6 Inventory 43 mins

6.1 The inventory value for the financial statements of Global Inc for the year ended 30 June 20X3 was based on a inventory count on 7 July 20X3, which gave a total inventory value of $950,000.

Between 30 June and 7 July 20X6, the following transactions took place.

	$
Purchase of goods	11,750
Sale of goods (mark up on cost at 15%)	14,950
Goods returned by Global Inc to supplier	1,500

What figure should be included in the financial statements for inventories at 30 June 20X3?

A $952,750
B $949,750
C $926,750
D $958,950 **(2 marks)**

6.2 Which of the following costs may be included when arriving at the cost of finished goods inventory for inclusion in the financial statements of a manufacturing company?

1 Carriage inwards
2 Carriage outwards
3 Depreciation of factory plant
4 Finished goods storage costs
5 Factory supervisors' wages

A 1 and 5 only
B 2, 4 and 5 only
C 1, 3 and 5 only
D 1, 2, 3 and 4 only **(2 marks)**

6.3 The closing inventory at cost of a company at 31 January 20X3 amounted to $284,700.

The following items were included at cost in the total:

1 400 coats, which had cost $80 each and normally sold for $150 each. Owing to a defect in manufacture, they were all sold after the reporting date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.

2 800 skirts, which had cost $20 each. These too were found to be defective. Remedial work in February 20X3 cost $5 per skirt, and selling expenses for the batch totalled $800. They were sold for $28 each.

What should the inventory value be according to IAS 2 *Inventories* after considering the above items?

A $281,200
B $282,800
C $329,200
D None of these **(2 marks)**

6.4 A company values its inventory using the first in, first out (FIFO) method. At 1 May 20X2 the company had 700 engines in inventory, valued at $190 each.

During the year ended 30 April 20X3 the following transactions took place:

20X2

1 July	Purchased 500 engines at $220 each
1 November	Sold 400 engines for $160,000

20X3

1 February	Purchased 300 engines at $230 each
15 April	Sold 250 engines for $125,000

What is the value of the company's closing inventory of engines at 30 April 20X3?

A $188,500
B $195,500
C $166,000
D None of these figures **(2 marks)**

6.5 Which of the following statements about the valuation of inventory are correct, according to IAS 2 *Inventories?*

1 Inventory items are normally to be valued at the higher of cost and net realisable value.

2 The cost of goods manufactured by an entity will include materials and labour only. Overhead costs cannot be included.

3 LIFO (last in, first out) cannot be used to value inventory.

4 Selling price less estimated profit margin may be used to arrive at cost if this gives a reasonable approximation to actual cost.

A 1, 3 and 4 only
B 1 and 2 only
C 3 and 4 only
D None of the statements are correct **(2 marks)**

6.6 A company with an accounting date of 31 October carried out a physical check of inventory on 4 November 20X3, leading to an inventory value at cost at this date of $483,700.

Between 1 November 20X3 and 4 November 20X3 the following transactions took place:

1 Goods costing $38,400 were received from suppliers.

2 Goods that had cost $14,800 were sold for $20,000.

3 A customer returned, in good condition, some goods which had been sold to him in October for $600 and which had cost $400.

4 The company returned goods that had cost $1,800 in October to the supplier, and received a credit note for them.

What figure should appear in the company's financial statements at 31 October 20X3 for closing inventory, based on this information?

A $458,700
B $505,900
C $508,700
D $461,500 **(2 marks)**

6.7 In preparing its financial statements for the current year, a company's closing inventory was understated by $300,000.

What will be the effect of this error if it remains uncorrected?

A The current year's profit will be overstated and next year's profit will be understated.
B The current year's profit will be understated but there will be no effect on next year's profit.
C The current year's profit will be understated and next year's profit will be overstated.
D The current year's profit will be overstated but there will be no effect on next year's profit.

(2 marks)

6.8 At 30 September 20X3 the closing inventory of a company amounted to $386,400.

The following items were included in this total at cost:

1 1,000 items which had cost $18 each. These items were all sold in October 20X3 for $15 each, with selling expenses of $800.

2 Five items which had been in inventory since 19W3, when they were purchased for $100 each, sold in October 20X3 for $1,000 each, net of selling expenses.

What figure should appear in the company's statement of financial position at 30 September 20X3 for inventory?

A $382,600
B $384,200
C $387,100
D $400,600

(2 marks)

6.9 The financial year of Mitex Co ended on 31 December 20X1. An inventory count on January 4 20X2 gave a total inventory value of $527,300.

The following transactions occurred between January 1 and January 4.

	$
Purchases of goods	7,900
Sales of goods (gross profit margin 40% on sales)	15,000
Goods returned to a supplier	800

What inventory value should be included in Mitex Co's financial statements at 31 December 20X1?

A $525,400
B $527,600
C $529,200
D $535,200

(2 marks)

6.10 Which of the following statements about IAS 2 *Inventories* is correct?

A Production overheads should be included in cost on the basis of a company's normal level of activity in the period.

B In arriving at the net realisable value of inventories, trade discounts and settlement discounts must be deducted.

C In arriving at the cost of inventories, FIFO, LIFO and weighted average cost formulas are acceptable.

D It is permitted to value finished goods inventories at materials plus labour cost only, without adding production overheads.

(2 marks)

6.11 You are preparing the final accounts for a business. The cost of the items in closing inventory is $41,875. This includes some items which cost $1,960 and which were damaged in transit. You have estimated that it will cost $360 to repair the items, and they can then be sold for $1,200.

What is the correct inventory valuation for inclusion in the final accounts?

A $39,915
B $40,755
C $41,515
D $42,995 **(2 marks)**

6.12 S sells three products – Basic, Super and Luxury. The following information was available at the year end.

	Basic	*Super*	*Luxury*
	$ per unit	$ per unit	$ per unit
Original cost	6	9	18
Estimated selling price	9	12	15
Selling and distribution costs	1	4	5
	units	units	units
Units of inventory	200	250	150

What is the value of inventory at the year end?

A $4,200
B $4,700
C $5,700
D $6,150 **(2 marks)**

6.13 An inventory record card shows the following details.

February	1	50 units in stock at a cost of $40 per unit
	7	100 units purchased at a cost of $45 per unit
	14	80 units sold
	21	50 units purchased at a cost of $50 per unit
	28	60 units sold

What is the value of inventory at 28 February using the FIFO method?

A $2,450
B $2,700
C $2,950
D $3,000 **(2 marks)**

7.1 What is the purpose of charging depreciation in accounts?

A To allocate the cost of a non-current asset over the accounting periods expected to benefit from its use

B To ensure that funds are available for the eventual replacement of the asset

C To reduce the cost of the asset in the statement of financial position to its estimated market value

D To account for the 'wearing-out' of the asset over its life **(2 marks)**

7.2 Your firm bought a machine for $5,000 on 1 January 20X1, which had an expected useful life of four years and an expected residual value of $1,000; the asset was to be depreciated on the straight-line basis. The firm's policy is to charge depreciation in the year of disposal. On 31 December 20X3, the machine was sold for $1,600.

What amount should be entered in the 20X3 statement of profit or loss and other comprehensive income for profit or loss on disposal?

A Profit of $600
B Loss of $600
C Profit of $350
D Loss of $400 **(2 marks)**

7.3 An asset register showed a carrying value of $67,460. A non-current asset costing $15,000 had been sold for $4,000, making a loss on disposal of $1,250. No entries had been made in the asset register for this disposal.

What is the correct balance on the asset register?

A $42,710
B $51,210
C $53,710
D $62,210 **(2 marks)**

7.4 An organisation's asset register shows a carrying value of $145,600. The non-current asset account in the nominal ledger shows a carrying value of $135,600. The difference could be due to a disposed asset not having been deducted from the asset register. Which one of the following could represent that asset?

A Asset with disposal proceeds of $15,000 and a profit on disposal of $5,000
B Asset with disposal proceeds of $15,000 and a carrying value of $5,000
C Asset with disposal proceeds of $15,000 and a loss on disposal of $5,000
D Asset with disposal proceeds of $5,000 and a carrying value of $5,000 **(2 marks)**

7.5 Which one of the following would occur if the purchase of computer stationary was debited to the computer equipment at cost account?

A An overstatement of profit and an overstatement of non-current assets
B An understatement of profit and an overstatement of non-current assets
C An overstatement of profit and an understatement of non-current assets
D An understatement of profit and an understatement of non-current assets **(2 marks)**

7.6 A company's plant and machinery ledger account for the year ended 30 September 20X2 was as follows:

PLANT AND MACHINERY – COST

		$			$
20X1			*20X2*		
1 Oct	Balance	381,200	1 Jun	Disposal account – cost of asset sold	36,000
1 Dec	Cash – addition	18,000	30 Sep	Balance	363,200
		399,200			399,200

The company's policy is to charge depreciation at 20% per year on the straight line basis, with proportionate depreciation in years of purchase and disposal.

What is the depreciation charge for the year ended 30 September 20X2?

A $74,440
B $84,040
C $72,640
D $76,840 **(2 marks)**

7.7 A company bought a property four years ago on 1 January for $ 170,000. Since then property prices have risen substantially and the property has been revalued at $210,000.

The property was estimated as having a useful life of 20 years when it was purchased. What is the balance on the revaluation surplus reported in the statement of financial position?

A $210,000
B $136,000
C $74,000
D $34,000 **(2 marks)**

7.8 A business purchased a motor car on 1 July 20X3 for $20,000. It is to be depreciated at 20 per cent per year on the straight line basis, assuming a residual value at the end of five years of $4,000, with a proportionate depreciation charge in the years of purchase and disposal.

The $20,000 cost was correctly entered in the cash book but posted to the debit of the motor vehicles repairs account.

How will the business profit for the year ended 31 December 20X3 be affected by the error?

A Understated by $18,400
B Understated by $16,800
C Overstated by $18,400
D Overstated by $16,800 **(2 marks)**

7.9 A company's policy is to charge depreciation on plant and machinery at 20% per year on cost, with proportional depreciation for items purchased or sold during a year.

The company's plant and machinery at cost account for the year ended 30 September 20X3 is shown below.

PLANT AND MACHINERY – COST

			$				$
20X2				*20X3*			
1 Oct	Balance		200,000	30 Jun	Transfer disposal account		40,000
				30 Sep	Balance		210,000
20X3							
1 Apr	Cash-purchase of plant		50,000				
			250,000				250,000

What should be the depreciation charge for plant and machinery (excluding any profit or loss on the disposal) for the year ended 30 September 20X3?

A $43,000
B $51,000
C $42,000
D $45,000 **(2 marks)**

7.10 The plant and machinery at cost account of a business for the year ended 30 June 20X4 was as follows:

PLANT AND MACHINERY – COST

		$			$
20X3			*20X3*		
1 Jul	Balance	240,000	30 Sep	Transfer disposal account	60,000
20X4			*20X4*		
1 Jan	Cash – purchase of plant	160,000	30 Jun	Balance	340,000
		400,000			400,000

The company's policy is to charge depreciation at 20% per year on the straight line basis, with proportionate depreciation in the years of purchase and disposal.

What should be the depreciation charge for the year ended 30 June 20X4?

A $68,000
B $64,000
C $61,000
D $55,000 **(2 marks)**

7.11 A manufacturing company receives an invoice on 29 February 20X2 for work done on one of its machines. $25,500 of the cost is actually for a machine upgrade, which will improve efficiency. The accounts department do not notice and charge the whole amount to maintenance costs. Machinery is depreciated at 25% per annum on a straight-line basis, with a proportional charge in the years of acquisition and disposal. By what amount will the profit for the year to 30 June 20X2 be understated?

A $19,125
B $25,500
C $23,375
D $21,250 **(2 marks)**

7.12 W bought a new printing machine. The cost of the machine was $80,000. The installation costs were $5,000 and the employees received training on how to use the machine, at a cost of $2,000. Before using the machine to print customers' orders, a test was undertaken and the paper and ink cost $1,000.

What should be the cost of the machine in the company's statement of financial position?

A $80,000
B $85,000
C $86,000
D $88,000 **(2 marks)**

7.13 What are the correct ledger entries to record an acquisition of a non-current asset on credit?

	Debit	*Credit*	
A	Non-current assets – cost	Receivables	
B	Payables	Non-current assets – cost	
C	Non-current assets – cost	Payables	
D	Non-current assets – cost	Revaluation surplus	**(2 marks)**

7.14 Alpha sells machine B for $50,000 cash on 30 April 20X4. Machine B cost $100,000 when it was purchased and has a carrying value of $65,000 at the date of disposal. What are the journal entries to record the disposal of machine B?

A	Dr Accumulated depreciation	$35,000	
	Dr Loss on disposal (SPL)	$15,000	
	Dr Cash	$50,000	
	Cr Non-current assets – cost		$100,000
B	Dr Accumulated depreciation	$65,000	
	Dr Loss on disposal (SPL)	$35,000	
	Cr Non-current assets – cost		$100,000
C	Dr Accumulated depreciation	$35,000	
	Dr Cash	$50,000	
	Cr Non-current assets		$65,000
	Cr Profit on disposal (SPL)		$20,000
D	Dr Non-current assets	$65,000	
	Dr Accumulated depreciation	$35,000	
	Cr Cash		$50,000
	Cr Profit on disposal (SPL)		$50,000

(2 marks)

7.15 Which of the following statements are correct?

1 IAS 16 *Property, plant and equipment* requires entities to disclose the purchase date of each asset.

2 The carrying amount of a non-current asset is the cost or valuation of that asset less accumulated depreciation.

3 IAS 16 *Property, plan and equipment* permits entities to make a transfer from the revaluation surplus to retained earnings for excess depreciation on revalued assets.

4 Once decided, the useful life of a non-current asset should not be changed.

A 1, 2 and 3
B 2 and 3 only
C 2 and 4 only
D 1, 2 and 4 only **(2 marks)**

The following information is relevant for questions 7.16 and 7.17.

Gusna Co purchased a building on 31 December 20X1 for $750,000. At the date of acquisition, the useful life of the building was estimated to be 25 years and depreciation is calculated using the straight-line method. At 31 December 20X6, an independent valuer valued the building at $1,000,000 and the revaluation was recognised in the financial statements. Gusna's accounting policies state that excess depreciation arising on revaluation of non-current assets can be transferred from the revaluation surplus to retained earnings.

7.16 What is the depreciation charge on the building for the year ended 31 December 20X7?

A $40,000
B $50,000
C $30,000
D $42,500 **(2 marks)**

7.17 What is the journal entry to record the transfer of excess depreciation from the revaluation surplus to retained earnings?

A	Dr Revaluation surplus	$20,000	
	Cr Retained earnings		$20,000
B	Dr Revaluation surplus	$12,500	
	Cr Retained earnings		$12,500
C	Dr Retained earnings	$20,000	
	Cr Revaluation surplus		$20,000
D	Dr Revaluation surplus	$12,500	
	Cr Retained earnings		$12,500

(2 marks)

(Total = 34 marks)

8.1 A car was purchased by a newsagent business in May 20X0 for:

	$
Cost	10,000
Road tax	150
Total	10,150

The business adopts a date of 31 December as its year end.

The car was traded in for a replacement vehicle in August 20X3 at an agreed value of $5,000.

It has been depreciated at 25% per annum on the reducing balance method, charging a full year's depreciation in the year of purchase and none in the year of sale.

What was the profit or loss on disposal of the vehicle during the year ended December 20X3?

A Profit: $718
B Profit: $781
C Profit: $1,788
D Profit: $1,836 **(2 marks)**

8.2 The carrying value of a company's non-current assets was $200,000 at 1 August 20X0. During the year ended 31 July 20X1, the company sold non-current assets for $25,000 on which it made a loss of $5,000. The depreciation charge for the year was $20,000. What was the carrying value of non-current assets at 31 July 20X1?

A $150,000
B $155,000
C $160,000
D $180,000 **(2 marks)**

8.3 Y purchased some plant on 1 January 20X0 for $38,000. The payment for the plant was correctly entered in the cash book but was entered on the debit side of the plant repairs account.

Y charges depreciation on the straight line basis at 20% per year, with a proportionate charge in the years of acquisition and disposal, and assuming no scrap value at the end of the life of the asset.

How will Y's profit for the year ended 31 March 20X0 be affected by the error?

A Understated by $30,400
B Understated by $36,100
C Understated by $38,000
D Overstated by $1,900 **(2 marks)**

8.4 B acquired a lorry on 1 May 20X0 at a cost of $30,000. The lorry has an estimated useful life of four years, and an estimated resale value at the end of that time of $6,000. B charges depreciation on the straight line basis, with a proportionate charge in the period of acquisition.

What will the depreciation charge for the lorry be in B's accounting period to 30 September 20X0?

A $3,000
B $2,500
C $2,000
D $5,000 **(2 marks)**

8.5 At 31 December 20X3 Q, a limited liability company, owned a building that had cost $800,000 on 1 January 20W4.

It was being depreciated at 2% per year.

On 31 December 20X3 a revaluation to $1,000,000 was recognised. At this date the building had a remaining useful life of 40 years.

What is the balance on the revaluation surplus at 31 December 20X3 and the depreciation charge in the statement of profit or loss for the year ended 31 December 20X4?

	Depreciation charge for year ended 31 December 20X4 (statement of profit or loss)	*Revaluation surplus as at 31 December 20X3 (statement of financial position)*
	$	$
A	25,000	200,000
B	25,000	360,000
C	20,000	200,000
D	20,000	360,000

(2 marks)

8.6 Which of the following best explains what is meant by 'capital expenditure'?

A Expenditure on non-current assets, including repairs and maintenance
B Expenditure on expensive assets
C Expenditure relating to the issue of share capital
D Expenditure relating to the acquisition or improvement of non-current assets **(2 marks)**

8.7 Which of the following costs would be classified as capital expenditure for a restaurant business?

A A replacement for a broken window
B Repainting the restaurant
C An illuminated sign advertising the business name
D Cleaning of the kitchen floors **(2 marks)**

8.8 Which one of the following costs would be classified as revenue expenditure on the invoice for a new company car?

A Road tax
B Number plates
C Fitted stereo radio
D Delivery costs **(2 marks)**

9.1 According to IAS 38 *Intangible assets*, which of the following statements about research and development expenditure are correct?

1 Research expenditure, other than capital expenditure on research facilities, should be recognised as an expense as incurred.

2 In deciding whether development expenditure qualifies to be recognised as an asset, it is necessary to consider whether there will be adequate finance available to complete the project.

3 Development expenditure recognised as an asset must be amortised over a period not exceeding five years.

A 1, 2 and 3
B 1 and 2 only
C 1 and 3 only
D 2 and 3 only **(2 marks)**

9.2 According to IAS 38 *Intangible assets,* which of the following statements about research and development expenditure are correct?

1 If certain conditions are met, an entity may decide to capitalise development expenditure.

2 Research expenditure, other than capital expenditure on research facilities, must be written off as incurred.

3 Capitalised development expenditure must be amortised over a period not exceeding 5 years.

4 Capitalised development expenditure must be disclosed in the statement of financial position under intangible non-current assets.

A 1, 2 and 4 only
B 1 and 3 only
C 2 and 4 only
D 3 and 4 only **(2 marks)**

9.3 According to IAS 38 *Intangible assets,* which of the following statements concerning the accounting treatment of research and development expenditure are **true**?

1 Development costs recognised as an asset must be amortised over a period not exceeding five years.

2 Research expenditure, other than capital expenditure on research facilities, should be recognised as an expense as incurred.

3 In deciding whether development expenditure qualifies to be recognised as an asset, it is necessary to consider whether there will be adequate finance available to complete the project.

4 Development projects must be reviewed at each reporting date, and expenditure on any project no longer qualifying for capitalisation must be amortised through the statement of profit or loss and other comprehensive income over a period not exceeding five years.

A 1 and 4
B 2 and 4
C 2 and 3
D 1 and 3 **(2 marks)**

9.4 According to IAS 38 *Intangible assets,* which of the following statements is/are correct?

1 Capitalised development expenditure must be amortised over a period not exceeding five years.

2 If all the conditions specified in IAS 38 are met, development expenditure may be capitalised if the directors decide to do so.

3 Capitalised development costs are shown in the statement of financial position under the heading of non-current assets.

4 Amortisation of capitalised development expenditure will appear as an item in a company's statement of changes in equity.

A 3 only
B 2 and 3
C 1 and 4
D 1 and 3 **(2 marks)**

9.5 According to IAS 38 *Intangible assets*, which of the following are intangible non-current assets in the accounts of Iota Co?

1 A patent for a new glue purchased for $20,000 by Iota Co
2 Development costs capitalised in accordance with IAS 38
3 A licence to broadcast a television series, purchased by Iota Co for $150,000
4 A state of the art factory purchased by Iota Co for $1.5million

A 1 and 3 only
B 1, 2 and 3 only
C 2 and 4 only
D 2, 3 and 4 only **(2 marks)**

9.6 According to IAS 38 *Intangible assets,* which of the following statements about intangible assets are correct?

1 If certain criteria are met, research expenditure must be recognised as an intangible asset.
2 If certain criteria are met, development expenditure must be capitalised
3 Intangible assets must be amortised if they have a definite useful life

A 2 and 3 only
B 1 and 3 only
C 1 and 2 only
D All three statements are correct **(2 marks)**

9.7 According to IAS 38 *Intangible assets,* which of the following statements concerning the accounting treatment of research and development expenditure are true?

1 If certain criteria are met, research expenditure may be recognised as an asset.

2 Research expenditure, other than capital expenditure on research facilities, should be recognised as an expense as incurred.

3 In deciding whether development expenditure qualifies to be recognised as an asset, it is necessary to consider whether there will be adequate finance available to complete the project.

4 Development expenditure recognised as an asset must be amortised over a period not exceeding five years.

5 The financial statements should disclose the total amount of research and development expenditure recognised as an expense during the period.

A 1, 4 and 5
B 2, 4 and 5
C 2, 3 and 4
D 2, 3 and 5 **(2 marks)**

Prepare the the Statement of Profit and Loss and the Statement of Financial Position

	DR	CR
Sales		$250,000
Sales Returns	$25,000	
Opening Inventory	$7,000	
Purchases	$130,000	
Carriage Inwards	$2,500	
Carriage Outwards	$3,000	
Electricity Expense	$1,500	
Rent and rates	$2,500	
Administrative Expenses	$1,000	
Equipment	$50,000	
Motor Vehicle	$75,000	
Cash	$6,000	
Bank	$15,000	
Trade Receivables	$17,000	
Trade Payables		$21,000
Bank loan repayable in 5 years		$60,000
Share Capital		$67,500
Drawings	$13,000	
	~~$348,500~~	~~$348,500~~

Note: Closing Inventory for the year was $6,000

The following trial balance was extracted from the ledger of Stephen Chee, a sole trader, as at 31 May 20X1

	Dr	Cr
Property	$120,000	
Equipment	$80,000	
Purchases	$250,000	
Sales		$552,200
Inventory as at 1 June 20X0	$50,000	
Discount allowed	$18,000	
Discount received		$4,800
Purchase returns		$15,000
Wages and salaries	$58,800	
Loan interest	$5,100	
Administrative expenses	$17,700	
Trade payables		$36,000
Trade receivables	$38,000	
Cash	$1,000	
Bank	$1,300	
Drawings	$24,000	
Capital		$55,900
	$663,900	$663,900

Note: Inventory as at 31 May 20X1 was valued at $42,000

a. Prepare the Statement of Profit and Loss (SOPL) and Statement Of Financial Position (SOFP)