# Lecture 3 Questions

1. (a) Define an asset

(b) Define an expense

(c) Outline the matching or accruals concept.

1. The company you work for is knowledge based and in order to recruit a highly sought after computer engineer you will have pay her an upfront sum of £500,000 with a 10% fee to a recruitment agency.

Should the golden handshake and agency fee be regarded as an asset or an expense?

1. The company you work for has won a contract to build a tunnel under the Pennines. The work will be completed over 8 years, with payments made to your company every 2 years. How should this project be accounted for? When can you recognise any sales revenue? Will you keep all the costs as work-in-progress within inventory until the completion of the project?
2. A simple business is set up where, through a contact, specialised lab safety equipment can be bought for only £300 each. The market in the UK is such that each item can be sold for £380.

In the first month the company buys 500 items and sells 200, in the second month the company buys 1,000 items and sells 800 and in the third month the company buys 1,200 and sells 1,700.

For each month calculate the profit and cash position.