> <tr> <td>LESS PAYMENTS✓</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Raw Materials</td> <td>48,160</td> <td>(1)</td> <td>50,080</td> <td>(1)</td> </tr> <tr> <td>Labour</td> <td>28,400</td> <td></td> <td>30,100</td> <td>(1)</td> </tr> <tr> <td>Bonus</td> <td></td> <td></td> <td>1,360</td> <td>(1)</td> </tr> <tr> <td>Variable Overheads</td> <td>14,340</td> <td></td> <td>17,040</td> <td>(1)</td> </tr> <tr> <td>Fixed Overheads</td> <td>2,000</td> <td></td> <td>2,000</td> <td>(1)</td> </tr> <tr> <td>Selling Expenses</td> <td>6,800</td> <td></td> <td>8,000</td> <td>(1)</td> </tr> <tr> <td>TOTAL PAYMENTS</td> <td>99,700</td> <td></td> <td>108,580</td> <td></td> </tr> <tr> <td>CLOSING BALANCE✓</td> <td>50,250</td> <td></td> <td>71,670</td> <td>✓</td> </tr> </tbody> </table> <p>Heading, labels, layout, opening and closing balance (1)</p>		October	Marks	November	Marks	Opening Balance✓	20,000	✓	50,250		ADD RECEIPTS✓					Cash Sales	17,500		15,000	(1)	Credit Sales 1 Month	76,800	(1)	96,000	(1)	Credit Sales 2 Months	16,150	(1)	19,000	(1)	Proceeds - Sale of Machinery	19,500	(2)			TOTAL RECEIPTS	129,950		130,000		LESS PAYMENTS✓					Raw Materials	48,160	(1)	50,080	(1)	Labour	28,400		30,100	(1)	Bonus			1,360	(1)	Variable Overheads	14,340		17,040	(1)	Fixed Overheads	2,000		2,000	(1)	Selling Expenses	6,800		8,000	(1)	TOTAL PAYMENTS	99,700		108,580		CLOSING BALANCE✓	50,250		71,670	✓	15	<p>If Cash Discount shown, do not award Credit Sales (1 month) for both months</p> <p>If Bad Debts shown, do not award Credit Sales (2 months) for both months</p>
	October	Marks	November	Marks																																																																																				
Opening Balance✓	20,000	✓	50,250																																																																																					
ADD RECEIPTS✓																																																																																								
Cash Sales	17,500		15,000	(1)																																																																																				
Credit Sales 1 Month	76,800	(1)	96,000	(1)																																																																																				
Credit Sales 2 Months	16,150	(1)	19,000	(1)																																																																																				
Proceeds - Sale of Machinery	19,500	(2)																																																																																						
TOTAL RECEIPTS	129,950		130,000																																																																																					
LESS PAYMENTS✓																																																																																								
Raw Materials	48,160	(1)	50,080	(1)																																																																																				
Labour	28,400		30,100	(1)																																																																																				
Bonus			1,360	(1)																																																																																				
Variable Overheads	14,340		17,040	(1)																																																																																				
Fixed Overheads	2,000		2,000	(1)																																																																																				
Selling Expenses	6,800		8,000	(1)																																																																																				
TOTAL PAYMENTS	99,700		108,580																																																																																					
CLOSING BALANCE✓	50,250		71,670	✓																																																																																				

[END OF MARKING INSTRUCTIONS]