

2010 Accounting & Finance

Standard Grade – Credit

Solutions

Finalised Marking Instructions

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	(4)	
Copper Piping		
1 metre/25 mm £	5.00 each	
3 metre/25 mm £1	2.00 each	
5 metre/25 mm £1	18.00 each	
Angle Joints		
Lead £5	50.00 each	
Stainless Steel £3	30.00 each	
Copper £4	40·00 each	
TERMS		
Trade Discount – 10%		
Cash Discount -5% one month	I	
VAT - 17·5%		
DELIVERY		
$\pounds 5.00$ on orders under $\pounds 200$		
FREE on orders over £200		

Page 2

						Mai	rks
						KU	HI
1. (co	ntinued)						
(a)	Using the price list, complet to be sent to R Greaves.	te the Invoice (on the W	orkshee	t provide	ed)		
	<u>INVOICE</u> CD Plumbing Supplies 22 Canal Lane Knightswood G17 7TG			a a			
Telephone:	0141 959 2197	e-mail: cdplumb@LOL	,				
Invoice Num	nber: 2123	VAT Number: 129 236					
To: R G Golf	reaves]	Date: 05 April 2010					
G15	6RP	Terms: 5% one month	1				
Quantity	Description	Unit Price	Co	ost			
3 2	3M/25 mm Copper Piping Copper Angle Joints	$ \begin{array}{cccc} \pounds & p \\ 12 & 00 \\ 40 & 00 \end{array} $	£ 36 80	$\left. \begin{array}{c} p \\ 00 \\ 00 \end{array} \right\}$	(1)	for both l	ines
			116	00			
	Less Trade Discount (10%)	-	11	60	(2)		
	Net Goods Value		104	40			
	Add VAT (17.5%)	_	17	35	(3)		
	TOTAL Add Delivery		121 5	75 00	(1)		
	AMOUNT DUE		126	75	(1)		
Working:	NGV £104·40 * 5% CD = :	£5·22 (1)]		8

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1. (conti	inued)					
(b)	Explain the difference					
	 Trade Discount is give Encourage to use Continue to use (2) Attract new custo Retain loyal custo Encourage bulk b Same line of busing 	en to: our business (2) 2) omers (2) omers (2) ouying (2) ness (2)				
	Any one for (2)					
	 Cash Discount is To help Cash Flow 	given to encourage pror v (2)	npt payment (2)	4		
(c)	R Greaves may have to	o return some of the items	s purchased.			
	(i) Name the docur return.					
	Credit Note	1				
	(ii) Explain why R event of a return					
	 As it was a No money c The Credit 					
	Any one for (2)	2				
(d)	Suggest and justify 2 expansion which will different justification for	sources of finance avail allow him to remain a or each source.	able to Charles Dal for a Sole Trader. Give a			
	Source	Justification				
(ONCE	Mortgage (1)	Money received straig	ht away (2)			
UNLY)	ONLY) Remortgage (1) Repayments can be spread over a long period (2)					
ONCE	ONCE Loans (1) Straightforward to arrange (2)					
NOT Lottery	Grant (1)	No need to repay (2) Do not accept for				
	Personal Savings (1)	No repayments (2)				
	(1) × 2 sources (2)× 2 justifications			6		

								M	arks
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2.	The form	following t May 2010.	balances	were extracted fr	om the ledger of	Kathleen Fitzpatr	ick		
	Sales Purch Bank Mach	nases	£12 £3 £6 £25	,250 ,560 ,220 ,600					
	(a)	Enter the	above b	alances into the a	ppropriate accoun	nts.			
	(b)	Record the	ne follow	ving transactions,	opening new acco	ounts as necessary	<i>.</i>		
	 (b) Record the following transactions, opening new accounts as necessary. 2 May 2 May 4 May 7 May 7 May 8 Sent an invoice to Maureen Prescott for £4,000 plus VAT 9 Maureen Prescott is declared bankrupt and as a result: 9 her solicitor sends a cheque for £500 9 a machine with a value of £2,000 is accepted in part payment 9 the outstanding amount is to be written off. 								
Account	t Nam	e Sale	es]		
Date		Details		Dr	Cr Balance		-		
1 May	Bala	nce			(1) 12,250	12,250	cr		
2 May	M P	rescott			(1) 4,000	16,250	cr		
Account	t Nam	e <u>Pur</u>	chases						
Date		Details		Dr	Cr	Balance			
1 May	Bala	nce		(1) 3,560		3,560	dr		
Account	t Nam	e <u>Bar</u>	ık						
Date		Details		Dr	Cr	Balance			
1 May	Bala	nce		(1) 6,220		6,220	dr		
7 May	M P	rescott		(1) 500		6,720	dr		
	<u> </u>]		
								l	

2. (b) (continued)

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Account	Name <u>Machinery</u>				
Date	Details	Dr	Cr	Balance	
1 May	Balance	(1) 25,600		25,600	dr
7 May	M Prescott	(1) 2,000		27,600	dr

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Account	Account Name VAT									
Date	Details	Dr	Cr	Balance						
2 May	M Prescott		(1) 700	700	cr					
4 May	M Prescott	(1) 35		665	cr					

Account	t Name <u>M Prescott</u>				
Date	Details	Dr	Cr	Balance	
2 May	Sales & VAT	(1) 4,700		4,700	dr
4 May	Sales Returns & VAT		(1) 235	4,465	dr
7 May	Bank		(1) 500	3,965	dr
7 May	Machinery		(1) 2,000	1,965	dr
7 May	Bad Debts		(1) 1,965	0	

Account	Name Sales Return	ns			
Date	Details	Dr	Cr	Balance	
4 May	M Prescott	(1) 200		200	dr
Account	Name Bad Debts				
Date	Details	Dr	Cr	Balance	
7 May	M Prescott	(1) 1,965		1,965	dr

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inueu)		
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	
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 Suspanse account (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	
	 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 PBD 2 marks for Balance Sheet effects 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 	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 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). • 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

2.

		Marks		
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2.	(cont	tinued)		
	(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 <u>fixed</u> 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 $2 \times (2)$ for reasons	6	

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Garde Bank	ening Direct plc operates a large gardening centre in Scotland. Its /Cash balance at the end of June 2010 is estimated at $\pounds 2,500$.		
It has	Issued Share Capital of:		
250,0 120,0	00 Ordinary Shares of £1 00 5% Preference Shares of £1		
The f	ollowing estimates have been supplied.		
Sales	May£31,500Purchases:May£20,000June£37,250June£24,300July£42,000July£28,780August£34,000August£23,000		
Rent Wage	£ 2,400 per annumInsurance£1,200 per annumes£18,000 per annumElectricity£1,200 per annum		
NOTI	ES		
(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 $\pm 12,000$, a deposit of 25% will be paid in July and the remainder will be paid in September.		

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3.	(cont	inued)							
	(a)	Using the estimates of	nd notos nr	onor	a tha Cash	, Rud	act for July and		
	(a)	August 2010	na notes, pro	epare	e the Casi	I Duu	get for July and		
		August 2010.							
GARD	ENINC	G DIRECT PLC							
CASH I	BUDG	ET FOR JULY & AUC	GUST 2010						
			T 1						
Ononin	a Danl	/Cash Dalanaa	July	(1)	August	(1)			
Opening	g dani	Vasii Dalalice	2,500	(1)	11,050	(1)			
ADD R	ECEH	PTS							
Sales:	Cash		5,000		5,000	(1)	mark for line		
	Credit	t	32,250	(1)	37,000	(I)			
			39,750		53,850	-			
		OR	37,250		42,000	-			
						_			
LESS P	AYM	ENTS	30.000	(1)	24 200	(1)			
Purchas Dant	ses		20,000	(1)	24,300	(I)			
Kent Insuran			200		200	$\left \right\rangle$			
Wages	CE		1 500		1 500	(2)			
Electric	itv		100		1,500	J			
Interim	Prefe	rence Dividend	3.000		0	(2)	marks for line		
Interim	Ordin	ary Dividend	0		5,000	(1)	mark for line		
Delivery	y Van	v	3,000		0	(I)	mark for line		
			27,900		31,200	-			
Closing	Bank/	Cash Balance	11,850	(1)	22,650	(1)			15
	(b)	Explain 2 hanafits to G	ordoning Dir	oot n	le of prope	ring o	Cash Budgat		
	(0)	Explain 2 beliefts to G		ect p	ic of prepa	unig a	Cash Buuget.		
		Benefits of preparing	a Cash Bude	get i	nclude:				
		Can predict futur	e cash surpl	uses	(2)				
		Can arrange payr	nent of debt	s (2)	(and purc	hase o	f assets (2)		
		• Can predict futur	e cash short	ages	(2) and an	rrange	e overdrafts/		
		loans (2)		5		9			
		• You know your op	pening/closir	ng ba	alances (2))			
		• You can plan for	the future (2	?)					
		• Can be used to su	pport applic	atio	ns for loar	ns (2)			
		• Can be used to sh	ow prospect	ive i	nvestors (2	2)			
		• Monitor spending	(2)		-)				
		• Shows cash inflow	s and outflo	ows (.	2)				
		Any I for I marks as	.h					4	
		Any 2 101 2 marks ead	.11					+	

				arks
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3.	(cont	inued)		
	(c)	Explain 3 differences between Ordinary and Preference Shares.		
	(d)	 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 Suggest and justify an alternative method of financing the purchase of the new van. Bank Loan (1) 	6	
		 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	3	

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4.	On 3 balan State	1 May 2010 the Bank Account of the Hi Wave Surfing Club showed a acc of $\pounds 352.40$. On the same date, the balance on the club's Bank ment showed a Credit balance of $\pounds 2,962.90$.		
	On cl the fo	hecking the Bank Statement against the Bank Account the Treasurer found ollowing differences.		
	(1)	A Standing Order of £84.50, for rent of the Club's premises, appears only on the Bank Statement.		
	(2)	Subscription of $\pounds 500.00$ 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 $\pounds 200.00$ was correctly recorded in the Bank Statement but entered in the Bank Account as $\pounds 20.00$.		
	(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.		

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(a) (i)	Update the Club's Ba	ank Account.				
D (N T T) (
BANK A	CCOUNT DETAIL G	DD	CD	DAI		
	DETAILS	DR 252.40	CR	BAL		
31/05/10	Balance	352.40	04 50 (1)	$352.40 \mathrm{dr} (1)$		
	SO – Rent	∑ I	84·50 (<i>I</i>)	267.90 dr		
	Correction of Error–C	asn	180.00 (2)	87.90 dr		
	Dalik Charges	750.00 (1)	25.00 (1)	02·90 dr 912 00 dr		
	DGC – Donations	/30.00 (1)		012·90 ur		
(ii)	Prepare a Bank Reco in the Bank Statemer	onciliation State at with the corre	ment to reconducted Bank Acc	cile the balance count balance.		
BANK RI	ECONCILIATION ST	ATEMENT AS	5 AT 31/05/10			
Corrected	Rank Account Balanc	٥		812.90 (1)		
	Surfequin nlc		150.00 (1)	012.90 (1)		
MDD.	Sneed Boatbuilders		2.500.00 (1)	2.650.00		
	Speca Douts and of 5		2,000 00 (1)	3.462.90 (1)		
LESS:	Subscriptions			500.00 (1)		
Bank Stat	ement Balance			2.962.90 (1)		
OR						
BANK RI	ECONCILIATION ST.	ATEMENT AS	S AT 31/05/10			
Dank Stat	Surfaquin pla		150.00 (1)	2,902.90 (1)		
LESS.	Sur lequip pic Snood Boothuildors		130.00 (1) 2 500.00 (1)	2 650.00		
	Speed Doatbuilders	—	2,500.00 (1)	$\frac{2,030.00}{312.00}$ (1)		
	Subscriptions			512.90 (1) 500.00 (1)		
Corrected	Bank Account Balance	0		<u>812.90 (1)</u>		
Corrected	Dank Account Dalanc	C		012·90 (1)		

				arks
4.	(con	tinued)	KU	HI
	(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	5	
	(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) .	4	
	(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.		
		 <u>Refreshments/Shop/Bar</u> 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)		
				L

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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

The following accounting data was provided by Niven & Brown on 30 April 2010. Capital account balances 1 April 2009 Niven £90,000 Brown £30,000 Current account balances 1 April 2009 Niven £4,500 dr Brown £1,900 Net Profit for the year to 31 March 2010 £23,500 The Partnership Agreement states the following. • Drawings of £2,500 are to be taken in full by Niven only • Brown is entitled to a Partnership Salary of £3,500 • Interest on Capital of 10% is to be allowed to partners • Profits and Losses are shared in proportion to Capital Using the above information you are required to prepare: (a) (i) The Appropriation Account for year ended 31 March 2010 NIVEN & BROWN P&L APPROPRIATION A/C FOR YEAR ENDED 3/03/10 NET PROFIT LESS APPROPRIATIONS Salary – Brown NITEREST ON CAPITAL Niven Brown RESIDUAL PROFIT SHARE OF PROFITS Niven Brown	The following accounting data was provided by Niven & Brown on 30 April 2010. Capital account balances 1 April 2009 Niven £90,000 Brown £30,000 Current account balances 1 April 2009 Niven £4,500 dr Brown £1,900 Net Profit for the year to 31 March 2010 £23,500 The Partnership Agreement states the following. • Drawings of £2,500 are to be taken in full by Niven only • Brown is entitled to a Partnership Salary of £3,500 • Interest on Capital of 10% is to be allowed to partners • Profits and Losses are shared in proportion to Capital Using the above information you are required to prepare: (a) (i) The Appropriation Account for year ended 31 March 2010 NIVEN & BROWN P&L APPROPRIATION A/C FOR YEAR ENDED 3/03/10 NET PROFIT LESS APPROPRIATIONS Salary – Brown INTEREST ON CAPITAL Niven Brown RESIDUAL PROFIT SHARE OF PROFITS SHARE OF PROFITS Silvar (2) 2,000 (2) 3,000 (2) 8,000 (1) Brown									KU
2010. Capital account balances 1 April 2009 Niven £90,000 Brown £30,000 Current account balances 1 April 2009 Niven £4,500 dr Brown £1,900 Net Profit for the year to 31 March 2010 £23,500 The Partnership Agreement states the following. • Drawings of £2,500 are to be taken in full by Niven only • Drawings of £2,500 are to be taken in full by Niven only • Drawings of £2,500 are to be taken in full by Niven only • Drawings of £2,500 are to be taken in full by Niven only • Drawings of £2,500 are to be taken in full by Niven only • Drawings of £2,500 are to be taken in full by Niven only • Drawings of £2,500 are to be taken in full by Niven only • Drawings of £2,500 are to be taken in full by Niven only • Drawings of £2,500 are to be taken in full by Niven only • Drawings of £2,500 are to be taken in full by Niven only • Drawings of £2,500 are to be taken in full by Niven only • Drawings of £2,500 are to be taken in proportion to Capital Using the above information you are required to prepare: (a) (i) The Appropriation Account for year ended 31 March 2010 NIVEN & BROWN P&L APPROPRIATION A/C FOR YEAR ENDED 3//03/10 NET PROFIT LESS APPROPRIATIONS Salary - Brown INTEREST ON CAPITAL Niven Brown RESIDUAL PROFITS Niven Brown Niven Brown	2010. Capital account balances 1 April 2009 Niven £90,000 Brown £30,000 Current account balances 1 April 2009 Niven £4,500 dr Brown £1,900 Net Profit for the year to 31 March 2010 £23,500 The Partnership Agreement states the following. • Drawings of £2,500 are to be taken in full by Niven only • Brown is entitled to a Partnership Salary of £3,500 • Interest on Capital of 10% is to be allowed to partners • Profits and Losses are shared in proportion to Capital Using the above information you are required to prepare: (a) (i) The Appropriation Account for year ended 31 March 2010 NIVEN & BROWN P&L APPROPRIATION A/C FOR YEAR ENDED 3/03/10 NET PROFIT LESS APPROPRIATIONS Salary – Brown INTEREST ON CAPITAL Niven Brown RESIDUAL PROFIT SHARE OF PROFITS Niven Brown	The following	g accounting data	was provide	ed by	v Niven &	Brov	wn on 30 A	pril	
Capital account balances 1 April 2009Niven£90,000Brown£30,000Current account balances 1 April 2009Niven£4,500 drBrown£1,900Net Profit for the year to 31 March 2010 £23,500The Partnership Agreement states the following.•Drawings of £2,500 are to be taken in full by Niven only•Brown is entitled to a Partnership Salary of £3,500•Interest on Capital of 10% is to be allowed to partners•Profits and Losses are shared in proportion to CapitalUsing the above information you are required to prepare:(a) (i)The Appropriation Account for year ended 31 March 2010NIVEN & BROWN P&L APPROPRIATION A/C FOR YEAR ENDED3/103/10ELESS APPROPRIATIONSSalary - BrownINTEREST ON CAPITALNivenBrownNivenBrownNivenBrown(2)12,00015,500(1)6,000(2)8,000(2)8,000(2)8,000(2)8,000(2)8,000(2)8,000(2)8,000(2)8,000(2)8,000(2)8,000(3)9,000(2)8,000(3)9,000(2)8,000(3)9,000	Capital account balances 1 April 2009 Niven £90,000 Brown £30,000 Current account balances 1 April 2009 Niven £4,500 dr Brown £1,900 Net Profit for the year to 31 March 2010 £23,500 The Partnership Agreement states the following. • Drawings of £2,500 are to be taken in full by Niven only • Brown is entitled to a Partnership Salary of £3,500 • Interest on Capital of 10% is to be allowed to partners • Profits and Losses are shared in proportion to Capital Using the above information you are required to prepare: (a) (i) The Appropriation Account for year ended 31 March 2010 NIVEN & BROWN P&L APPROPRIATION A/C FOR YEAR ENDED 31/03/10	2010.		1	5				1	
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(a) (i) The Appropriation Account for year ended 31 March 2010 NIVEN & BROWN P&L APPROPRIATION A/C FOR YEAR ENDED 31/03/10 NET PROFIT LESS APPROPRIATIONS Salary – Brown INTEREST ON CAPITAL Niven Brown RESIDUAL PROFIT SHARE OF PROFITS Niven Brown	(a) (i) The Appropriation Account for year ended 31 March 2010 NIVEN & BROWN P&L APPROPRIATION A/C FOR YEAR ENDED 31/03/10 NET PROFIT LESS APPROPRIATIONS Salary – Brown INTEREST ON CAPITAL Niven Brown RESIDUAL PROFIT SHARE OF PROFITS Niven Brown	Using the above	ve information yo	u are require	ed to	prepare:				
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31/03/10 £ £ £ £ 23,500 (1) NET PROFIT LESS APPROPRIATIONS 3,500 (1) 3,500 (1) LESS APPROPRIATIONS 9,000 (2) 3,500 (1) 10 INTEREST ON CAPITAL 9,000 (2) 12,000 15,500 (1) Brown 3,000 (2) 12,000 15,500 (1) SHARE OF PROFITS 6,000 (2) 8,000 (1) Shown 0 0 0 0	31/03/10 £ £ £ £ 23,500 (1) NET PROFIT LESS APPROPRIATIONS 3,500 (1) 3,500 (1) LESS APPROPRIATIONS 9,000 (2) 3,500 (1) (1) INTEREST ON CAPITAL 9,000 (2) 12,000 15,500 (1) Brown 3,000 (2) 12,000 15,500 (1) SHARE OF PROFITS 6,000 (2) 8,000 (1) Share OF PROFITS 6,000 (2) 8,000 (1) Brown 0 0 0 0	NIVEN & BI	ROWN P&L AI	PPROPRIA	TIO	N A/C FO	RY	'EAR END	ED	
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INTEREST ON CAPITAL 9,000 (2)	INTEREST ON CAPITAL 9,000 (2)	Salary – Brow	wn			3,500	(1)			
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SHARE OF PROFITS 6,000 (2) Brown 2,000 (2) 0 0	SHARE OF PROFITS 6,000 (2) Brown 2,000 (2) 0 0	Decovere	DDAEIT	3,000	(2)	12,000		15,500	(1)	
Sinvice of Fictures 6,000 (2) Brown 2,000 (2) 0 0	Niven 6,000 (2) Brown 2,000 (2) 0 0	Brown DESIDITAL I						0,000	(1)	
Brown 2,000 (2) 8,000 0	Brown 2,000 (2) 8,000 0	Brown RESIDUAL I SHARF OF F	PROFITS							
		Brown RESIDUAL I SHARE OF F Niven	PROFITS			6.000	(2)			
		Brown RESIDUAL I SHARE OF F Niven Brown	PROFITS			6,000 2,000	(2) (2)	8.000		
		Brown RESIDUAL I SHARE OF F Niven Brown	PROFITS			6,000 2,000	(2) (2)	<u>8,000</u>		
		Brown RESIDUAL I SHARE OF F Niven Brown	PROFITS			6,000 2,000	(2) (2)	<u>8,000</u> 0		
		Brown RESIDUAL I SHARE OF H Niven Brown	PROFITS			6,000 2,000	(2) (2)	8,000 0		
		Brown RESIDUAL I SHARE OF I Niven Brown	PROFITS			6,000 2,000	(2) (2)	<u>8,000</u> 0		
		Brown RESIDUAL I SHARE OF I Niven Brown	PROFITS			6,000 2,000	(2) (2)	8,000		
		Brown RESIDUAL I SHARE OF I Niven Brown	PROFITS			6,000 2,000	(2) (2)	8,000		
		Brown RESIDUAL I SHARE OF I Niven Brown	PROFITS			6,000 2,000	(2) (2)	<u>8,000</u> 0		

			Ма	arks			
			KU	HI			
5.	(a)	(continued)(ii) A Current Account for each partner.					
	CUR 01/04 31/03 CUR 01/04 31/03	RRENT A/C - Niven DR CR BAL 4/2009 Balance 4,500 9,000 (1) 4,500 dr (1) 3/2010 Interest on Capital Share of Profit Drawings 2,500 (1) 9,000 (1) 4,500 dr (1) RRENT A/C - Brown DR CR BAL 4,500 dr (1) 4/2009 Balance DR CR BAL 1,900 cr (1) 3/2010 Interest on Capital DR CR BAL (1)					
		Share of Profit 2,000 (1) 6,900 cr Salary 3 500 (1) 10 400 cr		8			
	(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 		0			
		 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 	8				
	(c)	Suggest one reason why Brown is the only Partner entitled to a Partnership Salary.	Ū				
		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	2				

				Ma	arks
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6. The Bicy	following figures have been cles.	n extracted from	the ledger of Brian Boyle		
Salaa	C120.000				
Sales	ing Stock f6 500				
Purch	$\begin{array}{ccc} \text{ing Stock} & \text{$20,500$} \\ \text{ases} & \text{$101,000$} \\ \end{array}$				
Closi	ng Stock £5.500				
Gros	s Profit £18,000				
Expe	nses £15,000				
Net F	Profit £3,000				
Figur	es for the "average firm" in B	Brian Boyle's line	of business are as follows.		
• •	Jet Profit % 8	3%			
• F	ate of Stock Turnover 1	5 times			
-					
(a)	You are required to calculat	te the above ratios	s for Brian Boyle's business		
(b)	$NP\% = NP/Sales \times 100$ $\frac{3,000(1)}{120,000(1)} \times 100 =$ $ROST = COS/AV ST$ $\frac{102,000(1)}{6,000(1)} = 17 \text{ fr}$ $COS = Sales - GP$ $120,000(1) - 18,00$ OR $COS = (OP ST + PURCH)$ $(6,500 + 101,000)(1)$ $Av St = (Op St + C1 St)/2$ (1) (1) (1) (1) $State one possible reason business and the "average different reason for each on Possible reason business and the "average different reason for each on Possible r$	= $2 \cdot 5\% (1)$ imes (1) 00 (1) (1) - CL ST (1) - 5,500 (1) for the difference e firm" for each the. etween "average her expenses (2) wer Gross Profit wer selling price er "Other Incom arks = 2 KU	$ \begin{array}{c} 120,000\\ 107,500\\ 138,000\\ 113,000 \end{array} \begin{array}{c} 1 mark + \\ 1 for use \\ in Ratio \end{array} $ $ \begin{array}{c} 500\\ 2,750\\ 3,250 \end{array} \begin{array}{c} 1 mark + \\ 1 for use \\ in Ratio \end{array} $ $ \begin{array}{c} ces between Brian Boyle's \\ ratio calculated. Give a \\ \hline firm" and Brian's results $ $ \begin{array}{c} (2)\\ (2)\\ res"(2) \end{array} $		10

				irks
_	_		KU	HI
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	4	
	(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 		
		one mark for name/formulae × 2 2 marks for each reason × 2	6	

[END OF MARKING INSTRUCTIONS]