



2009 Accounting and Finance

Standard Grade – General

Solutions

Finalised Marking Instructions

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1. Deegan & Kerr ordered the following from Grove Office Supplies on 19 February 2009.

3 operator chairs @ £60.00 each
 1 cross-cut shredder @ £20 each

10% Trade Discount is allowed on all orders

Total VAT for the goods is £31.50.

- (a) Complete the Order Form below using the above information.

ORDER FORM			
 <p style="text-align: center;">Deegan & Kerr PLUMBING AND HEATING SERVICES 29 Ronan Drive PERTH PH3 4GH</p>			
To: Grove Office Supplies 90 Strachan Drive Dundee DD2 9TT		Tel: 01738 991243 Order No: 256 VAT No: 901 265 771 Date: 19 February 2009	
QUANTITY	DESCRIPTION	UNIT PRICE	COST
3	Operator Chairs	£ 60.00	£ 180.00 (1)
1	Cross-cut Shredder	20.00	20.00 (1)
			200.00 (1)
	Less 10% Trade Discount		20.00 (2)
	Net Goods Value		180.00 (1)
	Add VAT @ 17.5%		31.50 (1)
	TOTAL		£ 211.50 (1)

<i>Marks</i>	
KU	HI
	8

		<i>Marks</i>	
		KU	HI
<p>(b) Name the ledger accounts that Deegan & Kerr would use to record the transaction when the items ordered are received.</p> <ul style="list-style-type: none"> • Equipment/Furniture/Fixtures Account (2) • VAT Account (2) • Grove Office Supplies (2) <p>NOT: Creditors Account</p>		6	
<p>(c) Grove Office Supplies gives Deegan & Kerr a 10% trade discount.</p> <p>(i) What does this mean?</p> <ul style="list-style-type: none"> • Trade Discount is a reduction in the price of goods (2) • 10% off (1) money off (1) <p>(ii) Give one reason why trade discount is given.</p> <ul style="list-style-type: none"> • Bulk buying (2) • To encourage customers to return (2) • To encourage new customers (2) • Given to trade/regular/loyal customers (2) • Allow them to make a profit (2) <p>(Any one)</p>		2	
<p>(d) Suggest 2 reasons why Deegan & Kerr may return goods to Grove Office Supplies.</p> <ul style="list-style-type: none"> • Faulty (2) • Wrong size/colour/item sent (2) (one only) • Damaged/broken (2) • Found goods cheaper at another supplier (2) • Ordered too many (2) • Unsuitable (2) <p>(Any 2)</p>		4	
<p>(e) State one benefit of buying goods on credit.</p> <ul style="list-style-type: none"> • No need for cash (2) • Pay at a later date (2) • Pay in instalments (2) • Time to sell before paying (2) • Improves cash flow (2) <p>(Any one)</p> <p>NOT: Easier to return</p>		2	

2. (a) Using the Document Pack provided make the necessary entries in the ledger accounts of Craigmyle Catering.

Ledger of Craigmyle Catering

Account Name: SALES (I)		NUMBER: 1					
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
02/03/09	Food 2 U			(2)	90 00	90	00

Account Name: VAT (I)		NUMBER: 2					
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
02/03/09	Food 2 U			(2)	15 75	15	75
18/03/09	Food 2 U	6	30	(2)		9	45

Account Name: FOOD 2 U (I)		NUMBER: 3					
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
02/03/09	Sales and VAT	105	75	(4)		105	75
18/03/09	Sales Returns and VAT			(4)	42 30	63	45
22/03/09	Bad Debts			(2)	63 45	00	00

Account Name: SALES RETURNS (I)		NUMBER: 4					
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
18/03/09	Food 2 U	36	00	(2)		36	00

Account Name: BAD DEBTS (I)		NUMBER: 5					
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
22/03/09	Food 2 U	63	45	(2)		63	45

		<i>Marks</i>	
		KU	HI
<p>(b) Craigmyle Catering will send a Statement of Account to Food 2 U at the end of each month. Explain the purpose of this document.</p> <ul style="list-style-type: none"> • It gives a record of the month's transactions (2) • It shows closing balances (2) OR • It shows how much is still owed (2) • It shows when payment is due (2) • It shows purchases (1) and returns (1)/invoices (1) and credit notes (1)/payments (1)/discounts (1) (Maximum 2 marks) <p>(Any 2)</p>	4		
<p>(c) Craigmyle Catering operates as a sole trader. Give 2 reasons why the business would benefit from forming a partnership.</p> <ul style="list-style-type: none"> • More capital (2) • More money (2) • Additional expertise/skills (2) • Greater borrowing power (2) • Shared losses (2) • Shared workload (2) • Shared decision making (2) • Specialisation (2) • Easier to take time off/holidays (2) • More ideas (2) • Bring more contacts (2) <p>(Any 2) NOT: Stress More time off</p>	4		
<p>(d) Both sole traders and partnerships have unlimited liability. Explain this term.</p> <ul style="list-style-type: none"> • If the business fails (1)/to cover business debts (1) the owners (1) personal possessions (1) could be sold/taken/lost (1) 	4		

3. (a) JS Technologies plc has recently appointed a trainee accountant who produced the company's Trial Balance as at 31 March 2009.

There are 6 entries on the wrong side of the Trial Balance.

You are required to rewrite the Trial Balance, correcting the 6 errors.

JS Technologies plc		
Trial Balance as at 31 March 2009		
	DR	CR
Wages and Salaries	146,000	
Debtors	44,000	
Purchases		291,000
Bank	27,000	
Debentures	30,000	
Sales Returns	1,500	
Discount Allowed	1,250	
Ordinary Shares	88,000	
Premises	160,000	
Stock		22,750
Discount Received	1,500	
Creditors	30,000	
Sales		534,000
Unappropriated Profit		10,000
	£529,250	£857,750

<i>Marks</i>	
KU	HI

JS Technologies plc		
Trial Balance as at 31 March 2009		
	DR	CR
Wages and Salaries	146,000	
Debtors	44,000	
Purchases	291,000	<i>(1)</i>
Bank	27,000	
Debentures		<i>(1)</i> 30,000
Sales Returns	1,500	
Discount Allowed	1,250	
Ordinary Shares		<i>(1)</i> 88,000
Premises	160,000	
Stock	22,750	<i>(1)</i>
Discount Received		<i>(1)</i> 1,500
Creditors		<i>(1)</i> 30,000
Sales		534,000
Unappropriated Profit		10,000
	£693,500	£693,500

<i>Marks</i>	
KU	HI
	6

Marks	
KU	HI
4	
8	

(b) Suggest 2 reasons why JS Technologies plc would prepare a Trial Balance at the end of the financial period.

- To check accuracy of ledger (2)
- To check ledger (1)
- To check double entry (2)
- To check that DR = CR (2)
- Errors may be picked up (2)
- Arithmetic check of the ledger (2)
- Arithmetic check (1)
- To allow Final Accounts to be prepared (2)
- To see if Suspense Account is required (2)

(Any 2)

NOT: To make sure there are no errors

(c) Even if the Trial Balance totals are equal, there may still be errors in the ledger. Complete the table below with the name of each error. The first one has been completed as an example.

Name of Error
Principle
Reversal
Omission
Compensating
Original Entry

Description of Error	Name of Error
<i>A transaction has been completely missed out.</i>	Omission
The account which should have been debited is credited and the account which should have been credited is debited.	Reversal (2)
The wrong type of account has been used eg Purchases Account instead of Equipment Account.	Principle (2)
The correct accounts were used but the wrong figure entered eg £345 entered instead of £453.	Original Entry (2)
Two or more errors have cancelled each other out.	Compensating (2)

<i>Marks</i>	
KU	HI

4. (a) Sophie McPherson owns The Magic Carpet Store which sells carpets, rugs and floor coverings.

From the following information, prepare the Trading and Profit and Loss Accounts for the year ended 30 April 2009.

	£
Purchases	80,200
Insurance	9,600
Sales	124,500
Stock at 1 May 2008	8,000
Rent Received	4,400
Carriage In	1,600
Sales Returns	2,700
Wages	6,400
Furniture (at cost)	25,000
Advertising	5,600
Carriage Out	730

Notes:

- (1) Stock at 30 April 2009 was valued at £7,400
- (2) Insurance prepaid - £1,600
- (3) Furniture to be depreciated by 10% on cost
- (4) Wages due - £580

THE MAGIC CARPET STORE
Trading and Profit and Loss Accounts
for the year ended 30 April 2009

	£	£	£
Sales			124,500 (1)
Less: Sales Returns			<u>2,700 (1)</u>
			121,800
 Less Cost of Sales			
Opening Stock		8,000 (1)	
Purchases		80,200 (1)	
Carriage In		<u>1,600 (1)</u>	
		89,800	
 Less Closing Stock		<u>7,400 (1)</u>	82,400 (1)
 GROSS PROFIT (1)			39,400 (1)
 Add Rent Received			<u>4,400 (1)</u>
			43,800
 Less Expenses			
Insurance (9,600 – 1,600)		8,000 (2)	
Wages (6,400 + 580)		6,980 (2)	
Advertising		5,600 (1)	
Carriage Out		730 (1)	
Depreciation – Furniture (25% × 25,000)		<u>2,500 (2)</u>	23,810
NET PROFIT (1)			<u><u>19,990 (1)</u></u>

(b) Explain the meaning of the following terms found in a Balance Sheet.

(i) Current Liability

- Short term debt (2)
- What is owed (1) by a firm short term (1) eg creditors, bank overdraft (1 for any example) (2 points max)

2

(ii) Drawings

- Cash/goods which the owner (1) of the business takes out for their own use (1)

2

(c) The Magic Carpet Store keeps a Petty Cash Book. Suggest 2 reasons for this.

- To record (1) small items (1) of expenditure (1) eg stamps, milk, tea etc (1 max for examples)
 - To help reduce book-keeping errors (2)
 - To keep cheques for large amounts (2)
 - To stop ledger accounts getting cluttered (2)
 - To reduce the workload of the cashier (2)
 - To give a junior more responsibility (2)
- (Any 2)

4

Marks	
KU	HI
	20

<i>Marks</i>	
KU	HI
	3
	5
	4
	2

5. The Treasurer of the Ochil Outdoor Activities Club has provided the following information from the Bar Trading Account for year ended 31 January 2009.

	£
Cost of Goods Sold	11,250
Opening Stock	1,050
Gross Profit	3,750
Closing Stock	1,200
Bar Sales	15,000

(a) From the information provided, calculate the following ratios:

(i) The Gross Profit Percentage

$$\frac{\text{£}3,750^{(I)}}{\text{£}15,000^{(I)}} \times \frac{100}{1} = 25\%^{(I)}$$

(ii) The Rate of Stock Turnover

$$\frac{1,050 + 1,200^{(I)}}{2^{(I)}} = \frac{2,250}{2} = \text{£}1,125$$

£1,125 anywhere (2)
£2,250 (I)
£600 (I)
£525 (I)

$$\frac{\text{£}11,250^{(I)}}{\text{£}1,125^{(I)}} = 10 \text{ times }^{(I)}$$

(b) State 2 reasons why the club calculates these ratios.

- **Future planning (2)**
 - **To compare with previous years (2)**
 - **To compare with other similar organisations (2) businesses (1)**
 - **To see how well the club is doing (2)**
 - **Accept explanation of using specific ratio (2)**
- (Any 2)

(c) Suggest one way the club could improve its Gross Profit percentage.

- **Reduce cost of sales (2)**
- **Cheaper supplier (2)**
- **Bulk buy at lower prices (2)**
- **Obtain discounts (2)**
- **Reduce waste/theft (2)**
- **Increase selling price (2)**

(Any one)

NOT: Cut down costs
Sell more stock/increase sales
Increase GP

		<i>Marks</i>	
		KU	HI
(d)	<p>Explain the following terms associated with a not-for-profit organisation.</p> <p>(i) Subscriptions</p> <ul style="list-style-type: none"> • Amount paid annually/weekly/monthly (1) by members (1) to use facilities (1) • Membership fee (1) • Main source of income for organisation (1) <p>(Any one) NOT: Joining fee</p> <p>(ii) Surplus</p> <ul style="list-style-type: none"> • When income is greater than expenditure (2) • Increases accumulated fund (2) • Profit of a club (2) • Profit (1) • Opposite of a deficit (2) • Similar to a profit in a business (2) <p>(Any one)</p> <p>(iii) Accumulated Fund</p> <ul style="list-style-type: none"> • What the club is worth (2) • Assets – Liabilities (2) • Similar to capital (2) • Capital (1) • The members interest (in the club) (2) • Surpluses built up (2) • Shown in Balance Sheet (1) <p>(Any one)</p>	2	
(e)	<p>Name 2 items which would appear in a Receipts and Payments Account but not in an Income and Expenditure Account.</p> <ul style="list-style-type: none"> • Opening Balance (2) and Closing Balances (2) • Capital income (2)/expenditure (2) • Fixed Assets (2) • Any Fixed Asset examples (2 marks each) • Capital Income examples eg mortgage, loan (2 marks each) • Any Bar Trading items (2 marks each) • Loan (2) Long-term Liabilities (2) <p>(Any 2)</p>	4	

(f) Suggest **2** ways in which the Ochil Outdoor Activities Club could raise finance other than by increasing subscriptions.

- **Donations (2)**
- **Grant (2)**
- **Attract additional members (2)**
- **(Bank) loan (2)**
- **Charge non members (2)**
- **Mortgage (2)**
- **Fund raising events (2)**
- **Sponsorship (2)**
- **Levy on members (2)**
- **Sell assets (2)**

(Any 2)

NOT: Increase bar prices

<i>Marks</i>	
KU	HI
4	

<i>Marks</i>	
KU	HI
	13

6. Tynadee plc are producers of golf umbrellas. The estimated costs and revenues are shown below.

Bank Balance at 1 July 2009 £3,800
Wages £7,200 per annum paid monthly
Insurance £200 per month

	June	July	August
Credit Sales	£1,500	£1,820	£740
Cash Purchases	£1,200	£1,100	£1,220

Credit Sales will be paid for in the month following the sale.

Production equipment costing £3,000 will be bought in July and paid in 2 equal instalments in August and September.

(a) Complete the Cash Budget of Tynadee plc for the 2 months ending August 2009.

ESTIMATED CASH BUDGET FOR JULY AND AUGUST 2009

	July		August	
	£		£	
OPENING BALANCE	3,800	(1)	3,400	(1)
Receipts				
Credit Sales	1,500	(1)	1,820	(1)
	<u>1,500/5,300</u>		<u>1,820/5,220</u>	
Payments				
Purchase	1,100	(1)	1,220	(1)
Wages	600	↔	600	(2)
Insurance	200	↔	200	(1)
Production Equipment	0	(1)	1,500	(1)
	<u>1,900</u>		<u>3,520</u>	
CLOSING BALANCE	<u>3,400</u>	(1)	<u>1,700</u>	(1)

		<i>Marks</i>	
		KU	HI
<p>(b) Suggest one advantage to Tynadee plc of preparing a Cash Budget.</p> <ul style="list-style-type: none"> • Helps planning (2) • Identifies potential shortfall (2) • Arrange loan/overdraft if required (2) • Identifies potential surplus (2) • Gives closing balances (2) • Shows cash in (1)/cash out (1) • Shows when costs need to be cut/savings made (2) • Shows when something can be afforded (2) • Helps cash flow (2) <p>(Any one)</p>		2	
<p>(c) Explain the following terms which relate to a plc.</p> <p>Debentures</p> <ul style="list-style-type: none"> • long term loans (2) loan (1) • interest payable at a fixed rate (2) • amount repaid in total (2) • shown in Balance Sheet (1) • long-term liabilities (2) <p>(Any one)</p> <p>Unappropriated Profit</p> <ul style="list-style-type: none"> • balance at start/balance at end of Appropriation A/c (2) • profit at year end not distributed (2) • shown in Balance Sheet (1) as reserve (2) • profit left after paying dividends (2) <p>(Any one) NOT: left-over profit</p>		4	
<p>(d) Suggest one reason why dividends paid to ordinary shareholders of Tynadee plc can vary from one year to another.</p> <ul style="list-style-type: none"> • The directors decide the percentage rate (2) • Profits can vary (2) • High profit more dividend/low profit less dividend (2) • More shares issued (2) • Business makes a loss (2) <p>(Any one)</p>		2	

- (e) Explain the meaning of the following
- (i) Authorised Capital
- **Number of shares (I) that can be issued/sold (I)**
- (ii) Issued Capital
- **Number of shares (I) which a company has issued/sold (I)**
- NOT: Given out Must say sold/issued

<i>Marks</i>	
KU	HI
2	
2	

[END OF MARKING INSTRUCTIONS]