

0010/404

NATIONAL
QUALIFICATIONS
2009

MONDAY, 1 JUNE
1.00 PM – 2.45 PM

ACCOUNTING AND
FINANCE
STANDARD GRADE
Credit Level

- 1 Answer **all** the questions.
- 2 Read each question carefully.
- 3 Write your answers in the answer book provided.
- 4 Candidates should start each question on a new page in the answer book.
- 5 Calculators may be used.
- 6 Check that a Worksheet for Question 2(a) has been provided.



Apply VAT where appropriate at 17·5% throughout the paper.

1. (a) Use the information below to make the entries in the ledger accounts of the partnership Maxwell and Bell.

Ledger balances at 1 May 2009:

Bank Overdraft	£1,000
Equipment	£5,500
M Faraday (Creditor)	£ 800

7 May	Bought goods £200 (plus VAT) from Lavoiser on credit
12 May	Purchased equipment from Faraday on credit for £8,000 (plus VAT). A cheque for £2,000 was paid to Faraday with the balance on credit
18 May	Paid for repairs to equipment by cheque for £120 (plus VAT)
22 May	Returned faulty equipment to M Faraday for £80 (plus VAT)

- (b) Explain the meaning of the term **double entry**. 2
- (c) Maxwell and Bell are considering forming a plc. Justify **one** advantage of the proposed change in relation to each of the points below. 17
- (i) Capital invested
 - (ii) Borrowing
 - (iii) Owners' liability 6

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2. (a) From the information below, and **using the Worksheet provided**, complete the Statement of Account which Frege plc would send to Moore Motors at the end of May 2009.

1 May	Moore Motors owed Frege plc £500
7 May	Frege plc sold goods to Moore Motors for £846 (plus VAT). The terms of payment were 5% – 30 days and 10% trade discount was allowed
21 May	Damaged goods were returned by Moore Motors – their debt was reduced by £90
28 May	Moore Motors paid £470 by cheque in full settlement of the balance outstanding on 1 May

- (b) Frege plc sells goods on credit. Describe **one** advantage and **one** disadvantage, to Frege plc, of operating this policy.
 (c) Name the document used in the transaction on 21 May and state its effect on the Gross Profit of Frege plc.
 (d) Explain why a business may need to reconcile the balances on the Bank Statement and Bank Account.

[Turn over

3. Alistair Milestones, a sole trader, discovered his Trial Balance failed to agree. The debit column exceeded the credit by £81. On checking his ledger accounts, he discovered the following errors.

- (1) A payment of £92 for rent had been correctly entered in the Bank Account but was entered as £29 in the Rent Account
 - (2) Discount received for £12 had been entered on the wrong side of the Discount Received Account
 - (3) An invoice received from B Skinner, a supplier, for £120 (including VAT) had been omitted from B Skinner's account only
- (a) (i) Open the required account to make the Trial Balance agree. 2
(ii) Make the entries in this account **only** to correct the errors. 6
- (b) Explain why the Bank Account can be either a debit or credit entry in the Trial Balance. 4
- (c) Explain why capital expenditure should not be included in the Profit and Loss Account. 4
- (d) Suggest **2** sources of finance, other than a bank loan, Alistair Milestones could use to expand. Outline **one** advantage and **one** disadvantage of each source. (Outline different advantages and disadvantages for each source). 10

4. Rorty plc provides the following information at 30 April 2009.

	£000
VAT (Dr)	5
Interim Ordinary Share Dividend.....	1
Bank Overdraft.....	10
Provision for Depreciation of Vehicles.....	6
Net Profit.....	30
5% Debentures	40
Creditors	53
Vehicles.....	228
Unappropriated Profit on 1 May 2008.....	9
Issued Share Capital:	
10,000 10% Preference Shares	10
100,000 Ordinary Shares.....	100
Debenture interest owing.....	2
Provision for Bad Debts	3
Debtors.....	22
Electricity paid in advance	4
Expenses owing.....	2
Stock on 30 April 2009	5

The Board of Directors proposed that:

- the Preference Share dividend is to be paid in full;
- a final Ordinary Share dividend of 2% is to be paid.

- (a) Prepare Rorty plc's Appropriation Account and Balance Sheet using the above information. 28
- (b) The Board of Directors of Rorty plc have a policy of retaining profits in the business.
- (i) Explain why the Board of Directors operate this policy.
 - (ii) Explain **one** advantage and **one** disadvantage of this policy to the shareholders. 6
- (c) Explain the difference between bad debts and provision for bad debts. 4

[Turn over]

5. The following data is taken from the books of Peter Lyola.

	2008	2009
	£	£
Current Liabilities	5,000	7,000
Closing Capital	106,000	126,000
Fixed Assets	99,000	125,000
Net Profit	26,000	20,000
Current Assets	12,000	8,000
Opening Capital	80,000	106,000

- (a) Use the data above to calculate appropriate ratios for the 2 years. 8
- (b) Comment on any variation in the ratios between the years and suggest why the change may have occurred. 8
- (c) Suggest **2** other ratios that might be used to analyse the performance of the business and explain the importance of each. 6
- (d) “When 2 firms are in the same industry, the one with the largest net profit is not necessarily the most successful.” Explain this statement. 4

6. Godel's Trading, Profit and Loss Account for the year ended 30 April 2009 is shown below.

	£
Sales	50,000
Less Cost of Goods Sold	20,000
Gross Profit	30,000
Less Expenses	8,000
Net Profit	22,000

- (a) Using the above information, and the notes below, prepare Godel's estimated Trading, Profit and Loss Account for the year ended 30 April 2010.

- It is anticipated that Sales will increase by 10%
- The Gross Profit ratio will be the same as 2009
- £5,000 will be received for renting out property
- Existing expenses will increase by 25%

In addition:

- a bonus of 10% of any sales above £50,000 will be paid to the sales team.
- a bank loan of £2,000 will incur interest of 8% per annum.

- (b) Name **one** other financial statement that might be prepared to help the business plan for the future. Explain **2** ways this would assist the business.

Godel is also treasurer of the local badminton club. The only financial record he prepares is in the form of a Receipts and Payments Account.

- (c) (i) Explain why this is an unsatisfactory situation.
(ii) Name and justify **2** additional financial statements which may be prepared to present to members at the AGM.

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[END OF QUESTION PAPER]

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**ACCOUNTING AND
FINANCE
STANDARD GRADE
Credit Level
Worksheet for Question 2(a)**

Fill in these boxes and read what is printed below.

Full name of centre

Town

Forename(s)

Surname

Date of birth

Day Month Year

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Scottish candidate number

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Number of seat

**To be inserted inside the front cover of the candidate's
answer book and returned with it.**



Worksheet for Question 2 (a)

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Statement of Account



Frege plc

10 Dalkeith Road
EDINBURGH
E33 5MP

Tel No: 0131 233 567
frege@hotmail.co.uk

Moore Motors
10 Camperdown Avenue
DUNDEE
D22 9PY

VAT No 234 555 231

Date: 31 May 2009

Date	Details	Debit	Credit	Balance
£				

Working:

9

[END OF WORKSHEET]