



**2013 Accounting and Finance**

**Standard Grade Credit - Solutions**

**Finalised Marking Instructions**


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1.

<b>Invoice</b>					
<b>SCOTTISH SALON SUPPLIERS</b> 48 Waterside Way DUNDEE DD2 5TP					
Tel: 01382 559001			email: scotsalon@bmail.com		
To: Julia Morgan Eclipse Hairdressing 56 Kintore Road ABERDEEN AB11 6QQ			Tel: 01224 870022 VAT No: 4225 6070 Date: 09 April 2013		
Quantity	Description	Unit Price		Cost	
		£	p	£	p
8	Volume Conditioner	8	75	70	00
3	Mega M50 Hairdryers	40	00	120	00
	Less: 10% Trade Discount			190	00
				19	00
	NET GOODS VALUE			171	00
	Add: VAT at 20%			32	49
	TOTAL			203	49
	Add: Delivery Costs			10	00
				213	49

**VAT Calculation:**

$171.00 \times 5\% = 8.55$  (1)

$171.00 - 8.55 = 162.45$  (1)

$162.45 \times 20\% = 32.49$  (1)

Marks	
KU	HI

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

**1. (continued)**

**(b)** State **2** reasons why James would keep a copy of the invoice sent to Julia Morgan on 9 April 2013.

- To refer to it if there is a query about the invoice at a later date (2)
- For his own records (2)
- For VAT reasons (2)
- To allow him to prepare the accounts of his business (2)
- To calculate how much Julia Morgan owes at the end of the month (2)

**Any 2**

**(c)** Identify **2** accounting documents, other than an Invoice, which James could use in credit transactions. Explain their use.

**Credit Note (1)**

- Details goods returned (2)
- Reduces amount owed (2)
- Used when customer is overcharged (2)

**Debit Note (1)**

- Sent if a customer has been undercharged (2)
- Increases the amount owed by a customer (2)

**Statement (1)**

- Lets customer know how much is owed (2) credit limit (2) date due (2)
- Shows all transactions/purchases/returns/payments (1) during the month (1)

**Cheque (1)**

- Used for payment (of amounts owed) (2)

**Receipt/Till Roll (1)**

- Acts as a proof of payment (2)
- Sent to acknowledge payment (2)

**Do not accept Copy Invoice**

**If Debit/Credit Note not used, Copy Debit/Credit Note are acceptable**

**If Cheque not used, Cheque Counterfoil acceptable**

Any 2 documents – 1 mark each (2)

Any suitable explanation of use – 2 marks each (4)

1. (continued)

- (d) James plans to expand his business. Identify **2** sources of finance that could fund this without James having to share control of the business. Suggest **one** advantage and **one** disadvantage of each source. Advantages and disadvantages of each source of finance must be different.

<b>Loan (1)</b>	<ul style="list-style-type: none"> <li>• Relatively simple to arrange</li> <li>• Money is available relatively quickly</li> <li>• Cost of repayment is known in advance</li> <li>• Access to large sums of money</li> <li>• Repaid over an agreed period of time</li> </ul>	<ul style="list-style-type: none"> <li>• Interest must be paid on loan</li> <li>• Creates debt</li> <li>• Loans must be repaid</li> <li>• Extra expense could cause cash flow problems</li> <li>• Possible reduction in profits</li> </ul>
<b>Borrow from family/friends (1)</b>	<ul style="list-style-type: none"> <li>• Simple to arrange</li> <li>• Greater flexibility in repaying</li> <li>• Possibility of lower or no interest</li> </ul>	<ul style="list-style-type: none"> <li>• Interest may have to be repaid</li> <li>• Loan needs to be repaid</li> <li>• Could cause family tensions</li> </ul>
<b>Mortgage/ Remortgage (1)</b>	<ul style="list-style-type: none"> <li>• Relatively simple to arrange</li> <li>• Money is available relatively quickly</li> <li>• Cost of repayment is known in advance</li> <li>• Access to large sums of money</li> <li>• Repayment can be spread over a long period of time</li> </ul>	<ul style="list-style-type: none"> <li>• Interest may be variable</li> <li>• Additional expense could cause cash flow problems</li> <li>• Possible reduction in profits</li> </ul>
<b>Grant (EU/Enterprise Trust/LA but NOT lottery) (1)</b>	<ul style="list-style-type: none"> <li>• No interest payments</li> <li>• Grant does not need to be repaid</li> </ul>	<ul style="list-style-type: none"> <li>• May take a long time to arrange</li> <li>• Form filling stage may be lengthy</li> <li>• Conditions may have to be met</li> <li>• Grant not guaranteed</li> </ul>
<b>Personal Savings (1)</b>	<ul style="list-style-type: none"> <li>• No repayment costs</li> <li>• Easy to arrange</li> </ul>	<ul style="list-style-type: none"> <li>• Heavier personal commitment</li> <li>• Opportunity cost of the savings</li> </ul>

Any 2 sources (1 mark each)

Advantage for each source (must be different) – 2 marks each – 4 marks

Disadvantage for each source (must be different) – 2 marks each – 4 marks

Marks	
KU	HI
<b>10</b>	



		Marks					
		KU	HI				
2.	(continued)						
(b)	Ternan plc offers Trade and Cash Discounts. Explain <b>one</b> benefit of each to the company.						
	<table border="1"> <tr> <td>Trade Discount</td> <td> <ul style="list-style-type: none"> <li>• Encourages customer loyalty (2)</li> <li>• Encourages bulk buying (2)</li> <li>• Encourages new customers (2)</li> </ul> </td> </tr> <tr> <td>Cash Discount</td> <td> <ul style="list-style-type: none"> <li>• Encourages debtors to pay quickly (2)</li> <li>• Helps cash flow (2)</li> </ul> </td> </tr> </table>	Trade Discount	<ul style="list-style-type: none"> <li>• Encourages customer loyalty (2)</li> <li>• Encourages bulk buying (2)</li> <li>• Encourages new customers (2)</li> </ul>	Cash Discount	<ul style="list-style-type: none"> <li>• Encourages debtors to pay quickly (2)</li> <li>• Helps cash flow (2)</li> </ul>	4	
Trade Discount	<ul style="list-style-type: none"> <li>• Encourages customer loyalty (2)</li> <li>• Encourages bulk buying (2)</li> <li>• Encourages new customers (2)</li> </ul>						
Cash Discount	<ul style="list-style-type: none"> <li>• Encourages debtors to pay quickly (2)</li> <li>• Helps cash flow (2)</li> </ul>						
(c)	<p>Explain the difference between Bad Debts and Provision for Bad Debts.</p> <ul style="list-style-type: none"> <li>• Bad Debts are money that has been lost (1)</li> <li>• PBD is an attempt to anticipate bad debts (1)</li>   <li>• Bad Debts are an expense (1)</li> <li>• PBD sets aside profit (1)</li>   <li>• Bad Debts are deducted from the profit (1)</li> <li>• PBD are deducted from debtors in the balance sheet (1)</li> <li>• Bad Debts do not appear in the balance sheet (1)</li> </ul> <p><b>PBD must imply the future. Bad debts must imply the past. Do not accept – <u>money</u> set aside</b></p> <p><b>Any 2 Bad Debt points explained – 1 mark each, max 2 marks</b>  <b>Any2 PBD points explained – 1 mark each, max 2 marks</b></p>	4					
(d)	<p>A profitable business can suffer liquidity problems. Suggest <b>2</b> reasons why this could arise.</p> <ul style="list-style-type: none"> <li>• Too much cash tied up in stock (2)</li> <li>• Not selling stock fast enough (2)</li> <li>• Purchases of fixed assets (2)</li> <li>• Debtors given/take too long to pay (2)</li> <li>• High bad debts (2)</li> <li>• Cash drawings too high (2)</li> <li>• Selling too much on credit (2)</li> <li>• Creditors require to be paid before debtors pay (2)</li> <li>• Current Liabilities are greater than Current Assets (2)</li> <li>• Money tied up in R&amp;D (2)</li> </ul> <p><b>NOT accepted: Expenses too high; creditors too high; not enough cash sales; debtors too high.</b></p> <p><b>Any 2 – 2 marks each</b></p>	4					

Marks	
KU	HI

- 3 (a) Using the information below, make the necessary entries in the ledger accounts of Crathes Crafts.

**Ledger balances at 1 March 2013**

Creditor: R Cook            £420  
 Bank Overdraft            £850  
 Office Equipment        £3,500

5 March            Bought goods on credit from R Cook £280 plus VAT  
 12 March        Paid for repairs to office equipment by cheque - £150 plus VAT  
 21 March        Bought new printers on credit from DB Office Supplies £960 plus VAT  
 24 March        Paid R Cook £300 on account by cheque  
 28 March        A faulty printer worth £320 plus VAT was returned to DB Office Supplies

R Cook Account							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
1/3/13	Balance			420	00 (1)	420	00
5/3/13	Purchases/VAT			336	00 (1)	756	00
24/3/13	Bank	300	00 (1)			456	00

Bank Account							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
1/3/13	Balance			850	00 (1)	850	00
12/3/13	Repairs/VAT			180	00 (1)	1,030	00
24/3/13	R Cook			300	00 (1)	1,330	00

Office Equipment Account							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
1/3/13	Balance	3,500	00 (1)			3,500	00
21/3/13	DB Office Supplies	960	00 (1)			4,460	00
28/3/13	DB Office Supplies			320	00 (1)	4,140	00

Marks	
KU	HI
	<b>17</b>

3. (continued)

Purchases Account							
Date	Details	DR		CR		Balance	
		£	p	£	P	£	p
5/3/13	R Cook	280	00(1)			280	00

VAT Account							
Date	Details	DR		CR		Balance	
		£	p	£	P	£	p
5/3/13	R Cook	56	00(1)			56	00
12/3/13	Bank	30	00(1)			86	00
21/3/13	DB Office Supplies	192	00(1)			278	00
28/3/13	DB Office Supplies			64	00(1)	214	00

Repairs Account							
Date	Details	DR		CR		Balance	
		£	p	£	P	£	p
12/3/13	Bank	150	00(1)			150	00

DB Office Supplies Account							
Date	Details	DR		CR		Balance	
		£	p	£	P	£	p
21/3/13	Office Equipment/VAT			1,152	00(1)	1,152	00
28/3/13	Office Equipment/VAT	384	00(1)			768	00



Question 3a – 17.5% VAT

Marks	
KU	KU

R Cook Account							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
1/3/13	Balance			420	00 (1)	420	00
5/3/13	Purchases/VAT			329	00 (1)	749	00
24/3/13	Bank	300	00 (1)			449	00

Bank Account							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
1/3/13	Balance			850	00 (1)	850	00
12/3/13	Repairs/VAT			176	25 (1)	1,026	25
24/3/13	R Cook			300	00 (1)	1,326	25

Office Equipment Account							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
1/3/13	Balance	3,500	00 (1)			3,500	00
21/3/13	DB Office Supplies	960	00 (1)			4,460	00
28/3/13	DB Office Supplies			320	00 (1)	4,140	00

Purchases Account							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
5/3/13	R Cook	280	00 (1)			280	00

VAT Account							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
5/3/13	R Cook	49	00 (1)			49	00
12/3/13	Bank	26	25 (1)			75	25
21/3/13	DB Office Supplies	168	00 (1)			243	25
28/3/13	DB Office Supplies			56	00 (1)	187	25

3. (continued)

Repairs Account							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
12/3/13	Bank	150	00 (1)			150	00

DB Office Supplies Account							
Date	Details	DR		CR		Balance	
		£	p	£	p	£	p
21/3/13	Office Equipment/VAT			1,128	00 (1)	1,128	00
28/3/13	Office Equipment/VAT	376	00 (1)			752	00

Marks	
KU	HI
	17

<i>Marks</i>	
<b>KU</b>	<b>HI</b>
4	
8	

**3. (continued)**

(b) Each month Crathes Crafts receives a Bank Statement. Suggest 2 reasons why the closing balance on this statement rarely agrees with the closing balance in the Bank Account in the ledger.

- Time delays in the banking system (2)
- Cheques not yet cleared (1)/not yet presented (1)
- Bank Statement sent before amounts paid in (2)
- Direct debits/standing orders/BGC/bank charges – 1 mark each max (2)
- Errors (1) made in Bank Account/on Bank Statement (1)

Any 2 – 2 marks each

(c) As well as preparing a Profit and Loss Account, the owner of Crathes Crafts prepares a Cash Budget. Explain the importance of both to the efficient running of the business.

**Profit and Loss Account**

- Calculates Net Profit/Loss (2)
- Is an indicator of profitability (2)
- Allows you to compare with past performance (2)
- Is required for tax purposes (2)
- Shows total expenses (2)

Any 2 – 2 marks each

**Cash Budget**

- Is an indicator of liquidity/cash position/cash inflows and outflows (2)
- Indicates if business will have sufficient funds to cover short-term debts (2)
- Indicates if business will have sufficient funds to purchase assets (2)
- Indicates if business will have to arrange overdraft/loan facilities (2)
- Allows business to set targets/goals/plan for future/forecast (2)

Any 2 – 2 marks each

Marks	
KU	HI
	5
	3
	4

4. Lochton Athletics Club is planning an end of season Awards Dinner/Disco. The following information has been provided.

Disco hire	£135
Hire of Venue for event	£265
Food/Refreshments per person	£15
Price of ticket per person	£20

- (a) Calculate the number of tickets which the club need to sell for the Awards Dinner/Disco to break even.

$$\frac{135 (1) + 265 (1)}{20 (1) - 15 (1)} = \frac{400}{5} = 80 \text{ tickets } (1)$$

- (b) Calculate the number of tickets that would have to be sold to make a £250 profit.

$$\frac{400 + 250 (1)}{5 (1)} = \frac{650}{5} = 130 \text{ tickets } (1)$$

OR

$$\frac{250}{5} = 50 (1) + 80 (1) = 130 \text{ tickets } (1)$$

- (c) Calculate the selling price of the tickets for the event to allow the club to break even if 200 people want to attend.

$$\frac{400 (1)}{200 (1)} = £2$$

$$£2 + £15 (1) = £17 (1)$$

Marks	
KU	HI
6	

**4. (continued)**

- (d)** The club Treasurer prepares a Receipts and Payments Account and a Cash Budget. Suggest **2** other financial statements that could be prepared and explain the information they would provide to members.

**Income Statements (1)**

- Show profit/loss made by event/activity (2)

**Bar/Shop/Refreshments Trading Account (1)**

- Show profit/loss made by Bar/Shop/Refreshments (2)
- Show how Bar/Shop/Refreshments expenses may be controlled (2)
- Show cost of Bar/Shop/Refreshments supplies (2)

**Income and Expenditure A/c (1)**

- Shows REVENUE income (1) and REVENUE expenditure (1)
- Shows Surplus/Deficit for the year (2)
- Indicates how profitability might be improved (2)

**Balance Sheet (1)**

- Shows what the club is worth/accumulated fund (2)
- Shows assets (1) and liabilities (1) of the club

Financial Statement – one mark each, max 2 marks  
 Explanations – one per statement, 2 marks each

Marks	
KU	HI
4	
2	

4. (continued)

- (e) (i) A club will incur both capital and revenue expenditure. Explain the difference between capital and revenue expenditure.

Capital Expenditure	Revenue Expenditure
<ul style="list-style-type: none"> <li>• Money spent on items that will increase profit-making ability (1)</li> <li>• An investment in the business (1)</li> <li>• Money spent on Fixed Assets/Money spent on items lasting more than a year (1)</li> </ul>	<ul style="list-style-type: none"> <li>• Money spent on day-to-day running expenses (1)</li> <li>• Money spent on maintaining the business (1)</li> <li>• Money spent on items that will be used up within a year (1)</li> </ul>

Any 2 points for capital expenditure – 1 mark each, max 2  
 Any 2 points for revenue expenditure – 1 mark each, max 2

- (ii) Give an example of each type of expenditure.

**Capital Expenditure**

- Purchase of equipment/premises/vehicles (1)
- Repayment of a loan (1)

**Revenue Expenditure**

- Rent (1) Wages (1) Insurance (1) Advertising (1)
- Purchases/Stock (1) General/Misc Expenses (1)

Any one in each section – 1 mark each

Marks	
KU	HI
7	
8	

5. Andrew King and Fraser Thomson are in partnership running Bennarty Bikes. They have discovered that their Trial Balance as at 30 April failed to agree. The Debit column totalled £5,980 and the Credit column totalled £6,090.

On checking the ledger accounts, the following errors were discovered:

- (1) An entry for £200 had been entered twice in the Sales account.
  - (2) Rent received of £340 had been correctly entered in the Bank account but had been entered on the wrong side of the Rent Received account.
  - (3) An invoice received from A Law for £140 (excluding VAT) had been omitted from the Purchases account only.
  - (4) £450 was withdrawn by Fraser Thomson for his own use. This was only recorded in the Bank account.
- (a) (i) Open the account which will allow the Trial Balance to agree.
- (ii) Make the entries **in this account only** to correct the above errors.

Suspense Account (1)				
Date		Dr	Cr	Balance
30 April	Balance	110 (1)		110 DR
	Sales		200 (1)	90 CR
	Rent Received	680 (2)		590 DR
	Purchases		140 (1)	450 DR
	Drawings – F Thomson		450 (1)	-----

- (b) The partners in Bennarty Bikes have been discussing the future of their business. Andrew King suggested their business should become a plc. Outline 2 advantages and 2 disadvantages of this move to the partners.

Advantages	Disadvantages
• More capital/can issue shares	• No longer control business
• More sources of finance/can issue debentures	• May not receive any dividends
• More expertise (Board of Directors)	• Shares may fall in value
• Limited Liability	• Profits shared between more people/shareholders
• Greater borrowing power	• Legal requirements to be met/must publish accounts/must hold AGM
• Greater purchasing power	• Expense to set up plc

Any 2 advantages – 2 marks each

Any 2 disadvantages – 2 marks each

Marks	
KU	HI
4	

**5. (continued)**

- (c) Explain why a Bank account can have either a Debit or Credit balance in the Trial Balance.

**Debit balance when there is money in the bank (2) or  
Debit balance when the bank is an asset (2) or  
Debit balance when the bank owes you (2)**

**Credit balance when money is owed to the bank (2) or  
Credit balance when bank is an overdraft (2) or  
When the bank is a liability (2)**

**Any one reason for each – 2 marks each  
Must have one for DR balance and one for CR balance**



Marks	
KU	HI
	8
4	

6 The following figures were taken from the books of Pat Marshall and Sons.

	2012	2013
<b>Opening Capital</b>	£90,000	£126,000
<b>Closing Capital</b>	£126,000	£159,000
<b>Working Capital</b>	£7,000	£13,000
<b>Current Assets</b>	£22,000	£27,000
<b>Fixed Assets</b>	£169,000	£206,000
<b>Long-term Liabilities</b>	£50,000	£60,000
<b>Current Liabilities</b>	£15,000	£14,000
<b>Net Profit</b>	£36,000	£33,000

(a) Calculate appropriate ratios for this business for the 2 years.

	2012	2013
<b>Working Capital Ratio CA:CL</b>	22,000 (1): 15,000 (1) 1.47:1 (1) or 1.5:1 (1)	27,000:14,000 1.93:1 (1) or 1.9:1 (1)
<b>Return on Capital Employed NP/Op Capital x 100</b>	36,000 (1)/90,000 (1) x 100 40% (1)	33,000/126,000 x 100 26.2% (1) or 26.19% (1)

(b) (i) Comment briefly on any difference in the ratios between the years.

Working Capital Ratio

- There has been an improvement (in the liquidity position) (2)
- (Moved to situation where) Current Liabilities can be easily covered (2)
- Ratio has moved closer to the ideal ratio of 2:1 (2)

Return on Capital Employed

- Dramatic deterioration( in the profit received as a % of capital invested in the business) (2)
- The owners of the business will receive a lower rate of profit (for every £1 of capital invested) (2)

**Do not accept explanations which use the term more/less or up/down – must reflect better/worse position.**

**Any suitable comment for each ratio – 2 marks each**

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

**6. (continued)**

**(b) (ii)** Suggest why any differences may have taken place.

**Working Capital Ratio**

**Current Assets have increased (2)**  
**Current Liabilities have reduced (2)**

**Return on Capital Employed**

**NP has decreased (2)**  
**Increased selling price resulting in less sales (2)**  
**Increased cost of purchases (2)**  
**Increased expenses (2)**  
**A slow down in the economy (2)**  
**More competition (2)**

**Any one reason per ratio – 2 marks each**

**(c)** Closing Capital could be less than Opening Capital. Suggest **2** reasons why this might occur.

**The business has made a Net Loss/has not made a profit (2)**  
**The owner has withdrawn some of their capital (2)**  
**The owner has taken out TOO MUCH drawings (2)**  
**Drawings are greater than Net Profit (2)**

**Drawings (1)**

**Any 2 reasons – 2 marks each**

**Alternative 1**  
NO CASH DISCOUNT

Goods	190.00	1
less TD 10%	<u>19.00</u>	2
	171.00	
add VAT 20%	<u>34.20</u>	1
	205.20	
add Delivery	<u>10.00</u>	1
	<u>215.20</u>	1
		6

**Alternative 2**  
NO CASH DISCOUNT VAT SUBTRACTED

Goods	190.00	1
less TD 10%	<u>19.00</u>	2
	171.00	
add VAT 20%	<u>34.20</u>	1
	136.80	
add Delivery	<u>10.00</u>	1
	<u>146.80</u>	0
		5

**Alternative 3**  
NO CASH DISCOUNT TD ADDED

Goods	190.00	1
less TD 10%	<u>19.00</u>	2
	209.00	
add VAT 20%	<u>41.80</u>	1
	250.80	
add Delivery	<u>10.00</u>	1
	<u>260.80</u>	0
		5

**Alternative 4**  
CASH DISCOUNT SHOWN

Goods	190.00	1
less TD 10%	<u>19.00</u>	2
	171.00	
less CD 5%	<u>8.55</u>	-1
	162.45	
add VAT 20%	<u>32.49</u>	3
	194.94	
add Delivery	<u>10.00</u>	1
	<u>204.94</u>	1
		7

**Alternative 5**  
 DELIVERY INCLUDED IN VAT  
 CALCULATION

Goods	190.00	1
less TD 10%	<u>19.00</u>	2
	171.00	
Delivery	<u>10.00</u>	0
	181.00	
add VAT 20%	<u>34.39</u>	3
	<u>215.39</u>	1

**Alternative 6**  
 NO TRADE DISCOUNT

Goods	190.00	1
VAT	<u>38.00</u>	1
	228.00	
Delivery	<u>10.00</u>	1
	<u>238.00</u>	1

4

7

181 X 5% = 9.05 (1)  
 181-9.05 = 171.95 (1)  
 171.95 X 20% = 34.39  
 (1)

[END OF MARKING INSTRUCTIONS]