

2006 Accounting & Finance

Standard Grade – Credit

Solutions

Finalised Marking Instructions

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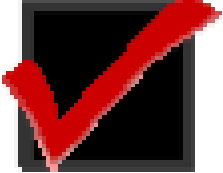

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Question 1

(a)

Credit Note			
		No: CN279	
		First for Floors 17 Castle Street Inverness IV1 3AG	
		 10 March 2006	
Highland Homes Ltd 81 Manor Road TAIN IV19 6RS		VAT No: 96552820 Tel No: 01463 863942 e-mail: firstforfloors@hotmail.com	
Quantity	Description	Unit Price £	Cost £
8 packs	Cherry Laminate Flooring	27.50	220.00 (1)
3 packs	Italiano Floor Tiles	45.00	135.00 (1)
			355.00
	Less 20% Trade Discount		71.00 (2)
	Net Goods Value		284.00
	Add 17.5% VAT		44.73 (3)
	Total Value		£328.73 (1)

VAT calculation: £284 - £28.40 (1) = £255.60 (1) x 17.5% = £44.73 (1)

HI 8

(b) Statement of Account (2)

- Shows amount owing at the end of month
- Shows details of all transactions during month (invoices, credit notes, payments, discounts etc)
- Shows opening/closing balances

Document – 2 marks

Any valid explanation – 2 marks

KU 4

(c) Form a company (plc) (2)

Benefits	Drawbacks
<ul style="list-style-type: none">• Limited liability• Increased borrowing power• Easier to raise capital• More capital available• Plc can sell shares to the general public• Can issue debentures to raise finance <p style="text-align: center;">Any 2 x 2 marks each</p>	<ul style="list-style-type: none">• Loss of control• Accounts to be published• AGM has to be held• Profits have to be distributed to shareholders as dividends• Debenture interest will have to be paid irrespective of profit/loss being made• Legal requirements in setting up <p style="text-align: center;">Any 2 x 2 marks each</p>

KU 10

Question 2

(a) Andrew Chancellor Trading, Profit and Loss Account for year ending 31 January 2006

	£	£	£
Sales			111,000 (1)
Less Sales Returns			<u>6,000 (1)</u>
			105,000
Less Cost of Sales			
Opening Stock		8,000 (1)	
Purchases	74,000 (1)		
Add Carriage In	<u>1,200 (1)</u>		
	75,200		
Less Purchases Returns	<u>3,000 (1)</u>	<u>72,200</u>	
		80,200	
Less Closing Stock		<u>9,500 (1)</u>	<u>70,700 (1)</u>
Gross Profit			£34,300 (1)
Add Discount Received		400 (1)	
Rent Received (3,600 +1,400)		<u>5,000</u>	<u>5,400</u>
	(1) (1)		39,700
Less Expenses			
Discount Allowed (1) (1)		550 (1)	
Admin Expenses (12,900 – 600)		12,300	
Depreciation – Motor Vehicles		2,400 (1)	
Bad Debts Provision		<u>625 (1)</u>	<u>15,875</u>
Net Profit			<u>£23,825 (1)</u>

HI 18

(b)

- Time delays in banking system
- Cheques not yet cleared/deposited/presented
- Bank Statement sent out before amounts deposited
- Direct debits, standing orders, bank giro credits, bank charges notified on Bank Statement
- Errors made in Bank Account and/or Bank Statement

Any 3 – 2 marks each

KU 6

(c)

Source of Finance	Advantage	Disadvantage
Bank Loan	<ul style="list-style-type: none">• Relatively simple to arrange• Money can be made available relatively quickly• Cost of repayment known in advance	<ul style="list-style-type: none">• Interest must be paid on loan• Loan must be repaid• Additional expense – could cause cash flow problems
Loan from family/friend	<ul style="list-style-type: none">• Simple to arrange• Possibly greater flexibility in repaying• Possibly lower or no interest charged on loan	<ul style="list-style-type: none">• Interest may have to be paid• Loan must be repaid• Could cause family tensions about business
Mortgage/remortgage	<ul style="list-style-type: none">• Relatively simple to arrange• Money can be made available relatively quickly• Cost of repayment known in advance• Could be spread over a longer period of time, eg 25 years	<ul style="list-style-type: none">• Interest rate may be variable• Additional expense• Possible reduction in profits
Grant from EU/Enterprise Trust	<ul style="list-style-type: none">• Does not require to be paid back• No interest repayments	<ul style="list-style-type: none">• May take long time to arrange• Forms to be completed• Conditions may have to be met
Personal Savings	<ul style="list-style-type: none">• Easy to arrange	<ul style="list-style-type: none">• Heavier commitment• Opportunity cost
Any 2 sources 2 marks each	Advantage for each source – 2 marks each	Disadvantage for each source – 2 marks each

KU 12

Question 3

(a) (i) and (ii)

Suspense Account (1)

	Dr	Cr	Balance
Trial Balance difference		566 (2)	566 Cr
Sales		200 (1)	766 Cr
Advertising	81 (1)		685 Cr
Rent Received	900 (2)		215 Dr
Purchases		215 (1)	-

Sales Account

	Dr	Cr	Balance
Suspense	200 (1)		200 Dr

Advertising Account

	Dr	Cr	Balance
Suspense		81 (1)	81 Cr

K Fraser

	Dr	Cr	Balance
S Fraser	65 (1)		65 Dr

S Fraser

	Dr	Cr	Balance
K Fraser		65 (1)	65 Cr

Rent Received Account

	Dr	Cr	Balance
Suspense		900 (1)	900 Cr

Purchases Account

	Dr	Cr	Balance
Suspense	215 (1)		215 Dr

HI 14

(b)

Item No	Effect on Net Profit
(i)	Decrease (1)
(ii)	Increase (1)
(iii)	No effect (1)
(iv)	Increase (1)
(v)	Decrease (1)

HI 5

(c) A Trial Balance checks the arithmetic accuracy of the ledger accounts (2) and that for every debit transaction there is a corresponding credit transaction. (2) However, a number of errors can arise even though the Trial Balance totals agree (2).

There could be:

- errors of omission/description/example
- errors of commission/description/example
- errors of original entry/description/example
- complete reversal/description/example
- compensating errors/description/example

Explanation **2 marks**

Examples **2 x 2 marks each (maximum 4 marks)**

KU 6

(d) Profit and Loss Account is an indicator of profitability. (2)

It calculates whether the company has made a Net Profit/Loss from trading. (2)

Any valid explanation – 2 marks

Cash Budget is an indicator of the company's liquidity – (2)
does it have sufficient funds to meet short-term debts/purchase assets etc, (2)
or will it have to make arrangements for overdraft/loan facilities. (2)

Any valid explanation – 2 marks

KU 4

Question 4

(a) Break even $\frac{160 (1) + 200 (1)}{12 (1) - 8 (1)} = \frac{360}{4} = 90 \text{ tickets (1)}$

HI 5

(b) Number of tickets sold $\frac{360 + 200 (1)}{4 (1)} = \frac{560}{4} = 140 \text{ tickets (1)}$

HI 3

(c) Selling price $\frac{360 (1)}{180 (1)} = £2$

$£2 + £8 (1) = £10 (1)$

HI 4

(d) Clubs are required to keep financial records:

- as the constitution/rules of the Club insist on it
- to help plan for the future
- to calculate the profit/loss of activities, eg bar, fund raising events, etc
- to calculate surplus/deficit for the financial year
- to reduce possibility of fraud
- to present to members at AGM
- to keep records for tax/NI/VAT purposes

Any 2 – 2 marks each

KU 4

- (e) (i) The Receipts and Payments Account contains Capital/Revenue expenditure. (2)
Shows opening/closing balances for cash/bank (2).
It gives no indication of profitability of Club (2).

Any valid explanation – 2 marks

(ii) Refreshments/Bar Trading Account (1)

Shows whether Club Bar is making a profit/loss for financial period **(2)**.

Decide if prices need to be increased **(2)**

See if worthwhile to continue running it **(2)**

Fund-raising Income Statements (1)

Shows whether these events are making a profit/loss **(2)**.

See if worthwhile doing again next year **(2)**.

Income and Expenditure Account (1)

Contains all revenue income/expenditure for financial period **(2)**

adjusted, where necessary, for prepayments and accruals. **(2)**

The Income and Expenditure Account shows if the Club has made a Surplus/Deficit **(2)**.

Balance Sheet (1)

Shows the assets/liabilities of the club at the year end **(2)**.

Shows the amount of Accumulated Funds at the year end **(2)**.

Shows the liquidity of the club **(2)**.

Name of Account – 1 mark each

Justification – 2 x 2 marks each

KU 10

Question 5

(a) Estimated Profit Statement for year ending 31 December 2006

	£	£
Sales (160,000 + 16,000)		176,000 (1)
Less Cost of Sales		<u>123,200 (1)</u>
Gross Profit (25% + 5%)		52,800 (2)
Less Salary (15,000 + 750)	15,750 (1)	
Commission on Sales (2%)	3,520 (2)	
Light and Heat (2,600 + 520)	3,120 (1)	
Sundry Expenses (3,400 – 290)	3,110 (1)	25,500
Net Profit		<u>£27,300 (1)</u>

HI 10

(b) It could improve its Rate of Stock Turnover by:

- attracting more customers: offering discounts; advertising/sales promotions
- reducing prices
- lower stock holding
- move stock quicker

Any 2 – 2 marks each name

KU 4

(c) Working Capital (Current Ratio) (Current Assets – Current Liabilities) (2)

- Shows the firm's ability of paying its short-term debts
- Shows the firm's ability of avoiding liquidity problems
- Highlights cash flow problems and allows time for action to be taken
- Allows comparison with previous years/other businesses

Any 2 – 2 marks each

Return on Capital Employed/Invested (2)

- Measure of overall success of business
- Shows Karin if investment in business has been worthwhile
- Shows Karin if she would be better investing elsewhere
- Guide to whether business should continue in the long-term
- Allows comparison with previous years/other businesses

Any 2 – 2 marks each

Ratios – 2 marks each name

KU 12

Question 6**(a) (i) and (ii)****Bank Account**

		Dr	Cr	Balance
March 1	Balance	2,750·00 (1)		2,750·00
March 23	N Gillies & Sons	2,000·00 (1)		4,750·00

VAT Account

		Dr	Cr	Balance
March 1	Balance	140·00 (1)		140·00 Dr
March 4	N Gillies & Sons		490·00 (1)	350·00 Cr
March 11	N Gillies & Sons	115·50 (1)		234·50 Cr

Equipment Account

		Dr	Cr	Balance
March 1	Balance	11,300·00 (1)		11,300·00
March 4	N Gillies & Sons		2,800·00 (1)	8,500·00
March 11	N Gillies & Sons	660·00 (1)		9,160·00

N Gillies & Sons

		Dr	Cr	Balance
March 4	Equipment & VAT	3,290·00 (2)		3,290·00
March 11	Equipment & VAT		775·50 (2)	2,514·50
March 23	Bank		2,000·00 (1)	514·50

HI 13

- (b)**
- To try to avoid liquidity problems
 - To help cash flow situation
 - To allow him to pay his creditors
 - To allow him to purchase more stock
 - To reduce the need to obtain a loan/overdraft

Any 2 – 2 marks each**KU 4**

- (c)
- Debtor can also be a creditor because they are both customer and supplier
 - Debtor could have been overcharged
 - Debtor may have overpaid
 - Debtor has just returned goods after paying for them
 - Customer may have paid a deposit (paid in advance) for goods not yet received
 - An error may have been made in the ledger account

Any 2 – 2 marks each

KU 4

[END OF MARKING INSTRUCTIONS]