H

National
Qualifications
SPECIMEN ONLY

SQ01/H/01 Accounting

Date — Not applicable

Duration — 2 hours

Total marks — 100

SECTION 1 — 40 marks

Attempt ALL questions.

SECTION 2 — 60 marks

Attempt ALL questions.

You may use a calculator.

All working should be shown fully, and clearly labelled.

Write your answers clearly in the answer booklet provided. In the answer booklet, you must clearly identify the question number you are attempting.

Use **blue** or **black** ink.

Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.

MARKS

SECTION 1 — 40 marks

Attempt ALL questions

1. Dalmeny plc has three production departments (machining, assembly and finishing) and two service departments (personnel and maintenance).

It has provided the following information about each department.

	Production departments			Service departments	
	Machining	**Assembly**	**Finishing**	**Personnel**	**Maintenance**
Floor area (m^2)	2,400	3,000	4,000	1,200	1,400
No of employees	18	26	24	6	12
Value of machinery	£220,000	£260,000	£210,000	-	£30,000
Kilowatt hours	1,400	1,600	1,000	600	400
Indirect materials	£59,860	£35,020	£6,180	-	£1,440
Direct labour hours	48,000	40,000	30,000	-	-
Direct machine hours	30,000	20,000	10,000	-	5,000
Direct materials	£23,100	£54,750	£15,100		£25,100

The budgeted overheads for Year 2 were:

Overhead	**£**
Rent and rates	60,000
Heat and light	36,000
Power	40,000
Depreciation of machinery	72,000

Using the information above:

(a) (i) **prepare** the Overhead Analysis Statement for Year 2;

(ii) **re-apportion** the Personnel overheads;

(iii) **re-apportion** the Maintenance overheads. 14

(b) **Calculate** the overhead recovery rate for **each** of the production departments on the following basis.

(i) Machining — per machine hour

(ii) Assembly — percentage of direct material cost

(iii) Finishing — per labour hour 3

1. **(continued)**

At the end of Year 2 the actual results for each department were:

Machining — direct machine hours were 28,100
Assembly — direct material cost was £55,100
Finishing — direct labour hours were 29,000

(c) **Calculate** for **each** department the amount of overhead over- or under-absorbed. **6**

The following information relates to Job 22B.

	Machining	**Assembly**	**Finishing**
Material (kilos)	30	20	5
Material (cost per kilo)	£5	£4	£10
Direct labour hours	2	4	6
Labour rate (per hour)	£16	£14	£12
Direct machine hours	25	30	45
Overheads	?	?	?

Profit mark-up — 25%

VAT — 20%

(d) Using the information above **prepare** the quotation showing clearly the selling price of Job 22B. **14**

(e) **Explain** the purpose of preparing a cash budget. **3**

MARKS

SECTION 2 — 60 marks

Attempt ALL questions

1. O'Connell Enterprises plc has capital available for investment in **one** of the following projects. The following information has been received from the company's project consultants.

	Project 1	Project 2
Initial investment	£140,000	£110,000
Residual value	£40,000	£50,000
Project life	5 years	5 years
Estimated net cash flow (excluding initial investment)		
Year 1	£55,000	£75,000
Year 2	£46,000	£30,000
Year 3	£35,000	£20,000
Year 4	£29,000	£18,000
Year 5	£26,000	£16,000

(a) (i) **Calculate** the profit earned in each year for **each** project. **6**

(ii) **Show** the results of applying the following methods of investment appraisal to the projects.

- Accounting Rate of Return (based on average profits earned on the initial investment);
- Payback (to the nearest day). **10**

(b) (i) **Describe** one advantage and one disadvantage of using the Payback method as a means of investment appraisal. **2**

(ii) **Outline** how the use of computer software might aid the finance department when carrying out an investment appraisal exercise. **2**

MARKS

2. The following information was extracted from the books of Fraser Manufacturing plc for the year ended 31 December Year 2.

	£000
Premises	300
Warehouse expenses	8
Factory rent and rates	26
Manufacturing wages	130
Factory machinery at cost	40
Provision for depreciation of machinery at 1 January Year 2	8
Fixtures and fittings at cost	100
Provision for depreciation of fixtures and fittings at 1 January Year 2	40
Inventories (stocks) at 1 January Year 2:	
Raw materials	13
Work-in-progress	14
Finished goods	70
Purchases of raw materials	220
Indirect wages	16
Revenue (sales)	600
Ordinary shares @ £1 each fully paid	28
General expenses	32
Provision for doubtful debts	8
Trade receivables (debtors)	40

NOTES

1 Inventories (stocks) at 31 December Year 2:
Raw materials £10,000
Work-in-progress £6,000
Finished goods £16,000

2 Provide for depreciation for the year as follows:
Factory machinery — 10% on cost
Fixtures and fittings — 5% of the diminished balance

3 Indirect wages are to be apportioned between the factory and the office in the ratio of 3:1 respectively.

4 General expenses owing are £8,000 and are to be apportioned between factory and office in the ratio of 4:1.

5 The provision for doubtful debts is to be adjusted to 10% of trade receivables (debtors).

6 The market value of finished goods is £440,000.

You are required to **prepare** for the year ended 31 December Year 2:

(a) the manufacturing account; **11**

(b) the income statement (trading, profit and loss account). **9**

3. Urquhart and Kernaghan are in partnership sharing profits and losses in proportion to capital invested. Their capital account balances on 1 January Year 2 were Urquhart £30,000 and Kernaghan £20,000.

Their partnership agreement also stated that:

- Interest on capital will be paid at 5% per annum.
- Interest on drawings will be charged at 2% per annum. The partners have agreed maximum drawings of 20% of capital per annum. Both partners have withdrawn the maximum this year.
- A salary of £1,000 per month is payable to Urquhart.
- Urquhart receives 6% interest per annum on a loan of £25,000 he has made to the partnership.

The profit for the year (net profit) ending 31 December Year 2 was £26,000.

(a) **Prepare** the appropriation account of Urquhart and Kernaghan for year ending 31 December Year 2. **6**

(b) **Calculate** Urquhart's current account balance at 31 December Year 2.

The balance of his current account at 1 January Year 2 was £2,150 Dr. **7**

At the start of Year 3 Urquhart and Kernaghan agree to admit Sanderson as a new partner under the following conditions.

- Sanderson's capital contribution is to be £14,000.
- Goodwill is to be valued at £3,600. Goodwill is to be written off.
- Revaluation of non-current assets (fixed assets) shows a loss of £5,400 prior to Sanderson's admission.
- Sanderson is to receive 25% of any future profits. Urquhart and Kernaghan's original profit-sharing ratio is to remain the same.

(c) **State** the new profit-sharing ratio. **1**

(d) **Calculate** the new capital account balances for **each** partner. **6**

[END OF SPECIMEN QUESTION PAPER]

H

National
Qualifications
SPECIMEN ONLY

SQ01/H/01 **Accounting**

Marking Instructions

These Marking Instructions have been provided to show how SQA would mark this Specimen Question Paper.

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. This means that, for each candidate response, marks are accumulated for the demonstration of relevant skills, knowledge and understanding: they are not deducted from a maximum on the basis of errors or omissions.

(c) Consequentiality subsequent to a calculative error must be followed through, with credit being given for any errors in subsequent calculations or working.

(d) 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.

(e) **(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 given

Marking Instructions for each question

Section 1

<table>
<tr><th colspan="2">Question</th><th>Expected response</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td>1</td><td>a</td><td colspan="3">
<table>
<tr><th></th><th></th><th>RATE</th><th>TOTAL</th><th>MACHINING</th><th>ASSEMBLY</th><th>FINISHING</th><th>PERSONNEL</th><th>MAINTENANCE</th><th></th></tr>
<tr><td>Indirect materials</td><td>Allocated</td><td></td><td>102,500</td><td>59,860</td><td>35,020</td><td>6,180</td><td></td><td>1,440</td><td>1</td></tr>
<tr><td>Rent and rates</td><td>Area</td><td>5.00</td><td>60,000</td><td>12,000</td><td>15,000</td><td>20,000</td><td>6,000</td><td>7,000</td><td>2</td></tr>
<tr><td>Heat and light</td><td>Area</td><td>3</td><td>36,000</td><td>7,200</td><td>9,000</td><td>12,000</td><td>3,600</td><td>4,200</td><td>2</td></tr>
<tr><td>Power</td><td>Kw hrs</td><td>8</td><td>40,000</td><td>11,200</td><td>12,800</td><td>8,000</td><td>4,800</td><td>3,200</td><td>2</td></tr>
<tr><td>Depreciation of machinery</td><td>Value of machinery</td><td>0.01</td><td>72,000</td><td>22,000</td><td>26,000</td><td>21,000</td><td></td><td>3,000</td><td>2</td></tr>
<tr><td>Total overheads</td><td>Total departmental OH</td><td></td><td>310,500</td><td>112,260</td><td>97,820</td><td>67,180</td><td>14,400</td><td>18,840</td><td></td></tr>
<tr><td>(a) i
Re-apportion personnel</td><td>No of employees</td><td>180</td><td>14,400</td><td>3,240</td><td>4,680</td><td>4,320</td><td></td><td>2,160</td><td>2</td></tr>
<tr><td></td><td></td><td></td><td>324,900</td><td>115,500</td><td>102,500</td><td>71,500</td><td></td><td>21,000</td><td></td></tr>
<tr><td>(a) ii
Re-apportion maintenance</td><td>Direct machine hours</td><td>0.35</td><td>21,000</td><td>10,500</td><td>7,000</td><td>3,500</td><td></td><td></td><td>2</td></tr>
<tr><td>Total departmental overheads</td><td>Production department OH</td><td></td><td></td><td>126,000</td><td>109,500</td><td>75,000</td><td></td><td></td><td>1</td></tr>
</table>
</td></tr>
<tr><td></td><td></td><td></td><td>14</td><td></td></tr>
<tr><td>1</td><td>b</td><td>£4.20 per machine hour
200% of direct material
£2.50 per labour hour</td><td>3</td><td>1 mark for each absorption rate.</td></tr>
</table>

<table>
<tr><th colspan="2">Question</th><th>Expected response</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td>1</td><td>c</td><td colspan="3">
<table>
<tr><td>Machining</td><td>£4.20 x 28,100 = £118,020</td><td>£118,020 - £126,000 = (£7,980)</td><td>1</td><td>Under-absorbed</td><td>1</td></tr>
<tr><td>Assembly</td><td>200% x £55,100 = £110,200</td><td>£110,200 - £109,500 = £700</td><td>1</td><td>Over-absorbed</td><td>1</td></tr>
<tr><td>Finishing</td><td>£2.50 x 29,000 = £72,500</td><td>£72,500 - £75,000 = (£2,500)</td><td>1</td><td>Under-absorbed</td><td>1</td></tr>
</table>
</td></tr>
<tr><td></td><td></td><td></td><td>6</td><td></td></tr>
<tr><td>1</td><td>d</td><td>
<table>
<tr><th colspan="4">Quotation for Job 22B</th><th></th></tr>
<tr><td></td><td></td><td></td><td>Total</td><td></td></tr>
<tr><td></td><td>£</td><td></td><td>£</td><td></td></tr>
<tr><td>Materials</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Machining</td><td>150</td><td>1</td><td></td><td></td></tr>
<tr><td>Assembly</td><td>80</td><td>1</td><td></td><td></td></tr>
<tr><td>Finishing</td><td>50</td><td>1</td><td>280</td><td></td></tr>
<tr><td>Labour</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Machinery</td><td>32</td><td>1</td><td></td><td></td></tr>
<tr><td>Assembly</td><td>56</td><td>1</td><td></td><td></td></tr>
<tr><td>Finishing</td><td>72</td><td>1</td><td>160</td><td></td></tr>
<tr><td>Prime cost</td><td></td><td></td><td>440</td><td></td></tr>
<tr><td>Overheads:</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Machinery (25 hours @ £4.20)</td><td>105</td><td>2</td><td></td><td></td></tr>
<tr><td>Assembly (200% @ £80)</td><td>160</td><td>2</td><td></td><td></td></tr>
<tr><td>Finishing (6 hours @ £2.50)</td><td>15</td><td>2</td><td>280</td><td></td></tr>
<tr><td>Total cost</td><td></td><td></td><td>720</td><td></td></tr>
<tr><td>Profit</td><td></td><td></td><td>180</td><td>1</td></tr>
<tr><td></td><td></td><td></td><td>900</td><td></td></tr>
<tr><td>VAT (20%)</td><td></td><td></td><td>180</td><td>1</td></tr>
<tr><td>Selling price✓</td><td></td><td></td><td>£1,080</td><td></td></tr>
</table>
</td><td>14</td><td></td></tr>
</table>

Question		Expected response	Max mark	Additional guidance
1	e	• It is prepared to estimate the financial activities of an organisation in order to achieve a previously agreed objective. • It is prepared to control the financial activities of an organisation in order to achieve a previously agreed objective. • It identifies when there is a deficit of funds in order that steps can be taken to meet the shortfall. • It identifies when there is enough cash available to fulfil day-to-day operations.	3	Award **1 mark** for each explanation.

Section 2

Question			Expected response	Max mark	Additional guidance
1	a	i	<u>**Profits earned for Project 1 = cash inflow − depreciation charge**</u> **Depreciation = (initial investment − residual value)/life of project** **Project 1:** = (£140,000 − £40,000)/5 = £20,000 per annum **(2)** **Profit earned** Year 1 (£55,000−£20,000) = £35,000 Year 2 (£46,000−£20,000) = £26,000 Year 3 (£35,000−£20,000) = £15,000 **(1)** Year 4 (£29,000−£20,000) = £9,000 Year 5 (£26,000−£20,000) = £6,000 <u>**Profits earned for Project 2 = cash inflow − depreciation charge**</u> **Depreciation = (initial investment − residual value)/life of project** **Project 2:** = (£110,000 − £50,000)/5 = £12,000 per annum **(2)** **Profit earned** Year 1 (£75,000−£12,000) = £63,000 Year 2 (£30,000−£12,000) = £18,000 Year 3 (£20,000−£12,000) = £8,000 **(1)** Year 4 (£18,000−£12,000) = £6,000 Year 5 (£16,000−£12,000) = £4,000	6	*(consequentiality applies for incorrect calculation of depreciation)*

Question			Expected response	Max mark	Additional guidance
1	a	ii	<u>**Accounting Rate of Return (ARR)**</u> **Project 1** Average profits (35,000+26,000+15,000+9,000+6,000)/5 = £18,200 **(1)** ARR = £18,200/£140,000 = 13.00% **(1)** **Project 2** Average profits (63,000+18,000+8,000+6,000+4,000)/5 = £19,800 **(1)** ARR = £19,800/£110,000 = 18.00% **(1)** <u>**Payback**</u> **Project 1 — investment £140,000**	10	Award marks for payback period only if expressed in years and days (rounded up).

	Inflows	Cumulative inflows
Year 1	£55,000	£55,000
Year 2	£46,000	£101,000
Year 3	£35,000	£136,000
Year 4	£29,000	**£165,000**
Year 5	£26,000	

Payback in Year 4

To nearest day: 3 years plus (£4,000**(1)**/£29,000 **(1)** *365 days)

= 3 years 51 days **(1)**

Question			Expected response	Max mark	Additional guidance
			Project 2 – investment £110,000		

	Inflows	Cumulative inflows
Year 1	£75,000	£75,000
Year 2	£30,000	£105,000
Year 3	£20,000	**£125,000**
Year 4	£18,000	
Year 5	£16,000	

Payback in Year 3

To nearest day: 2 years plus (£5,000**(1)**/£20,000 **(1)** *365 days)

= 2 years 92 days **(1)**

Question			Expected response	Max mark	Additional guidance
1	b	i	**Payback** Advantages: Simple to understand Easy to calculate Indicates length of time capital outlay is at risk ***(any one of the above)*** Disadvantages: Ignores cash flows after payback period Ignores timing of cash flows Biased in favour of short-term projects ***(any one of the above)***	2	

Question			Expected response	Max mark	Additional guidance
1	b	ii	• Spreadsheets would contain the formulae necessary for the range of calculations for any given method of appraisal so any changes would ripple through, so results would automatically update if alternative profits or inflows were entered. • Once the spreadsheet template is set up appraisals could be carried out efficiently from year to year. • Using spreadsheet software reduces the chance of human error in the calculations. • Results can be displayed in graph form for management and can be shared electronically with colleagues via e-mail or company network/ intranet.	2	Any two points, 1 mark each.

Question			Expected response	Max mark	Additional guidance
2	a		**Manufacturing account of Fraser Manufacturing plc for year ending 31 December Year 2** ✓	**11**	General expenses — 1 mark for accrual and 1 for this and expenses in 3b. This mark allocation needs to be in red to ensure it is accounted for.

	£000	£000	MARKS
Raw materials cost			
Opening inventory (stock)		13	
Add purchases		220	**1** ~~1 both~~ inventories
		233	
Less closing inventory (stock)		10	
COST OF RAW MATERIALS CONSUMED ✓		223	
ADD DIRECT COSTS			
Wages		130	**1**
PRIME COST OF MANUFACTURE ✓		353	
Add factory overheads			
Depreciation of factory machinery (10% of 40)	4		**1**
General expenses (4/5 of 32+8))	32		**2**
Factory rent and rates	26		**1**
Wages (3/4 of 16)	12	74	**1**
		427	
Add work in progress at start		14	**1 (for both)**
Less work in progress at end		6	
Factory cost of production ✓		435	
Profit on manufacture		5	**1**
Wholesale value of finished goods		440	**1**

Question			Expected response	Max mark	Additional guidance
2	b		**Income statement (trading, profit and loss account) for Fraser Manufacturing PLC for year ending 31 December Year 2 ✓**	9	Award 1 mark if arithmetic, labels and headings (which are ticked within the marking scheme) are correct.

	£000		£000	
Revenue (sales)			**600**	**1**
Less cost of sales				
Opening inventory (stock) of finished goods	**70**			
Add market value	**440**	**1**		
	510	**1 both inventories**		
Less closing inventory (stock)	**16**			
	494			
Add warehouse expenses	**8**	**1**		
			502	
GROSS PROFIT ✓			**98**	
Add manufacturing profit			**5**	**1**
			103	
Add revenue				
Decrease in provision for doubtful debts (10% of 40 = 4) (8−4 = 4)			**4**	**1**
			107	
Less expenses				
Wages (1/4 of 16)	**4**	**1 for both**		
General expenses ((1/5 of 32+8))	**8**			
Depn of fixtures and fittings (100−40)*5%	**3**		**15**	**1**
PROFIT FOR THE YEAR (NET PROFIT) ✓			**92**	
Arithmetic/labels				**1**

Question			Expected response	Max mark	Additional guidance
3	a		(see table below)	6	

	£		£
Profit for the year (net profit)			26,000
Add interest on drawings			
Urquhart (30,000 * 20%) *2%)	120	1	
Kernaghan (20,000 * 20%) *2%	80	1	200
			26,200
Less interest on capital			
Urquhart (5% of 30,000)	1,500		
Kernaghan (5% of 20,000)	1,000	1 for both	
Less salary Urquhart	12,000	1	14,500
RESIDUAL PROFIT			11,700
SHARE OF PROFIT			
Urquhart	7,020	1	
Kernaghan	4,680	1	11,700

Question			Expected response	Max mark	Additional guidance
3	b		(see table below)	7	

DATE	DETAILS	DEBIT		CREDIT		BALANCE
	Opening balance	2,150	1			2,150 DR
	Interest on capital			1,500	1	650 DR
	Interest on drawings	120	1			770 DR
	Drawings	6,000	1			6,770 DR
	Salary			12,000	1	5,230 CR
	Interest on loan			1,500	1	6,730 CR
	Share of profit			7,020	1	13,750 CR

<table>
<tr><th colspan="3">Question</th><th>Expected response</th><th>Max mark</th><th>Additional guidance</th></tr>
<tr><td>3</td><td>c</td><td></td><td>Sanderson — 25%
Urquhart — 3/5 of 75% = 45%
Kernaghan — 2/5 of 75% = 30% (1 for both)</td><td>1</td><td></td></tr>
<tr><td>3</td><td>d</td><td></td><td>
<table>
<tr><th></th><th>URQUHART</th><th></th><th>KERNAGHAN</th><th></th><th>SANDERSON</th></tr>
<tr><td>Opening Balance</td><td>30,000</td><td></td><td>20,000</td><td></td><td>14,000</td></tr>
<tr><td>Goodwill</td><td>2,160</td><td></td><td>1,440</td><td>1 for both</td><td>1 both balances</td></tr>
<tr><td>Revaluation loss</td><td>(3,240)</td><td></td><td>(2160)</td><td>1 for both</td><td></td></tr>
<tr><td>Goodwill w/o</td><td>(1,620)</td><td>1</td><td>(1,080)</td><td>1</td><td>(900) (1)</td></tr>
<tr><td>Closing balance</td><td>27,300</td><td></td><td>18,200</td><td></td><td>13,100</td></tr>
</table>
</td><td>6</td><td></td></tr>
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[END OF SPECIMEN MARKING INSTRUCTIONS]