

Prelim 'fix it'

Learning objective:

To make improvements to your prelim exam.

Learning outcomes:

All should identify areas they need to improve.

Most will make improvements to these areas.

Some will identify what you need to do in order to make further improvements.

Key terms (Make notes in book)

Assets: Items a business owns.

Current assets: Items owned by a business that will be sold or used within one year e.g. stock and cash.

Fixed assets: Items owned by a business that it will keep for more than one year e.g. Premises (buildings), equipment, machinery and vehicles.

Key terms (write in book)

Liabilities: What a business owes.

Current liability: What the business owes that needs to be paid back within one year e.g. an overdraft and creditors (debts owed to suppliers).

Long-term liability: What the business owes that needs to be paid back in over one year e.g. a bank loan and mortgage,

Q1a fix it

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Items	Current Asset	Fixed Asset	Current liability	Long-term liability
Hovercrafts		<input checked="" type="checkbox"/>		
Money in bank	<input checked="" type="checkbox"/>			
Bank loan				<input checked="" type="checkbox"/>
Equipment used for repairs		<input checked="" type="checkbox"/>		
Debts owed by <i>SGH</i> to suppliers			<input checked="" type="checkbox"/>	
Blank DVDs	<input checked="" type="checkbox"/>			

Q1b fix it

Current assets:

Money in bank: £6,000

Blank DVDs: £280.00

Total: £6,280

Current liabilities:

Debts owed by SGH: £1,400

Total: £1,400

Working capital:

Current assets – Current liabilities

£6,280 - 1,400 = **£4,880**

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Q2a

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- PROFIT is NOT part of a Balance Sheet.
- PROFIT = PROFIT and Loss account

A balance sheet is a statement of the assets, liabilities and capital at a particular point in time (1). It shows the liquidity/how solvent *SGH* is (1) and so Adem will know if he has enough current assets to pay debts (1).

Q2b

Q	Answer
2(b)	The DVD recording equipment is not consumed or sold during the normal course of the business (1). Any asset expected to last/be in use for more than one year is considered a fixed asset (1). Accept any other appropriate answer

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Q2c and d

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Q	Answer
2(c)	1 mark for each example from list to a maximum of 2 <ul style="list-style-type: none">• Purchase of hovercrafts• Purchase of van• Purchase of helmets

Q	Answer
2(d)	1 mark for each example from list to a maximum of 2 <ul style="list-style-type: none">• Monthly internet listing fee• Instructors wages• Payment for fuel

Q3a

Learning outcomes:

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- The question asks ‘how’ the debit card would be used (A lot of misunderstanding).

Q	Answer
3(a)	<p><i>SGH could visit the supplier (1) and use the garage’s chip and pin machine (1)</i></p> <p><i>SGH could phone the supplier (1) and give their card details/PIN number (1)</i></p> <p><i>SGH could use the internet to pay the supplier (1) entering their card details/PIN number (1)</i></p> <p><i>E.g. SGH could use the garage’s chip and pin machine (1) to transfer money from their account to the garage’s account (1)</i></p>

Q3b

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- Debit and credit cards are similar
- Both are quick, efficient, can be used over the phone and/or online etc.

3(b)

Possible benefits of paying by credit card as opposed to debit card might include:

- Does not need the money in *SGH's* bank account (1) as it is being borrowed from the credit card company (1)
- Can be paid back in instalments/spreads payment (1) which can help *SGH's* budget (1)
- Defers payment (1) *SGH* has one month to pay before interest is added

Q4a

Learning outcomes:

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Stakeholder	Interest in financial statements
Suppliers (1)	Suppliers will need to ensure that SGH will be capable of paying for goods and services (1)
Customers (1)	Customers will be concerned whether SGH will survive/continue to provide goods and services (1)
Bank/Lenders (1)	Lenders will need information concerning SGH's ability to make interest payments/repay loans/the security for their loan (1)
Adem and Sirin (owners/managers) (1)	As owners/managers they are interested in profit levels (1)

Q4b

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Q	Answer	
4(b)	<i>Invoice Number:</i> 76414	(1) Both
	<i>Date:</i> 30/11/2017	
	<i>Invoice to:</i>	(1) Name and full address
	Mr. Simon Moody	
	43 Nautilus Way	
	Brighton	
	East Sussex	
	BN2 5XZ	

Number of laps	Cost (£)(p)		Total (£)(p)		
10 lap experience	60	00	60	00	(1)
Extra laps x 5	3	99	19	95	(1)
DVD x1	15	00	15	00	(1)
	Total		94	95	(1) (OFR)
	Online booking discount @10%		9	49	(1) (OFR)
	Total to Pay		85	46	(1) (OFR)

Q5a

	£	£	
Sales		135 000	(1)
Cost of Sales		19 000	(1)
Gross Profit		116 000	(1) OFR only if labels correct but figures incorrect
Expenses:			
Wages and salaries	25 000		(1)
Servicing of machines	1 500		(1)
Rent, rates and insurance	11 100		(1)
Total Expenses:		37 600	(1)
Net Profit		78 400	(1) OFR only if expenses labels correct but figures incorrect Must state <i>Net Profit</i>

Q5b

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85.9% (2 OFR)

Or substituting the figures in the formula

$$\frac{\text{GP}}{\text{Sales}} = \frac{116\,000}{135\,000} \times 100 \quad (1 \text{ OFR})$$

Accept 86%

Q5c

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Possible disadvantages include:

- A small business such as SGH may be wasting money purchasing a computerised accounting system
- It takes time to set up a computerised accounting system
- They will be dependent on technology
- Set up costs can be high
- Requires time/money for training

For example:

- *SGH is a small business (1) that can manage accounting manually/that could use a spreadsheet (1) – therefore the cost of a computerised system could be greater than the advantages it brings (1).*

Q6

Learning outcomes:

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- A lot of misunderstanding for this question
- Arguments for refusing cheques
- Arguments against refusing cheques
- Conclusion

Arguments for

Cheques are time consuming/labour intensive and have to be physically paid into a bank.

Staff would not have to count, process and manually handle cheques.

Cheques are expensive - cheques can cost up to £1 each to process.

Cheques that are refused incur a charge for both the customer/payee and the business/drawer.

Card transactions have little administration.

As cheques have become a less favoured method of payment the decision might not really affect or deter customers, or restrict choice.

Cheques need time to clear (up to 4 days).

Arguments against

If customers pay by cash it will still need to be transported to a bank.

If customers pay by cash it will still need to be stored and counted.

Banks charge a fee for each transaction on a chip and pin machine.

It is rare for a cheque to bounce (only 0.75%).

Costs may rise as SGH will need to own or rent chip and pin hardware to accept cards.

This incurs set up and staff training costs plus a purchase/rental charge.

Refusing to accept cheques may mean turning away business

Homework:

- Complete the stakeholder section in the 2.3 workbook (Q20-22)