



2011 Accounting & Finance

Standard Grade – Credit

Solutions

Finalised Marking Instructions

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1. (continued)

SALES 07/03 – ALTERNATIVE SOLUTIONS

CORRECT

GOODS	780.00	
-TRADE DISCOUNT – 10%	<u>78.00</u>	(1)
= NGV	702.00	
+ VAT – 17.5%	<u>116.70*</u>	
= TOTAL	<u>818.70</u>	(1)

*NGV	702.00	
-CASH DISCOUNT – 5	<u>35.10</u>	(1)
	666.90	

VAT – 17.5% 116.70 (1) = 4 marks + 1 for correct
entry = 5 marks

ALTERNATIVE 1

GOODS	780.00	
-TRADE DISCOUNT – 10%	<u>78.00</u>	(1)
= NGV	702.00	
+ VAT -17.5%	<u>122.85</u>	(1)
= TOTAL	<u>824.85</u>	(1)

= 3 marks + 1 for correct
entry = 4 marks

ALTERNATIVE 2

GOODS	780.00	
-TRADE DISCOUNT – 10%	<u>78.00</u>	(1)
= NGV	702.00	
-CASH DISCOUNT – 5%	<u>35.10</u>	(1)
	666.90	

+VAT -17.5%	<u>116.70</u>	(1)
= TOTAL	<u>783.60</u>	(0)

= 3 marks + 1 for correct
entry = 4 marks

ALTERNATIVE 3

GOODS	780.00	
+VAT -17.5%	<u>136.50</u>	(1)
= TOTAL	<u>916.50</u>	(1)

= 2 marks + 1 for correct
entry = 3 marks

Marks	
KU	HI

1. (continued)

(b) Suggest a reason why Robert & Tommy Rose offer Cash Discount to their customers.

To encourage their customers to pay:

- within the time mentioned in the “terms”/within the month
- promptly
- to help their cash flow.

(Any one for 2 marks)

(c) Name the document which would have been sent by Robert & Tommy Rose on 15 March and explain its use.

- Credit Note (1)** **Used to record a return of goods (1)**
Previously bought on credit (1)
States reason for return (1)
Reduces amount originally owed (1)
Used to record entries in the ledger (1)
Shows details of goods returned (1)

(d) Robert & Tommy Rose are considering becoming a plc.

Suggest 2 advantages and 2 disadvantages of this to the partners.

ADVANTAGES	DISADVANTAGES
More capital (available from shares)	No longer in control of business
More expertise (from BOD)	Profits shared between people/shareholders
More sources of finance (debentures)	Legal requirements have to be met/must publish accounts/must hold AGM
Limited liability	May not receive any dividends
Easier to borrow (due to size)	Shares may lose value
More purchasing power	Expensive to set up

(Any 2 advantages and 2 disadvantages for 2 marks each)

Marks	
KU	HI
2	
3	
8	

2. Maggie MacIntyre operates a small business buying and selling beauty products. The following balances were taken from her ledger on 1 March 2011.

Cash	£455.00
Bank Overdraft	£220.00
Equipment	£2,100.00

(a) Open the accounts with the above balances.

(b) Record the following transactions in the ledger.

2 March	Paid by cheque for 4 desktop fans for office use. Fans cost £30.00 each plus VAT
4 March	Maggie decided to take one of the fans purchased on 2 March for her own use at home
6 March	Cash sales £200.00 plus VAT
8 March	One of the fans bought on 2 March was returned as it was faulty. A cash refund was received
10 March	Maggie kept £50.00 cash in the till and transferred the rest to the bank

Marks	
KU	HI

2. (a) & (b) (continued)

DATE	DETAILS	DR	CR	BAL
CASH ACCOUNT				
01/03/11	Balance	455-00 (1)		455-00 dr
06/03/11	Sales & VAT	235-00 (1)		690-00 dr
08/03/11	Equipment & VAT	35-25 (1)		725-25 dr
10/03/11	Bank		675.25 (1)	50-00 dr

DATE	DETAILS	DR	CR	BAL
BANK ACCOUNT				
01/03/11	Balance		220-00 (1)	220-00 cr
02/03/11	Equipment & VAT		141-00 (1)	361-00 cr
10/03/11	Cash	675-25 (1)		314-25 dr

DATE	DETAILS	DR	CR	BAL
EQUIPMENT ACCOUNT				
01/03/11	Balance	2,100-00 (1)		2,100-00 dr
02/03/11	Bank	120-00 (1)		2,220-00 dr
04/03/11	Drawings		30-00 (1)	2,190-00 dr
08/03/11	Cash		30-00 (1)	2,160-00 dr

DATE	DETAILS	DR	CR	BAL
VAT ACCOUNT				
02/03/11	Bank	21-00 (1)		21-00 dr
04/03/11	Drawings		5-25 (1)	15-75 dr
06/03/11	Cash		35-00 (1)	19-25 cr
08/03/11	Cash		5-25 (1)	24-50 cr

DATE	DETAILS	DR	CR	BAL
DRAWINGS ACCOUNT				
04/03/11	Equipment & VAT	35-25 (1)		35-25 dr

DATE	DETAILS	DR	CR	BAL
SALES ACCOUNT				
06/03/11	Cash		200-00 (1)	200-00 cr

Marks	
KU	HI
	17

2. (continued)

(d) Maggie is also a member of her local Tennis Club. The club only provides its members with a Receipts and Payments Account. Maggie has complained that this does not provide enough information. Suggest 2 other Financial Statements which could be provided and explain their significance.

- 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).
- Income Statements (1)
 - can show profit/loss made by events/activities (2).
- An Income & Expenditure A/c (1)
 - to show revenue income (1) and expenditure (1)
 - to show Surplus/Deficit for the year (as opposed to cash position) (2)
 - to indicate how profitability may be improved (2).
- Balance Sheet (1)
 - to show what the club is worth/accumulated fund (2)
 - to show assets owned by club (2)
 - to show liabilities of the club (2).
- Cash Budget (1)
 - can predict future cash surpluses (2)
 - arrange payment of debts (2)
 - arrange purchase of assets (2)
 - can predict future cash shortages (2)
 - arrange overdrafts (2)
 - arrange loans (2)
 - you know your opening/closing balances (2)
 - you can plan for the future (2)
 - can be used to support applications for loans/show prospective investors (2).

One mark for each financial statement name
2 marks for explanation of each financial statement named

Marks	
KU	HI
6	

3. (e) (ii) (continued)

DEBENTURES

Advantages – Only interest is paid until repayment date (2)
Final payment in future giving time to save/organise (2)
No loss/dilution of ownership/control (2)
Long term loan (2)
Can get a large sum of money (2)

Disadvantages – Interest has to be paid (2)
Final repayment has to be made in lump sum (2)
Profits reduced due to interest (2)
Extra liability (2)

One mark for source and 2 marks for any advantage and disadvantage

<i>Marks</i>	
KU	HI
10	

4. Malcolm Docherty operates a small fishing supplies business called "Flies Are Us". The following information was extracted from his ledger on 30 April 2011.

	£
Purchases	24,650
Debtors	3,000
Loan	2,000
Wages	20,000
Drawings	1,500
Stock – 1 May 2010	4,600
Carriage Out	350
Carriage In	175
Sales	73,250
Returns Out	900
Electricity	1,540
Provision for Depreciation of Van	3,000
Van (at cost)	10,000
Bad Debts	150
Rent Received	1,200
Provision for Bad Debts	200
Creditors	2,500
Loan Interest	200

NOTES

- Stock value at 30 April 2011 £5,000
- Electricity prepaid £90
- Wages accrued £1000
- Provide for depreciation of the van at 15% on cost
- The provision for bad debts is to be adjusted to 10% of Debtors

<i>Marks</i>	
KU	HI

4. (continued)

- (a) Select the necessary information and prepare the Trading, Profit and Loss Accounts for the year.

**FLIES ARE US
TRADING, PROFIT & LOSS ACCOUNT
FOR YEAR ENDED 30 APRIL 2011**

	£	£	£	
Sales			73,250	(1)
LESS: COST OF SALES				
Opening Stock		4,600		(1)
ADD: Purchases	24,650			(1)
ADD: Carriage Inwards	175			(1)
	<u>24,825</u>			
LESS: Returns Outwards	900	(1)	23,925	
			<u>28,525</u>	
LESS: Closing Stock		5,000	(1)	23,525 (1)
GROSS PROFIT (1)			<u>49,725</u>	(1)
ADD: OTHER INCOME				
Rent Received			1,200	(1)
			<u>50,925</u>	
LESS: EXPENSES				
Wages (20,000+1,000)		21,000		(2)
Carriage Outwards		350		(1)
Electricity (1,540-90)		1,450		(2)
Bad Debts		150		(1)
Increase in PBD (3,000*10%)-200		100		(2)
Depreciation (of Van (10,000*15%))		1,500		(2)
Loan Interest		200	(1)	24,750
NET PROFIT (1)			<u>26,175</u>	(1)

- (b) Explain the difference between the following terms.

- (i) Carriage In and Carriage Out

**Carriage is the cost of transporting goods (1).
Outwards means the goods are going out of our
business (1). Inwards means the goods are coming
into our business (1).**

**Carriage Outwards is the cost of transporting sales
from our business to our customers (2). It is
recorded as an expense in the P & L A/c (1).**

**Carriage Inwards is the cost of transporting
purchases from our suppliers to our business (2).
It is added to Purchases in the Trading A/c (1).**

Marks	
KU	HI
4	23

4. (b) (continued)

(ii) Debtors and Creditors

A debtor is someone we have sold goods on credit to (1) and they therefore owe us money (1). They are shown in the (Balance Sheet) as a Current Asset (1).

A creditor is someone we have purchased goods on credit from (1) and we therefore owe them money (1). They are shown in the (Balance Sheet) as a Current Liability (1).

(iii) Bad Debts and Provision for Bad Debts

Bad Debts occur when debtors fail to pay the amount owed (2). It is an expense in the P&L Account (1). It does not affect the Debtors total as the account has already been closed (1).

MUST IMPLY THE PAST

The Provision for Bad Debts is an attempt to anticipate future Bad Debts (2).

Only the difference from one year to another is shown in the P&L Account (1).

An increase is an Expense (1), a decrease is Other Income (1). It is deducted from Debtors in the Balance Sheet (1) to give a more realistic Debtors figure (1).

MUST IMPLY THE FUTURE

In parts (i), (ii) & (iii) both sides must be explained to gain full marks 12 KU

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

Marks	
KU	HI
	8

5. Brian and Pat Boyle run a corner shop. The total of the Dr column in the Trial Balance was £89,260 and the total of the Cr column was £90,152.

(a) Open the necessary account which will allow the Trial Balance to balance.

On checking the entries it was discovered that the following errors had been made.

- Sales Returns of £250 had been correctly entered in the Debtor and VAT Accounts, but had been recorded on the wrong side of the Sales Returns Account.
- Although recorded in the Bank Account, there was no other record made of £466 withdrawn by the owner Brian Boyle.
- Cash Sales of £240 were correctly entered in the Sales and VAT Accounts but recorded as £24 in the Cash Account.
- The Purchases Account was over-added by £290.

(b) Correct these errors showing **only** the necessary entries to be made in the account opened in part (a) above.

DATE	DETAILS	DR	CR	BAL
SUSPENSE ACCOUNT (1)				
1 March	Difference on TB	892-00 (1)		892-00 dr
	Sales Returns		500-00 (2)	392-00 dr
	Drawings – B Boyle		466-00 (1)	74-00 cr
	Cash		216-00 (2)	290-00 cr
	Purchases	290-00 (1)		0

5. (continued)

The following errors were discovered **after** the corrections above were made.

- Payment of £45 for the purchase of petrol for the Delivery Van was correctly entered in the Bank Account, but mistakenly entered in the Delivery Vans Account.
- Purchases of £157 on credit from Jack Green had been recorded in the account Jim Green.

(c) State the name given to each of the above types of error.

Error of principle (1)
Error of commission (1)

(d) Describe **2** other types of error which would not have been detected by the Trial Balance.

- **Error of Omission (1). When no entries have been made for a transaction either in dr or cr (2) eg an invoice falling down the back of the filing cabinet and being forgotten about (2).**
- **Error of Original Entry (1). When the wrong figure is used in all entries for a transaction (2) eg payment of an expense of £624 is recorded in the expense and money accounts as £642 (2).**
- **Compensating Errors (1). When one or more errors cancel each other out (2) eg a wrong dr of £50 is cancelled out by wrong cr entries of £23 and £27 (2).**
- **Complete Reversal (1). When the entries for a transaction are completely reversed (2) ie the account that should have been dr is cr whilst the account that should have been cr is dr (2) eg payment of an expense is cr to expense account and dr to money account (2).**

Any 2 of above for 2 marks each

(e) Explain why the above errors would not have been detected by the Trial Balance.

The above errors would not affect the balancing of the Trial Balance as in all cases the Debit entries made are equal to the Credit entries made (2).

The double entry has been completed (2).

MUST BE SOME REFERENCE TO DOUBLE ENTRY OR DR & CR

Marks	
KU	HI
2	
4	
2	

6. (continued)

- (d) State 2 reasons why “Closing Capital” may be less than “Opening Capital”.

Closing Capital may be less than Opening Capital because:

the owner has taken TOO much out in Drawings (2)
 more drawings than NP (2) drawings on its own = 1 mark
 the business made a Net Loss (2)
 the owner has withdrawn some of their capital (2).

Any 2 for 2 marks each

- (e) Suggest 2 banking services a business could use to pay an electricity bill and justify the most appropriate service.

Banking Services to pay an electricity bill could be:

Direct Debit (1)
 Standing Order (1)
 BGC (1)

Any 2 of above for one mark each

Most appropriate method is Direct Debit as:

the amount can vary (2)
 the recipient informs bank of amount due (2)
 the date can vary (2)

Any one of above for 2 marks

If only SO and BCG suggested, then accept:

**Justification of SO as “amount paid automatically” only
 and if justification of BGC as “amount paid can vary” only**

Marks	
KU	HI
4	
4	

[END OF MARKING INSTRUCTIONS]