

2005 Accounting and Finance

Standard Grade – General

Finalised Marking Instructions

These Marking Instructions have been prepared by Examination Teams for use by SQA Appointed Markers when marking External Course Assessments.

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Question 1 continued

- (d) Mark as per solution – any valid advantage
- (e) Mark as per solution – **must** refer to lack of change **or** time scale **and** level of production to gain full award – if only one of above
Any example of a Fixed Asset – award **one** mark
- (f) Mark as per solution – any 2 valid advantages and disadvantages

Award Marks Lost	Penalties
accept	
2	
accept	

Question 2

(* CONSEQUENTIALITY APPLIES THROUGHOUT QUESTION)

(a) Mark as per solution

Qty to Cost columns – one item wrong
two or more items wrong

Any sub total wrong or missing

Trade discount – wrong*
missing
if added

VAT – **must be as given** – wrong or missing
if subtracted

Total wrong or missing

(b) (i) Mark as per solution

Any Account wrong/missing

More than **3** Accounts

(ii) Mark as per solution

Any Account wrong/missing

More than **3** Accounts

(c) Mark as per solution

Any valid reasons

(d) (i) Right or wrong – if wrong

If shareholders/members (anything else)

Shareholders **must** be mentioned to gain award

(ii) Mark as per solution

Any 3 valid differences

Award Marks Lost	Penalties
one each line 2 each line	
lose award	
one 2 lose NGV award	
1 lose final Total award	
lose award	
lose award	1 each time
lose award	1 each time
accept	
lose award	-1
accept	

Question 3

(a) Mark as per solution

Dates wrong or missing

Nomenclature wrong or missing

Accept any reasonable nomenclature

IGNORE FIGURES IN THE BALANCE COLUMN

DO NOT PENALISE NOMENCLATURE IF
CONSEQUENTIAL ON TRANSACTION

Mark nameless accounts if identifiable by figures

If accounts **completely** reversed:
AWARD half marks (max = 13 - 5 marks for account
names and eight marks for entries)

If one entry correct mark as per solution
A Quinn A/c – 24/2 Sales £42.40 – award one mark
VAT £7.42 – award one mark
27/2 Sales Returns £5.60 – award one mark
VAT £0.98 – award one mark

**If Sales (24/2) treated as Purchases lose awards for
Sales, VAT and A Quinn**

If Sales Returns (27/2) treated as Purchase Returns – award
consequential marks if Sales (24/2) treated as Purchases
Bad Debts may be consequential – award marks accordingly
Any extra transactions

(b) Right or wrong – if wrong

(c) Mark as per solution. Any 2 valid advantages

(d) Mark as per solution. Any 3 valid sources

(e) (i) Mark as per solution. Any 2 valid differences

(ii) Any valid Fixed and Current Asset

Award Marks Lost	Penalties
	-1 (max)
	-1 (max)
-6	
	- 2 each time
lose award	
accept	
accept	
accept	
accept	

Question 4

(a) Mark as per solution

If any entry wrong or missing

Any two totals – award mark

BOTH totals must be consequentially correct to gain final mark (**do not** need to be equal)

(b) Mark as per solution. Any 2 valid reasons

(c) (i) 2 marks for Affect
&

(ii) 2 marks for Reason

Any missing or wrong

Award Marks Lost	Penalties
lose award each time	
accept	
lose award	

Question 5

(a) Mark as per solution

Extra entries

Furniture & Fittings – if £65,000 – award one mark
 if £82,500 – award 2 marks
 £47,500 – award 3 marks

No need for Working Capital Label

If total of CA or CL wrong

If Current Liabilities added to Current Assets

If NP deducted from Op Capital

If Drawings added

Both totals must be entered to get the Final Total award
 (they do not need to agree)

If arithmetically wrong

(b) Mark as per solution. Any valid explanation

(c) Explanation MUST include **fall in value of FA OR reason for depreciation**

Award Marks Lost	Penalties
	-1
-2	
-1	
lose Working Capital award	
lose Working Capital award	
lose NP award	
lose Drawings award	
Lose award	
accept	

Question 6

- (a) (i) Mark as per solution
 &
 (ii) One constituent part of each ratio must be correct to gain consequential marks for answer
- Answer to R of ST may be consequential on Av St calculation – if so
- (b) Mark as per solution. Any 2 valid reasons
 Also **accept** specific reason for each ratio
- (c) Mark as per solution. Any valid suggestion
- (d) Mark as per solution. Any valid meaning
- (e) Mark as per solution. Any valid explanation
- (f) Right or wrong – if wrong

Award Marks Lost	Penalties
accept	
accept	
accept	
accept	
accept	
lose award	

[END OF MARKING INSTRUCTIONS]

2005 Accounting and Finance

Standard Grade – General Solutions

Finalised Marking Instructions

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Marks

	KU	HI
1.		
(a)	5	
(b)	5	
(c)	4	

1. Ava and Mathew are in partnership. They buy in toy rabbits and sell them as Easter Bunnies.

Here are their estimated costs for the month of April 2005:

Costs per Easter Bunny

Cost of Rabbit	£2.50
Decoration	£0.25
Packaging	£0.25

Additional Monthly Costs

Rent of Premises	£500
Heat & Light	£100
Staff Wages	£600

Ava and Mathew are planning to sell the Easter Bunnies at £5 each and want you to calculate the following:

- (a) The Contribution from the sale of each Easter Bunny

Selling Price - Variable costs = Contribution per Bunny

$$\boxed{5} - \boxed{3} = \boxed{2}$$

(1) (3) (1)

- (b) The number of Easter Bunnies that need to be sold to Break Even

Fixed Costs

Contribution per Unit = Break Even Point

$$\frac{\boxed{1,200}}{\boxed{2}} = \boxed{600}$$

(3) arithmetic error -1 (eg 120 or 12000) (1)

(1)

- (c) The profit they will make if they sell 1,000 Easter Bunnies

$$\left(\begin{array}{l} \text{Total Number} \\ \text{Sold} \end{array} - \begin{array}{l} \text{Break Even} \\ \text{Sales} \end{array} \right) \times \text{Contribution} = \text{Profit}$$

$$\left(\boxed{1,000} - \boxed{600} \right) \times \boxed{2} = \boxed{£800}$$

(1) (1) (1) (1)

		Marks	KU	HI
1.	(continued)			
	(d) State one advantage of preparing a Break Even Chart.			
	You can immediately see the BEP (2) / (2) profit / loss (2) at various levels			
	Little a/c knowledge required to find BEP/ You can find out how many to make a profit/ cover costs	2		
	(e) Explain the meaning of the term Fixed Costs .			
	Costs which do not vary/stay (2) the same even when the level of production/sales (2) changes			
	Costs which do not vary in the short term			
	1 mark for example	4		
	(f) Suggest 2 advantages and 2 disadvantages of being in a Partnership rather than being a Sole Trader.			
	ADVANTAGES			
	(i) Share of losses / workload / responsibility / decision-making / liabilities / debts easier to take time off / greater borrowing power / increased capital / expertise potential customer base			
	(ii) Any 2 – (2) each			
	DISADVANTAGES			
	(i) Loss of control / not own boss / shared profits / lack of compatibility / problems of death or retirement disagreements / responsible for partners actions / slower decisions / half or equal profits = 1Mk One partner takes too much in drawings			
	(ii) Any 2 – (2) each			

Marks

KU	HI

3. (a) Using the Document Pack provided make the necessary entries in the ledger accounts of A Mundt.

Ledger of A Mundt

Account Name		<u>SALES (1)</u>				<u>Number</u>	
Date	Details	Dr		Cr		Balance	
2005		£	p	£	p	£	p
24/2	A Quinn		(2)	42	00	42	00 cr

Account Name		<u>VAT (1)</u>				<u>Number</u>	
Date	Details	Dr		Cr		Balance	
2005		£	p	£	p	£	p
24/2	A Quinn			(2) 7	42	7	42 cr
27/2	A Quinn	(2)	0 98			6	44 cr

3. (a) (continued)

Marks

KU HI

Account Name		<u>A QUINN (1)</u>				Number	
Date	Details	Dr		Cr		Balance	
2005		£	p	£	p	£	p
24/2	Sales & VAT	(2) 49	82			49	82 dr
27/2	Sales Ret. & VAT			(2) 6	58	43	24 dr
1/3	Bad Debts			(2) 43	24	 	

Account Name		<u>SALES RETURNS (1)</u>				Number	
Date	Details	Dr		Cr		Balance	
2005		£	p	£	p	£	p
27/2	A Quinn	(2) 5	60			5	60 dr

Account Name		<u>BAD DEBTS (1)</u>				Number	
Date	Details	Dr		Cr		Balance	
2005		£	p	£	p	£	p
1/3	A Quinn	(2) 43	24			43	24 dr

3. (continued)

- (b) A Mundt is concerned about the time it is taking his debtors to pay him. Suggest how he could encourage them to pay quicker.

By offering Cash Discount 2
OR imply prompt payment

- (c) Suggest 2 advantages to A Mundt of preparing a Cash Budget.

- *You can clearly see the closing Cash Balance
- *You can predict cash shortages and arrange an overdraft/ loan
- *You can predict a cash surplus and arrange the purchase of Fixed Assets/payment of debts
- *Helps with future planning

Any 2 – (2) each

- (d) A Mundt is considering expanding his business by buying a new shop. As a Sole Trader, name 3 sources of finance available to A Mundt.

- *Family & Friends
- *Loans / Mortgage
- *Form Partnership / Form plc (and sell shares)

Any 2 – (2) each

- (e) (i) Explain the difference between Fixed Assets and Current Assets. ***NOT price or cost**

- *A Fixed Asset won't change value on a daily basis (2)
- *A Fixed Asset will normally last more than one year (2)
- *Current Assets can change value on a daily basis (2)
- *Current Assets are in the form of cash or easily convertible

Any 2 – (2) each
2 marks for reference to time scale / 2 marks for reference to change n value

- (ii) Give **one** example of each.

Fixed Asset Equipment (2) House

Current Asset Cash (2)

Marks	KU	HI
6		
4		
4		

4. (continued)

(b) Suggest 2 reasons why KB Electronics plc would prepare a Trial Balance at the end of the financial period.

- 1 To check that DR = CR
Check ledger accuracy = 1 mark
To check the accuracy of the double entry
Arithmetic check
- 2 As an aid to the preparation of Final A/c's
- Any 2 – (2) each

Marks	KU	HI
4		
4		
4		

(c) On checking their records KB Electronics plc **corrected** the following errors:

(i) A purchase of new fittings costing £500 had been entered in the Purchases Account.

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

No effect

Give a reason for your answer.

The entry is moved from the Dr of Purchases to the Dr of Fittings (same side of TB)

(ii) No entries had been made in the ledger regarding the sale of goods for £25, paid by cheque.

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

Increase both by £25

Give a reason for your answer.

Both sides would get an extra entry
Dr Bank/Cr Sales

		Marks	KU	HI
5.	The following balances were extracted from the ledger of Ken Brown, a Sole Trader, after completion of his Trading, Profit & Loss Account:			
Drawings	£1,250			
Creditors	£3,000			
Stock 31/03/05	£2,560			
Capital	£44,805			
Expenses Owing	£450			
Net Profit	£4,800			
Furniture & Fittings at Cost	£65,000			
Depreciation of Furniture & Fittings	£17,500			
Bank	£1,745			
(a)	Using the above information, prepare the Balance Sheet of Ken Brown on the following page.			

5. (continued)

Balance Sheet of Ken Brown as at 31 March 2005

	£	£	£
FIXED ASSETS	COST	DEP	B/V
Furniture & Fittings	(1) <u>65,000</u>	(1) <u>17,500</u>	(1) 47,500
CURRENT ASSETS			
Stock	(1) 2,560		
Bank	(1) <u>1,745</u>	4,305	
LESS CURRENT LIABILITIES			
Creditors	(1) 3,000		
Accrued Expenses	(1) <u>450</u>	<u>3,450</u>	
WORKING CAPITAL			(1) <u>855</u>
			<u>48,355</u>
FINANCED BY			
Capital	(1) 44,805		(1)
ADD Net Profit	(1) <u>4,800</u>	49,605	
LESS Drawings		(1) <u>1,250</u>	↓
			<u>48,355</u>

Marks

	KU	HI
12		
2		
2		

(b) Explain the meaning of “Expenses Owing”

Amount still due / outstanding / accrued / in arrears / unpaid (2)

The full amount has not been paid (for the accounting period) (2)

Amount owing has to be added to amount paid to get the correct figure (2)

(c) Explain the meaning of the term “Depreciation”

The gradual fall in VALUE of FIXED ASSETS (2) due to WEAR & TEAR, AGE, ETC (2)

		Marks	KU	HI
6.	The following Bar Trading Account was prepared by the Treasurer of the Blue Whale Preservation Society:			
Blue Whale Preservation Society				
Bar Trading Account				
For year ended 31 December 2004		£	£	
	Sales		60,000	
LESS: COST OF SALES				
	Opening Stock	4,200		
	ADD: Purchases	45,200		
	Carriage In	<u>400</u>		
		49,800		
	LESS: Closing Stock	<u>4,800</u>	<u>45,000</u>	
	Gross Profit		<u><u>15,000</u></u>	
(a)	Based on the above, calculate the following ratios:			
(i)	The Gross Profit Percentage			
	Gross Profit x 100			
	Sales			
	(1) 15,000 x 100			
	(1) 60,000 = 25% (1)			
			3	
(ii)	The Rate of Stock Turnover			
	Cost of Sales = (1) 45,000 = 10 times (1)			
	Average Stock* (3) 4,500			
	*Average Stock = (op st + cl st)/2			
	= (4,200+4,800)/2			
	= 9,000/2 = 4,500			
	5 times (4) / 11.1 times (4) / 13.3 times (4)			
	5.5 times (3) / 6.6 times (3)		5	

		Marks	KU	HI
6. (continued)				
(b)	Suggest 2 reasons why the club calculates these ratios.			
	* To compare with other years (2)/clubs (2)/ the industry average (2)/budgets or targets (2)			
	* To see how well the business is doing (2)			
	* To highlight areas of concern (2)			
	Any 2 – (2) each			
	Specific reasons for GP% or ROST – Accept	4		
(c)	Suggest one way of improving the Rate of Stock Turnover Ratio.			
	Advertising (2) / Improve purchasing policy (2)			
	Hold less stock (2) / Remove / sell slow moving items (2)			
	Increase sales / special offers / sell more stock / decrease SP / have a sale / diversity / cheaper supplier			
	Any 2 – (2) each	2		
(d)	Explain the meaning of “Carriage In”			
	<u>Carriage is the cost of transport (1) therefore</u>			
	<u>(Carriage In is cost of) transporting Purchases (2)</u>	2		
	Transport = (1) / Purchases = (1)			
(e)	The Treasurer may receive an Honorarium from the club. What is an Honorarium?			
	*NOT money / wage / salary			
	<u>A GIFT* (1) given to a VOLUNTARY (1) worker</u>			
	<u>as a THANKYOU (1) for work done/services</u>	2		
	Money given to treasurer = no marks			
(f)	Which account will the Treasurer produce to calculate the Closing Cash/Bank figure?			
	<u>Receipts & Payments A/c (2) NOT cash budget</u>	1		

[END OF QUESTION PAPER]