



2012 Accounting and Finance

Standard Grade General - Solutions

Finalised Marking Instructions

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1. (continued)

(b) Name the accounts used to record the Credit Note in the ledger of Kitchen Supplies.

- Sales Returns (2)
- VAT (2)
- The Cookware Shop (2)

(c) What type of business organisation is The Cookware Shop?

Partnership (2)/partners (2)

(d) Sue and Rachel would like to expand the business by opening another shop. Name 3 sources of finance which would help them to do this.

- (Bank) Loan (2)
- Mortgage (2)
- Grant (2)
- Additional partners (2)
- Ploughing back profits (2)
- Introduce more capital or personal savings (2)
- Venture capital (2)
- Form a plc (2)
- Form a private limited company (2)
- Selling assets no longer required (2)

(Any 3 sources x 2 marks)

<i>Marks</i>	
KU	HI
6	
2	
6	

Marks	
KU	HI

2. (a) Using the Document Pack provided make the necessary entries in the ledger accounts of Ricky Watson.

Ledger of Ricky Watson

Account Name		Bank (0)		Number		1	
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
1/4/2012	Balance	1,500	00 (0)			1,500	00
14/4/2012	Caravan Supplies			(2) 795	00	705	00

Account Name		Purchases (1)		Number		2	
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
2/4/2012	Caravan Supplies	1,210	00 (2)			1,210	00

Account Name		VAT (1)		Number		3	
Date	Details	Dr		Cr		Balance	
		£	p	£	p	£	p
2/4/2012	Caravan Supplies	242	00 (2)			242	00
9/4/2012	Caravan Supplies			(2) 100	00	142	00

		Marks	
		KU	HI
2.	(continued)		
(b)	Ricky Watson is a sole trader. Suggest 2 advantages and 2 disadvantages of this type of organisation.		
	Advantages		
	<ul style="list-style-type: none"> Keeps all profits (2) Makes all decisions/own boss/total control/no arguments (2) Easy to set up (2) Quicker decision making (2) 		
	(Any 2 advantages x 2 marks)		
	Disadvantages		
	<ul style="list-style-type: none"> Unlimited liability/liable for all debts (2) Responsible for all losses (2) Limited capital (2)/knowledge/expertise (2) Difficult to get time off (2) Heavy workload (2) 		
	(Any 2 disadvantages x 2 marks)	8	
(c)	Ricky buys his stock on credit. Suggest one benefit of doing this.		
	<ul style="list-style-type: none"> Pay at a later date (2)/pay in instalments (2)/helps cash flow (2)/have money to spend on other things (2) No need for cash (2) Time to sell before paying (2) 		
	(Any 1 benefit – 2 marks)	2	
(d)	Caravan Supplies send Ricky a document every month detailing all the transactions between them that month. State the name of this document.		
	Statement (of Account) (2)	2	
(e)	Explain the meaning of the following items which appear in Ricky's Trading, Profit and Loss Accounts.		
	Carriage In Amount paid to have purchases/stock delivered to you (2) Delivery charge (2)		
	Bad Debts Debts owed (1) to a business it will not receive (1)/written off (1)/not paid (1)		
	Depreciation Reduction in the value of a <u>fixed</u> asset (2)	6	

		Marks	
		KU	HI
3.	(continued)		
(b)	Sam has received cash discount from one of his suppliers. Suggest one reason for this. <ul style="list-style-type: none"> • Prompt payment (2) • Paying his bill within a certain time (2) (Any 1 reason – 2 marks)	2	
(c)	Explain the account term “drawings”. Money or goods taken out of the business by the owner for their own personal use (2)	2	
(d)	Sam is Treasurer of the local bowling club. Name this type of organisation. Not-for-Profit (2)	2	
(e)	Identify the financial statement which Sam would prepare each month to check the club’s bank account balance. Bank Reconciliation (Statement) (2)	2	
(f)	Explain the following terms. Subscriptions The amount paid by members (1) to use the club’s facilities (1)/to be a member (1)/membership fee (1)/normally main source of club income (1) (Any 2 points x 1 mark each) Accumulated Fund <ul style="list-style-type: none"> • What the club is worth (2) • Similar to capital (2) • Assets – Liabilities (2) (Any 1 explanation – 2 marks)	4	

<i>Marks</i>	
KU	HI
	5

4. (continued)

- (b)** Select the information from the previous page and prepare the “Financed By” section of Westend plc’s Balance Sheet as at 31 March 2012.

**Westend plc
Balance Sheet (extract) as at 31 March 2012**

Financed by:

	£	£	
100,000 £1 Ordinary Shares		100,000	(1)
50,000 8% Preference Shares		50,000	(1)
		150,000	
Add Unappropriated Profit		27,000	(1)
		177,000	
<u>Add Long Term Liabilities</u>			
12% Debentures		60,000	(1)
		237,000	(1)

		Marks															
		KU	HI														
4.	(continued)																
(c)	Who owns Westend plc? Shareholders	2															
(d)	Who is responsible for the day-to-day running of Westend plc? Managing Director (2)/Chief Executive (2)/General Manager (2) NOT Board of Directors/Directors/Chairman/Managers (Any one – 2 marks)	2															
(e)	Explain what is meant by limited liability in relation to a plc. Shareholders can only lose the money they invested (2) Shareholders cannot lose their personal possessions (2) (Any one – 2 marks)	2															
(f)	Explain 2 main differences between debentures and ordinary shares. <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"><u>Debentures</u></td> <td style="width: 50%;"><u>Ordinary Shares</u></td> </tr> <tr> <td>Interest (1)</td> <td>Dividend (1)</td> </tr> <tr> <td>Fixed (1)</td> <td>Variable (1)</td> </tr> <tr> <td>Loan (1)</td> <td>Ownership (1)</td> </tr> <tr> <td>Less risky (1)</td> <td>Greater risk (1)</td> </tr> <tr> <td>Priority repayment (1)</td> <td>Not repaid (1)</td> </tr> <tr> <td>No voting rights (1)</td> <td>Voting rights (1)</td> </tr> </table> (Both differences must be explained to gain both marks) (Only one mark if only one difference explained) (2 differences x 2 marks) Max 2 marks for Debentures Max 2 marks for Ordinary Shares	<u>Debentures</u>	<u>Ordinary Shares</u>	Interest (1)	Dividend (1)	Fixed (1)	Variable (1)	Loan (1)	Ownership (1)	Less risky (1)	Greater risk (1)	Priority repayment (1)	Not repaid (1)	No voting rights (1)	Voting rights (1)	4	
<u>Debentures</u>	<u>Ordinary Shares</u>																
Interest (1)	Dividend (1)																
Fixed (1)	Variable (1)																
Loan (1)	Ownership (1)																
Less risky (1)	Greater risk (1)																
Priority repayment (1)	Not repaid (1)																
No voting rights (1)	Voting rights (1)																

		Marks	
		KU	HI
5.	(continued)		
(c)	Name 2 other ratios that Mary may calculate from her final accounts.		
	<ul style="list-style-type: none"> • Rate of Stock Turnover (2) • Net Profit % (2) • Gross Profit % (2) • Expenses Ratio (2) • Acid Test Ratio (2) • Mark-up (2) 		
	(Any 2 ratios x 2 marks)	4	
(d)	State 2 reasons why Mary calculates accounting ratios.		
	<ul style="list-style-type: none"> • To compare with previous years (2) • To compare with other businesses (2) • To compare with the industry average (2) • To see how well the business is doing (2) • Future planning (2) 		
	(Any 2 reasons x 2 marks)	4	
(e)	Suggest 2 reasons why Mary's closing capital might be less than her opening capital.		
	<ul style="list-style-type: none"> • Drawings are more than the net profit (2) • Too many drawings/drawings too high (1) • She has made a loss (2) • She has withdrawn capital (2) • Withdrawn money to invest elsewhere (1) • Lost money (0) 		
	(Any 2 reasons x 2 marks)	4	
(f)	(i) Explain the difference between Current Liabilities and Long-term Liabilities.		
	Current Liability – money owed to be repaid within one year (1)		
	Long-term Liability – money owed to be repaid over several years (1)	2	
	(ii) Give one example of each.		
	Current Liability creditors/(bank) overdraft/accruals/VAT (1)		
	(One example – 1 mark)		
	Long-term Liability loan/mortgage/debentures (1)		
	(One example – 1 mark)	2	

		Marks	
		KU	HI
5.	(continued)		
(g)	(i) Explain the difference between a Fixed Asset and a Current Asset.		
	<ul style="list-style-type: none"> • Fixed assets will normally last more than one year (1) • Current assets will normally last for less than one year (1) • Current assets can change value on a daily basis (1) • Fixed assets will not change value on a daily basis (1) 		
	Must refer to Fixed and Current Assets to get 2 marks	2	
	(ii) Give one example of each.		
	Fixed Asset premises/machinery/equipment/vehicle/ fixtures/fittings (1)		
	(One example – 1 mark)		
	Current Asset stock/debtors/bank/cash/prepayments/ VAT (1)		
	(One example – 1 mark)	2	

