



National
Qualifications
2022

2022 Accounting

Higher

Finalised Marking Instructions

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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 **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
- (f) For **identify** questions, candidates must name a number of relevant items or facts. These must relate to the context of the question and do not need to be in any particular order.
Up to the total mark allocation for this question
 - award **1 mark** for each relevant identification
- (g) For **justify** questions, candidates must give good reasons to support suggestions or explain the reason(s) for or against the issue raised in the question. A development point can be given.
Up to the total mark allocation for this question
 - award **1 mark** for each accurate justification
- (h) 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

1. (a)(i)

MAX MARK

18

Income Statement for the year ended 31 December Year 9 ✓

	£000	£000	£000
Sales Revenue			1,104
Less Sales Revenue Returns			60
Net Sales Revenue			<u>1,044</u>
<u>Less Cost of Sales</u>			
Opening Inventory		68	
Add Purchases		480 (1)	
		<u>548</u>	
Less Closing Inventory		101 (1)	
COST OF SALES			<u>447</u>
GROSS PROFIT ✓			<u>597</u>
<u>Less Expenses</u>			
General Expenses		200	
Directors' Fees		96 (1)	
Bad Debts (44(1)+ 32(1))		76	
Audit Fees payable		12 (1)	
Advertising (74-4)		70 (1)	
Finance Cost: Debenture Interest (120x10%) (10+2)		12 (1)	
Depreciation on Machinery (480x15%)		72 (1)	
Depreciation on Delivery Vans ((70-20) x 20%)		10 (1)	
			<u>548</u>
			49
<u>Add Other Income</u>			
Decrease in Provision for Doubtful Debts (14-11)		3 (1)	
Dividend on Quoted Investments (24+16)		40 (1)	
Profit for the Year before Tax ✓			<u>92</u>
Less Corporation tax @ 25%			23 (1)
Profit for the Year after Tax			<u>69</u>
Add Unappropriated Profit			16 (1)
			<u>85</u>
<u>Less</u>			
Preference Dividend paid		12	
Ordinary Dividend paid		32 (1)	
Goodwill written down (24/3)		8 (1)	
Unappropriated Profit for the Year ✓			<u><u>33</u></u>

Headings, labels, arithmetic and no extraneous (1)

1. (a)(ii)

MAX MARK

20

Statement of Financial Position as at 31 December Year 9 ✓

	<u>At Cost</u> £000	<u>Agg Depn</u> £000	<u>NBV</u> £000
<u>Non-Current Assets</u> ✓			
Property	320	-20	340 (1)
Machinery	480	120	360 (1)
Delivery Vans	70	30	40 (1)
Intangible Assets:			
Investments (Market Value £300,000)			260 (1)
Goodwill (24-8)			16 (1)
			1,016
<u>Current Assets</u> ✓			
Closing Inventory		101	
Advertising Receivable		4	
Dividend on Quoted Investments Receivable		16	(2*)
Trade Receivables (222-8-32)	182 (1)		
Less Provision for Doubtful Debts	11 (1)	171	
		292	
<u>Current Liabilities</u> ✓			
Trade Payables	43		
VAT	111		
Audit Fees Payable	12 (2**)		
Corporation Tax	23		
Finance Cost: Debenture Interest Payable	2 (1)		
Cash and Cash Equivalents (-12+8)	4 (1)	195	
Working Equity			97
Net Assets Employed			1,113
<u>Less Non-Current Liabilities</u> ✓			
10% Debentures (Year 12)			120 (1)
Net Assets			993
<u>Equity</u>			
1,230,000 Ordinary Shares of £0.50 each	(600(1)+ 15(1))	615	
240,000 5% Preference Shares of £1 each		240 (1)	855
<u>Reserves</u>			
Revaluation Reserve		20	
Unappropriated Profit		33 (1)	
Share Premium (100-15)		85 (1)	138
			993

Headings, labels, arithmetic and no extraneous (1)

Non-Current Asset items must include all 3 figures to gain award

Investments and Goodwill must be shown below Non-Current Assets to gain award

*Award 2 marks for 3 correct and 1 mark for 2 correct.

**Award 2 marks for 4 correct and 1 mark for 2 or 3 correct.

Value or number of shares missing award 1 mark, excluding bonus issue

Accept Bonus Shares as separate entry immediately above or below Ordinary Shares

1. (b) Outline 2 duties of a financial accountant.

MAX MARK 2

Prepares periodic financial statements to show profit/loss, statement of financial position. (1)

Reports to the owners of a firm the effect of managerial decisions on the performance of the firm. (1)

Keeps accurate records of the daily financial transactions of the firm. (1)

Checks the financial records to maintain accuracy and reduce fraud. (1)

Prepares accounts for auditing and publication as and if required. (1)

Ensures that the firm is operating within the rules laid down by legislation from government or professional bodies. (1)

Calculates accounting ratios and reports findings to stakeholders. (1)

2. (a) Sales Budget for January to June ✓

MAX MARK 5

	January	February	March	April	May	June	
Production Units	2,000	2,400	2,800	3,200	3,600	4,000	1 mark for heading and the production units
Add Opening Inventory	600*	720	840	960	1,080	1,200	
Units available	2,600	3,120	3,640	4,160	4,680	5,200	
Less Closing Inventory	720	840	960	1,080	1,200	750*	1 mark for both * 1 mark for both highlighted rows
Sales Units	1,880	2,280	2,680	3,080	3,480	4,450	2 marks for Adding Opening Inventory AND Deducting Closing Inventory

2. (b) Cash Budget for March to May (Year 3) ✓

MAX MARK 29

	MARCH	APRIL	MAY		
Opening Balance ✓	£20,000.00	£11,410.00	£20,080.00	✓	
<u>Add Receipts</u> ✓					
Cash sales	£37,520.00	£43,120.00	£48,720.00	(2)	1 mark for March; 1 mark for April and May
Credit sales (1 month)	£14,364.00	£16,884.00	£19,404.00	(3)	1 mark for each
Credit sales (2 month)	£12,502.00	£15,162.00	£17,822.00	(3)	1 mark for each
New partner equity			£40,000.00	(1)	DNA if Goodwill of £5,000 is also shown
Proceeds of sale - vehicle		£5,800.00		(2)	All or nothing
Loan	£12,000.00			(1)	
Total Receipts	£76,386.00	£80,966.00	£125,946.00		
<u>Less Payments</u> ✓					
Materials	£38,400.00	£43,200.00	£48,000.00	(3)	1 mark for each
Labour	£16,800.00	£19,200.00	£21,600.00	(2)	1 mark for March; 1 mark for April and May
Production bonus	£0.00	£200.00	£1,000.00	(2)	1 mark for April; 1 mark for May
Variable overheads - 60%*	£3,612.00	£4,128.00	£4,644.00	(3)	1 mark for each
Variable overheads - 40%	£2,064.00	£2,408.00	£2,752.00	(2)	1 mark for March; 1 mark for April and May
Fixed overheads	£2,100.00	£2,100.00	£2,100.00	(1)	for line
New vehicle	£22,000.00			(1)	
Loan repayments		£1,000.00	£1,000.00	(1)	
Loan interest		£60.00	£60.00	(1)	
Total Payments	£84,976.00	£72,296.00	£81,156.00		
CLOSING BALANCE ✓	£11,410.00	£20,080.00	£64,870.00	✓	

Heading, labels, arithmetic, opening and closing balances shown (1)

*£8,800-£4,500 = £4,300/2,000 units = £2.15 variable cost per unit

If Bad Debts shown, do not award Credit Sales (2 months)

2. (c) Outline 3 ways of improving a firm's liquidity.

MAX MARK 3

Obtain a bank loan (1) overdraft (1) max 1

Obtain a government grant (1)

Issuing shares (1)

Introduce a new partner (1)

Increase selling price (1)

Find a new cheaper supplier (1)

Sell off unwanted non-current assets (1)

Reduce expenses eg Insurance (1)

Use Hire Purchase for new asset purchases (1)

2. (d) Identify 3 steps that may be carried out on the admission of a new partner.

MAX MARK 3

Calculate new profit sharing ratio (1)

Revaluation of assets (1)

Update the partnership agreement (1)

Update the equity accounts (1)

Valuation of goodwill (1)

3. (a)(i)

SIMPSONS

INVENTORY RECORD CARD - MATERIAL K ✓

MAX MARK 6

DATE	DETAILS	Receipts			Issues			Balance		
		Qty (kg)	Price (£)	Value (£)	Qty (kg)	Price (kg)	Value (£)	Qty (kg)	Price (£)	Value (£)
01-Jan	Opening Balance	300	7.00	2,100				300	7.00	2,100
03-Jan	Purchases	200	7.25	1,450				500	7.10	3,550
06-Jan	Issues				300	7.10	2,130	200	7.10	1,420
11-Jan	Purchases	200	7.50	1,500				400	7.30	2,920
16-Jan	Issues				250	7.30	1,825	150	7.30	1,095
25-Jan	Returns				100	7.50	750	50	6.90	345

(1*)

(1)

(1)

(1)

(1)

(1)

*Award 1 mark for correct heading and opening balance.

If date/details column is not included or incorrect do not award first available mark.

3. (a)(ii) Describe one advantage and one disadvantage of using AVCO.

MAX MARK 2

Advantages

AVCO is less affected by price fluctuations. (1)

Valuations are acceptable for financial accounting and tax purposes. (1)

May entail less clerical work than FIFO or LIFO. (1)

Simpler to calculate than FIFO or LIFO. (1)

Disadvantages

Where prices are constantly changing the calculation of averages can involve a considerable amount of work. (1)

Issues may not be at current economic values. (1)

The price charged to production per unit may not reflect any of the actual prices paid. (1)

3. (b)(i)

MAX MARK 8

PROCESS 3 ACCOUNT ✓

	Input				Output				Balance		
	QTY (kg)	CPU (£)	£		QTY (kg)	CPU (£)	£		QTY (kg)	CPU (£)	£
Transferred from Process 2	1,000	10.00	10,000	(1)					1,000	10.00	10,000
Material Y	2,000	6.00	12,000	(1)					3,000		22,000
Labour			5,000] (1)					3,000		27,000
Variable Overheads			2,000							3,000	
Fixed Overheads			2,700	(1)					3,000		31,700
Normal Loss					150	5.00	750	(1)	2,850		30,950
Closing work in progress					600		7,550	(1)	2,250	10.40	23,400
Transferred to finished goods					2,200	10.40 *	22,880	(2*)	50	10.40	520
Abnormal Loss					50	10.40 *	520 **		0		0

If complete reversal, award half marks

If any data is entered in Input Qty column other than transfer from previous process and materials, do not award mark

* If CPU is calculated correctly and applied to both Finished Goods and Abnormal Loss award (2) but if Balance arithmetically incorrect, award (1)

3. (b)(ii)

MAX MARK 4

ABNORMAL LOSS ACCOUNT ✓

	Input				Output				Balance		
	QTY (kg)	CPU (£)	£		QTY (kg)	CPU (£)	£		QTY (kg)	CPU (£)	£
Process 3	50	10.40	520	(1**)					50	10.40	520
Cash & Cash Equivalents					50	5.00	250	(1)			270
Income Statement							270	(1)			0

Account Names, Headings and Running Balance (1)

** Consequential on Process Account

If nomenclature error, do not award mark on first occasion

4. PART A

4A. (a)(i)	DUNCAN PLC (£000)	ROBINSON PLC (£000)	MAX MARK 3
Equity Gearing Ratio	(1,000+1,000):1,000	(400+600):1,600	
	2:1 (2)	0.625:1 (1)	Ratio must be shown x:1

4A. (a)(ii) Justify which company would give the best return to Ordinary Shareholders in periods of high profit. **MAX MARK 1**

Duncan plc would give shareholders the best return in periods of high profits because a small percentage of profits would be taken up by paying Debenture finance cost and preference dividends (1), leaving more profit available to the ordinary shareholders (1). Duncan plc has the highest gearing. (1)

4A. (b)(i)	Duncan plc (£)		
Operating Profit	300,000		Award corporation tax for 1 mark if
less Debenture finance cost	80,000	(1)	Debenture finance cost not included.
	<u>220,000</u>		
less Corporation Tax	55,000	(1)	
PROFIT FOR THE YEAR AFTER TAX	<u>165,000</u>		If no preference dividend included award 1
Less Preference dividend	100,000	(1)	mark for Profit available to ordinary
Profit available to ordinary shareholders	<u>65,000</u>	(1)	shareholders

MAX MARK 4

4A. (b)(ii)	Retained Profit	13,000	(1)	Where the Retained Profit figure is implied,
	ORDINARY DIVIDEND	<u>52,000</u>	(1)	award 2 marks to the Ordinary Dividend

MAX MARK 2

4A. (b)(iii)	Ordinary Dividend per share	<u>52,000</u>		
		2,000,000	(2)	
		£0.03	(1)	MAX MARK 3

MAX MARK 3

4A. (b)(iv)	Earnings per share	<u>65,000</u>		
		2,000,000		
		£0.03	(1)	MAX MARK 1

MAX MARK 1

Profit for the year after interest and tax - preference dividend may be consequential on (i).

Number of Shares may be consequential on (iii)

4A. (c)	Market Price per share	£0.03 x 50		
		£1.50	(2)	MAX MARK 2

MAX MARK 2

4. PART B

Project 1: 2 years and $\frac{70,000}{107,000}$ (1) x 365 days
2 years and 239 days (1)

Project 2: 2 years and $\frac{68,000}{167,000}$ (1) x 365 days
2 years and 149 days (1)

MAX MARK 4

Number of days must be rounded up.

[END OF MARKING INSTRUCTIONS]