## 2012 Accounting and Finance

## Standard Grade General - Solutions

## Finalised Marking Instructions

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1. The Cookware Shop, owned by Sue Baker and Rachel Owen, returned the following goods which had been bought on credit from Kitchen Supplies.

1 Food Mixer @ £125
5 China Teapots @ £28 each
$15 \%$ Trade Discount is allowed on all orders.
Total VAT for the goods is $£ 45.05$
(a) Complete the Credit Note below that Kitchen Supplies would send to The Cookware Shop.


## 1. (continued)

(b) Name the accounts used to record the Credit Note in the ledger of Kitchen Supplies.

- Sales Returns (2)
- VAT (2)
- The Cookware Shop (2)
(c) What type of business organisation is The Cookware Shop?


## Partnership (2)/partners (2)

(d) Sue and Rachel would like to expand the business by opening another shop. Name 3 sources of finance which would help them to do this.

- (Bank) Loan (2)
- Mortgage (2)
- Grant (2)
- Additional partners (2)
- Ploughing back profits (2)
- Introduce more capital or personal savings (2)
- Venture capital (2)
- Form a plc (2)
- Form a private limited company (2)
- Selling assets no longer required (2)
(Any 3 sources $\mathbf{x} 2$ marks)

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

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

Ledger of Ricky Watson

| Account Name | Bank (0) |  | Number |  |  | 1 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |
|  |  | £ | p | £ | p | £ | p |
| 1/4/2012 | Balance | 1,500 | 00 (0) |  |  | 1,500 | 00 |
| 14/4/2012 | Caravan Supplies |  |  | (2) 795 | 00 | 705 | 00 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |


| Account Name | Purchases (1) |  | Number |  |  | 2 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |
|  |  | £ | p | £ | p | £ | p |
| 2/4/2012 | Caravan Supplies | 1,210 | 00 (2) |  |  | 1,210 | 00 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |


| Account Name | VAT (1) |  | Number |  |  | 3 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |
|  |  | £ | p | £ | p | £ | p |
| 2/4/2012 | Caravan Supplies | 242 | 00 (2) |  |  | 242 | 00 |
| 9/4/2012 | Caravan Supplies |  |  | (2) 100 | 00 | 142 | 00 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

2. (a) (continued)

| Account Name | Caravan Supplies (1) |  |  | Number |  | 4 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |
|  |  | £ | p | $\Sigma$ | p | £ | p |
| 2/4/2012 | Purchases \& VAT |  |  | (2)1,452 | 00 | 1,452 | 00 |
| 9/4/2012 | Purchase Returns \& VAT | 600 | 00 | (2) |  | 852 | 00 |
| 14/4/2012 | Bank | 795 | 00 | (2) |  | 57 | 00 |
| 14/4/2012 | Discount Received | 57 | 00 | (2) |  | 00 | 00 |
|  |  |  |  |  |  |  |  |


| Account Name | Purchase Returns (1) |  |  | Number |  | 5 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |
|  |  | £ | p | £ | p | £ | p |
| 9/4/2012 | Caravan Supplies |  | (2) | 500 | 00 | 500 | 00 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |


| Account Name | Discount Received (1) |  |  | Number |  | 6 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Date | Details | Dr |  | Cr |  | Balance |  |
|  |  | £ | p | £ | p | £ | p |
| 14/4/2012 | Caravan Supplies |  |  | (2) 57 | 00 | 57 | 00 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

2. (continued)
(b) Ricky Watson is a sole trader. Suggest 2 advantages and 2 disadvantages of this type of organisation.

Advantages

- Keeps all profits (2)
- Makes all decisions/own boss/total control/no arguments (2)
- Easy to set up (2)
- Quicker decision making (2)
(Any 2 advantages $\mathbf{x} 2$ marks)
Disadvantages
- Unlimited liability/liable for all debts (2)
- Responsible for all losses (2)
- Limited capital (2)/knowledge/expertise (2)
- Difficult to get time off (2)
- Heavy workload (2)
(Any 2 disadvantages $\mathbf{x} 2$ marks)
(c) Ricky buys his stock on credit. Suggest one benefit of doing this.
- Pay at a later date (2)/pay in instalments (2)/helps cash flow (2)/ have money to spend on other things (2)
- No need for cash (2)
- Time to sell before paying (2)
(Any 1 benefit - $\mathbf{2}$ marks)
(d) Caravan Supplies send Ricky a document every month detailing all the transactions between them that month. State the name of this document.

Statement (of Account) (2)
(e) Explain the meaning of the following items which appear in Ricky's Trading, Profit and Loss Accounts.

Carriage In Amount paid to have purchases/stock delivered to you (2) Delivery charge (2)

Bad Debts Debts owed (1) to a business it will not receive (1)/written off (1)/not paid (1)

Depreciation Reduction in the value of a fixed asset (2)

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

3. (a) Using the information below, complete the following Trial Balance for Sam Buckley, a sole trader, on 30 April 2012.

|  |  |  |  |
| :--- | ---: | :--- | ---: |
| Debtors | $£ 4,490$ | Discount Received | $£ 260$ |
| Advertising | $£ 1,250$ | Vehicles | $£ 12,000$ |
| Sales | $£ 29,710$ | Loan | $£ 3,000$ |
| Creditors | $£ 3,900$ | Drawings | $£ 5,400$ |
| Sales Returns | $£ 650$ | Carriage In | $£ 700$ |
| Capital | $£ 5,840$ | Purchases | $£ 18,220$ |


3. (continued)
(b) Sam has received cash discount from one of his suppliers. Suggest one reason for this.

- Prompt payment (2)
- Paying his bill within a certain time (2)
(Any 1 reason - 2 marks)
(c) Explain the account term "drawings".

Money or goods taken out of the business by the owner for their own personal use (2)
(d) Sam is Treasurer of the local bowling club. Name this type of organisation.

## Not-for-Profit (2)

(e) Identify the financial statement which Sam would prepare each month to check the club's bank account balance.

Bank Reconciliation (Statement) (2)
(f) Explain the following terms.

Subscriptions The amount paid by members (1) to use the club's facilities (1)/to be a member
(1)/membership fee (1)/normally main source of club income (1)
(Any 2 points $\mathbf{x} 1$ mark each)
Accumulated Fund

- What the club is worth (2)
- Similar to capital (2)
- Assets - Liabilities (2)
(Any 1 explanation - 2 marks)

4. Westend plc sells supplies to Health Food Shops throughout the UK. The following information is for the year ended 31 March 2012.

Net Profit

## £

Issued Capital -
50,000 8\% £1 Preference Shares 50,000
100,000 £1 Ordinary Shares 100,000

12\% Debentures 2020
60,000
Unappropriated Profit at 1 April 2011
3,000
Creditors
2,000
Bank Overdraft
3,000

## Notes:

The directors decided the following on 31 March 2012 :

- to pay the preference share dividend;
- to pay an ordinary share dividend of $6 \%$.
(a) Prepare the Appropriation Account below for Westend plc for the year ended 31 March 2012.


## Westend plc

Appropriation Account for the year ended 31 March 2012

4. (continued)
(b) Select the information from the previous page and prepare the "Financed By" section of Westend plc's Balance Sheet as at 31 March 2012.

## Westend plc

Balance Sheet (extract) as at 31 March 2012
Financed by:

|  | $£$ | £ |  |
| :---: | :---: | :---: | :---: |
| 100,000 £1 Ordinary Shares |  | 100,000 | (1) |
| 50,000 8\% Preference Shares |  | 50,000 | (1) |
| Add Unappropriated Profit |  | $\begin{array}{r} 150,000 \\ 27,000 \end{array}$ | (1) |
|  |  | 177,000 |  |
| Add Long Term Liabilities |  |  |  |
| 12\% Debentures |  | 60,000 | (1) |
|  |  | 237,000 | (1) |

4. (continued)
(c) Who owns Westend plc?

Shareholders
(d) Who is responsible for the day-to-day running of Westend plc?

Managing Director (2)/Chief Executive (2)/General Manager (2)
NOT Board of Directors/Directors/Chairman/Managers
(Any one - 2 marks)
(e) Explain what is meant by limited liability in relation to a plc.

Shareholders can only lose the money they invested (2)/
Shareholders cannot lose their personal possessions (2)
(Any one - 2 marks)
(f) Explain 2 main differences between debentures and ordinary shares.

| Debentures | Ordinary Shares |
| :--- | :--- |
| Interest (1) | Dividend (1) |
| Fixed (1) | Variable (1) |
| Loan (1) | Ownership (1) |
| Less risky (1) | Greater risk (1) |
| Priority repayment (1) | Not repaid (1) |
| No voting rights (1) | Voting rights (1) |

(Both differences must be explained to gain both marks)
(Only one mark if only one difference explained)
(2 differences $\mathbf{x} 2$ marks)
Max 2 marks for Debentures
Max 2 marks for Ordinary Shares

5. Mary Moffat, a sole trader, provides the following financial information.

| Turnover | $£ 160,000$ |
| :--- | ---: |
| Net Profit | $£ 48,000$ |
| Opening Capital | $£ 240,000$ |
| Current Assets | $£ 2,500$ |
| Drawings | $£ 20,000$ |
| Closing Capital | $£ 28,000$ |
| Current Liabilities | $£ 40,000$ |
| Mortgage |  |

(a) Calculate Mary's Working Capital Ratio.

| CA | $: c$ |  |
| :---: | :--- | :--- |
| $52,500(1)$ |  | $21,000(1)$ |
| 2.5 | $:$ | $1(1)$ |
| Accept | 1 | $: 04$ |

(b) Calculate Mary's Return on Capital Invested.
$\frac{\text { Net Profit }}{\text { Opening Capital }} \times \frac{100}{1}=\frac{48,000}{240,000}$ (1) $\times \frac{100}{1}$ $=20 \%$
(1)
5. (continued)
(c) Name $\mathbf{2}$ other ratios that Mary may calculate from her final accounts.

- Rate of Stock Turnover (2)
- Net Profit \% (2)
- Gross Profit \% (2)
- Expenses Ratio (2)
- Acid Test Ratio (2)
- Mark-up (2)
(Any 2 ratios $\mathbf{x} 2$ marks)
(d) State $\mathbf{2}$ reasons why Mary calculates accounting ratios.
- To compare with previous years (2)
- To compare with other businesses (2)
- To compare with the industry average (2)
- To see how well the business is doing (2)
- Future planning (2)
(Any 2 reasons x 2 marks)
(e) Suggest 2 reasons why Mary's closing capital might be less than her opening capital.
- Drawings are more than the net profit (2)
- Too many drawings/drawings too high (1)
- She has made a loss (2)
- She has withdrawn capital (2)
- Withdrawn money to invest elsewhere (1)
- Lost money (0)
(Any 2 reasons x 2 marks)
(f) (i) Explain the difference between Current Liabilities and Long-term Liabilities.

Current Liability - money owed to be repaid within one year (1)
Long-term Liability - money owed to be repaid over several years (1)
(ii) Give one example of each.

Current Liability creditors/(bank) overdraft/accruals/VAT (1)
(One example - 1 mark)
Long-term Liability loan/mortgage/debentures (1)
(One example - 1 mark)
5. (continued)
(g) (i) Explain the difference between a Fixed Asset and a Current Asset.

- Fixed assets will normally last more than one year (1)
- Current assets will normally last for less than one year (1)
- Current assets can change value on a daily basis (1)
- Fixed assets will not change value on a daily basis (1)

Must refer to Fixed and Current Assets to get 2 marks
(ii) Give one example of each.

Fixed Asset premises/machinery/equipment/vehicle/ fixtures/fittings (1)
(One example - 1 mark)
$\begin{array}{ll}\text { Current Asset } & \begin{array}{l}\text { stock/debtors/bank/cash/prepayments/ } \\ \text { VAT (1) }\end{array}\end{array}$
(One example - 1 mark)

6 Anne Cunningham proposes to make and sell hand-painted jewellery boxes. She - has provided the following information.

Fixed Costs $£ 500$
Variable Costs $£ 5$ per unit
Selling Price $£ 10$ per unit
(a) Using the information above complete the following table.

| Units | Fixed Costs |  | Variable Costs |  | Revenue |  | Profit/Loss |  |
| :---: | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :---: |
| 0 | $£ 500 \quad$ (1) | 0 | $\mathbf{( 1 )}$ | 0 | $\mathbf{( 1 )}$ | $(£ 500)$ | $\mathbf{( 1 )}$ |  |
| 50 | $£ 500$ |  | $£ 250$ | $\mathbf{( 1 )}$ | $£ 500$ | $\mathbf{( 1 )}$ | $(£ 250)$ |  |
| 100 | $£ 500$ |  |  |  |  |  |  |  |
| 150 | $£ 500$ |  | $£ 500$ | $\mathbf{( 1 )}$ | $£ 1,000$ | $\mathbf{( 1 )}$ | - |  |

(b) How many units must Anne sell to break even?

100 units
(c) Explain the meaning of the following terms and give one example of each.
(i) Fixed Costs Costs remain the same/do not vary (1) as output/sales change (1)
(2 marks max)
Example
Rent (1)/rates (1)/wages (1)/depreciation (1)
(One example - 1 mark)
(ii) Variable Costs

Cost changes/alters (1) as the output/sales change (1)/costs which are not fixed (1)
(2 marks max)
Example
materials (1)/royalties (1)
(One example - 1 mark)
Note - accept wages in either but if in both award 1 mark only

- accept salaries as a fixed cost (1) and wages as a variable cost (1) ie award 2 marks
$\square$

