

# 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.



No 3354



SAM STENHOUSE 92 Mainsacre Road NAIRN IV12 8YY



To: Middleton plc

48-52 Ythan Street

ELLON AB41 4BB Tel: 01358 702225

VAT No: 8276 0067

**Date:** 28 April 2011

QUANTITY	DESCRIPTION	UNIT PRICE	COST	
10 4	Pasta Bowls Large Platters	£ 8.00 10.00	£ 80.00 40.00	(2) (2)
			120.00	(1)
	Less 5% Trade Discount		6.00	(2)
	Net Goods Value		114.00	(1)
	Add VAT @ 17.5%		19.95	(1)
	TOTAL		£ 133.95	(1)

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1.	(con	tinued)		
	(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)	6	
	(c)	Sam Stenhouse gives Middleton plc a trade discount of 5%. Give <b>2</b> 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 coll more (2)	4	
		To sell more (2)	4	
	(d)	(i) Name the document which Sam Stenhouse would send to Middleton plc at the end of the month.		
		Statement (of Account) (2)	2	
		(ii) Explain why Sam Stenhouse would send this document.		
		<ul> <li>It gives a record of the month's transactions (2)</li> <li>It shows the closing balance (2) <u>OR</u> it shows how much is still owed (2)</li> <li>It shows when payment is due (2)</li> <li>It shows purchases (1) and returns (1)/invoices (1) and credit notes (1)/payments (1)/discounts (1)</li> </ul>	2	
	(e)	State <b>one</b> benefit to Middleton plc of buying goods on credit from Sam Stenhouse.		
		<ul> <li>No need for cash (2)</li> <li>Pay at a later date (2)</li> <li>Pay in instalments (2)</li> <li>Time to sell goods before paying (2)</li> </ul>		
		Improves cash flow (2)	2	

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- **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							
Date	Details	Dr		Cr		Balance	
		£	р	£	р	£	р
1/2/11	Balance	<b>(1)</b> 350	00			350	00
5/2/11	Sales and VAT	<b>(2)</b> 524	94			874	94
14/2/11	Sales Returns and VAT			<b>(2)</b> 83	97	790	97
18/2/11	Bank			<b>(1)</b> 327	50	463	47
18/2/11	Discount Allowed			<b>(2)</b> 22	50	440	97

Account Name Sales (1) Number 2							
Date	Details	Dr		Cr		Balance	
		£ p		£	р	£	р
5/2/11	Castle Contractors			<b>(1)</b> 450	00	450	00

Account Name VAT (1) Number 3							
Date	Details	Dr		Cr		Balance	
		£ p		£	р	£	р
5/2/11	Castle Contractors			<b>(1)</b> 74	94	74	94
14/2/11	Castle Contractors	<b>(1)</b> 11	97			62	97

# 2. (a) (continued)

Account Name Sales Returns (1) Number 4							
Date	Details	Dr		Cr		Balance	
		£ p		£	р	£	р
14/2/11	Castle Contractors	<b>(1)</b> 72	00			72	00

Account Name Bank (1) Number 5							
Date	Details	Dr		Cr		Balance	
		£ p		£	р	£	р
18/2/11	Castle Contractors	<b>(1)</b> 327	50			327	50

Account Na	me Discount Allowe	ed (1)		Numbe	r	6	
Date	Details	Dr	Dr Cr			Balar	ice
		£ p		£	р	£	р
18/2/11	Castle Contractors	<b>(1)</b> 22	50			22	50

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2.	(con	atinued)	KU	HI
	(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 <b>double entry</b> .		
		<ul> <li>One DR entry and one CR entry (2)</li> <li>Corresponding entries on DR and CR (2)</li> <li>Example of a transaction (2)</li> <li>Each transaction is entered twice (1) in the ledger/accounts (1)</li> </ul>	2	
		(ii) State what Wholesale DIY would prepare to <b>check the accuracy</b> of the double entry.		
		Trial Balance (2)	2	
		(iii) Wholesale DIY is operated by Ritchie Paterson, a sole trader. Name the <b>final accounts</b> that Wholesale DIY would prepare.		
		<ul> <li>Trading A/c (1)/Profit and Loss A/c (1)</li> <li>Balance Sheet (2)</li> </ul>	4	
	(c)	Ritchie Paterson of Wholesale DIY is considering going into partnership with his friend, Bryan Richmond.		
		(i) State <b>2 advantages</b> of forming a partnership.		
		<ul> <li>Increased capital (2)/more money in business (1)</li> <li>Easier to take time off/holidays (2)</li> <li>Shared workload (2) shared decision-making (2) shared losses (2)</li> <li>Increased expertise (2)</li> <li>Easier to borrow (2)</li> <li>Shared debt in event of bankruptcy (2)</li> </ul>		
		Do not Accept – shared debt/less workload; more holidays/time off	4	
		(ii) State <b>2 disadvantages</b> of forming a partnership.		
		<ul> <li>Unlimited liability (2)</li> <li>Shared profits (2)</li> <li>Disagreements (2)</li> <li>Slower decision-making (2)</li> <li>Loss of control (2)</li> <li>Responsible for partners actions (2)</li> <li>Partnership ceases if partner leaves/dies/retires (2)</li> </ul>	4	

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3. (a	(a)	GoodBrand Media plo revenues. Use this in below.							
		Bank balance at 1 Jul Rent Wages Advertising	y 20	£1, £9,	,000	per month per annum er month	n paid monthly		
		Credit Sales £	<u>une</u> 1,800 1,100 1,500	) £1,	<b>ly</b> ,400 ,200 ,300	£1,500	0 0		
		Credit Sales are p	aid f	or in the	mon	th followin	g sale.		
		ICT equipment co- will be paid for in 3 to October.							
		CASH BUDGET FOR	JUI	LY AND	AUG	SUST 2011	I		
				July £		August £			
		OPENING BALANCE Receipts	(1)		(1)	3,350			
		Credit Sales	(1)	1,800	(1)	2,400			
		Cash Sales	(1)	1,200	(1)	1,500	<u>-</u>		
				7,000		7,250	_		
		Payments	(4)	4 000	(4)	4.050			
		Purchases	(1)	1,300	(1)	1,250	(1) both figs		
		Rent		1,200		1,200	to be correct		
		Wages		750		750	(2) both figs to be correct		
		Advertising		400		400	(1) both figs to be correct		
		ICT Equipment	(1)	0	(1)	1,750	_		
				3,650		5,350	_		
		CLOSING BALANCE	(1)	3,350	(1)	1,900	-		16
									1

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<ul><li>(b) From the descriptions given in the table below, identify the 3 sources of finance which are available to a public limited company.</li></ul>						
Des	scription		Source of Finance			
		or the purchase	Mortgage (2)			
			Debentures (2)			
Sho	ort-term borrowing to	ease cash flow	Overdraft (2)	6		
			opear in the final			
(i)	Dividend	shareholders (1	)			
(ii)	Wages Accrued	period (1) Wages not yet l	4			
			lc have limited liability			
•	Shareholders canı Shareholders are ı	not lose their per	rsonal possessions (	2) 2		
	Froi sour com  Des  Borr of p  Lon in fu  Sho  (ii)  The Exp	Description Borrowing specifically for property Long-term loans which in full at an agreed date Short-term borrowing to accounts of GoodBrand (i) Dividend  The shareholders of Goest Explain the term 'limited' Shareholders loss Shareholders can	From the descriptions given in the table is sources of finance which are available to company.  Description  Borrowing specifically for the purchase of property  Long-term loans which must be repaid in full at an agreed date  Short-term borrowing to ease cash flow  Explain the following terms which may agaccounts of GoodBrand Media plc.  (i) Dividend Share of profits shareholders (1) Return on investing the shareholders (1) Wages not yet to Liability in the II.  The shareholders of GoodBrand Media period (1) Wages not yet to Liability in the II.  Shareholders loss is limited to the Shareholders cannot lose their perions.	From the descriptions given in the table below, identify the 3 sources of finance which are available to a public limited company.  Description  Borrowing specifically for the purchase of property  Long-term loans which must be repaid in full at an agreed date  Short-term borrowing to ease cash flow  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)  The shareholders of GoodBrand Media plc have limited liability Explain the term 'limited liability'.  Shareholders cannot lose their personal possessions ( Shareholders are not personally liable for the debts of	From the descriptions given in the table below, identify the 3 sources of finance which are available to a public limited company.    Description	

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(a) Up	date the Bank Account of La	arkside Dra	ama Club (	on 30 April	KU	HI
	BANK ACC	TNUC				
Date	Details	Dr £	Cr £	Balance £		
30 April	Balance	345.00	(1) 25 00	(1) 345.00		
30 April	DD – Topdeal Insurance BGC – Sponsorship	(1) 44.50	(1) 35.00	354.50		
30 April	Bank Charges	(1) 11100	(1) 14.50	(1) 340.00		
of Aupo	mplete the Bank Reconciliat April, to reconcile the Bank S dated Bank Account balance nk Reconciliation Stateme 30 April 2011	Statement e.	Balance w	vith the	nth	
Balance	e as per (Bank) Statement  Amounts not Credited			(1) 315.00		
. =00	Donation			(1) 120.00 (1) 435.00		
LESS Balance	Unpresented Cheques Jack Joinery Ltd Advertising as per (updated) Bank A	<u>(1)</u>	75.00 20.00	95.00 (1) 340.00		
OR	,		_			
Balance	e as per (updated) Bank A	ccount		(1) 340.00		
ADD	Unpresented Cheques Jack Joinery Ltd Advertising	· · ·	75.00 20.00	95.00 (1) 435.00		
LESS Balance	Amounts not Credited Donation as per (Bank) Statement			(1) 433.00 (1) 120.00 (1) 315.00		6
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4.	(con	tinued)		
	(c)	Bank Charges are included in the Club's Bank Statement. Give <b>one</b> reason why a bank charges its customers.		
		<ul> <li>For safe keeping of money/valuables (2)</li> <li>For providing services (2)</li> <li>Cost of overdraft (2) Overdraft interest (2)</li> <li>To make a profit (2)</li> <li>Penalty for late payment (2)</li> <li>Accept any one example (DD/SO/BGC/cash withdrawals/deposits/dealing with cheques) for 1 mark maximum</li> </ul>		
		Do not accept "interest" on its own Do not accept "to make money"	2	
	(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	2	
	(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	8	

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The following financial infor	mation has been p	provided by Steve Samir,		
a fashion retailer.	•	,		
Trading and Profit and Lo	ss Account of St	eve Samir for the year		
ended 31 March 2011	00 / 1000 unit 01 01	ovo camin roi ino you.		
	£	£		
Sales	٧	120,000		
less Cost of Goods Sold:				
Opening Stock	15,000			
add Purchases Carriage In	58,000 8,000			
Odinage in	81,000			
less Closing Stock	9,000			
Cost of Goods Sold		72,000		
Gross Profit		48,000		
less Expenses Net Profit		33,000 £15,000		
		~ 10,000		
(a) Using the information	above, calculate t	the following.		
(i) Rate of Stock Tu	ırnover			
15,000 + 9,000		(1) = £12,000		
2	2	(1)		
£72,000 (1)	= 6 times	(1) 24 times (4)		
£12,000 (1)		3 times (4)		
		12 times (3)		
(ii) Gross Profit Per	centage			
£48 000 (1)	100			
£48,000 (1) £120,000 (1)	$x \frac{100}{1} = 4$	40% (1)		
(iii) Net Profit Perce	ntage			
£15,000 (1)	100			
<u>£15,000</u> (1) £120,000 (1)	$x - \frac{100}{1} = \frac{1}{1}$	12.5% (1)		

			Marks		
5.	(conf	inued)	KU	HI	
<b>J.</b>	(b)	Explain the term 'Carriage In' which appears in Steve Samir's Trading Account.			
		<ul> <li>Cost of transporting purchases (2)</li> <li>Cost of transport (1)</li> <li>Cost of getting your stock (1)</li> <li>Delivery costs (1) Postage (1)</li> </ul>	2		
	(c)	The Rate of Stock Turnover for a similar business to Steve Samir's has increased from 10 times to 12 times. Suggest <b>one</b> reason for this change.			
	(d)	<ul> <li>Changed or improved purchasing policy (2) cheaper supplier (2)</li> <li>Advertising (2) Special Offers (2)</li> <li>Holding less stock (2)</li> <li>Selling more stock (2)</li> <li>Selling slow moving items (2) Having a sale (2)</li> <li>Increased Sales (2)</li> <li>Decrease in selling price (2)</li> </ul> Name 2 other ratios that Steve Samir may decide to calculate.	2		
		<ul> <li>Working Capital (Current) Ratio (2)</li> <li>Return on Capital Invested/Employed (2)</li> <li>Mark up (2)</li> <li>Expenses Ratio (2)</li> <li>Acid Test Ratio (2)</li> <li>Example of an Expense to Sales ratio (2)</li> </ul>	4		
	(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.			
		<ul> <li>NP will increase the capital (2)</li> <li>NP is added to capital (2)</li> </ul>	2		

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6.	(a)	(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.							
			£						
		Capital	Benito Moreno		150,000 200,000				
		Salary	Benito Moreno	)	8,000 10,000				
		Current Account	Benito Moreno	)	3,000 1,000				
		Drawings	Moreno	)	5,000				
		Net Profit			42,000				
		NOTE: Profits and Moreno in the ratio	: Profits and losses are to be shared between Benito and o 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 Ac 30 April 2011	count of	Benito	o and More	eno for	year ended		
		Net Profit			£	(1)	£ 42,000		
		Less: Salaries – E	Benito Moreno	(1) (1)	8,000 10,000	_	18,000		
		(Residual Profit)				(1)	24,000		
		Share of Profit – I	Benito Moreno	(2) (2)	16,000 8,000	_	24,000		8

		Marks						
lcon	tinued	`					KU	HI
(b)	Prepa inforn	are th	ne Current Account on from part (a) and to prepared.		•			
	More	no –						
	Dat	te	Details	Dr	Cr	Balance		
				£	£	£		
	30 A <sub>l</sub>	pril	Balance Salary		(1) 1,000 (1) 10,000	1,000 11,000		
			Drawings	(1) 5,000	(1) 10,000	6,000		
			Share of Profits		(1) 8,000	14,000		4
(c)	<ul> <li>(i) Explain the term Capital Expenditure</li> <li>Purchase of fixed assets (2)</li> <li>Spending on items which will be used in the business over a long period of time (2)</li> <li>Will appear in Balance Sheet (1)</li> </ul>						2	
	(ii)	Giv	e <b>one</b> example of C	apital Expe	enditure			
	<ul> <li>Purchase of premises/equipment/vehicles (2)</li> <li>Repayment of a loan (2)</li> </ul>							
	(iii)	Exp						
		<ul> <li>Explain the term Revenue Expenditure</li> <li>Spending on items which will be used up in current year (2)</li> <li>Day-to-day running costs (2)</li> <li>Expenses in P &amp; L A/c (1)</li> </ul>						
	(iv)	Giv	e <b>one</b> example of R	evenue Ex	penditure			
(d)	Evols		Rent (2) Wages (2) Purchases/Stock ( - Expenses e following terms wh	2) Genera	I/Misc expe	enses (2)	2	
(u)			of a business.	iicii codia a	арреаг пт пт	z IIIIai		
	Depreciation – reduction in value of a <u>fixed</u> 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).							
	Credi curre good	2						