## 2012 Accounting and Finance

## Standard Grade Foundation - Solutions

## Finalised Marking Instructions

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1. (a) Using the following information, complete the Order Form below.

10 Front Wiper Blades @ £5.30 each
20 Rear Brake Pads @ £4.00 each
Trade Discount @ 15\% = £19.95
VAT @ 20\% = £22.61


## 1. (continued)

(b) Give 2 reasons why Billy's Car Components have given Trade Discount to Ronnie's Garage.

Loyal customer, attract new customers, bulk buying, allow Ronnie's Garage a profit margin
(Any 2 for 2 marks each)
(c) Name the other type of Discount that may be given to customers.

Cash Discount (allowed/received) (1)
(d) Billy owns and runs the business himself. State the term used to describe this type of business.

Sole Trader
(e) Name one source of finance available to this type of business other than taking on a partner or a bank loan.

Mortgage (2); Loan from family/friends (2); Personal savings (2); Grant (2); More Capital (2)
(Any one of the above for 2 marks)
(f) If Billy decided to take on a partner there might be advantages and disadvantages. Tick $(\checkmark)$ the correct boxes to show which of the following would be an advantage or disadvantage.

|  | Advantage | Disadvantage |
| :--- | :---: | :---: |
| Sharing of losses | $\checkmark$ (2) |  |
| More capital | $\checkmark$ (2) |  |
| Less control |  | $\checkmark$ (2) |
| More arguments |  | $\checkmark$ (2) |


| Marks |  |
| :---: | :---: |
| $\mathbf{K U}$ | $\mathbf{H I}$ |
|  |  |
|  |  |
| 2 |  |
| 2 |  |
| 2 |  |
|  |  |

2. The following information was extracted from the books of Linda Robb who operates a Pet Supplies business.

| Cost of Goods Sold | $£ 90,000$ |
| :--- | ---: |
| Opening Stock | $£ 15,000$ |
| Current Assets | $£ 55,000$ |
| Sales | $£ 120,000$ |
| Current Liabilities | $£ 35,000$ |
| Net Profit | $£ 24,000$ |
| Opening Capital | $£ 96,000$ |
| Gross Profit | $£ 30,000$ |
| Closing Stock | $£ 30,000$ |

(a) Select the appropriate figures and calculate the following.
(i) Gross Profit as a percentage of Sales
$\frac{\text { Gross profit }}{\text { Sales }} \times \frac{100}{1}=\frac{30,000(1)}{120,000(1)} \times \frac{100}{1}=25(1) \%$
(ii) Net Profit as a percentage of Sales
$\frac{\text { Net profit }}{\text { Sales }} \times \frac{100}{1}=\frac{24,000(1)}{120,000(1)} \times \frac{100}{1}=20(1) \%$
(iii) Average Stock

$$
\begin{aligned}
\frac{\text { Opening Stock + Closing Stock }}{2} & =\frac{15,000(1)+30,000(1)}{2} \\
& =\frac{45,000(1)}{2} \\
& =22,500(1)
\end{aligned}
$$

(iv) Rate of Stock Turnover

$$
\begin{aligned}
\frac{\text { Cost of Goods Sold }}{\text { Average Stock }}=\frac{90,000(1)}{22,500(1)} & =4(1) \text { Times } \\
11,250 & =8 \text { Times }
\end{aligned}
$$

| Marks |  |
| :--- | :--- |
| $\mathbf{K U}$ | $\mathbf{H I}$ |
|  |  |
|  |  |
|  |  |
|  |  |

2. (continued)
(b) Indicate which items would be used to calculate the Return on Capital Invested Ratio. Tick $(\checkmark)$ the $\mathbf{2}$ correct boxes.

| Current Liabilities |  |
| :--- | :---: |
| Sales |  |
| Opening Capital | $\checkmark$ (2) |
| Current Assets |  |
| Net Profit | $\checkmark(2)$ |

(c) Indicate what the Working Capital/Current Ratio shows. Tick ( $\checkmark$ ) the correct box.

| If a business can pay current debts | $\checkmark$ (2) |
| :--- | :--- |
| If the owner has put in too much capital |  |
| If the current capital is earning a good return |  |

(d) Indicate which 3 of the following could cause a reduction in the Net Profit. Tick $(\checkmark)$ the $\mathbf{3}$ correct boxes.

| A reduction in Expenses |  |
| :--- | :---: |
| A reduction in Rent Received | $\checkmark$ (2) |
| An increase in Purchase Price | $\checkmark$ (2) |
| An increase in Selling Price |  |
| An increase in Sales Returns | $\checkmark$ (2) |


| Marks |  |
| :---: | :---: |
| KU | HI |
|  |  |
|  |  |
| 4 |  |
|  |  |
|  |  |

3. P De Cecco had recorded the following items in his Bank Account for March 2012.

## BANK ACCOUNT

| Date | Details | DR |  | CR |  | Balance |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | £ | p | £ | p | £ | p |
| 1 March | Balance |  |  |  |  | $\checkmark$ 1,100 | 00 DR |
| 4 March | Sales | 500 | 00 | $\checkmark$ |  | 1,600 | 00 DR |
| 7 March | C McDonald |  |  | 120 | 00 | 1,480 | 00 DR |
| 9 March | E Smith |  |  | $\checkmark 210$ | 00 | 1,270 | 00 DR |
| 15 March | Sales | 250 | 00 | $\checkmark$ |  | 1,520 | 00 DR |
| 21 March | B Heaney |  |  | 80 | 00 | 1,440 | 00 DR |
| 29 March | Sales | 185 | 00 |  |  | 1,625 | 00 DR |

When he received the following Bank Statement he ticked (3) those items which appeared both in the Bank Account and the Bank Statement.

P De Cecco
17 Eastend Road
Newton
GO3 4IQ

ACCOUNT NO: 087123
BRANCH CODE: 61-30-24
DATE: 31 March 2012
STATEMENT NO: 645

| Date | Details | Debits |  | Credits |  | Balance |  |  |
| :---: | :--- | ---: | ---: | ---: | ---: | ---: | ---: | :---: |
| 1 March | Balance |  |  |  | $\checkmark$ | 1,100 | 00 CR |  |
| 4 March | Deposit |  |  | $\checkmark 500$ | 00 | 1,600 | 00 CR |  |
| 9 March | SO - Rent | 180 | 00 |  |  | 1,420 | 00 CR |  |
| 10 March | 001200 | $\checkmark 210$ | 00 |  |  | 1,210 | 00 CR |  |
| 12 March | BGC - Dividends |  |  | 150 | 00 | 1,360 | 00 CR |  |
| 15 March | Deposit |  | $\checkmark$ | 250 | 00 | 1,610 | 00 CR |  |
| 23 March | DD - Electricity | 85 | 00 |  |  | 1,525 | 00 CR |  |

Using the above information you are required to complete on the following page:
(a) P De Cecco's Updated Bank Account;
(b) the Bank Reconciliation Statement.
3. (continued)
(a)

## UPDATED BANK ACCOUNT

| Date | Details | DR |  | CR |  | Balance |  |  |
| :---: | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
|  |  | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ |  |
| 29 March | Balance |  |  |  |  | 1,625 | 00 DR |  |
| 31 March | SO - Rent |  |  | $(1) 180$ | 00 | 1,445 | 00 DR |  |
| 31 March | BGC - Dividends | $(1) 150$ | 00 |  |  | 1,595 | 00 DR |  |
| 31 March | DD - Electricity |  |  | $(1)$ | 85 | 00 | $\mathbf{( 1 )} 1,510$ | 00 DR |

## Reversal = 1,740 CL BAL (1)

(b) Bank Reconciliation Statement as at $\mathbf{3 1}$ March 2012

Balance as per Bank Statement
Items paid in but not yet credited
Cash sales

Cheques paid but not yet presented

| C M McDonald | 120.00 (1) |
| :--- | ---: | ---: |
| B Heaney | 80.00 (1) $\quad 200.00$ (1) |

Balance as per Updated Bank Account
1,510.00 (1)
(c) Indicate what the letters plc stand for in New Bank plc. Tick $(\checkmark)$ the correct box.

| private limited company |  |
| :--- | :--- |
| peoples limited company |  |
| public limited company | $\checkmark$ (2) | .


| Marks |  |
| :---: | :---: |
| $\mathbf{K U}$ | $\mathbf{H I}$ |
|  |  |
|  |  |

3. (continued)
(d) Indicate which of the following sources of finance are only available to a plc. Tick $(\checkmark)$ the $\mathbf{2}$ correct boxes.

| Bank Loans |  |
| :--- | :---: |
| Selling Shares | $\checkmark$ (2) |
| Fundraising Events |  |
| Obtaining Grants |  |
| Issuing Debentures | $\checkmark$ (2) |

(e) Indicate the name given to the share of profits received by shareholders. Tick $(\checkmark)$ the correct box.

| Commission |  |
| :--- | :---: |
| Salary |  |
| Bonus |  |
| Dividend | $\checkmark$ (2) |

(f) $\quad \mathrm{P}$ De Cecco has paid some bills by Standing $\operatorname{Order}(\mathbf{S O})$ and some by Direct Debit (DD). Tick $(\checkmark)$ the correct box to show whether each of the following statements apply to a SO or a DD.

| STATEMENT | SO | DD |
| :--- | :---: | :---: |
| Only a fixed amount can be paid each month. | $\checkmark$ (2) |  |
| The person paying the money informs the bank how <br> much to pay. | $\checkmark$ (2) |  |
| The date of the transaction can vary. |  | $\checkmark$ (2) |
| The person receiving the money informs the bank how <br> much they are due. |  | $\checkmark$ (2) |


| Marks |  |
| :---: | :---: |
| $\mathbf{K U}$ | $\mathbf{H I}$ |
|  |  |
|  |  |
|  |  |

4. (a) Using the information below, complete the Receipts and Payments Account of the Gowanlea Social Club.

| Purchase of Equipment | $£ 1,000$ |
| :--- | ---: |
| Dance Ticket Sales | $£ 650$ |
| Opening Bank Balance | $£ 1,280$ |
| Grant | $£ 2,000$ |
| Honorarium | $£ 425$ |
| Dance Expenses | $£ 360$ |
| Subscriptions | $£ 24,000$ |

## The Gowanlea Social Club

Receipts and Payments Account
for year ended 30 March 2012
£ £
Opening Bank Balance
Receipts

| Subscriptions | 24,000 | (1) |  |
| :---: | :---: | :---: | :---: |
| Dance Ticket Sales | 650 |  |  |
| Grant | 2,000 |  | 26,650 |

Payments

| $\left.\begin{array}{l\|r}\text { Purchase of Equipment } & 1,000 \\ \text { Dance Expenses } & 360 \\ \text { Honorarium } & 425\end{array}\right\}$ (1) |  |  |
| :--- | ---: | ---: |
|  |  |  |
| Closing Bank Balance |  | 1,785 |

(b) Calculate the Profit from the Dance. (Show your working clearly.)

Dance Ticket Sales $\boldsymbol{-}$ Dance Expenses $=$ Profit
650
(1)

- 360
(1)
290
$1,010=2$ marks
(1)

4. (continued)
(c) All members of the Gowanlea Social Club may attend a meeting about the club every year. State the name given to this meeting.

AGM (1)/Annual General Meeting (2) Any 2 words $=1$ mark
(d) Indicate which of the following officials would be in charge of the club's finances. Tick $(\checkmark)$ the correct box.

| Chairman |  |
| :--- | :---: |
| Secretary |  |
| Treasurer | $\checkmark$ (2) |

(e) The official in charge of the club's finances would present certain information at the yearly meeting. Tick $(\checkmark)$ the correct box to show whether each of the following statements are True or False.

| Statement | True | False |
| :--- | :---: | :---: |
| An Income \& Expenditure Account <br> showing how much the club is worth. |  | $\checkmark$ (2) |
| A Bar Trading Account showing the profit <br> made on the bar. | $\checkmark$ (2) |  |
| A Balance Sheet showing the <br> surplus/deficit made by the club. |  | $\checkmark$ (2) |


| Marks |  |
| :---: | :---: |
| $\mathbf{K U}$ | $\mathbf{H I}$ |
|  |  |
|  |  |
|  |  |
| $\mathbf{2}$ |  |

5. (a) Complete the ledger accounts below from the information in the Document Pack for use with Question 5 (a).

Ledger of Special Days

| Account Na | Sales |  | Number |  |  | 1 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |
| 2012 |  | £ | p | £ | p | £ | p |
| 1 April | Lynn Ramsay |  | (2) | 1,650 | 00 | 1,650 | 00 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |



| Account Name | Lynn Ramsay |  | Number |  |  | 3 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |
| 2012 |  | $\varepsilon$ | p | £ | p | £ | p |
| 1 April | Sales \& VAT | 1,980 | 00 | (4) |  | 1,980 | 00 |
| 3 April | Sales Returns \& VAT |  | (4) | 240 | 00 | 1,740 | 00 |
| 8 April | Bank |  | (2) | 1,740 | 00 | 0 | 00 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

5. (a) $\quad$ (continued)

| Account Name | Sales Returns |  | Number |  |  | 4 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |
| 2012 |  | £ | p | £ | p | £ | p |
| 3 April | Lynn Ramsay | 200 | 00 | (2) |  | 200 | 00 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |


| Account Name | Bank |  | Number |  |  | 5 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |
| 2012 |  | £ | p | £ | p | £ | p |
| 8 April | Lynn Ramsay | 1,740 | 00 | (2) |  | 1,740 | 00 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

(b) The following questions relate to the accounts above.
(i) Suggest a reason for Sales Returns.

Faulty/wrong colour/size/too many ordered (2)
(ii) What do the letters VAT stand for?

Value Added Tax (2)

## Any 2 words $=1$ mark

(iii) Indicate what accounting term describes Lynn Ramsay before she has paid for her goods. Tick $(\checkmark)$ the correct box.

| Debtor | $\checkmark$ (2) |
| :--- | :---: |
| Partner |  |
| Creditor |  |
| Borrower |  |

(iv) State whether the balance on the Bank Account is an asset or a liability to Special Days.

Asset (2) Consequential on Bank entry - if no entry in bank accept Asset

| Marks |  |
| :---: | :---: |
| $\mathbf{K U}$ | $\mathbf{H I}$ |
|  |  |
|  |  |

(c) Tick $(\checkmark)$ the 2 correct boxes that show reasons for preparing a Trial Balance.

| To work out the profit for the year |  |
| :--- | :---: |
| To see if total debits = total credits. | $\checkmark$ (2) |
| To see how well the business is doing. |  |
| To check the accuracy of the double entry. | $\checkmark$ (2) |

6. (a) Using the notes below, complete the Cash Budget of $K$ Sweeney for the months of July and August 2012.

## NOTES

- The cash balance at the beginning of July is $£ 1,560$
- Sales in July will be $£ 10,000$ and are expected to increase by $10 \%$ for August
- A loan of $£ 5,000$ will be received in August
- Purchases for July and August will be $£ 4,000$ per month
- Electricity is $£ 100$ per month. Both months are paid for in July
- Staff Wages are $£ 500$ per month.
- Rent of $£ 12,000$ per year is paid out monthly


## CASH BUDGET of K Sweeney

 for the months of July and August 2012
6. (continued)
(b) Indicate whether the following statements are True or False of a Cash Budget. Tick $(\checkmark)$ the correct box.

| STATEMENT | True | False |
| :--- | :---: | :---: |
| You can see how profitable the business <br> is. |  | $\checkmark$ (2) |
| You can see how much cash you will <br> have at the end of each month. | $\checkmark$ (2) |  |
| You can use it to help you plan for the <br> future. | $\checkmark$ (2) |  |

(c) When K Sweeney received the loan he knew he would have to pay back extra money, on top of the loan amount. Tick $(\checkmark)$ the correct box to show what this extra amount is called.

| Commission |  |
| :--- | :---: |
| Interest | $\checkmark$ (2) |
| Bonus |  |
| Salary |  |

(d) Using a computer spreadsheet to complete the accounts can have advantages. Tick $(\checkmark)$ the 2 correct boxes to show which of the following are advantages.

| Spreadsheets are never wrong. |  |
| :--- | :---: |
| Spreadsheets make calculation errors less likely. | $\checkmark$ (2) |
| Spreadsheets can be changed quickly. | $\checkmark$ (2) |
| Spreadsheets can help cash flow problems. |  |


| Marks |  |
| :---: | :---: |
| $\mathbf{K U}$ | $\mathbf{H I}$ |
|  |  |
|  |  |
|  |  |
|  |  |

