

**2006 Accounting**

**Intermediate 2 – Solutions**

**Finalised Marking Instructions**

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**2006 Accounting  
Intermediate 2  
Solutions**

**Question 1**

**(a) Profit and Loss a/c for year ended 31 March 2006**

	£000s	£000s	£000s
Gross Profit			353 (1)
Less:			
Rates	84 (1)		
Add: Accrued	<u>6</u> (1)	90	
General Expenses	27 (1)		
Less: Prepaid	<u>7</u> (1)	20	
Wages and Salaries		75 (1)	
Administration Expenses		42 (1)	
Distribution Expenses		12 (1)	
Debenture Interest		8 (1)	
Depreciation: Vehicles		<u>10</u> (1)	
			<u>257</u>
Net Profit			96 (1)
Corporation Tax			<u>20</u> (1)
			76
Less: Proposed Preference Dividend		6 (1)	
Proposed Ordinary Dividend		15 (1)	<u>21</u>
			55
Unappropriated Profit 1/4/2005			<u>17</u> (1)
Unappropriated Profit 31/5/2006			<u>72</u> (1)
			(16)

**Question 1 (a) (continued)**

**Balance Sheet as at 31 March 2006**

	£000s		£000s		£000s
	Cost		Agg Dep		NBV
Fixed Assets					
Premises	280				280 (1)
Furniture	50		30		<u>20</u> (1)
					300
Current Assets					
Stock			150	(1)	
Debtors			178	(1)	
Prepayments			<u>7</u>	(1)	
			335		
Less: Current Liabilities					
Bank Overdraft	13	(1)			
Creditors	40	(1)			
VAT	25	(1)			
Accruals(8+6)	14	(1)			
Corporation Tax due	20	(1)			
Proposed Dividends	<u>21</u>	(1)	<u>133</u>		<u>202</u>
					502
Less: 12% Debentures					<u>80</u> (1)
					<u>422</u>
Capital and Reserves					
Ordinary Shares of £1 ea					300 (1)
12% Preference Shares of £1 ea					50 (1)
Profit and Loss a/c					<u>72</u> (1)
					<u>422</u>
					(15)

**Question 1 (b) (i)**

bank charges  
 bank interest  
 standing order  
 direct debit  
 credit transfer  
 correction of errors

} Any 3 x 2 marks each = (6)

**Question 1 (b) (ii)**

to check entries are correct  
 to explain effect of time delays  
 to explain why bank statement differs from corrected Bank Account

} Any 1 x 2 marks = (2) (8)

Total (40)

**Question 2 (a) (i)**

Gross Profit Ratio  $GP/Sales \times 100$   
 $25/100 \times 100$   
 $= 25\%$  (4)

**Question 2 (a) (ii)**

Net Profit Ratio  $NP/Sales \times 100$   
 $10/100 \times 100$   
 $= 10\%$  (4)

**Question 2 (a) (iii)**

Expense Ratio  $Expenses/Sales \times 100$   
 $15/100 \times 100$   
 $15\%$  (4)

**Question 2 (a) (iv)**

Current Ratio  $CA:CL$   
 $60:30$   
 $2:1$  (4)

**Question 2 (a) (v)**

Fixed Asset Turnover  $Sales: FA$   
 $100:40$   
 $2.5:1$  (4)

**Question 2 (a) (vi)**

ROCE  $NP/(FA+NCA-LTL)$   
 $10/(40+30-20)$   
 $20\%$  (4)

(24)

**Question 2 (b) (i)**

GP%	increased cost prices reduced selling prices	}	Either = 2 marks
NP%	lower GP% higher expense %	}	Either = 2 marks
Expense Ratio	increase in named expenses fall in sales	}	Either = 2 marks
Current Ratio	increased profitability higher stock lower creditors share issue, sale of fixed assets	}	Either = 2 marks
FA Turnover	reduction in dividends increase in sales fall in FA	}	Either = 2 marks
ROCE	higher profit more long term borrowing	}	Either = 2 marks

(12)

**Question 2 (b) (ii)**

Rate of stock turnover	COGS/Av Stock
Debtors' collection period	Debtors/credit sales x 365
Creditors payment period	Creditors/credit purchases x 365

(4)

Total (40)

**Question 3 (a) (i) & (ii)**

Suspense Account	Dr		Cr		Bal	
Diff in T.B			990	(2)	990	cr
Sales	900	(2)			90	
Debtor	100	(2)			10	dr
Discount received			65	(2)	55	cr
Discount allowed			65	(2)	120	cr
Bank interest	120	(2)				

**Question 3 (a) (iii)**

Repairs to Machinery	Dr	£500	(2)	Machinery	Cr		£500	(2)
Purchases	Dr	£80	(2)	Bank	Cr		£94	(2)
VAT	Dr	£14	(2)					

(22)

**Question 3 (b) (i)**

Profit and Loss Appropriation A/c for year ended 28 February 2006

			£		£
	Net profit				26,000
less:	Interest on Capital:				
	A		2,000	(2)	
	J		1,000	(2)	
	Salary: J		<u>11,000</u>	(1)	<u>14,000</u>
	Residual profit				<u><u>12,000</u></u>
	Share of profit:	A	8,000	(2)	
		J	<u>4,000</u>	(2)	<u><u>12,000</u></u>

**Question 3 (b) (ii)**

Current a/c J	DR		CR		BAL	
Bal					2,000	(1)
Int on capital			1,000	(1)	3,000	
Sh of profit			4,000	(1)	7,000	
Salary			11,000	(1)	18,000	
Drawings	7,200	(1)			10,800	

(14)

**Question 3 (c)**

Advantages  
 access to more capital  
 limited liability  
 Etc      Any 1 advantage = 2 marks

Disadvantages  
 lose control  
 more regulations  
 Etc      Any 1 disadvantage = 2 marks

(4)

Total (40)

**Question 4 (a)**

A	fixed costs	(1)
B	total costs	(1)
C	Sales/Revenue	(1)

(3)

**Question 4 (b) (i)**

£90,000/6,000	
£15	(2)

**Question 4 (b) (ii)**

$$\begin{aligned} \text{Variable costs} &= \text{£78,000} - \text{£24,000} \\ &= \text{£54,000} \end{aligned}$$

VC p.u. £54,000/6,000	
£9 1	(3)

**Question 4 (b) (iii)**

£15 - £9	
£6	(2)

**Question 4 (b) (iv)**

£24,000/£6	
4,000 units 2	
4,000 x £15 1	
£60,000	(3)

**Question 4 (b) (v)**

Contribution	5,000 x £6	
	£30,000 2	
less: FC	£24,000 1	
Profit	£6,000	(3)

**Question 4 (b) (vi)**

Contribution required	£24,000 + £9,000	
	£33,000 2	
Units required	£33,000/£6 2	
	5500	(4)

(17)

**Question 4 (c) (i)**

£6/2  
£3 (2)

**Question 4 (c) (ii)**

6,000 x 2  
12,000 (2) (4)

**Question 4 (d) (i)**

£20 – £16  
£4 (1)

**Question 4 (d) (ii)**

£4/1  
£4 (1)

**Question 4 (d) (iii)**

**1** **1**  
Yes – greater contribution per labour hour (2)

**Question 4 (d) (iv)**

Allocate hours	Q	2000 x 1 hour 2,000 hours	<b>1</b>
	Z	10,000 hours	<b>1</b>
Contribution	Q	2,000 x £4 £8,000	<b>1</b>
	Z	10,000 x £3 £30,000	<b>1</b>

Total contribution		£38,000	
less: FC		£24,000	<b>1 (5)</b>
Profit		£14,000	<b>(9)</b>

**Question 4 (e) (i)**

Variable raw material  
direct labour  
etc any 2 examples x 1 mark = (2)

Fixed rent  
supervision  
etc any 2 examples x 1 mark = (2)

**Question 4 (e) (ii)**

(1) decrease (1)  
(2) decrease (1)  
(3) increase (1)

(3) (7)  
Total (40)



**Question 5 (a) (i) + (ii)**

Overhead	Basis	£	A	B	C	X	Y	
Machine Maintenance	alloc.	3,450	1,350	750	600	500	250	2 for line
Heat and Light	area	5,000	1,500	1,000	1,250	750	500	5 x 1
Supervision	empl.	20,000	5,000	8,000	4,000	1,000	2,000	5 x 1
Rent and Rates	area	10,000	3,000	2,000	2,500	1,500	1,000	5 x 1
Machine Depreciation	value	25,000	<u>12,500</u>	<u>7,500</u>	<u>2,500</u>	<u>1,250</u>	<u>1,250</u>	5 x 1
		63,450	23,350	19,250	10,850	5,000	5,000	
Cost Centre Y		5,000	<u>2,000</u>	<u>1,500</u>	<u>1,000</u>	<u>500</u>		4 x 1
			25,350	20,750	11,850	5,500		
Cost Centre X		5,500	<u>1,650</u>	<u>2,750</u>	<u>1,100</u>			3 x 2
			<u>27,000</u>	<u>23,500</u>	<u>12,950</u>			

**Question 5 (b)**

Machine hour rate	£27,000/10,000		
	£2.70		
	Per m/c hr	(2)	(2)

**Question 5 (c) (i)**

labour hours	} any 2 x 2 = (4)
labour costs	
material cost	
prime cost	
units	

**Question 5 (c) (ii)**

Indirect cost is one which incurred on behalf of a range of cost units and cannot be attributed to one or a batch of cost units.

either point mentioned = 2 marks (2) (6)

Total (40)

**Question 6 Part A**

**Question 6 (a) (i)**

Basic wage	Ivan 40 x £6 £240 (1)	Serge 40 x £6 £240 (1)
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**Question 6 (a) (ii)**

O/T Sunday	8 x £6 x 2 £96 (2)	4 x £6 x 2 £48 (2)
Other	8 x £6 x 1.5 £72 (2)	4 x £6 x 1.5 £36 (2)
Total O/T earnings	£168 (1)	£84 (1)

**Question 6 (a) (iii)**

Time allowed	132 x 1/2 66 hours (2)	110 x 1/2 55 hours (2)
Time saved	10 hours (1)	7 hours (1)
Bonus	10 x £3 £30 (1)	7 x £3 £21 (1)

**Question 6 (a) (iv)**

Gross wages	£240 £168 £30 <hr/> £438 (1)	£240 £84 £21 <hr/> £345 (1)
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(22)

**Question 6 (b) (i)**

Bin card            keeps physical record of stocks  
                         receipts, issues, balance  
                         kept in store  
                         provides check against other records

**Question 6 (b) (ii)**

Requisition        required to generate order  
                         must be properly authorised  
                         generated when re-order level is reached

**Question 6 (b) (iii)**

Goods Received Note    allows check to be made against order, delivery note etc.

Each document – any 1 point

3 x 2 marks

(6)

**Question 6 Part B**

	kg	cost/kg	£		kg	£		
Fruit	2000	£3	(2) 6000	Normal loss	100	(1) 1.50		150 (1)
Wages			(2) 2000	Output	1900	(1) 5.00	(2)	9500 (2)
Overheads			(1) 1650					
			<u>9650</u>					<u>9650</u>
								(12)
								Total (40)

[END OF MARKING INSTRUCTIONS]