



2010 Accounting & Finance

Standard Grade – Credit

Solutions

Finalised Marking Instructions


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1. Charles Dal is the owner of CD Plumbing Supplies. On 5 April 2010 he sold 3 × 3 m/25 mm Copper Pipe and 2 × Copper Angle Joints to R Greaves who operates as a small plumbing business.

<p>CD Plumbing Supplies</p> <p>PRICE LIST 1/1/10 – 31/12/10</p> 	
Copper Piping	
1 metre/25 mm	£5.00 each
3 metre/25 mm	£12.00 each
5 metre/25 mm	£18.00 each
Angle Joints	
Lead	£50.00 each
Stainless Steel	£30.00 each
Copper	£40.00 each
TERMS	
Trade Discount – 10%	
Cash Discount – 5% one month	
VAT – 17.5%	
DELIVERY	
£5.00 on orders under £200	
FREE on orders over £200	

<i>Marks</i>	
KU	HI

1. (continued)

- (a) Using the price list, complete the Invoice (on the Worksheet provided) to be sent to R Greaves.

<u>INVOICE</u>					
<p>CD Plumbing Supplies 22 Canal Lane Knightswood G17 7TG</p>					
Telephone: 0141 959 2197		e-mail: cdplumb@LOL			
Invoice Number: 2123		VAT Number: 129 236			
To: R Greaves Golf View The Village G15 6RP		Date: 05 April 2010			
Terms: 5% one month					
Quantity	Description	Unit Price		Cost	
		£	p	£	p
3	3M/25 mm Copper Piping	12	00	36	00
2	Copper Angle Joints	40	00	80	00
				116	00
	Less Trade Discount (10%)			11	60
	Net Goods Value			104	40
	Add VAT (17.5%)			17	35
	TOTAL			121	75
	Add Delivery			5	00
	AMOUNT DUE			126	75

Working: NGV £104.40 * 5% CD = £5.22 (1)
 £104.40 - £5.22 = £99.18
 £99.18 * 17.5% VAT = £17.35 (1) + (1) mark for entry

<i>Marks</i>	
KU	HI
	8

<i>Marks</i>	
KU	HI
4	
1	
2	
6	

1. (continued)

(b) Explain the difference between Trade and Cash Discounts.

Trade Discount is given to:

- Encourage to use our business (2)
- Continue to use (2)
- Attract new customers (2)
- Retain loyal customers (2)
- Encourage bulk buying (2)
- Same line of business (2)

Any one for (2)

- Cash Discount is given to encourage prompt payment (2)
- To help Cash Flow (2)

(c) R Greaves may have to return some of the items purchased.

(i) Name the document R Greaves would receive in the event of a return.

- Credit Note (1) (not copy)

(ii) Explain why R Greaves would not receive a cash refund in the event of a return.

- As it was a credit transaction in the first place (2)
- No money changed hands (2)
- The Credit Note reduces the amount owed (2)

Any one for (2)

(d) Suggest and justify 2 sources of finance available to Charles Dal for expansion which will allow him to remain a Sole Trader. Give a different justification for each source.

	Source	Justification	
(ONCE ONLY)	Mortgage (1)	Money received straight away (2)	
	Remortgage (1)	Repayments can be spread over a long period (2)	
ONCE	Loans (1)	Straightforward to arrange (2)	
NOT Lottery	Grant (1)	No need to repay (2)	Do not accept for both
	Personal Savings (1)	No repayments (2)	

(1) × 2 sources

(2) × 2 justifications

Marks	
KU	HI

2. The following balances were extracted from the ledger of Kathleen Fitzpatrick on 1 May 2010.

Sales	£12,250
Purchases	£3,560
Bank	£6,220
Machinery	£25,600

- (a) Enter the above balances into the appropriate accounts.
- (b) Record the following transactions, opening new accounts as necessary.

- 2 May Sent an invoice to Maureen Prescott for £4,000 plus VAT
- 4 May Sent a Credit Note to Maureen Prescott for £200, plus VAT
- 7 May Maureen Prescott is declared bankrupt and as a result:
- her solicitor sends a cheque for £500
 - a machine with a value of £2,000 is accepted in part payment
 - the outstanding amount is to be written off.

Account Name <u>Sales</u>				
Date	Details	Dr	Cr	Balance
1 May	Balance		(I) 12,250	12,250
2 May	M Prescott		(I) 4,000	16,250

cr
cr

Account Name <u>Purchases</u>				
Date	Details	Dr	Cr	Balance
1 May	Balance	(I) 3,560		3,560

dr

Account Name <u>Bank</u>				
Date	Details	Dr	Cr	Balance
1 May	Balance	(I) 6,220		6,220
7 May	M Prescott	(I) 500		6,720

dr
dr

2. (continued)

(c) Kathleen Fitzpatrick is concerned about the possibility of bad debts.

Explain how the business might decide to deal with any future bad debts and state 2 effects this would have on the final accounts.

Create a Provision for Bad Debts (2) Name only (1)

P & L Account

- The amount is entered as an Expense/Income (2)
- This will reduce/increase the Net Profit (2).
- It reduces the profits available for distribution (2).

Balance Sheet

- The PBD is deducted from Debtors (2).
- This will reduce Current Assets/Working Capital/Balance Sheet total (2).
- It gives a more realistic Debtors figure (2).

2 marks for PBD

2 marks for P & L effects

2 marks for Balance Sheet effects

6

(d) When Kathleen Fitzpatrick extracted a Trial Balance from her accounts it failed to balance. Name the account which should be opened and explain how this would operate.

A Suspense Account (1) is required:

- When the errors cannot be found (2).
- This allows the preparation of the final accounts to go ahead (2).
- The difference on the Trial Balance is entered in the Suspense account (2).
- It is recorded in the Balance Sheet (2)/a Dr is a current asset (2)/ a Cr is a current liability (2).
- Errors are corrected in the Suspense account (2).
- When all errors are found the Suspense account will have a zero balance (2).

(1) for account name

Any 3 × (2) for explanation

7

<i>Marks</i>	
KU	HI
6	
7	

2. (continued)

- (e) The machinery owned by Kathleen Fitzpatrick may have to be depreciated.

Explain what depreciation is and state **2** reasons why businesses will provide for it.

Depreciation is the writing down/loss/reduction in the value of fixed assets (2).

Reasons for allowing for depreciation include:

- **Causes of depreciation – wear and tear etc (2) once only.**
- **Gives a more realistic profit figure for period (2).**
- **Fixed Assets are shown at a more realistic value/Book Value (2).**
- **It spreads the cost over the lifetime of the fixed asset (2).**
- **Balance Sheet shown at a more realistic value/Book Value (2).
Accept for 2 marks as long as fixed assets mentioned previously.**
- **More accurate idea of business worth (2).**

2 marks for explanation and 2 × (2) for reasons

<i>Marks</i>	
KU	HI
6	

<i>Marks</i>	
KU	HI

3. Gardening Direct plc operates a large gardening centre in Scotland. Its Bank/Cash balance at the end of June 2010 is estimated at £2,500.

It has Issued Share Capital of:

250,000 Ordinary Shares of £1
120,000 5% Preference Shares of £1

The following estimates have been supplied.

Sales:	May	£31,500	Purchases:	May	£20,000
	June	£37,250		June	£24,300
	July	£42,000		July	£28,780
	August	£34,000		August	£23,000

Rent	£ 2,400 per annum	Insurance	£1,200 per annum
Wages	£18,000 per annum	Electricity	£1,200 per annum

NOTES

- (1) The directors will pay an interim dividend of 50% of the amount due to Preference Shareholders in July. In August, the Ordinary Shareholders will receive an interim dividend of 2%.
- (2) Sales figures include Cash and Credit sales. Cash sales are £5,000 per month. Credit customers will pay one month after the month of sale.
- (3) Purchases, which are all on credit, will be paid 2 months after the month of purchase.
- (4) All other expenses are paid monthly.
- (5) A new Delivery Van will be purchased for £12,000, a deposit of 25% will be paid in July and the remainder will be paid in September.

3. (continued)

(c) Explain 3 differences between Ordinary and Preference Shares.

Differences include:

- Preference shares receive a Fixed dividend (1) Ordinary share dividend varies (1)
- Preference share dividends are paid first (1) before Ordinary share dividends (1)
- Preference shares are refunded first (1) before Ordinary Shares (1)
- Ordinary shares carry voting rights (1) Preference (usually) do not (1)
- Preference shares are less risky (1) than Ordinary shares (1)

Any 3 for 2 marks each

(d) Suggest and justify an **alternative** method of financing the purchase of the new van.

Bank Loan (1)

- Money can be paid back over a period of time (2)

Hire Purchase (1)

- Money paid out over a period of time (2)

Lease (1)

- Not responsible for repairs/maintenance (2)

Grant (1)

- Does not have to be paid back (2)

Buy on Credit (1)

- Pay over a period of time/at a later date (2)

DO NOT ACCEPT ISSUE OF SHARES OR DEBENTURES

One mark for method and 2 marks for justification

<i>Marks</i>	
KU	HI
6	
3	

4. On 31 May 2010 the Bank Account of the Hi Wave Surfing Club showed a balance of £352.40. On the same date, the balance on the club's Bank Statement showed a Credit balance of £2,962.90.

On checking the Bank Statement against the Bank Account the Treasurer found the following differences.

- (1) A Standing Order of £84.50, for rent of the Club's premises, appears only on the Bank Statement.
- (2) Subscription of £500.00 received by the Club only appears in the Bank Account.
- (3) Cheques paid to Surfequip plc for £150.00 and Speed Boatbuilders for £2,500.00 do not appear on the Bank Statement.
- (4) A cash withdrawal of £200.00 was correctly recorded in the Bank Statement but entered in the Bank Account as £20.00.
- (5) Bank Charges for the month amounted to £25.00.
- (6) A donation of £750.00 had been paid directly into the Bank Account by BGC.

<i>Marks</i>	
KU	HI

- 4 (a) (i) Update the Club's Bank Account.

BANK ACCOUNT

DATE	DETAILS	DR	CR	BAL
31/05/10	Balance	352.40		352.40 dr (1)
	SO – Rent		84.50 (1)	267.90 dr
	Correction of Error–Cash		180.00 (2)	87.90 dr
	Bank Charges		25.00 (1)	62.90 dr
	BGC – Donations	750.00 (1)		812.90 dr

- (ii) Prepare a Bank Reconciliation Statement to reconcile the balance in the Bank Statement with the corrected Bank Account balance.

BANK RECONCILIATION STATEMENT AS AT 31/05/10

Corrected Bank Account Balance		812.90 (1)
ADD: Surfequip plc	150.00 (1)	
Speed Boatbuilders	<u>2,500.00 (1)</u>	2,650.00
		<u>3,462.90 (1)</u>
LESS: Subscriptions		<u>500.00 (1)</u>
Bank Statement Balance		<u>2,962.90 (1)</u>

OR

BANK RECONCILIATION STATEMENT AS AT 31/05/10

Bank Statement Balance		2,962.90 (1)
LESS: Surfequip plc	150.00 (1)	
Speed Boatbuilders	<u>2,500.00 (1)</u>	2,650.00
		<u>312.90 (1)</u>
ADD: Subscriptions		<u>500.00 (1)</u>
Corrected Bank Account Balance		<u>812.90 (1)</u>

Marks	
KU	HI
	12

4. (continued)

(b) The Hi Wave Surfing Club has used a Standing Order to pay some of its bills. Suggest another banking service it could have used and state how this would operate.

Cheque (1) – Any acceptable (2)

Direct Debit (1)

- the person being paid instructs the bank of the amount and time of payment (2)
- the amount can vary each time (2)
- the date of payment can vary each time (2)

BGC/BACS (1)

- The person paying the money inform the bank by completing a BGC form or completing the form online (2)
- the amount can vary each time (2)
- the date of payment can vary each time (2)

One mark for service + 2 × 2 for operation

(c) The Treasurer of the Club may receive an honorarium from the Club. Explain the term honorarium.

An Honorarium is a gift or Thankyou (1) given to a club official (1) in recognition of work done (1) for the club by them. It is not a wage (1) and is not based on hours worked (1) but reflects the fact that the work was voluntary (1).

(d) The Treasurer of the Club has prepared a Receipts and Payments Account and a Cash Budget. Name 2 additional financial statements which should be presented annually at the AGM and explain why they are prepared.

Refreshments/Shop/Bar Trading A/c (1)

- to show profit/loss made on bar (2)
- to indicate how bar expenses may be controlled (2)
- to show cost of bar supplies (2)

Supplementary Income Statements (1)

- can show profit/loss made by fundraising events (2)

An Income & Expenditure A/c (1)

- to show Surplus/Deficit for the year as opposed to cash position (2)
- to indicate how profitability may be improved (2)

<i>Marks</i>	
KU	HI
5	
	4

4. (d) (continued)

Balance Sheet (1)/Statement of Affairs (1)

- to show what the club is worth (2)
- to show assets owned by club (2)
- to show liabilities of the club (2)

One mark for financial statement × 2

2 marks for explanation × 2

<i>Marks</i>	
KU	HI
6	

5. (a) (continued)

(ii) A Current Account for each partner.

	DR		CR		BAL
CURRENT A/C – Niven					
01/04/2009 Balance	4,500				4,500 dr (1)
31/03/2010 Interest on Capital			9,000	(1)	4,500 cr
Share of Profit			6,000	(1)	10,500 cr
Drawings	2,500	(1)			8,000 cr
CURRENT A/C – Brown					
01/04/2009 Balance			1,900		1,900 cr (1)
31/03/2010 Interest on Capital			3,000	(1)	4,900 cr
Share of Profit			2,000	(1)	6,900 cr
Salary			3,500	(1)	10,400 cr

(b) State 2 benefits and 2 costs of operating as a Partnership rather than being Sole Traders.

Benefits of operating as a Partnership rather than a Sole Trader include:

- More Capital, expertise, ideas, borrowing power in the business (2) each
- Help with decision making (2)
- Easier to get time off (2)
- Losses, workload, responsibility, debts are shared (2) each

Any 2 of above for 2 marks each

Costs of operating as a Partnership rather than a Sole Trader include:

- Loss of control/no longer own boss (2)
- Have to share profit (2)
- Need to consult (2)
- Disagreements (2)
- Possibility of partner ruining business (2)
- Possible problems with death/retiral of a partner (2)

Any 2 of above for 2 marks each

(c) Suggest one reason why Brown is the only Partner entitled to a Partnership Salary.

Reasons Brown is entitled to a Partnership Salary include:

- Puts in more hours/work (2)
- Has extra skill/expertise (2)
- Takes more responsibility (2)
- Performs special duties (key holder) (2)
- Niven is a sleeping partner (2)

Any one of above for 2 marks

Marks	
KU	HI
	8
8	
2	

Marks	
KU	HI
	10

6. The following figures have been extracted from the ledger of Brian Boyle Bicycles.

Sales	£120,000
Opening Stock	£6,500
Purchases	£101,000
Closing Stock	£5,500
Gross Profit	£18,000
Expenses	£15,000
Net Profit	£3,000

Figures for the “average firm” in Brian Boyle’s line of business are as follows.

- Net Profit % 8%
- Rate of Stock Turnover 15 times

(a) You are required to calculate the **above** ratios for Brian Boyle’s business.

$$\text{NP\%} = \text{NP/Sales} \times 100$$

$$\frac{3,000(I)}{120,000(I)} \times 100 = 2.5\% (I)$$

$$\text{ROST} = \text{COS/AV ST}$$

$$\frac{102,000(I)}{6,000(I)} = 17 \text{ times } (I)$$

$$\text{COS} = \text{Sales} - \text{GP}$$

$$120,000 (I) - 18,000 (I) \qquad 120,000$$

OR

$$\text{COS} = (\text{OP ST} + \text{PURCH}) - \text{CL ST}$$

$$(6,500 + 101,000) (I) - 5,500 (I) \qquad 107,500$$

$$\qquad\qquad\qquad 138,000$$

$$\qquad\qquad\qquad 113,000$$

} 1 mark +
1 for use
in Ratio

$$\text{Av St} = (\text{Op St} + \text{C1 St})/2$$

$$(I) \qquad (I)$$

$$6,500 (I)$$

$$500$$

$$2,750$$

$$3,250$$

} 1 mark +
1 for use
in Ratio

(b) State **one** possible reason for the differences between Brian Boyle’s business and the “average firm” for **each** ratio calculated. Give a different reason for each one.

Reasons for difference between “average firm” and Brian’s results include:

- NP% – Brian has higher expenses (2)
 – Brian has a lower Gross Profit (2)
 – Brian has a lower selling price (2)
 – Brian has lower “Other Incomes” (2)

Any one of above for 2 marks = 2 KU

6. (b) (continued)

- ROST**
- Brian has a lower selling price (2)
 - Brian carries less stock (2)
 - Brian has carried out/spent more on advertising (2)
 - Brian has a better buying policy (2)
 - Brian makes more/quicker sales (2)

Any one of above for 2 marks = 2 KU

(c) Name 2 **other** ratios that Brian Boyle could calculate from his final Accounts. Explain his reason for calculating each of these ratios.

GP% (1) OR GP/SALES × 100 (1)

- To see the percentage of sales that is turned into Gross Profit (2)

EXPENSES% (1) OR EXPENSES/SALES × 100 (1)

- To see how much of income from sales is taken up by expenses (2)

MARK-UP% (1) OR GP/COS × 100 (1)

- To see the percentage of profit that is added on to cost price (2)

WORKING CAPITAL/CURRENT (RATIO) (1) OR CA : CL (1)

- To see the firm's ability to meet short term debts and pay day-to-day running costs (2)

ACID TEST RATIO (1) OR (CA-ST) : CL (1)

- As above but stock removed to use only "liquid" current assets (2)

ROCE (1) OR NP/CAP AT START × 100 (1)

- To see how much the owner(s) get back from their investment (2)

GENERAL REASONS

- To see how well the business is doing
 - To compare with other companies
 - To compare with industry average
 - To compare with previous years
 - To highlight areas of concern
 - To aid planning
- } Any one 2 marks each

one mark for name/formulae × 2

2 marks for each reason × 2

<i>Marks</i>	
KU	HI
4	
6	

[END OF MARKING INSTRUCTIONS]