

2006 Accounting & Finance

Standard Grade – Foundation

Solutions

Finalised Marking Instructions

© The Scottish Qualifications Authority 2006

The information in this publication may be reproduced to support SQA qualifications only on a non-commercial basis. If it is to be used for any other purposes written permission must be obtained from the Assessment Materials Team, Dalkeith.

Where the publication includes materials from sources other than SQA (secondary copyright), this material should only be reproduced for the purposes of examination or assessment. If it needs to be reproduced for any other purpose it is the centre's responsibility to obtain the necessary copyright clearance. SQA's Assessment Materials Team at Dalkeith may be able to direct you to the secondary sources.

These Marking Instructions have been prepared by Examination Teams for use by SQA Appointed Markers when marking External Course Assessments. This publication must not be reproduced for commercial or trade purposes.

Marks

KU	HI
----	----

1. (a) From the following information, complete the Credit Note below.

2 data projectors @ £500.00 each

2 control units @ £50.00 each

Trade Discount @ 10% = £110.00

VAT @ 17.5% = £173.25

Credit Note				No: 22	
Socrates Studio					
28 Stark Avenue Duntocher CLYDEBANK G3 4PR					
To: Rosie Jenkins 2 Smith Road Lugiebank CUMBERNAULD C4 5BY		Tel: 01389 73498 Fax: 01389 23422 e-mail: sst@speed.co.uk		VAT No: 345 556 921	
				Date: 28 April 2006	
Quantity	Description	Unit Price		Cost	
		£	p	£	p
2	data projectors	500	00	1,000	00 (2)
2	control units	50	00	100	00 (2)
				1,100	00 (1)
	Less Trade Discount (10%)			110	00 (1)
	Net Goods Value			990	00 (1)
	Add VAT @17.5%			173	25 (1)
	TOTAL			£ 1,163	25 (1)
					(9)

Marks

KU	HI
2	
4	
6	
2	
4	

1. (continued)

(b) Which firm would **send** the Credit Note? Tick (✓) the correct box.

The firm receiving the returned goods.	✓
The firm sending back the goods.	

(c) Tick (✓) the **2** boxes that give reasons why goods could be returned.

They were damaged.	✓
They were different from what was ordered.	✓
They were only wanted for use for a brief time.	
They were cheaper than expected.	

(d) Tick (✓) **only** the correct boxes below to identify which of the following **documents** would be used by Socrates in its day to day trading.

Invoice	✓
Trial Balance	
Cheque	✓
Balance Sheet	
Bank Reconciliation Statement	
Order Form	✓

(e) Explain the meaning of a Sole Trader business.

One owner of the business

(f) State **2** disadvantages of this type of business.

Unlimited liability, limited capital, limited expertise,

difficulty in taking time off, sole responsibility, bear all losses

(Any 2)

Marks

KU	HI
----	----

2. (a) From the information below complete David Hume's ledger accounts.
- 1 March 2006 Bertrand Russell owed David Hume £200.00.
 - 12 March 2006 David Hume sold Bertrand Russell goods on credit for £50 plus VAT of £8.75.
 - 18 March 2006 David Hume received a cheque for £97.50 from Bertrand Russell. David Hume had allowed him £2.50 cash discount for prompt payment.
 - 19 March 2006 Bertrand Russell returned goods for £20 plus VAT of £3.50.

Ledger of David Hume

Account Name <u> Bertrand Russell </u>		Number <u> 1 </u>					
Date	Details	Dr		Cr		Balance	
2006		£	p	£	p	£	p
1 March	Balance	200	00 (2)			200	00
12 March	Sales/VAT	58	75 (4)			258	75
18 March	Bank			97	50 (2)	161	25
18 March	Discount Allowed			2	50 (2)	158	75
19 March	Sales Returns/VAT			23	50 (4)	135	25

Account Name <u> Sales </u>		Number <u> 2 </u>					
Date	Details	Dr		Cr		Balance	
2006		£	p	£	p	£	p
12 March	Bertrand Russell			50	00 (2)	50	00

Marks

KU	HI
----	----

2. (a) (continued)

Account Name <u> VAT </u>		Number <u> 3 </u>					
Date	Details	Dr		Cr		Balance	
2006		£	p	£	p	£	p
12 March	Bertrand Russell			8	75 (2)	8	75
19 March	Bertrand Russell	3	50 (2)			5	25

Account Name <u> Bank </u>		Number <u> 4 </u>					
Date	Details	Dr		Cr		Balance	
2006		£	p	£	p	£	p
1 March	Balance	500	00(0)			500	00
18 March	Bertrand Russell	97	50 (2)			597	50

Account Name <u> Discount Allowed </u>		Number <u> 5 </u>					
Date	Details	Dr		Cr		Balance	
2006		£	p	£	p	£	p
18 March	Bertrand Russell	2	50 (2)			2	50

Account Name <u> Sales Returns </u>		Number <u> 6 </u>					
Date	Details	Dr		Cr		Balance	
2006		£	p	£	p	£	p
19 March	Bertrand Russell	20	00 (2)			20	00

26

Marks

KU	HI
----	----

2. (continued)

(b) Complete the sentences below. Select the correct answer from the list in the second box. The first one has been completed as an example.

Example: A Debtor <i>is a current asset.</i> (0)
Cash Discount <i>is given to encourage customers to pay quickly</i> (2)
Trade Discount <i>is given to encourage customers to buy large amounts</i> (2)
A Fixed Asset <i>is usually depreciated</i> (2)
Double Entry <i>is when each transaction has 2 entries</i> (2)
A Bank Overdraft <i>is a current liability</i> (2)

Answers (each one can only be used once)
is given to encourage customers to pay quickly.
<i>is a current asset.</i>
is when each transaction has 2 entries.
is given to encourage customers to buy large amounts.
is a current liability.
is usually depreciated.

(c) What do the initials VAT stand for?

Value Added Tax

10

2

Marks

KU	HI
----	----

3. (a) Use the following information to complete the Trial Balance of John Locke below.

	£
Premises	90,000
Purchases Returns	300
Drawings	2,300
Sales	58,000
Rent	125
Debtors	4,000
Opening Stock	1,000
Capital	49,000
Cash	350
Telephone	125
Purchases	12,000
Discount Received	100
Creditors	2,500

Trial Balance of John Locke as at 30 April 2006

	Dr £	Cr £
Premises	90,000 (1)	
Purchases Returns		300 (1)
Drawings	2,300 (1)	
Sales		58,000 (1)
Rent	125 (1)	
Debtors	4,000 (1)	
Opening Stock	1,000 (1)	
Capital		49,000 (1)
Cash	350 (1)	
Telephone	125 (1)	
Purchases	12,000 (1)	
Discount Received		100 (1)
Creditors		2,500 (1)
Total	£ 109,900 (1)	£ 109,900 (1)

Marks

KU	HI
2	
4	

3. (continued)

(b) A cheque for petrol, for the business van, was debited in the Van Account and credited in the Bank Account. Tick (✓) the box which explains why this was recorded incorrectly.

The Cash Account should have been credited instead of the Bank Account.	
The Petrol Account should have been debited as it is an expense.	✓
The Bank Account should have been debited and the Van Account credited.	
The petrol is Drawings and should have been debited to that account.	

(c) Tick (✓) the **2** boxes that contain sources of finance for a sole trader.

A partner	
A loan from a brother or sister	✓
Fundraising	
Issuing debentures	
Personal savings	✓
A lottery grant	

Marks

KU	HI
----	----

4. Several errors were made when the Trading and Profit and Loss Accounts of John Stuart Mill, for the month ended 31 March 2006, were prepared.

Examine them carefully and answer the following questions.

Trading and Profit and Loss Accounts of John Stuart Mill

BOX 1

	£	£
Sales		10,000
Less Cost of Goods Sold:		
Opening Stock	500	
Add Buildings	10,000	
	10,500	
Less Closing Stock	2,000	
Cost of Goods Sold		8,500
BOX 2		1,500
Less Expenses:		
Advertising	1,000	
Rent Received	300	
Wages	1,500	
Discount Allowed	500	
		3,300
Closing Capital		1,800

- (a) What information should be in Box 1?

for the month ended 31 March 2006

2

Marks

KU	HI
2	
2	
2	
2	

4. (continued)

(b) Buildings should **not** have been added to Opening Stock. Tick (✓) the item which should have been added.

Wages	
Debtors	
Capital	
Purchases	✓

(c) Tick (✓) the label that is missing in Box 2.

Gross Profit	✓
Net Profit	
Gross Loss	
Net Loss	

(d) Tick (✓) the **one** item that is wrongly included as an expense.

Advertising	
Rent Received	✓
Wages	
Discount Allowed	

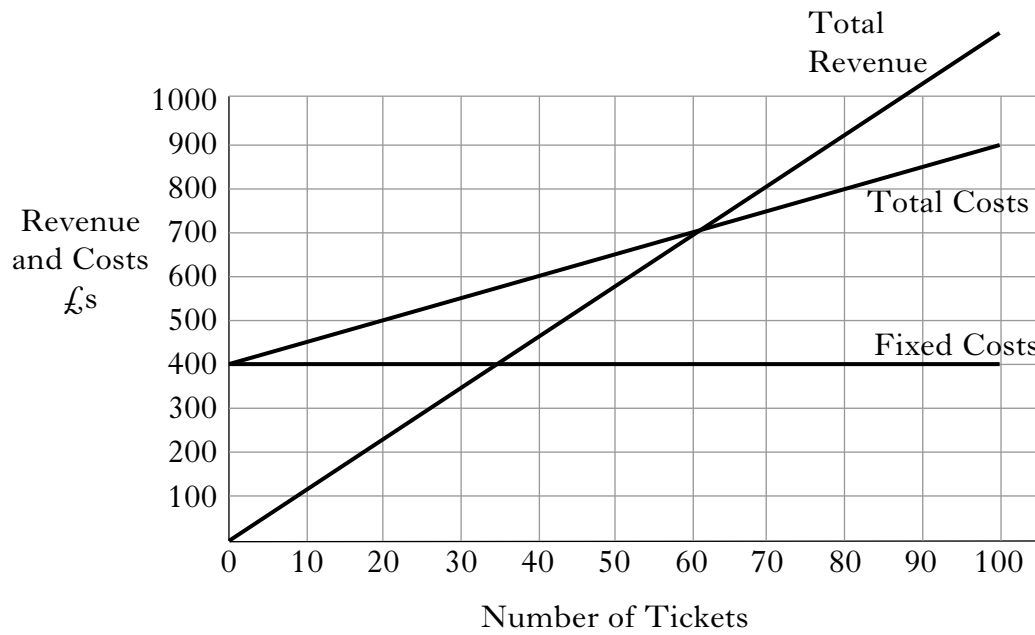
(e) The final label, “Closing Capital”, is incorrect. Tick (✓) the correct label.

Gross Profit	
Net Profit	
Gross Loss	
Net Loss	✓

Marks

KU	HI
----	----

5. The Augustine & Aquinas Partnership organise events. The following is their Break-Even Chart for a sports event.



- (a) Use the chart above to decide whether each of the following is True or False. Tick (✓) the correct box for each.

	True	False
A profit would be made if 80 tickets are sold.	✓	
A loss would be made if 30 tickets are sold.	✓	
Fixed Costs are £800 when 80 tickets are sold.		✓
If no tickets are sold there are still Fixed Costs to pay.	✓	
To break even 50 tickets would have to be sold.		✓

10

Marks

KU	HI
8	
4	
2	
10	

5. (continued)

- (b) Tick (✓) the correct box for each of the following to say whether they would be a Fixed Cost or Variable Cost of the sports event.

	Fixed Cost	Variable Cost
Hire of sports hall	✓	
T-shirt given to every person who buys a ticket		✓
Electronic scoreboard	✓	
Cost of music	✓	

- (c) Complete the following sentences.

(i) Purchase of a Fixed Asset is an example of Capital expenditure.

(ii) Day-to-day running expenses are an example of Revenue expenditure.

- (d) Name the document that would be prepared and signed by the partners when they started their business.

Partnership Agreement/Contract

- (e) State whether each of the following is True or False for a partnership. Tick (✓) the correct box for each statement.

	True	False
The partners have unlimited liability.	✓	
Partners receive a share of the profit as a dividend.		✓
There are more owners to raise capital in a partnership than a sole trader.	✓	
Share of profit or loss would be shown in a Current Account.	✓	
An Appropriation Account is prepared to show the share of profit each partner receives.	✓	

6. (a) From the following information prepare the Balance Sheet of Midgely plc for the year ended 30 April 2006.

Marks

KU	HI
----	----

	£
Unappropriated Profit at 30 April 2006	10,000
Stock	25,300
Debtors	33,000
Bank	1,200
Petty Cash	500
Vehicles	180,000
Furniture and Fittings	70,000
Creditors	8,000
Depreciation of Vehicles	20,000
Depreciation of Furniture and Fittings	10,000
5% Debentures	5,000
General Reserve at 1 May 2005	10,000
Transferred to General Reserve	1,500
Proposed Ordinary Share Dividend	5,000
Proposed Preference Share Dividend	500
Issued Share Capital: 100,000 Ordinary Shares of £2 40,000 5% Preference Shares of £1	

Marks

KU	HI

6. (a) (continued)

Balance Sheet of Midgely plc as at 30 April 2006

	£	£	£
	Cost	Depreciation	Net Book Value
Fixed Assets			
Vehicles	180,000 (1)	20,000 (1)	160,000 (1)
Furniture and Fittings	70,000 (1)	10,000 (1)	60,000 (1)
			<u>220,000 (1)</u>
Current Assets			
Stock		25,300	} (1)
Debtors		33,000	
Bank		1,200	
Petty Cash		500	
		<u>60,000</u>	
Less Current Liabilities			
Creditors	8,000	} (1)	
Proposed Ordinary Share Dividend	5,000		
Proposed Preference Share Dividend	500		
	<u>13,500</u>		
Working Capital			<u>46,500 (1)</u>
			<u>£266,500 (1)</u>
Financed by:			
Issued Share Capital			
100,000 Ordinary Shares of £2		200,000 (2)	
40,000 5% Preference Shares of £1		<u>40,000 (2)</u>	240,000
Reserves			
Unappropriated Profit		10,000 (1)	
General Reserve		<u>11,500 (2)</u>	21,500
			<u>261,500</u>
Long-term Liabilities			
5% Debentures			<u>5,000 (1)</u>
			<u>£266,500 (1)</u>

20

Marks	KU	HI
2		
2		
6		

6. (continued)

- (b) Midgely plc keep a Petty Cash Book/Statement. How could the Petty Cashier check that the balance was accurate?

Compare it with the money in the Petty Cash

- (c) Tick (✓) the answer which gives the meaning of the initials PCV.

Petty Cash Volume	
Petty Cash Voucher	✓
Petty Cash Value	
Petty Cash VAT	

- (d) Tick (✓) the **3** advantages of operating a Petty Cash System.

It avoids a large number of small entries being made in the ledger accounts.	✓
It allows you to calculate the profit.	
It allows small items to be paid quickly from cash kept in the office.	✓
It allows the business to see at a glance if they have reached their break-even point.	
It allows some responsibility for money to be given to a junior employee.	✓
It allows a business to prepare a Bank Reconciliation Statement.	

[END OF MARKING INSTRUCTIONS]