## 2013 Accounting and Finance

## Standard Grade Foundation - Solutions

## Finalised Marking Instructions

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1. Linda Robb owns a pet shop. The following information relates to a transaction on 5 May 2013.

10 "Extenda-leads" @ £12.50 each
7 Medium Kennels @ £25.00 each
Trade Discount @ 10\% = £30.00
VAT @ 20\% =£54.00
(a) Complete the Invoice below, which Linda's Pets would send to $\mathrm{K} \& \mathrm{G}$ Fitzpatrick.


Telephone: 01415644242

Fax: 01415642552
Invoice Number: 2543
To: K \& G Fitzpatrick
2 Bain Gardens
SHAWLANDS
SH3 4TQ

e-mail: lindaspets@intel.com
VAT Number: 45423545
Date: 5 May 2013

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

## 1. (continued)

(b) Identify the 3 accounts which would be used to record this invoice in the ledger of Linda's Pets. Tick ( $\checkmark$ ) the correct boxes.

| Linda's Pets |  |
| :--- | :--- |
| K \& G Fitzpatrick | $\checkmark$ (2) |
| VAT | $\checkmark$ (2) |
| Sales | $\checkmark$ (2) |
| Purchases |  |

(c) State which of the above accounts would be used by both Linda's Pets and K \& G Fitzpatrick for this transaction.

VAT (2)
(d) K \& G Fitzpatrick had to return some of the goods mentioned on the invoice. Give a possible reason for the return of goods.

Damaged (2), Wrong size (2), Wrong colour (2)
(e) Name the document that Linda's Pets would send to K \& G Fitzpatrick when the goods are returned.

Credit note (2)
(f) Linda's Pets, operates as a sole trader. State which 2 of the following sources of finance would allow the business to expand. Tick $(\checkmark)$ the correct boxes.

| Loan from family | $\checkmark(2)$ |
| :--- | :---: |
| Increase subscriptions |  |
| Owner's savings | $\checkmark(2)$ |
| Issue debentures |  |


| Marks |  |
| :---: | :---: |
| KU | HI |
|  |  |
|  |  |
| 2 |  |
| 2 |  |
| 2 |  |
| 2 |  |

2. (a) Enter the following transactions in the ledger accounts of Computer World plc.

April $3 \quad$ Bought goods on credit from PC Access £1,240, VAT £248

April 4
Received a credit note from PC Access for goods returned £200 and VAT £40

April 6
Paid a cheque to A Dunn for $£ 108$, the $£ 12$ remainder being discount received, in full settlement of his account

Ledger of Computer World plc

| Bank Account |  |  |  |  |  |  |  |  |  |
| :--- | :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | $\mathbf{C r}$ |  | Balance |  |  |  |
| $\mathbf{2 0 1 3}$ |  | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ |  |  |
| 1 April | Balance | 5,200 | $00(\mathbf{0})$ |  |  | 5,200 | 00 |  |  |
| 6 April | A Dunn |  |  | 108 | $00(\mathbf{2})$ | 5,092 | 00 |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |


| Purchases Account |  |  |  |  |  |  |  |  |  | Account No 2 |  |  |  |  |  |  |
| :--- | :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | $\mathbf{C r}$ |  | Balance |  |  |  |  |  |  |  |  |  |  |
| 2013 |  | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ |  |  |  |  |  |  |  |  |  |
| 3 April | PC Access | 1,240 | $00(2)$ |  |  | 1,240 | 00 |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |


| VAT Account | Account No 3 |  |  |  |  |  |  |  |
| :--- | :--- | :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | $\mathbf{C r}$ |  | Balance |  |  |
| $\mathbf{2 0 1 3}$ |  | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ |  |
| 3 April | PC Access | 248 | 00 | (2) |  |  | 248 | 00 |
| 4 April | PC Access |  |  | 40 | 00 | (2) | 208 | 00 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

2. (continued)

| PC Access Account |  |  |  | Account No 4 |  |  |  |  |  |  |  |
| :--- | :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |  |  |  |  |
| $\mathbf{2 0 1 3}$ |  | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ |  |  |  |  |
| 3 April |  <br> VAT |  |  | 1,488 | 00 (4) | 1,488 | 00 |  |  |  |  |
| 4 April | Purchase <br>  <br> VAT | 240 | $00(4)$ |  | 1,248 | 00 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |


| Purchase Returns Account |  |  |  | Account No 5 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |
| 2013 |  | £ | p | £ | p | £ | p |
| 4 April | PC Access |  |  | 200 | 00 (2) | 200 | 00 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |


| A Dunn Account |  |  |  |  |  |  |  |  |  | Account No 6 |  |  |  |  |  |  |
| :--- | :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |  |  |  |  |  |  |  |  |  |
| $\mathbf{2 0 1 3}$ |  | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ |  |  |  |  |  |  |  |  |  |
| 1 April | Balance |  |  | 120 | $00(0)$ | 120 | 00 |  |  |  |  |  |  |  |  |  |
| 6 April | Bank | 108 | $00(\mathbf{2 )}$ |  |  | 12 | 00 |  |  |  |  |  |  |  |  |  |
| 6 April | Discount <br> Received | 12 | $00(2)$ |  |  | 0 | 00 |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |


| Discount Received Account |  |  |  |  |  |  |  |  |  |  | Account No 7 |  |  |  |  |  |
| :--- | :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |  |  |  |  |  |  |  |  |  |
| $\mathbf{2 0 1 3}$ |  | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ | $\mathbf{£}$ | $\mathbf{p}$ |  |  |  |  |  |  |  |  |  |
| 6 April | A Dunn |  |  | 12 | $00(2)$ | 12 | 00 |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

2. (b) State why A Dunn allowed Computer World plc a discount on April 6.

Because Computer World plc paid promptly or within a certain time. (2)
(c) State the term that Computer World plc would use to describe A Dunn before they had paid him. Tick $(\checkmark)$ the correct box.

| Debtor |  |
| :--- | :--- |
| Lender |  |
| Creditor | $\checkmark$ (2) |
| Bankrupt |  |

(d) State what the letters VAT stand for.

Value Added Tax (2)
(e) State which 2 sources of finance are only available to a plc. Tick ( $\checkmark$ ) the $\mathbf{2}$ correct boxes.

| Bank Loan |  |
| :--- | :--- |
| Debenture | $\checkmark(2)$ |
| Shares | $\checkmark(2)$ |
| Mortgage |  |

3. The Treasurer of the Dunblane Cricket Club has the following chart about The Annual Ceilidh Dance.


## 3. (continued)

(b) State whether each of the following costs of holding the Annual Ceilidh Dance is fixed or variable. Tick $(\checkmark)$ the correct box.

| Cost | Fixed | Variable |
| :--- | :--- | :--- |
| Hire of hall | $\checkmark$ (2) |  |
| Meal |  | $\checkmark$ (2) |
| Refreshments |  | $\checkmark$ (2) |
| Payment to Ceilidh Band | $\checkmark$ (2) |  |

(c) State who owns Dunblane Cricket Club.

The Members (2),Subscribers(2)
(d) State whether the following are True or False of a not-for-profit organisation. Tick $(\checkmark)$ the correct box.

|  | True | False |
| :--- | :---: | :---: |
| A profit is called a Deficit |  | $\checkmark$ (2) |
| An AGM is held every year | $\checkmark$ (2) |  |
| Accounts do not need to be kept |  | $\checkmark$ (2) |


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

4. (a) Use the following figures to complete the Trial Balance of Frank James as at 30 April 2013.

| Sales | $£ 120,000$ | Premises | $£ 30,330$ |
| :--- | :--- | :--- | :--- |
| Repairs | $£ 1,200$ | Bank | $£ 3,830$ |
| Stock (1 May 2012) | $£ 12,400$ | Debtors | $£ 780$ |
| Wages | $£ 10,000$ | Purchase Returns | $£ 890$ |
| Purchases | $£ 98,000$ | Rent Received | $£ 2,000$ |
| Vehicles | $£ 10,000$ | Capital | $£ 45,000$ |
| Interest Paid | $£ 1,200$ | Drawings | $£ 150$ |

Trial Balance of Frank James as at 30 April 2013

|  | $\begin{aligned} & \hline £ \\ & \mathrm{Dr} \end{aligned}$ | $\begin{aligned} & \hline £ \\ & \mathrm{Cr} \end{aligned}$ |
| :---: | :---: | :---: |
| Sales |  | 120,000 (1) |
| Premises | 30,330 (1) |  |
| Repairs | 1,200 (1) |  |
| Bank | 3,830 (1) |  |
| Stock (1 May 2012) | 12,400 (1) |  |
| Debtors | 780 (1) |  |
| Wages | 10,000 (1) |  |
| Purchase Returns |  | 890 (1) |
| Purchases | 98,000 (1) |  |
| Rent Received |  | 2,000 (1) |
| Vehicles | 10,000 (1) |  |
| Capital |  | 45,000 (1) |
| Interest Paid | 1,200 (1) |  |
| Drawings | 150 (1) |  |
|  | £167,890 | £167,890 |

(1) for both
4. (continued)
(b) The following types of error could have occurred even though the Trial Balance still balances.

$$
\begin{array}{ll}
\text { Compensating Error } & \text { Error of Omission } \\
\text { Error of Commission } & \text { Error of Principle }
\end{array}
$$

Using the above, identify the type of error being described - the first has been done for you.

| Description | Type of Error |
| :--- | :---: |
| An invoice fell down the back of <br> a cabinet and was not recorded | Omission (0) |
| Sales on credit to A Green <br> were credited in the Sales <br> account but debited M Green's <br> account | Commission (2) |
| The repairs of a vehicle were <br> debited in the Vehicle account <br> instead of the Repairs account | Principle (2) |
| Two or more errors have <br> cancelled each other out | Compensating (2) |

(c) Frank operates as a Sole Trader and is considering going into Partnership with Shazia Anwar. Indicate whether each of the following is an advantage or a disadvantage of being in a partnership. Tick $(\checkmark)$ the correct box.

|  | Advantage | Disadvantage |
| :--- | :---: | :---: |
| Partners share profits |  | $\checkmark$ (2) |
| Partners can bring in more <br> capital | $\checkmark$ (2) |  |
| Partners may disagree about <br> the business |  | $\checkmark$ (2) |
| Partners can take holidays <br> more easily | $\checkmark$ (2) |  |

5. The following information was provided by Alpha plc:

Gross Profit
Unappropriated Profit at 1 April 2012
Selling and Administration Expenses
Depreciation of Equipment $10 \%$ Preference Shares of $£ 1$ each
Ordinary Shares of $£ 1$ each
Debenture Interest
£42,000
£12,000
£10,000
£1,350
£150,000
£100,000
£1,650

Notes

1) The Preference Shareholders are to receive their Dividend of $£ 15,000$
2) The Ordinary Shareholders will receive a Final Dividend of $£ 20,000$
(a) Using the information and notes above, prepare the Profit \& Loss and Appropriation Account below.

## Alpha plc

Profit \& Loss and Appropriation Account for year ending 31 March 2013

|  | $£$ | $£$ |  |
| :--- | :---: | :---: | :---: |
| Gross Profit |  | 42,000 | $(1)$ |

Expenses

| Selling and Administration | 10,000 (1) |  |  |
| :---: | :---: | :---: | :---: |
| Depreciation of Equipment | 1,350 (1) |  |  |
| Debenture Interest | 1,650 (1) | 13,000 | (1) |
| Net Profit (1) |  | 29,000 | (1) |
| Unappropriated Profit 1 April 2012 |  | 12,000 | (1) |
|  |  | 41,000 | (1) |

## Appropriations

| Preference Dividend | 15,000 | (1) |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Ordinary Dividend | 20,000 | (1) | 35,000 | (1) |
| Unappropriated Profit 31 March 2013 |  |  | 6,000 | (1) |

* Enter the appropriate label

5. (continued)
(b) Alpha plc have issued both Ordinary and Preference Shares. Tick ( $\checkmark$ ) the correct box to indicate whether each of the following statements refers to Ordinary or Preference Shares.

|  | Ordinary | Preference |
| :--- | :--- | :--- |
| These shareholders can vote at <br> the AGM | $\checkmark$ (2) |  |
| These shareholders receive a <br> dividend dependant on the <br> profits | $\checkmark$ (2) |  |
| These shareholders are paid <br> their dividend first |  | $\checkmark$ (2) |
| In the event of bankruptcy <br> these shareholders are paid <br> back last | $\checkmark$ (2) |  |

(c) State what the letters "plc" stand for.

Public Limited Company (2)
(d) Who do the shareholders elect to run the plc on their behalf?

MD (1)/ CEO (1)/ BOD (2)

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

6. The following Balance Sheet was taken from the books of Sam Lab.

| Sam Lab |  |  |  |
| :---: | :---: | :---: | :---: |
| Balance Sheet |  |  |  |
| As at 31 December 2012 | $\varepsilon$ | $\varepsilon$ | $\varepsilon$ |
| Fixed Assets |  |  |  |
| Premises |  |  | 100,000 |
| Vehicles |  |  | 15,000 |
|  |  |  | 115,000 |
| Current Assets |  |  |  |
| Stock | 6,000 |  |  |
| Debtors | 300 |  |  |
| Bank | 450 | 6,750 |  |
| Less: Current Liabilities |  |  |  |
| Creditors | 2,000 |  |  |
| Rent Owing | 250 | 2,250 |  |
| Working Capital |  |  | 4,500 |
|  |  |  | £119,500 |
| Financed by |  |  |  |
| Capital at beginning | 80,000 |  |  |
| Add: Net Profit | 40,000 | 120,000 |  |
| Less: Drawings |  | 500 |  |
| Capital at end |  |  | £119,500 |

(a) Using the Balance Sheet above, calculate the following ratios.
(i) Working Capital Ratio
= Current Assets : Current Liabilities

| 6,750 (1) | 2,250 (1) |
| :---: | :---: |
| 3 | 1 |

(ii) Return on Capital Employed

$$
=\frac{\text { Net Profit }}{\text { Capital at Beginning }} \times 100
$$

$$
\begin{aligned}
& \frac{40,000(1)}{80,000(1)} \\
= & 50(1) \\
& \%
\end{aligned}
$$

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

6. (continued)
(b) Bob Dane and Jim Poodle run similar businesses to Sam Lab. Their ratios for last year were as follows.

| Business | Working Capital | Return on Capital <br> Employed |
| :--- | :--- | :--- |
| Bob Dane | $1.8: 1$ | $40 \%$ |
| Jim Poodle | $1.2: 1$ | $32 \%$ |

(i) Identify who will be able to pay off their debts more easily. Tick $(\checkmark)$ the correct box.

| Bob Dane | $\checkmark$ (2) |
| :--- | :---: |
| Jim Poodle |  |

(ii) State who has the better Return on Capital Employed. Tick ( $\checkmark$ ) the correct box.

| Bob Dane | $\checkmark$ (2) |
| :--- | :---: |
| Jim Poodle |  |

(c) Sam Lab could also calculate his Gross Profit Ratio. Identify which 2 pieces of information he would need to do this.
Tick $(\checkmark)$ the correct boxes.

| Opening Stock |  |
| :--- | :---: |
| Capital |  |
| Gross Profit | $\checkmark$ (2) |
| Purchases |  |
| Sales | $\checkmark$ (2) |

(d) Name 2 other ratios that Sam Lab could calculate.

Net Profit \% (2)
Rate of Stock Turnover (2)

Expense \% (2)
Acid Test (2)

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

