



2010 Accounting & Finance

Standard Grade – General

Solutions

Finalised Marking Instructions

© Scottish Qualifications Authority 2010

The information in this publication may be reproduced to support SQA qualifications only on a non-commercial basis. If it is to be used for any other purposes written permission must be obtained from the External Print Team, Centre Services, Dalkeith.

Where the publication includes materials from sources other than SQA (secondary copyright), this material should only be reproduced for the purposes of examination or assessment. If it needs to be reproduced for any other purpose it is the centre's responsibility to obtain the necessary copyright clearance. SQA's External Print Team, Centre Services, at Dalkeith may be able to direct you to the secondary sources.

These Marking Instructions have been prepared by Examination Teams for use by SQA Appointed Markers when marking External Course Assessments. This publication must not be reproduced for commercial or trade purposes.

Marks	
KU	HI
	8

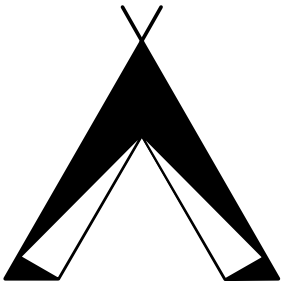
1. McCombie Camping plc returned the following goods which had been bought on credit from Canvas Creations.

3 Festival Flower tents @ £80.00 each
1 Camper lamp @ £10.00 each

10% Trade Discount is allowed on all orders

Total VAT for the goods is £39.37

(a) Complete the Credit Note below that Canvas Creations would send to McCombie Camping plc.

<h1>CREDIT NOTE</h1>		No: 559			
<p>Canvas Creations Craigdornan Park FORFAR DD8 8CP</p>					
<p>To: McCombie Camping plc 23 St David's Street EDINBURGH EH2 2PP</p>		<p>Tel: 01307 55251 Fax: 01307 55252 VAT No: 612 446 091 Date: 6 March 2010</p>			
Quantity	Description	Unit Price		Cost	
		£	p	£	p
3	Festival Flower tents	80	00	240	00 (1)
1	Camper lamp	10	00	10	00 (1)
	Less 10% Trade Discount			250	00 (1)
				25	00 (2)
	Net Goods Value			225	00 (1)
	Add VAT @ (17.5%)			39	37 (1)
	TOTAL			£264	37 (1)

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

1. (continued)

(b) Name the accounts that would be used to record the credit note details in the ledger of Canvas Creations.

- **Sales Returns A/c (2)**
- **VAT A/c (2)**
- **McCombie Camping A/c (2)** **Not – Debtors A/c**

(c) Canvas Creations gives McCombie Camping plc Trade Discount. Name another type of discount and explain why it is given.

Name: **Cash (Discount) (2)**

Discount Allowed (1) } **Either/or (1) max**
Discount Received (1) }

Explanation: **Encourages prompt payment (2)**
 Improves Cash Flow (2)

(d) Name the documents which Canvas Creations sends to McCombie Camping plc in the following situations.

	Document Name
McCombie Camping plc buys goods on credit from Canvas Creations	Invoice (2)
Canvas Creations sends McCombie Camping plc a summary of their transactions for the month	Statement (of Account) (2)
McCombie Camping plc pays £50 of the amount owed to Canvas Creations in cash	Receipt (2)

Marks	
KU	HI

2. (a) Using the document pack provided make the necessary entries in the ledger accounts of Gairneybank Garden Centre.

Ledger of Gairneybank Garden Centre

Account Name		<u>Bank (0)</u>		Number		<u>1</u>	
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
14/4/2010	Balance	2,000	00	(0)		2,000	00
25/4/2010	Garden Sundries		(2)	400	00	1,600	00

Account Name		<u>Garden Sundries plc (1)</u>		Number		<u>2</u>	
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
14/4/2010	Purchases and VAT			(2) 528	75	528	75
22/4/2010	Purchases Returns and VAT	(2) 94	00			434	75
25/4/2010	Bank	(2) 400	00			34	75

Account Name		<u>Purchases (1)</u>		Number		<u>3</u>	
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
14/4/2010	Garden Sundries	(2) 450	00			450	00

2. (a) (continued)

Account Name		<u>VAT (I)</u>		Number		4	
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
14/4/2010	Garden Sundries	(2) 78	75			78	75
22/4/2010	Garden Sundries			(2) 14	00	64	75

Account Name		<u>Purchases Returns (I)</u>		Number		5	
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
22/4/2010	Garden Sundries			(2) 80	00	80	00

(b) Garden Sundries plc is a Public Limited Company. Explain what the word Limited refers to.

- Shareholders liability is limited to value of their investment (2)
- Can't lose their personal possessions (2)
- Limited liability (1)

(c) Who owns Garden Sundries plc?

- Shareholders (2)

Marks	
KU	HI
	20
	2
	2

2. (continued)

(d) Name **2** sources of finance, not available to sole traders or partnerships, which Garden Sundries plc could use to expand its business.

- **Shares (can be issued) (2)**
- **Debentures (can be issued) (2)**

(e) Name the financial statement that Garden Sundries plc could prepare to plan its spending over the next 6 months.

- **Cash Budget (2)** **Budget (1)**
- **Cash Flow (Statement) (2)**

(Any one)

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

<i>Marks</i>	
KU	HI

3. The following information has been provided by the Picture Perfect Photography Club.

Assets at 1 January 2009

Cash/Bank	£600	Stock of Refreshments	£500
Equipment	£1,800	Premises	£2,500

**Receipts and Payments Account
for the year ended 31 December 2009**

	£	£
Opening Cash/Bank Balance		600

Receipts

Members Subscriptions	1,400	
Donations	300	
Grant	800	
Sale of Refreshments	620	3,120
		<u>3,720</u>

Payments

Purchase of Refreshments	330	
Purchase of Equipment	1,100	
Extension to Premises	750	
Insurance	85	
Cleaner's Wages	165	
Repairs to Premises	90	2,520
		<u>£1,200</u>
Closing Cash/Bank Balance		

Notes at 31 December 2009

- (1) Stock of Refreshments is valued at £320
- (2) Cleaner's Wages of £80 are due but unpaid
- (3) Insurance has been prepaid by £15
- (4) The equipment of the Club is depreciated by 15% per annum

- (a) Use the information above to prepare:
 - (i) a statement clearly showing any profit or loss made on the sale of refreshments for the year ended 31 December 2009;
 - (ii) the Income and Expenditure Account for the year ended 31 December 2009.

3. (a) (continued)

(i) **Picture Perfect Photography Club**
Statement of Profit/Loss on Sale of Refreshments
for the year ended 31 December 2009

	£	£
Sale of Refreshments		620 (I)
Less: Cost of Sales		
Opening Stock	500 (I)	
Add: Purchase of Refreshments	<u>330 (I)</u>	
	830	
Less: Closing Stock	<u>320 (I)</u>	
		<u>510 (I)</u>
Profit on Refreshments		<u>110 (I)</u>

(ii) **Picture Perfect Photography Club**
Income and Expenditure Account
for the year ended 31 December 2009

	£	£
Income		
Profit on Refreshments		110 (I)
Members Subscriptions		1,400 (I)
Donations		300 (I)
Grant		<u>800 (I)</u>
		2,610
Expenditure		
Insurance (I) (I) (85-15)	70	
Cleaner's Wages (I) (I) (165 + 80)	245	
Repairs to Premises	90 (I)	
Depreciation of Equipment*	<u>435 (3)</u>	840
Surplus		<u>1,770 (I)</u>

* $\underbrace{(1800 + 1100)}_{(I)} \times 15\% (I)$

<i>Marks</i>	
KU	HI
	6
	13

3. (continued)

(b) The Club would like to extend its premises again to provide a gallery space to display photographs. Suggest **2** ways it could raise the finance to do this **other than** by a grant or donations.

- **Mortgage (2)**
- **Members Levy (2)**
- **Raise subscriptions (2)**
- **Increase membership (2)**
- **Fundraising (2)**
- **Loan(2)**
- **Sponsorship (2)**

(Any 2)

NOT

- **Profit from Bar**
- **Sell Assets**

(c) State **2** reasons why the Club depreciates its equipment.

- **Wear and tear (2)**
- **Obsolescence (2)**
- **Age (2)**
- **Damaged/Broken (2)**
- **To provide realistic Balance Sheet figure (2)**
- **To provide realistic profit/surplus figure (2)**

(Any 2)

(d) Explain the following terms which could appear in the Balance Sheet of a not-for-profit organisation.

Accumulated Fund

- **What the club is worth (2)**
- **Assets-Liabilities (2)**
- **Similar to Capital (2)**
- **Surpluses built up (2)**

(Any one)

NOT

- **Similar to financed by**
- **Figure at start of year**

Subscriptions Prepaid

- **Subscriptions paid in any one accounting period but not due until the next accounting period (2)**
- **Subscriptions paid before they are due/in advance (2)**
- **A liability (1) because they owe the membership (1)**

(Any one)

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

		<i>Marks</i>	
		KU	HI
<p>4. (continued)</p> <p>(d) When Corrie and Aisha set up their partnership they were advised to draw up a special document. Name this document.</p> <ul style="list-style-type: none"> • (Partnership) Agreement (2) • Deed (2) • Contract (2) <p>(Any one)</p> <p>(e) Identify 2 items, relating to the finance of the partnership, which might be included in this document.</p> <ul style="list-style-type: none"> • Capital (2) • Money Invested/Put into Business (2) • Share of profits/losses (2) (once only) • Drawings (2) • Interest on drawings (2) • Interest on Capital (2) • Partners' salaries (2) • Salaries (1) <p>(Any 2)</p> <p>NOT</p> <ul style="list-style-type: none"> • Wages <p>(f) Before joining Aisha in partnership, Corrie operated a business as a sole trader.</p> <p>(i) State 2 advantages of being a sole trader.</p> <ul style="list-style-type: none"> • Responsibility for all decisions/own boss/total control (2) • Quicker decision making (2) • Gets all of the profits (2) • Easy to set up (2) • Personal touch (2) • Accounts kept private (2) <p>(Any 2)</p> <p>(ii) State 2 disadvantages of being a sole trader.</p> <ul style="list-style-type: none"> • Limited capital (2) • Unlimited liability/unlimited debts (2) • Responsible for all losses (2) • Difficulty in arranging time off/holidays (2) • Heavy workload (2) • Sole responsibility for decisions (2) • Difficulty in borrowing (2) • If sole trader dies business stops trading (2) • Limited knowledge/expertise (2) <p>(Any 2)</p> <p>NOT</p> <ul style="list-style-type: none"> • Has to do all the work • More hours 	<p>2</p> <p>4</p> <p>4</p> <p>4</p>		

5. Peter Canning operates Top Tools, a small business selling work tools to the building trade. He has extracted the following balances from his ledger at 31 January 2010.

Sales	£12,800	Debtors	£580
Wages	£1,900	Purchases	£7,000
Premises	£8,000	Capital	£6,500
Sales Returns	£260	Bank Overdraft	£3,400
Drawings	£3,600	Carriage Out	£360
Rent Received	£220	Opening Stock	£1,220

- (a) Use the above figures to prepare Peter Canning's Trial Balance as at 31 January 2010.

Peter Canning		
Trial Balance as at 31 January 2010		
	Dr £	Cr £
Sales		12,800
Wages	1,900	
Premises	8,000	
Sales Returns	260	
Drawings	3,600	
Rent Received		220
Debtors	580	
Purchases	7,000	
Capital		6,500
Bank Overdraft		3,400
Carriage Out	360	
Stock	1,220	
	£22,920	£22,920

(1)

<i>Marks</i>	
KU	HI
	13

5. (continued)

(b) State 2 reasons why Peter Canning prepares a Trial Balance at the end of the financial period.

- To check double entry (is complete) (2)
- or
- To check if DR = CR (2)
- or
- To check accounts balance (2)
- Arithmetic check (1) of Ledger Accounts (1)
- Errors may be picked up (1) from Ledger/Accounts (1)
- To aid preparation of final accounts (2)
- To check ledger/accounts accuracy (2)

(Any 2)

NOT • To make sure there are no errors

(c) On checking the accounts, Peter Canning finds the following errors.

(i) No entries had been made in the ledger to record the sale of goods worth £200 on credit.

State how the correction of this error would affect the totals of the Trial Balance.

- Increase both (totals by £200) (2)

Give a reason for your answer.

- DR Debtors A/c £200 and CR Sales A/c £200 (2)
- Both DR and CR would have an extra entry (2)

(Any one)

(ii) New Office Equipment costing £400 had been entered into the Purchases Account.

State how the correction of this error would affect the totals of the Trial Balance.

- No effect (on totals) (2)

Give a reason for your answer.

- Entry is on correct side of the wrong account ie DR (2)
- Correction would move entry from DR of Purchases Account to DR of Office Equipment Account (2)
- Correction would CR Purchases and DR Office Equipment (2)

(Any one)

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

6. Alex Ronaldo runs a mobile vehicle repair service. The Balance Sheet for his business is shown below.

Alex Ronaldo
Balance Sheet as at 31 March 2010

	£	£	£
FIXED ASSETS			
Motor Vehicles			19,000
Equipment			<u>5,200</u>
			24,200
CURRENT ASSETS			
Stock		1,500	
Debtors		2,850	
Bank		2,100	
Cash		900	
Prepayment – Advertising		<u>250</u>	
		7,600	
Less CURRENT LIABILITIES			
Creditors	3,200		
Accrual – Wages	<u>130</u>	<u>3,330</u>	<u>4,270</u>
			<u>£28,470</u>
Financed by:			
Capital at 1 April 2009			23,870
Add: Net Profit			<u>4,600</u>
			<u>£28,470</u>

<i>Marks</i>	
KU	HI

6. (continued)

(a) Use the Balance Sheet on the previous page to calculate the following ratios for Alex Ronaldo's business.

(i) Working Capital Ratio

$$\begin{array}{l} \text{CA} : \text{CL} \\ (I) \quad 7,600 : 3,330 \quad (I) \quad \text{Not 2:1} \\ \quad \quad 2.28/2.3 : 1 \quad (I) \quad \text{Accept 2.3} \end{array}$$

(ii) Return on Capital Invested

$$\begin{array}{l} (I) \quad \frac{\pounds 4,600}{\pounds 23,870} \times \frac{100}{1} = 19.27\% / 19.3\% \quad (I) \\ (I) \end{array}$$

(b) The Net Profit of Alex Ronaldo is shown in the Balance Sheet on the previous page. In which financial statement is the Net Profit calculated?

- (Trading and) Profit and Loss Account (2)

(c) State 2 uses of accounting ratios.

- Comparison to previous years (2)
- Comparison to (similar) businesses (2)
- Comparison to industry average (2)
- Identify strengths/weaknesses (2)
- To see if the business is efficient (2)
- To aid planning (2)
- To show potential investor/banks/suppliers(2)
- To see how well the business is doing(2)

Also, accept uses of particular ratios.

(Any 2)

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

6. (continued)

(d) Identify **3** other ratios which Alex Ronaldo might calculate at the end of the financial year.

- **Gross Profit (2)**
- **Mark up (2)**
- **Net Profit (2)**
- **Rate of Stock Turnover (2)**
- **Expenses (2)**
- **Acid Test (2)**

(Any 3)

(e) Explain the following terms which may appear in a Balance Sheet.

(i) Bank Overdraft

- **Bank balance is CR (2)**
- **Current Liability (2)**
- **Happens when business spends more than they have in Bank Account (2)**

(Any one)

(ii) Drawings

- **When the owner(s) of the business take(s) money/stock/ services (1) for personal use (1)**

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

[END OF MARKING INSTRUCTIONS]