National
Qualifications

X800/76/01 Accounting

Marking Instructions

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

General marking principles for Higher Accounting

Always apply these general principles. Use them in conjunction with the specific marking instructions, which identify the key features required in candidates' responses.

(a) Always use positive marking. This means candidates accumulate marks for the demonstration of relevant skills, knowledge and understanding; marks are not deducted for errors or omissions.

(b) If a candidate response does not seem to be covered by either the principles or specific marking instructions, and you are uncertain how to assess it, you must seek guidance from your team leader.

(c) Always follow through consequentiality subsequent to a calculative error and give credit for any errors in subsequent calculations or working.

(d) Mark scored out or erased working which has not been replaced, where still legible. However, if the scored out or erased working has been replaced, mark only the work which has not been scored out.

(e) For **outline** questions, candidates must make a number of brief statements appropriate to the question asked. These may include facts, features or characteristics.

Up to the total mark allocation for this question

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

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

Up to the total mark allocation for this question

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

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

Up to the total mark allocation for this question

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

(h) For **describe** questions, candidates must make a number of relevant factual points, which may be characteristics and/or features, as appropriate to the question asked. These points may relate to a concept, process or situation. Candidates may provide a number of straightforward points or a smaller number of developed points, or a combination of these.

Up to the total mark allocation for this question

- award **1 mark** for each relevant factual point
- award **1 mark** for any further development of a relevant point, including exemplification when appropriate.

Marking instructions for each question

Section 1

Question			Expected response(s)	Max mark	Additional guidance
1.	(a)		**Profit or Loss on Revaluation** Old Value / New Value / Change Property £80,000 £130,000 £50,000* Vehicles £40,000 £30,000 −£10,000* Inventory £8,000 £12,000 £4,000* Trade Receivables £9,000 £6,000 −£3,000* ***(2)** Increase in provision for Doubtful Debts −£1,000 **(1)** Revaluation Expenses −£4,000 Profit on Revaluation £36,000 **(1)**	**4**	*All correct **2 marks** 3 correct **1 mark** 2 or fewer correct **0 marks.**
	(b)		Share of profit on revaluation Donnelly 3/8 £13,500 **(1)** Scott 5/8 £22,500 **(1)**	**2**	

Question			Expected response(s)				Max mark	Additional guidance
	(c)		New profit sharing ratios				**2**	All or nothing
			Donnelly	3/8 x 4/5	30%			
			Scott	5/8 x 4/5	50%	**(2)**		
			Cahill	1/5	20%			
	(d)		New Equity Accounts				**5**	
				Donnelly	Scott	Cahill		
			Equity	£75,000	£125,000	£80,000*		
			Transfer Current A/c	£3,100	-£2,400		**(1)**	
			Profit on Revaluation	£13,500	£22,500		**(1)**	
			Share of Goodwill	£7,500	£12,500		**(1)**	
				£99,100	£157,600	£80,000		
			Goodwill written off	£6,000	£10,000	£4,000	**(1)**	
			New Equity Balances	£93,100	£147,600	£76,000*		
			*Opening and closing balances, arithmetic and extraneous **(1)**					

Question			Expected response(s)	Max mark	Additional guidance
	(e)		Donnelly, Scott and Cahill **Income Statement for Year ended 31 December Year 2** ✓	**5**	

		£	£	
Profit for the Year ✓			80,000*	
Add Interest on Drawings ✓				
Donnelly	£5,000 x 5%	£250		
Scott	£8,000 x 5%	£400		
Cahill	£6,000 x 5%	£300	£950	**(1)**
			£80,950	
Less Interest on Equity ✓				
Donnelly	£93,100 x 10%	£9,310		
Scott	£147,600 x 10%	£14,760		
Cahill	£76,000 x 10%	£7,600	£31,670	**(1)**
			£49,280	
Less Salary ✓				
Donnelly			£2,000	**(1)**
			£47,280	
Share of Profit ✓				
Donnelly	£47,280 x 30%	£14,184		
Scott	£47,280 x 50%	£23,640		
Cahill	£47,280 x 20%	£9456	£47,280	**(1)**

*Profit for the Year, heading, labels, arithmetic and no extraneous **(1)**

Question			Expected response(s)	Max mark	Additional guidance
	(f)		**Current Account - Donnelly** Details Dr Cr Bal Opening balance 3,100 ✓ 3,100 Cr Share of Profit 14,184 ✓ 17,284 Cr Interest on Equity 9,310 ✓ 26,594 Cr Salary 2,000 **(1)** 28,594 Cr Drawings 5,000 ✓ 23,594 Cr Interest on Drawings 250 ✓ 23,344 Cr **Current Account - Scott** Details Dr Cr Bal Opening balance 2,400 ✓ 2,400 Dr Share of Profit 23,640 ✓ 21,240 Cr Interest on Equity 14,760 ✓ 36,000 Cr Drawings 8,000 ✓ 28,000 Cr Interest on Drawings 400 ✓ 27,600 Cr **Current Account - Cahill** Details Dr Cr Bal Opening balance 0 **(1)** Share of Profit 9,456 **(1)** 9,456 Cr Interest on Equity 7,600 **(1)** 17,056 Cr Drawings 6,000 **(1)** 11,056 Cr Interest on Drawings 300 **(1)** 10,756 Cr Headings, nomenclature, arithmetic and no extraneous **(1)**	**7**	Mark is awarded for correct entry in all 3 current accounts. Award 3 marks if complete reversal. If Equity balance is included, DNA Interest on Equity award.

Question	Expected response(s)	Max mark	Additional guidance
(g)	Statement of Financial Position as at 31 December Year 2 ✓	13	

	£ At Cost	£ Agg Depn	£ NBV	
NON-CURRENT ASSETS ✓				
Property	330,000	(20,000)	350,000	**(1)**
Vehicles	30,000	5,000	25,000	**(1)**
Equipment	20,000	2,000	18,000	**(1)**
			393,000	
Investments			90,000	**(1)**
			483,000	
CURRENT ASSETS ✓				
Closing Inventory		35,700		*
Trade Receivables (7500 – 750)		6,750		**(1)**
Electricity Receivable		3,500		***(1)**
		45,950		
LESS CURRENT LIABILITIES ✓				
Trade Payables	16,000			
Cash & Cash Equivalents	12,500			
Wages Payable	2,050	30,550		**(2)**
Working Equity			15,400	
Net Assets Employed			498,400	
LESS NON-CURRENT LIABILITIES ✓				
Mortgage			100,000	**(1)**
Net Assets			398,400	
EQUITY ✓				
Equity Accounts				
Donnelly		93,100		
Scott		147,600		**(1)**
Cahill		76,000	316,700	

All 3 figures must be shown to gain award for each non-current asset.

All correct **2 marks**
2 correct **1 mark**
1 correct **0 marks**

Question			Expected response(s)	Max mark	Additional guidance
			£ £ £ At Cost Agg Depn NBV Current Accounts Donnelly 23,344 * Scott 27,600 * Cahill 10,756 ***(1)** 61,700 378,400 Revaluation reserve 20,000 **(1)** 398,400 Headings, arithmetic and no extraneous **(1)**		* **1 mark** for current account balances of all 3 partners.
	(h)		• Increased equity is introduced to the business **(1)** • More expertise or specialist knowledge **(1)** • Workload can be shared **(1)** • May allow expansion of the business **(1)** • Eliminates competition when skills and resources are combined **(1)**	**2**	

Question	Expected response(s)	Max mark	Additional guidance
2. PART A			
(a)	**Production Budget** ✓	**3**	* **1 mark** for production total, heading and correct sales figures.

	July	August	Sept	Oct	Nov	
Sales	2,500	2,800	3,400	6,200	5,000	
Less Opening Inventory	500	560	680	1,240	1,000	**(1)**
	2,000	2,240	2,720	4,960	4,000	
Add Closing Inventory	560	680	1,240	1,000	1,020	**(1)**
Production	2,560	2,920	3,960	5,960	5,020	**(1)***

(b)	• Sell preference shares where a fixed dividend is received in return for investing in the company **(1)** • Sell ordinary shares in return for a share of the profits in the form of a variable dividend (1) a successful year means high dividend/poor year no or low dividend **(1)** • Debentures - issue of loan/with fixed annual interest **(1)**	**3**	

Question			Expected response(s)	Max mark	Additional guidance
	(c)	(i)	**Baking Process Account** ✓	**7**	If complete reversal or not shown as an account, award **3 marks**.

	Input			Output			Balance			
	Qty	CPU	Value	Qty	CPU	Value	Qty	CPU	Value	
Opening WIP	500	1·20	600·00				500		600·00	**(1)**
Materials	1,500	0·50	500·00				1,000		1,100·00	
Labour			5,200·00						6,300·00	**(1)**
Variable Overheads			800·00						7,100·00	
Fixed Overheads			1,040·00						8,140·00	**(1)**
Normal Loss				75	0·20	15·00	1,425		8,125·00	**(1)**
Closing WIP				425		2,125·00	1,000	6·00	6,000·00	**(1)**
Good Output				900	6·00*	5,400·00	100		600·00	
Abnormal Loss				100	6·00*	600·00			0·00	**(2)***

DNA **1 mark** max, if nomenclature error.

DNA **1 mark**, if any quantity is entered other than materials.

Normal loss must be based on input material quantity.

* If CPU is calculated correctly and applied to both Finished Goods and Abnormal Loss but Balance is incorrect, award **1 mark**.

Question			Expected response(s)	Max mark	Additional guidance
		(ii)	**Abnormal Loss Account** ✓ **Input** **Output** **Balance** **Qty CPU Value Qty CPU Value Qty CPU Value** Baking process 100 6·00 600·00 100 6·00 600·00 **(1)** Cash & Cash Equivalents 100 0·20 20·00 580·00 **(1)** Income Statement 580·00 0 **(1)** Headings, nomenclature and layout **(1)**	**4**	
	(d)		Margin is profit on selling price whereas mark-up is profit on cost price. **(1)**	**1**	

Question	Expected response(s)	Max mark	Additional guidance
2. PART B (a)	**OPERATING COST STATEMENT** ✓	**19**	Depreciation and Basic Wages – 2 all or nothing.

	£		£	**Max marks**
Depreciation (75,000 − 5,000) = 10,000 x 10 7			100,000	**(2)**
Drivers Wages:				
Basic (40 x £15 x 48 x 10)	288,000	**(2)**		
Holiday (40 x £15 x 4 x 10)	24,000	**(1)**		
Overtime (double time) (£15 x 2 x 10 x 48 x 10)	144,000	**(2)***		
Overtime (time and a half) (£15 x 1·5 x 5 x 48 x 10)	54,000	**(2)***	510,000	
Relief Drivers Wages:				
Total Operating Hours (10 x 7 x 52 x 10) = 36,400 **(1)**				
Hours Worked (55 x 48 x 10) = 26,400 **(1)**				
Relief Hours 36,400 − 26,400 = 10,000 **(1)** x 10 **(1)**			100,000	

* Award 1 mark if any single part of the calculation is missing

Question			Expected response(s)	Max mark	Additional guidance
			<table><tr><td>Office and Admin (3,000 x 12)</td><td>36,000</td><td>(1)</td><td></td><td></td></tr><tr><td>Garage Rental (2,250 x 4)</td><td>9,000</td><td>(1)</td><td>45,000</td><td></td></tr><tr><td>Fuel ((10 x 500 x 52) (1) /13) x £1·35 (1)</td><td>27,000</td><td></td><td></td><td></td></tr><tr><td>Insurance</td><td>52,250</td><td></td><td></td><td></td></tr><tr><td>Licensing</td><td>7,950</td><td></td><td></td><td></td></tr><tr><td>Maintenance and Repairs</td><td>59,700</td><td></td><td>146,900</td><td>(1)</td></tr><tr><td>**TOTAL RUNNING COSTS ✓**</td><td></td><td></td><td>**901,900**</td><td></td></tr></table> Heading, label and arithmetic **(1)**		
	(b)	(i)	<table><tr><td>Passenger Miles (45 x 0·8 x 500 x 52 x 10) = 9,360,000 passenger miles</td><td>**(2)**</td></tr></table>	**2**	Award **1 mark** if any single part of the calculation is missing.
		(ii)	<table><tr><td>Sales Income (9,360,000 x £0·20)</td><td>£1,872,000</td><td></td><td></td><td></td></tr><tr><td>less: Costs</td><td>£901,900</td><td></td><td></td><td></td></tr><tr><td>**Estimated Profit**</td><td>**£970,100**</td><td></td><td></td><td>**(1)**</td></tr></table>	**1**	Award mark for entry of costs data and calculation of profit with arithmetic accuracy. Be aware of consequentiality.

Section 2

<table>
<tr><th colspan="3">Question</th><th>Expected response(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td colspan="3">3. PART A</td><td>Inventory Record Card for Component KFC01 ✓
<table>
<tr><th></th><th></th><th>Receipts</th><th></th><th></th><th>Issues</th><th></th><th></th><th>Balance</th><th></th><th></th><th></th></tr>
<tr><th>Date</th><th>Details</th><th>Qty</th><th>Price £</th><th>Value £</th><th>Qty</th><th>Price £</th><th>Value</th><th>Qty</th><th>Price £</th><th>Value £</th><th></th></tr>
<tr><td>01/09</td><td>Opening balance</td><td></td><td></td><td></td><td></td><td></td><td></td><td>2,500</td><td>6·00</td><td>15,000</td><td>(1)*</td></tr>
<tr><td>07/09</td><td>Purchases</td><td>1,500</td><td>6·40</td><td>9,600</td><td></td><td></td><td></td><td>4,000</td><td>6·15</td><td>24,600</td><td>(1)</td></tr>
<tr><td>12/09</td><td>Issue to Job 307</td><td></td><td></td><td></td><td>1,000</td><td>6·15</td><td>6,150</td><td>3,000</td><td>6·15</td><td>18,450</td><td>(1)</td></tr>
<tr><td>15/09</td><td>Purchases</td><td>2,000</td><td>6·95</td><td>13,900</td><td></td><td></td><td></td><td>5,000</td><td>6·47</td><td>32,350</td><td>(1)</td></tr>
<tr><td>17/09</td><td>Returns</td><td></td><td></td><td></td><td>200</td><td>6·95</td><td>1,390</td><td>4,800</td><td>6·45</td><td>30,960</td><td>(1)</td></tr>
<tr><td>24/09</td><td>Issue to Job 310</td><td></td><td></td><td></td><td>1,200</td><td>6·45</td><td>7,740</td><td>3,600</td><td>6·45</td><td>23,220</td><td>(1)</td></tr>
</table></td><td>6</td><td>* Award 1 mark for correct heading and opening balance.

If date/details column not included, do not award first available mark.</td></tr>
</table>

<table>
<tr><th colspan="3">Question</th><th>Expected response(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td colspan="3">3. PART B</td><td rowspan="2"><table>
<tr><td></td><td>Andrews plc</td><td>Bhuvan plc</td></tr>
<tr><td>Fixed Interest Funding</td><td>750,000+2,000,000</td><td>2,500,000+3,000,000</td></tr>
<tr><td>Ordinary Shares</td><td>2,750,000</td><td>2,000,000</td></tr>
<tr><td>Gearing</td><td>1:1</td><td>2·75:1</td></tr>
</table></td><td rowspan="2">2</td><td rowspan="2">1 mark for Andrews;
1 mark for Bhuvan</td></tr>
<tr><td></td><td>(a)</td><td></td></tr>
<tr><td></td><td>(b)</td><td>(i)</td><td><table>
<tr><td></td><td>Andrews plc</td></tr>
<tr><td>Fixed Interest Funding</td><td>3,500,000+2,000,000</td></tr>
<tr><td>Ordinary Shares</td><td>2,750,000</td></tr>
<tr><td>Gearing</td><td>2:1 (1)</td></tr>
</table></td><td>1</td><td></td></tr>
<tr><td></td><td></td><td>(ii)</td><td>The ordinary shareholders will receive a lower rate of return as there will be less profit available for payment to ordinary shareholders (due to the increased number of preference shareholders). (1)

Ordinary shareholders stand to possibly lose out in periods of lower profits as there are more shareholders to receive a share of the profits. (1)

However, in periods of higher profits the ordinary shareholders would stand to benefit as there would be more profit available for distribution to them. (1)</td><td>1</td><td>Accept either an impact when profits are low or when profits are high.</td></tr>
</table>

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

Question			Expected response(s)	Max mark	Additional guidance
		(iii)	**Total percentage dividend to be paid to shareholders** $\frac{\text{Total dividend paid}}{\text{Ordinary Share Equity}}$ x100 $\frac{£400,000}{2,000,000}$ x100 20% **(1)**	**1**	
		(iv)	Ordinary Dividend per share = Total dividend paid/number of ordinary shares $\frac{£400,000}{4,000,000}$ **Ordinary dividend per share** 10p **(1)**	**1**	
		(v)	$\frac{\text{Profit for the Year after Tax and Preference Dividends}}{\text{Number of Ordinary Shares}}$ $\frac{£1,000,000}{4,000,000}$ **Earnings per share** £0.25 **(1)**	**1**	
	(d)	(i)	Price Earnings Ratio x Earnings per Share 7·4 times x 25p **Market Price per share** £1·85 **(1)**	**1**	
		(ii)	$\frac{\text{Ordinary dividend per share}}{\text{Market Price per share}}$ x100 $\frac{£0·10}{£1·85}$ x100 **Dividend Yield** 5·41% **(1)**	**1**	

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

<table>
<tr><th colspan="3">Question</th><th>Expected response(s)</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td></td><td></td><td>(ii)</td><td>

<u>Accounting Rate of Return (ARR)</u>

Project 1
Average profits (87,000+59,000+37,000+26,750+19,000)/5 = £45,750 **(1)**
ARR = £45,750/£305,000 = 15% **(1)**

Project 2
Average profits (126,000+36,000+16,000+12,000+8,000)/5 = £39,600 **(1)**
ARR = £39,600/£220,000 = 18% **(1)**

<u>Payback</u>

Project 1 — investment £305,000

	Inflows	Cumulative inflows
Year 1	£132,000	£132,000
Year 2	£104,000	£236,000
Year 3	£82,000	£318,000
Year 4	£71,750	
Year 5	£64,000	

Payback in Year 3
To nearest day: 2 years plus (£69,000**(1)**/£82,000 **(1)** *365 days)
= 2 years 308 days **(1)**

Project 2 – investment £220,000

	Inflows	Cumulative inflows
Year 1	£150,000	£150,000
Year 2	£60,000	£210,000
Year 3	£40,000	**£250,000**
Year 4	£36,000	
Year 5	£32,000	

Payback in Year 3
To nearest day: 2 years plus (£10,000**(1)**/£40,000 **(1)** *365 days)
= 2 years 92 days **(1)**

</td><td>10</td><td></td></tr>
</table>

Question			Expected response(s)	Max mark	Additional guidance
		(iii)	Project 2 should be chosen because ARR is highest **(1)** or paid back more quickly **(1)**.	**1**	
	(b)		Advantages of Accounting Rate of Return • ARR is easy to understand and simple to calculate • ARR focuses on the overall profit generated by the project • It is similar to other accounting ratios used for making comparisons Disadvantages of Accounting Rate of Return • Timings of cash inflows are ignored • ARR ignores the time value of money • ARR only focuses on total profit over the life of the project • No benchmark/guidelines of what is an acceptable rate of return • Where time scales are different, the ARR is not suitable • ARR is not suitable for comparing projects with different investment amounts • Profit for year can be subject to different definitions • The benefits of high profits in the earlier years is ignored	**3**	**2 marks** maximum for advantages. **1 mark** maximum for disadvantages.

[END OF MARKING INSTRUCTIONS]