## 2011 Accounting \& Finance

## Standard Grade - General

## Solutions

## Finalised Marking Instructions

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1. Sam Stenhouse runs a pottery business. On 26 April 2011 he sold the following items to Middleton plc on credit:

10 pasta bowls @ £8.00 each
4 large platters @ £10.00 each
$5 \%$ trade discount is allowed on all orders.
Total VAT for the goods is $£ 19.95$
(a) Complete the invoice below that Sam Stenhouse would send to Middleton plc.

|  |  |  |  |
| :---: | :---: | :---: | :---: |
|  |  |  |  |
| To: Middleton plc 48-52 Ythan Street ELLON AB41 4BB |  | Tel: 01358702225 <br> VAT No: 82760067 <br> Date: 28 April 2011 |  |
|  |  |  |  |
|  |  |  |  |


| QUANTITY | DESCRIPTION | UNIT PRICE | COST |
| :---: | :---: | :---: | :---: |
| $\begin{gathered} 10 \\ 4 \end{gathered}$ | Pasta Bowls | $\begin{gathered} £ \\ £ .00 \end{gathered}$ | $\begin{aligned} & \hline £ \\ & 80.00 \end{aligned}$ |
|  | Large Platters | 10.00 | 40.00 |
|  |  |  | 120.00 |
|  | Less 5\% Trade Discount |  | 6.00 |
|  | Net Goods Value |  | 114.00 |
|  | Add VAT @ 17.5\% |  | 19.95 |
|  | TOTAL |  | £ 133.95 |

## 1. (continued)

(b) Name the accounts that would be used to record the invoice details in the ledger of Middleton plc.

- Purchases (2)
- VAT (2)
- Sam Stenhouse (2)
(c) Sam Stenhouse gives Middleton plc a trade discount of $5 \%$. Give 2 reasons why trade discount is given.
- In the same trade (2)
- To attract customers (2)
- To encourage repeat custom (2)
- To encourage bulk buying (2)
- To sell more (2)
(d) (i) Name the document which Sam Stenhouse would send to Middleton plc at the end of the month.
- Statement (of Account) (2)
(ii) Explain why Sam Stenhouse would send this document.
- It gives a record of the month's transactions (2)
- It shows the closing balance (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)
(e) State one benefit to Middleton plc of buying goods on credit from Sam Stenhouse.
- No need for cash (2)
- Pay at a later date (2)
- Pay in instalments (2)
- Time to sell goods before paying (2)
- Improves cash flow (2)


2. (a) (i) In the ledger of Wholesale DIY, enter the balance of $£ 350$ owed by debtor, Castle Contractors, on 1 February 2011.
(ii) Using the Document Pack provided make the necessary entries in the ledger accounts of Wholesale DIY.

LEDGER OF WHOLESALE DIY

| Account Name |  | Castle Contractors (1) |  |  | Number |  | 1 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details |  | Dr |  | Cr |  | Balance |  |
|  |  |  | £ | p | £ | p | £ | p |
| 1/2/11 | Balan |  | (1) 350 | 00 |  |  | 350 | 00 |
| 5/2/11 | Sales | and VAT | (2) 524 | 94 |  |  | 874 | 94 |
| 14/2/11 | Sales | Returns and VAT |  |  | (2) 83 | 97 | 790 | 97 |
| 18/2/11 | Bank |  |  |  | (1) 327 | 50 | 463 | 47 |
| 18/2/11 | Discou | nt Allowed |  |  | (2) 22 | 50 | 440 | 97 |


| Account Name |  | e Sales (1) |  |  | Number |  | 2 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details |  | Dr |  | Cr |  | Balance |  |
|  |  |  | £ | p | £ | p | £ | p |
| 5/2/11 | Cas | Contractor |  |  | (1) 450 | 00 | 450 | 00 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |


| Account Name |  | VAT (1) |  | Number |  |  | 3 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details |  | Dr |  | Cr |  | Balance |  |
|  |  |  | £ | p | £ | p | £ | p |
| 5/2/11 | Cast | Contractors |  |  | (1) 74 | 94 | 74 | 94 |
| 14/2/11 | Cast | Contractors | (1) 11 | 97 |  |  | 62 | 97 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

2. (a) (continued)


| Account Name |  | Bank (1) |  | Number |  |  | 5 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details |  | Dr |  | Cr |  | Balance |  |
|  |  |  | £ | p | £ | p | £ | p |
| 18/2/11 | Cast | Contractors | (1) 327 | 50 |  |  | 327 | 50 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |


| Account Name |  | Discount Allowed (1) |  | Number |  |  | 6 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details |  | Dr |  | Cr |  | Balance |  |
|  |  |  | £ | p | £ | p | £ | p |
| 18/2/11 | Cast | Contractors | (1) 22 | 50 |  |  | 22 | 50 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

2. (continued)
(b) Once the double entry in the ledger of Wholesale DIY is complete, it is important to check the accuracy of the entries before preparing the final accounts.
(i) Explain the meaning of double entry.

- One DR entry and one CR entry (2)
- Corresponding entries on DR and CR (2)
- Example of a transaction (2)
- Each transaction is entered twice (1) in the ledger/ accounts (1)
(ii) State what Wholesale DIY would prepare to check the accuracy of the double entry.
- Trial Balance (2)
(iii) Wholesale DIY is operated by Ritchie Paterson, a sole trader. Name the final accounts that Wholesale DIY would prepare.
- Trading A/c (1)/Profit and Loss A/c (1)
- Balance Sheet (2)
(c) Ritchie Paterson of Wholesale DIY is considering going into partnership with his friend, Bryan Richmond.
(i) State $\mathbf{2}$ advantages of forming a partnership.
- Increased capital (2)/more money in business (1)
- Easier to take time off/holidays (2)
- Shared workload (2) shared decision-making (2) shared losses (2)
- Increased expertise (2)
- Easier to borrow (2)
- Shared debt in event of bankruptcy (2)

Do not Accept - shared debt/less workload; more holidays/time off
(ii) State $\mathbf{2}$ disadvantages of forming a partnership.

- Unlimited liability (2)
- Shared profits (2)
- Disagreements (2)
- Slower decision-making (2)
- Loss of control (2)
- Responsible for partners actions (2)
- Partnership ceases if partner leaves/dies/retires (2)


3. (a) GoodBrand Media plc have forecast the following costs and revenues. Use this information to complete the Cash Budget below.

Bank balance at 1 July $2011 £ 4,000$
Rent
Wages
Advertising

|  | June | July | August |
| :--- | :--- | :--- | :--- |
| Credit Sales | $£ 1,800$ | $£ 2,400$ | $£ 1,500$ |
| Cash Sales | $£ 1,100$ | $£ 1,200$ | $£ 1,500$ |
| Cash Purchases | $£ 1,500$ | $£ 1,300$ | $£ 1,250$ |

- Credit Sales are paid for in the month following sale.
- ICT equipment costing $£ 5,250$ is to be purchased in July. It will be paid for in 3 equal instalments over the period August to October.

CASH BUDGET FOR JULY AND AUGUST 2011



## 3. (continued)

(b) From the descriptions given in the table below, identify the 3 sources of finance which are available to a public limited company.

| Description | Source of Finance |
| :--- | :--- |
| Borrowing specifically for the purchase <br> of property | Mortgage (2) |
| Long-term loans which must be repaid <br> in full at an agreed date | Debentures (2) |
| Short-term borrowing to ease cash flow | Overdraft (2) |

(c) Explain the following terms which may appear in the final accounts of GoodBrand Media plc.
(i) Dividend
Share of profits (1) paid to shareholders (1)
Return on investment (1)
(ii) Wages Accrued
Wages due (1) for the current period (1)
Wages not yet been paid (1)
Liability in the Balance Sheet (1)
(d) The shareholders of GoodBrand Media plc have limited liability. Explain the term 'limited liability'.

- Shareholders loss is limited to their investment (2)
- Shareholders cannot lose their personal possessions (2)
- Shareholders are not personally liable for the debts of the business (2)

| Marks |  |
| :--- | :--- |
| KU | HI |
|  |  |
|  |  |
| 6 |  |

4. (a) Update the Bank Account of Larkside Drama Club on 30 April 2011.

| BANK ACCOUNT |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Date | Details | $\begin{aligned} & \mathrm{Dr} \\ & £ \end{aligned}$ | $\begin{aligned} & \mathrm{Cr} \\ & £ \end{aligned}$ | Balance £ |
| 30 April | Balance | 345.00 |  | (1) 345.00 |
| 30 April | DD - Topdeal Insurance |  | (1) 35.00 | 310.00 |
| 30 April | BGC - Sponsorship | (1) 44.50 |  | 354.50 |
| 30 April | Bank Charges |  | (1) 14.50 | (1) 340.00 |
|  |  |  |  |  |

(b) Complete the Bank Reconciliation Statement below for the month of April, to reconcile the Bank Statement Balance with the updated Bank Account balance.

Bank Reconciliation Statement of Larkside Drama Club as at 30 April 2011

Balance as per (Bank) Statement
(1) 315.00

ADD Amounts not Credited
Donation
(1) 120.00
(1) 435.00

| LESS | Unpresented Cheques <br> Jack Joinery Ltd | (1) 75.00 |  |
| :--- | :--- | ---: | ---: |
|  | (1) 20.00 | 95.00 |  |
| Advertising | (1) 340.00 |  |  |

## OR

Balance as per (updated) Bank Account
(1) 340.00

ADD Unpresented Cheques

Jack Joinery Ltd
Advertising
(1) 75.00
(1) 20.00
95.00
(1) 435.00

## LESS Amounts not Credited

 DonationBalance as per (Bank) Statement
(1) 120.00
(1) 315.00

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

$\qquad$
4. (continued)
(c) Bank Charges are included in the Club's Bank Statement. Give one reason why a bank charges its customers.

- For safe keeping of money/valuables (2)
- For providing services (2)
- Cost of overdraft (2) Overdraft interest (2)
- To make a profit (2)
- Penalty for late payment (2)
- Accept any one example (DD/SO/BGC/cash withdrawals/ deposits/dealing with cheques) for 1 mark maximum

Do not accept "interest" on its own
Do not accept "to make money"
(d) Identify the job title of the member of Larkside Drama Club who would be responsible for preparing the Bank Reconciliation Statement.

- Treasurer

Do not accept Accountant, Secretary
(e) Explain the following terms which relate to not-for-profit organisations.

Deficit - Expenditure greater than income (2); Opposite of surplus (2); Loss in Income/Exp A/c (2)
Loss (1) Like a loss (1)
AGM - Annual General Meeting (1) a meeting that all members can attend (2) office bearers are elected (2) financial statements are presented (2) meeting held annually (1)

Honorarium - Payment/gift to Secretary/Treasurer/Club Official (1) for voluntary work done for club (1) for professional services (1) not a wage (1)

Subscriptions - paid by members (1) monthly or annually (1) to use club facilities (1)/to be a member (1) membership fee (1) main source of income (1)

Max 2 marks per term

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

5. The following financial information has been provided by Steve Samir, a fashion retailer.

Trading and Profit and Loss Account of Steve Samir for the year ended 31 March 2011

|  | £ | £ |
| :---: | :---: | :---: |
| Sales |  | 120,000 |
| less Cost of Goods Sold: |  |  |
| Opening Stock |  | 15,000 |  |
| add Purchases | 58,000 |  |
| Carriage In | 8,000 |  |
|  | 81,000 |  |
| less Closing Stock | 9,000 |  |
| Cost of Goods Sold |  | 72,000 |
| Gross Profit |  | 48,000 |
| less Expenses |  | 33,000 |
| Net Profit |  | £15,000 |

(a) Using the information above, calculate the following.
(i) Rate of Stock Turnover

| 15,000 + 9,000 |  |  | 24,000 | (1) |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 2 |  |  | 2 | (1) | = | £12,000 |
| £72,000 | (1) <br> (1) | $=$ | 6 times | (1) |  | 24 times (4) |
| £12,000 |  |  |  |  |  | 3 times (4) |
|  |  |  |  |  |  | 12 times (3) |

(ii) Gross Profit Percentage

$$
\frac{£ 48,000}{£ 120,000} \text { (1) } \quad \text { (1) } \times \frac{100}{1}=40 \%(1)
$$

(iii) Net Profit Percentage

$$
\frac{£ 15,000}{£ 120,000} \text { (1) } \quad \text { (1) } \times \frac{100}{1}=12.5 \%(1)
$$

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

5. (continued)
(b) Explain the term 'Carriage In' which appears in Steve Samir's Trading Account.

- Cost of transporting purchases (2)
- Cost of transport (1)
- Cost of getting your stock (1)
- Delivery costs (1) Postage (1)
(c) The Rate of Stock Turnover for a similar business to Steve Samir's has increased from 10 times to 12 times. Suggest one reason for this change.
- Changed or improved purchasing policy (2) cheaper supplier (2)
- Advertising (2) Special Offers (2)
- Holding less stock (2)
- Selling more stock (2)
- Selling slow moving items (2) Having a sale (2)
- Increased Sales (2)
- Decrease in selling price (2)
(d) Name 2 other ratios that Steve Samir may decide to calculate.
- Working Capital (Current) Ratio (2)
- Return on Capital Invested/Employed (2)
- Mark up (2)
- Expenses Ratio (2)
- Acid Test Ratio (2)
- Example of an Expense to Sales ratio (2)
(e) Steve Samir's business shows a Net Profit on 31 March 2011. Explain the effect of Net Profit on the capital of the business.
- NP will increase the capital (2)
- NP is added to capital (2)

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

6. (a) Ruben Benito and Charles Moreno are in partnership running a restaurant business.

The following information was taken from the financial records of the partnership on 30 April 2011.

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


|  |  | $\boldsymbol{£}$ |
| :--- | :--- | ---: |
| Capital | Benito | 150,000 |
|  | Moreno | 200,000 |
| Salary | Benito | 8,000 |
|  | Moreno | 10,000 |
| Current Account | Benito | 3,000 |
|  | Moreno | 1,000 |
| Drawings | Moreno | 5,000 |
| Net Profit |  | 42,000 |

NOTE: Profits and losses are to be shared between Benito and Moreno in the ratio 2:1

From the information provided above, select the necessary figures and prepare the Appropriation Account of Benito and Moreno for the year ended 30 April 2011.

Appropriation Account of Benito and Moreno for year ended 30 April 2011

| Net Profit |  |  | (1) | $\underset{42,000}{£}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Less: Salaries - Benito Moreno | (1) <br> (1) | $\begin{array}{r} 8,000 \\ 10,000 \\ \hline \end{array}$ |  | 18,000 |  |
| (Residual Profit) |  |  | (1) | 24,000 |  |
| Share of Profit - Benito Moreno | (2) (2) | $\begin{array}{r} 16,000 \\ 8,000 \\ \hline \end{array}$ |  | 24,000 | 8 |

6. (continued)
(b) Prepare the Current Account of Moreno using the relevant information from part (a) and the Appropriation Account you have just prepared.

| Moreno - Current Account |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Date | Details | $\begin{gathered} \mathrm{Dr} \\ £ \end{gathered}$ | $\begin{aligned} & \mathrm{Cr} \\ & £ \end{aligned}$ | Balance £ |
| 30 April | Balance |  | (1) 1,000 | 1,000 |
|  | Salary |  | (1) 10,000 | 11,000 |
|  | Drawings | (1) 5,000 |  | 6,000 |
|  | Share of Profits |  | (1) 8,000 | 14,000 |

(c) (i) Explain the term Capital Expenditure

- Purchase of fixed assets (2)
- Spending on items which will be used in the business over a long period of time (2)
- Will appear in Balance Sheet (1)
(ii) Give one example of Capital Expenditure
- Purchase of premises/equipment/vehicles (2)
- Repayment of a loan (2)
(iii) Explain the term Revenue Expenditure
- Spending on items which will be used up in current year (2)
- Day-to-day running costs (2)
- Expenses in P \& L A/c (1)
(iv) Give one example of Revenue Expenditure
- Rent (2) Wages (2) insurance (2) advertising (2) etc
- Purchases/Stock (2) General/Misc expenses (2)

NO - Expenses
(d) Explain the following terms which could appear in the final accounts of a business.

Depreciation - reduction in value of a fixed asset (2) due to wear/tear (1)/Expense (1) in P \& L A/c (1)/obsolescence (1)/ damage (1)/age (1).

Bad Debts - Debtors who have become bankrupt (2); debts which cannot be paid (2) debtor who cannot pay (2) written off as an expense in $P$ and $L$ Account (2).

Creditor - Someone the business owes money to (2) a current liability (2) someone the business has bought goods on credit from (2) a liability in the Balance Sheet (2).

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

