



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.

<h1 style="margin: 0;">INVOICE</h1>		No 3354
	<p>SAM STENHOUSE 92 Mainsacre Road NAIRN IV12 8YY</p>	
<p>To: Middleton plc 48-52 Ythan Street ELLON AB41 4BB</p>	<p>Tel: 01358 702225</p> <p>VAT No: 8276 0067</p> <p>Date: 28 April 2011</p>	

QUANTITY	DESCRIPTION	UNIT PRICE	COST	
		£	£	
10	Pasta Bowls	8.00	80.00	(2)
4	Large Platters	10.00	40.00	(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. (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)

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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		<u>Castle Contractors (1)</u>		Number		<u>1</u>	
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
1/2/11	Balance	(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	Discount Allowed			(2) 22	50	440	97

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

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

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2. (a) (continued)

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

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

Account Name		<u>Discount Allowed (1)</u>		Number		6	
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
18/2/11	Castle Contractors	(1) 22	50			22	50

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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)**

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(ii) State what Wholesale DIY would prepare to **check the accuracy** of the double entry.

- **Trial Balance (2)**

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(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)**

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(c) Ritchie Paterson of Wholesale DIY is considering going into partnership with his friend, Bryan Richmond.

(i) State **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

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(ii) State **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)**

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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 of property	Mortgage (2)
Long-term loans which must be repaid 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)**

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

BANK ACCOUNT				
Date	Details	Dr £	Cr £	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 <u>Amounts not Credited</u>		
Donation		(1) 120.00
		<u>(1) 435.00</u>
LESS <u>Unpresented Cheques</u>		
Jack Joinery Ltd	(1) 75.00	
Advertising	(1) 20.00	95.00
Balance as per (updated) Bank Account		<u>(1) 340.00</u>

OR

Balance as per (updated) Bank Account		(1) 340.00
ADD <u>Unpresented Cheques</u>		
Jack Joinery Ltd	(1) 75.00	
Advertising	(1) 20.00	95.00
		<u>(1) 435.00</u>
LESS <u>Amounts not Credited</u>		
Donation		(1) 120.00
Balance as per (Bank) Statement		<u>(1) 315.00</u>

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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

$$\frac{15,000 + 9,000}{2} = \frac{24,000}{2} = \text{£12,000}$$

$$\frac{\text{£72,000}}{\text{£12,000}} = 6 \text{ times}$$

(1) = 24 times (4)
 (1) = 3 times (4)
 (1) = 12 times (3)

- (ii) Gross Profit Percentage

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

- (iii) Net Profit Percentage

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

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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)**

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