



**2012 Accounting and Finance**

**Standard Grade Credit - Solutions**

**Finalised Marking Instructions**

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Marks	
KU	HI

1. (a) Using the information below, make the necessary entries in the ledger of Fraser Forbes.

**Ledger Balances at 1 April 2012**

Bank	£3,500
Sales	£8,450
Debtor – D Allan	£420
Stock	£1,275

April 8 S Hardies purchased goods on credit costing £270 plus VAT.

April 12 Goods worth £305 were taken from the business by Fraser Forbes for his own use.

April 15 D Allan has been declared bankrupt and can only pay 45p in the £. This amount was received by cheque and the remainder is to be written off.

April 21 S Hardie returned goods worth £50 plus VAT as they were damaged.

BANK ACCOUNT							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
1/4/12	Balance	(1) 3,500	00			3,500	00
15/4/12	D Allan	(1) 189	00			3,689	00

SALES ACCOUNT							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
1/4/12	Balance			(1) 8,450	00	8,450	00
8/4/12	S Hardie			(1) 270	00	8,720	00

D ALLAN ACCOUNT							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
1/4/12	Balance	(1) 420	00			420	00
15/4/12	Bank			(2) 189	00	231	00
15/4/12	Bad Debts			(1) 231	00	0	00

STOCK ACCOUNT							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
1/4/12	Balance	(1) 1,275	00			1,275	00
12/4/12	Drawings			(1) 305	00	970	00

Marks

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1. (a) (continued)

<b>S HARDIE ACCOUNT</b>							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
8/4/12	Sales & VAT	(2) 324	00			324	00
21/4/12	Sales Returns & VAT			(2) 60	00	264	00

<b>VAT ACCOUNT</b>							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
8/4/12	S Hardie			(1) 54	00	54	00
21/4/12	S Hardie	(1) 10	00			44	00

<b>DRAWINGS ACCOUNT</b>							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
12/4/12	Purchases	(1) 305	00			305	00

<b>IF NOT IN STOCK A/C PURCHASES ACCOUNT</b>							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
12/4/12	Drawings			(1) 305	00	970	00

<b>BAD DEBTS ACCOUNT</b>							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
15/4/12	D Allan	(1) 231	00			231	00

<b>SALES RETURNS ACCOUNT</b>							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
21/4/12	S Hardie	(1) 50	00			50	00

		Marks	
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1.	(continued)		
	(b) "A Trial Balance has limited use as a checking device."  Explain this statement and outline 2 examples which support your explanation.  <b>A trial balance checks the <u>arithmetic</u> accuracy (1) of the ledger (accounts) (1)</b>  <b>It shows that for every debit transaction there is a corresponding credit transaction (2)</b>  <b>A number of errors can still arise (1) even though the trial balance agrees (1)</b>  <b><u>Examples:</u></b>  <b>Errors of principle – description/example (2)</b> <b>Errors of omission – description/example (2)</b> <b>Errors of commission – description/example (2)</b> <b>Errors of original entry – description/example (2)</b> <b>Errors of complete reversal – description/example (2)</b> <b>Compensating errors – description/example (2)</b>  <b>Explanation of statement: 2 marks</b> <b>Examples of illustration: 2 x 2 marks (max 4 marks)</b> <b>Name of error with no description or example (1) (max 2 marks)</b>	6	
	(c) Fraser operates as a sole trader but is considering going into partnership in order to expand his business. Suggest 3 limitations of operating as a partnership rather than a sole trader.  <b>Drawbacks of operating as a partnership:</b>  <b>Loss of control/no longer own boss (2)</b> <b>Have to share profits (2)</b> <b>Need to consult (2)</b> <b>Disagreements (2)</b> <b>Possible problems of partner ruining business (2)</b> <b>Possible problems with death/retiral of partner (2)</b> <b>Unlimited liability <u>remains</u> (2)</b> <b>Governed by Partnership Agreement/Partnership Act (2)</b>  <b>Any 3 of the above for 2 marks each</b>	6	

<i>Marks</i>	
KU	HI

2. The Ardtun Art Club has provided the following financial information.

**Assets and Liabilities as at 1 April 2011**

	£
Bank	1,900
Premises at cost	35,000
Equipment at cost	9,500
Cleaner's wages due	230
Subscriptions paid in advance	400
Electricity prepaid	40

**Receipts and Payments for year ended 31 March 2012**

	£
Art Exhibition entry fees	1,300
Cleaner's wages	2,000
Sponsorship from Deeview Homes	1,800
Honorarium	400
Purchase of new equipment	500
Advertising – Art Exhibition	200
Electricity	560
Art Exhibition prizes	800
Subscriptions	3,900
Insurance	375
Donations – Art Exhibition	80

**Notes at 31 March 2012**

- All club equipment is to be depreciated by 10% on cost
- Electricity prepaid £50
- Art Exhibitions advertising due £25
- Subscriptions due £250

(a) From the above information you are required to prepare for the year ended 31 March 2012:

- (i) Income Statement for Art Exhibition
- (ii) Income and Expenditure Account.

Marks	
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2. (a) (continued)

(i) (ARDTUN ART CLUB)  
Income Statement for Art Exhibition  
(for the year ended 31 March 2012)

	£		£
Entry Fees		(1)	1,300
Donations		(1)	80
			<u>1,380</u>
Less:			
Advertising (200 + 25)	(2)	225	
Prizes	(1)	<u>800</u>	
			<u>1,025</u>
Surplus/Income from Exhibition		(1)	<u><u>355</u></u>


(ii) (ARDTUN ART CLUB)  
Income and Expenditure Account  
(for the year ended 31 March 2012)

	£		£
<b><u>INCOME</u></b>			
Surplus/Income from Exhibition		(1)	355
Sponsorship from Deeview Homes		(1)	1,800
Subscriptions (3,900+400+250)		(3)	<u>4,550</u>
			6,705
<b><u>EXPENDITURE</u></b>			
Cleaner's Wages (2,000-230)	(2)	1,770	
Honorarium	(1)	400	
Electricity (560+40-50)	(3)	550	
Insurance	(1)	375	
Depreciation of Equipment*	(3)	<u>1,000</u>	<u>4,095</u>
SURPLUS		(1)	<u><u>2,610</u></u>

\*10% of (9,500+500)

		Marks	
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2.	(continued)		
(b)	The art club would like to create a new workshop for pottery classes. Suggest <b>3</b> possible methods of raising the finance for this workshop, other than by obtaining a loan. Justify your choices giving different reasons for each.		
	<b>Fundraising Events</b>		
	<b>Members willing to support these (1) for better facilities (1)</b>		
	<b>Increase Subscriptions</b>		
	<b>Members willing to pay more (1) for better facilities (1)</b>		
	<b>Levy on members</b>		
	<b>One-off payment (2)</b>		
	<b>Annual subscriptions not increased (2)</b>		
	<b>Lifetime memberships</b>		
	<b>More subscription money up front (2)</b>		
	<b>Increase membership numbers</b>		
	<b>Additional membership subscriptions would help to pay for new workshop (2)</b>		
	<b>Apply for a grant</b>		
	<b>Does not need to be repaid (2)</b>		
	<b>Attract sponsorship</b>		
	<b>Does not need to be repaid (2)</b>		
	<b>Mortgage/Remortgage</b>		
	<b>Can raise a large amount quickly (2)</b>		
	<b>Suggestions – 1 mark each</b>		
	<b>Justification – 2 marks each</b>		
		9	
	<b>Candidate must select options which allow different reasons to be given.</b>		
	<b>NOT accepted - Loan</b>		
(c)	State where Subscriptions due at 31 March would be shown in the Balance Sheet and explain why.		
	<b>Current Assets (1) section of the Balance Sheet</b>		
	<b>Because:</b>		
	<b>The members have not paid their subscriptions for the financial year (2)</b>		
	<b>The members are debtors (2) of the club</b>		
	<b>The members owe the club money (2)</b>		
	<b>Any 2 reasons – 2 marks each</b>		
		5	

3. The Bank Statement and Bank Account of Deaconberry plc are shown below.

<b>TORRIDON BANK plc</b>				
Glen Road <b>EDINBURGH</b> EH22 5YP				
Deaconberry plc Unit 2 Webster Industrial Estate KINROSS KY13 9XW		Account No: 60653900 Branch Code: 29-12-62 Date: 30 April 2012		
Date	Description	DR £	CR £	Balance £
1/4/12	Balance		2,200	2,200
4/4/12	Deposit		450	2,650
5/4/12	00256	270		2,380
5/4/12	DD – Electricity	180		2,200
8/4/12	00257	320		1,880
12/4/12	Deposit		550	2,430
13/4/12	BGC – Rent Received		330	2,760
15/4/12	00258	250		2,510
16/4/12	Cash	100		2,410
17/4/12	SO – Insurance	160		2,250
18/4/12	Deposit		400	2,650
21/4/12	00259	300		2,350
23/4/12	Deposit		240	2,590
26/4/12	Bank Charges	50		2,540
27/4/12	Cash	120		2,420

Marks	
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Marks	
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3. (continued)

The Bank Account for the month of April is shown below.

<b>BANK ACCOUNT</b>				
Date	Details	DR £	CR £	Balance £
1/4/12	Balance	2,200		2,200
2/4/12	Sales	450		2,650
4/4/12	Repairs		270	2,380
8/4/12	Purchases		320	2,060
12/4/12	Sales	350		2,410
12/4/12	Sales	200		2,610
13/4/12	Travel Expenses		50	2,560
16/4/12	Cash		100	2,460
17/4/12	Sales	400		2,860
17/4/12	Advertising		130	2,730
18/4/12	Purchases		300	2,430
21/4/12	Petrol		60	2,370
22/4/12	Sales	240		2,610
27/4/12	Cash		120	2,490
28/4/12	Sales	235		2,725

Note: An error has been detected relating to the cheque presented for payment on 15 April. It has been wrongly entered in the Bank Account of Deaconberry plc.

Marks	
KU	HI
	7
	7

3. (a) On the Worksheet provided:

- (i) update and correct the bank account of Deaconberry plc at 30 April 2012.

UPDATED BANK ACCOUNT				
Date	Details	DR £	CR £	Balance £
30/4/12	Balance	(1) 2,725		2,725
	Electricity – DD		(1) 180	2,545
	Rent Received – BGC	(1) 330		2,875
	Error – Travel		(2) 200	2,675
	Insurance		(1) 160	2,515
	Charges		(1) 50	2,465

- (ii) prepare a Bank Reconciliation Statement as at 30 April 2012.

**BANK RECONCILIATION STATEMENT AS AT 30 APRIL 2012**

		£	£
(1) {	Bank Statement Balance		(1) 2,420
	<b>ADD: <u>Items not yet Credited</u></b>		
	Sales		(1) 235
			2,655
	<b>LESS: <u>Unpresented Cheques</u></b>		
	Advertising	(1) 130	
Petrol	(1) 60	(1) 190	
	Updated Bank Account Balance		(1) 2,465

**ALTERNATIVE:**

		£	£
(1) {	Updated Bank Account Balance		(1) 2,465
	<b>ADD: <u>Unpresented Cheques</u></b>		
	Advertising	(1) 130	
	Petrol	(1) 60	(1) 190
			2,655
	<b>LESS: <u>Items not yet Credited</u></b>		
Sales		(1) 235	
	Bank Statement Balance		(1) 2,420



Marks	
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4. (a) Tamara Rose operates as a sole trader. Her business, MediaMass, specialises in video, audio and IT equipment used at outdoor events.


On 31 January 2012 MediaMass sent a Statement of Account to customer Eddie Law Promotions.

From the following information, complete the Statement of Account (**on the Worksheet provided**) to be sent to Eddie Law Promotions on 31 January 2012.

- 1 January Eddie Law Promotions owed MediaMass £650.45
- 12 January Sold goods on credit to Eddie Law Promotions. The catalogue price of the goods was £240 (excluding VAT).  
  
**20% Trade Discount was allowed and Terms of Payments were 5% - 30 days**
- 24 January Some of the goods sold on 12 January were damaged in transit and returned by Eddie Law Promotions. They were valued at £85.68 (including VAT).
- 28 January Eddie Law Promotions paid £629.95 by cheque in full settlement of the amount owed to MediaMass on 1 January.

Marks	
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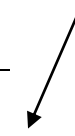
4. (a) (continued)

<b>STATEMENT OF ACCOUNT</b>				
		<b>MediaMass</b> <b>Glengorn Business Park</b> <b>DUNDEE</b> <b>DD2 4LB</b>		
Eddie Law Promotions Sydney Road Glenrothes Fife KY7 4TR		<b>Tel: 01382 558529</b> VAT No: 0509 6446 Date: 31 <sup>st</sup> January 2012		
Date	Details	Debit £	Credit £	Balance £
1 Jan	Balance	(1) 650.45		650.45
12 Jan	Sales	(5) 228.48		878.93
24 Jan	Sales Return		(1) 85.68	793.25
28 Jan	Bank		(1) 629.95	163.30
28 Jan	Discount Allowed		(1) 20.50	142.80
<b>BALANCE NOW DUE FOR PAYMENT</b>				<b>£142.80</b>

**WORKING:**

Goods		£240.00
Less TD 20%	(1)	£48.00
NGV		£192.00
Add VAT	(3)	£36.48
	(1)	£228.48

<b>VAT:</b>
£192.00 x 5% = £9.60 (1)
£192.00 – £9.60 = £182.40 (1)
£182.40 x 20% = £36.48 (1)



Marks	
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6	
6	

4. (continued)

(b) Name the documents that MediaMass would have sent on 12 and 24 January and explain their uses.

**12 January – Invoice (1)**

- Sent by seller to buyer to give details of a credit sale (2)
- Used by buyer to record transaction in their accounts (2)
- Shows amount owed by buyer (2)

**24 January – Credit Note (1)**

- Sent by seller to buyer to give details of return/overcharge (2)
- Used by buyer to record return in their accounts (2)
- States reason for return (2)
- Shows amount buyers account will be reduced by (2)

**Documents – 1 mark each**

**Uses – 2 x 2 marks**

(c) Tamara is concerned that in the future some of her debtors may be unable to pay. Suggest how she may be able to prepare for this happening and explain how your suggestion will affect her final accounts.

- Tamara can create a Provision for Bad Debts (2)
- She can set aside some of the profit of her business (not money) (2)
- She can reduce the profit by a certain % of the debtors figure (2)

**Any one suggestion – 2 marks**

**Do not accept – Bad Debts or Discount**

**Profit and Loss Account:**

- The amount of the provision will be shown in the expenses (2)
- The amount of net profit will be reduced (2)

**Balance Sheet:**

- The provision will be deducted from debtors in the Balance Sheet (2)
- Current Assets will be reduced (2)
- Working Capital will be reduced (2)
- Balance Sheet totals will be reduced (2)

**Any 2 – ONE effect on Profit and Loss – 2 marks**

**ONE effect on Balance Sheet – 2 marks**

Marks	
KU	HI
<p>5. (a) The accountant at Imprint plc has just prepared a Cash Budget. Explain 2 benefits of preparing this financial statement.</p> <ul style="list-style-type: none"> <li>• You can plan for the future (2)</li> <li>• Can predict – future cash surpluses (2)/time to pay debts (2)/time to purchase assets (2)</li> <li>• Can predict future cash shortages (2)/time to arrange overdraft/loan (2)</li> <li>• Shows cash inflows/outflows (2)</li> <li>• Shows opening (1)/closing balances (2)</li> <li>• Can be used to support application for borrowing (2)</li> <li>• Can be used to show prospective investors (2)</li> <li>• Allows the business to set financial goals/targets (2)</li> </ul> <p>Any 2 – 2 marks each</p>	4
<p>(b) Imprint plc intends to buy new laptops for their 5 salesmen next month and pay for the purchase by cheque. Suggest and justify an alternative method of financing this new equipment.</p> <p><b>Bank Loan (1)            Can be repaid over a period of time (2)</b></p> <p><b>Grant (1)                Does not have to be repaid (2)</b></p> <p><b>Lease (1)                No responsibility for repair/maintenance (2)</b></p> <p><b>Hire Purchase (1)/</b> <b>Buy on Credit (1)        Money paid out over a period of time (2)</b></p> <p><b>Do NOT accept Issue More Shares or Debentures</b></p> <p><b>Method – one mark; Justification – 2 marks</b></p>	3

<i>Marks</i>	
<b>KU</b>	<b>HI</b>
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**5. (continued)**

**(c)** A Cash Budget contains both **Capital Expenditure** and **Revenue Expenditure**. Explain these terms.

**Capital Expenditure:**

- Money spent on items that will increase profit-making ability of the business (2)
- An investment in the business (2)
- Money spent on Fixed Assets (2)
- Money spent on assets eg machinery (2)
- Money spent on items that will normally last for more than a year (2)
- Appears in the Balance Sheet (1)

**Revenue Expenditure:**

- Money spent on the day-to-day running of the business (2)
- Money spent maintaining the business (2)
- Revenue expenditure will affect the profit of the business (2)
- Money spent on items that will be used up within a year (2)
- Appears in the Trading/Profit and Loss Account (1)

**Any one from Capital – 2 marks**

**Any one from Revenue – 2 marks**

**No marks for examples on their own**



<i>Marks</i>	
<b>KU</b>	<b>HI</b>
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**5. (continued)**

**(d)** Imprint plc has recently issued Preference Shares. Explain **one** benefit of this type of share to:

- (i) preference shareholders
- (ii) Imprint plc

**(i) Preference Shareholders**

- **\*\*Shareholders receive a fixed rate of dividend each year (2)/ Shareholders know how much dividend they will get each year (2)**
- **Preference shareholders are paid dividends before ordinary shareholders (2)**
- **They are considered to be less risky investment (2)**
- **The investment is returned first if the company is wound up (2)**

**Any one – 2 marks**

**(ii) Imprint plc**

- **\*\*A fixed rate of dividend is paid each year to shareholders (2)/They will know how much they will have to pay out each year (2)**
- **Preference shareholders have no voting rights (2)**
- **Dividends normally lower than paid to ordinary shareholders (2)**

**Any one – 2 marks**

**\*\* If fixed rate dividend mentioned in both, would need further explanation, otherwise 2 marks for first one, then 0**

**DO NOT ACCEPT – guaranteed dividend, unless cumulative mentioned**



