Valuation of inventory

J11/12/ (11/13 same)

4 Khalim sells three types of chair and provides the following information about his inventory at 30 April 2011.

Chair type	Units in stock	Cost per unit	Selling price per unit
		$	$
Armchair	15	55	65
Dining chair	36	25	20
Folding chair	60	15	18

REQUIRED

(d) State the basis on which Khalim will value his inventory on 30 April 2011.

....

....[3]

(e) Calculate the value of Khalim's inventory at 30 April 2011. Show all your workings.

....

....

....

....

....

....

....

....[8]

J11/22

3 Financial statements were prepared for Wayne and Tracey Lister for the year ended 28 February 2011 showing a profit for the year of $18 500.

It was later discovered that the closing inventory had been over-valued by $560.

REQUIRED

(c) State the basis on which inventory should be valued.

....[1]

(d) Explain why inventory should be valued on this basis.

....

....

....

....[2]

(e) Calculate the effect on Wayne's profit share of correcting the above error. Show your workings.

....

....

....

....

....

....

....

....[4]

J12/12

2(b) Inventory is valued at the lower of ....and

....[1]

J12/21

5 Tania Yousaf sells office equipment. She values her inventory at the lower of cost and net realisable value.

REQUIRED

(a) Explain the meaning of the term "cost".

....

....

....[2]

(b) Explain the meaning of the term "net realisable value".

....

....

....[2]

(c) Explain how valuing inventory at the lower of cost and net realisable value is an application of the principle of prudence.

....

....

....[2]

(d) After the preparation of her financial statements for the year ended 31 December 2011, Tania Yousaf discovered that the closing inventory had been overvalued by $400.

Complete the table below to show the effect of this. The first one has been completed as an example.

		Overstated	Understated	No effect
(i)	gross profit for the year ended 31 December **2011**	✓		
(ii)	profit for the year ended 31 December **2012**			
(iii)	credit balance on capital account on 1 January **2013**			

[4]

After correcting the financial statements, Tania Yousaf provided the following information:

	$
Revenue for the year ended 31 December 2011	87 000
Inventory at 1 January 2011	6 000
Inventory at 31 December 2011	7 400
Gross profit margin	20%

REQUIRED

(e) Calculate the rate of inventory turnover. Show your workings and give your answer to **two** decimal places.

....

....

....

....

....

....[3]

(f) The rate of inventory turnover was better in 2011 than in 2010. Suggest one reason for this.

....

....[2]

(g) State **one** factor that Tania Yousaf should consider before comparing the results of her business with those of another business.

....

....[1]

(h) State **two** reasons why Tania Yousaf is interested in the financial statements of her credit customers.

(i) ………

………

(ii) ………

………[2]

(i) State **one** reason why each of the following business people are interested in Tania Yousaf's financial statements.

(i) Employee

………

………

(ii) Bank manager

………

………[2]

[Total: 20]

N12/13

4 Mlongo buys and sells mirrors. The following information is available for the year ended 31 October 2012.

	$
Carriage inwards	50
Carriage outwards	100
Inventory at 1 November 2011	1 300
Operating expenses	680
Purchases	4 650
Rent	780
Revenue	8 000
Returns inwards	215

Rent includes $260 paid in advance. Additional operating expenses of $120 are to be accrued.

REQUIRED

(a) State what is meant by the term "inventory".

………

………[1]

Mlongo sells three different types of mirror and provided the following information about his inventory at 31 October 2012.

Mirror type	Units in stock	Cost per unit	Selling price per unit
		$	$
Full-length mirror	15	55	85
Wall mirror	50	15	21
Table mirror	36	25	20

REQUIRED

(b) Calculate the value of Mlongo's inventory at 31 October 2012. Show your workings.

....

....

....

....

....

....

....

....[4]

(c) From the information and your answer to **(b)**, prepare Mlongo's income statement for the year ended 31 October 2012.

Mlongo

Income Statement for the year ended 31 October 2012

	$	$

[9]

Mlongo knows that the rate of inventory turnover is important to a business.

REQUIRED

(d)(i) State the formula for the calculation of the rate of inventory turnover.

……

……[1]

(ii) Calculate Mlongo's rate of inventory turnover for the year ended 31 October 2012. Show your workings and give your answer to **one** decimal place.

……

……

……[2]

(e) Mlongo plans to reduce his closing inventory at 31 October 2013. State the effect of this on his rate of inventory turnover. Give a reason for your answer.

……

……

……

……[2]

(f) State one type of business which will have a low rate of inventory turnover.

……[1]

[Total: 20]

N12/22

1(c) (i) State the basis on which Zabeel should value his inventories.

……

……[1]

(ii) Name the accounting principle Zabeel is applying by valuing the inventories on this basis.

……[1]

N12/22

5 Tariq Osman is a trader. His financial year ends on 30 September.

All his sales are made on credit terms.

The selling price is calculated by marking up the cost price by 25%.

Tariq Osman provided the following information.

		$
1 October 2011	Trade receivables	4 950
During the year ended 30 September 2012:		
	Cheques received from credit customers	56 360
	Discount allowed to credit customers	1 640
	Bad debts written off	1 260
30 September 2012	Trade receivables	6 290
	Trade payables	6 150
	Inventory	5 800
	Bank overdraft	1 240
	Petty cash	100

REQUIRED

(a) Calculate the credit sales for the year ended 30 September 2012. Your answer may be in the form of a ledger account or an arithmetic calculation.

....[6]

(b) Using your answer to **(a)** and the information above, calculate the gross profit for the year ended 30 September 2012.

Show your workings.

....[2]

(c) Using your answers to **(a)** and **(b)**, calculate the cost of sales. Show your workings.

....[2]

(d) Assuming that Tariq Osman's average inventory is $6 000, calculate the rate of inventory turnover. The calculation should be correct to **two** decimal places. Show your workings.

....

....

....

....[2]

(e) Suggest **two** ways in which the rate of inventory turnover could be improved.

1...

....

2...

....[4]

(f) Calculate the current ratio. The calculation should be correct to **two** decimal places. Show your workings.

....

....

....

....[3]

(g) Calculate the quick ratio (acid test ratio). The calculation should be correct to **two** decimal places. Show your workings.

....

....

....

....[3]

(h) Explain why the quick ratio (acid test ratio) is more reliable than the current ratio as an indicator of liquidity.

....

....

....

....[2]

(i) Suggest one way in which Tariq Osman could improve his quick ratio (acid test ratio).

....

....[2]

[Total: 26]

J13/11

2(b) Ravi provided the following information about inventory held at the end of his financial year.

Product	Units held	Cost per unit	Selling and distribution costs per unit	Selling price per unit
		$	$	$
A	600	15	2.00	21
B	100	12	1.50	13
C	50	18	2.00	17

Calculate the total value of each type of product.

....

....

....

....

....

....[6]

N13/23

4 Asma Anwar trades in several different types of goods.

She provided the following details about two types of goods on 30 September 2013.

Inventory type	Units	Cost per unit $	Selling price per unit $
A	500	2.15	3.40
B	600	1.95	1.80

Carriage inwards was charged at the rate of $1 per unit on inventory type A (this is not included in the cost per unit shown above).

(d) Calculate the total value of the inventory on 30 September 2013.

Inventory type	Calculation	Amount $
A		
B		
	Total	

[3]

(e) Explain the calculations in your answer to (d) and state the accounting principle you have applied.

Explanation ……….

……

……

Principle …….[3]

The total value of Asma Anwar's inventory at 30 September 2013 was $18 200. This was $1 600 less than the inventory on 1 October 2012.

Her revenue for the year was $140 000. All goods are sold at a mark-up of 25%.

(f) Calculate Asma Anwar's cost of sales for the year ended 30 September 2013.

……

……

………[1]

(g) Calculate her rate of inventory turnover for the year ended 30 September 2013. Give your answer to **two** decimal places.

……

……

……

………[2]

(h) Suggest **one** reason why Asma Anwar's rate of inventory turnover has improved.

……

………[2]

N14/13

3(e) (i) Inventory should not be valued at normal selling price. Name the accounting concept which prohibits this.

………[1]

(ii) State how inventory ought to be valued.

……

………[2]

Marek sells table lamps which he buys for $8 each. On 31 July 2014 he had 10 broken lamps which could only be sold for scrap, at $2 each. The cost of sending them to the scrap merchant was $7 in total.

REQUIRED

(f) Calculate the value at which these 10 lamps should be included in the inventory on 31 July 2014.

....

....

....[3]

N14/22

1 Sahira Ali values her inventory at the lower of cost and net realisable value.

REQUIRED

(h) Explain why inventory should be valued on this basis.

....

....

....[2]

(i) Explain the meaning of the term 'net realisable value'.

....

....

....[2]

(j) Sahira Ali overvalued her inventory on 31 October 2013.

Complete the table below by placing a tick (✓) in the correct column to show the effect of this on each of the following items.

	Overstated	Understated	No effect
Gross profit for the year ended 31 October 2013			
Gross profit for the year ended 31 October 2014			
Profit for the year ended 31 October 2013			
Profit for the year ended 31 October 2014			
Current assets at 31 October 2013			
Current assets at 31 October 2014			

[6]

N14/22

5 Watson Limited provided the following information for the year ended 30 September 2014.

	$
Revenue (sales)	304 000
Cost of sales	243 200
Inventory on 1 October 2013	22 500
Inventory on 30 September 2014	19 300

REQUIRED

(d) (i) State what is meant by the term 'rate of inventory turnover'.

....

....

....[1]

(ii) State the formula for the calculation of the rate of inventory turnover.

....

....[1]

(iii) Calculate the rate of inventory turnover for the year ended 30 September 2014. The calculation should be correct to **two** decimal places.

....

....

....[2]

The rate of inventory turnover for the previous two years was:

Year ended 30 September 2012	15.55 times
Year ended 30 September 2013	14.34 times

REQUIRED

(e) Comment on the change in the rate of inventory turnover over the three years ended 30 September 2014.

....

....

....

....

....[2]

J15/12

4 Rani is concerned about the increase in the level of inventory and is considering a different basis of valuation.

REQUIRED

(d) Explain how the following accounting principles are applied to the valuation of inventory.

1 Prudence …….

……

……

……

2 Realisation …….

……

……

………[4]

J15/22

4 After the preparation of the income statement for the year ended 31 January 2015, it was discovered that the opening inventory had been overvalued by $250.

REQUIRED

(g) Complete the following table to show the effect of this. The first one has been completed as an example.

	Overstated	Understated	no effect
gross profit for the year ended 31 January 2014	✓		
credit balance on capital account on 1 February 2014			
gross profit for the year ended 31 January 2015			
profit for the year ended 31 January 2015			
current assets at 31 January 2015			

[4]

N15/12

3 (a) Name three types of inventory which might be held by a manufacturing business.

1 …….

2 …….

3 ………..[3]

(b) State how inventory should be valued.

……….

……..[1]

N15/23

4 Sanchi and Syed Mirza are in partnership, sharing profits and losses equally.

Their summarised income statement for the year ended 31 July 2015 was as follows.

	$	$
Revenue		45 000
Cost of sales		
Opening inventory	5 500	
Purchases	33 500	
	39 000	
Closing inventory	6 500	32 500
Gross profit		12 500
Expenses		3 500
Profit for the year		9 000

REQUIRED

(a) (i) State the formula for the calculation of the rate of inventory turnover.

....

....[1]

(ii) Calculate the rate of inventory turnover. The calculation should be correct to **two** decimal places.

....

....

....[2]

(iii) Suggest **two** reasons why the rate of inventory turnover is lower than it was in the previous year.

1 ....

....

1 ....

....[2]

(b) (i) State the basis on which inventory should be valued.

1 ....

....[1]

(ii) Name the accounting principle which is being applied when inventory is valued on this basis.

....[1]

J16/21

2 Sue is a trader. Her financial year ends on 31 December.

She provided the following information about her inventory for the financial year ended 31 December 2014.

	Cost	Net realisable value
	$	$
Inventory 1 January	6 800	7 100
Inventory 31 December	8 200	7 800

REQUIRED

(a) Define the following terms.

(i) cost ....

....

....

(ii) net realisable value ....

....

....[2]

(b) Explain why the inventory at 31 December 2014 was included in the financial statements at net realisable value rather than cost.

....

....

....[2]

After the preparation of the income statement for the year ended 31 December 2014 it was discovered that the inventory on 1 January had been included at net realisable value.

REQUIRED

(c) Complete the following table to indicate the effect of this error on the cost of sales and the profit for the year ended 31 December 2014.

Place a tick (✓) under the correct heading to indicate whether each item would be overstated or understated.

	Overstated	understated
cost of sales		
profit for the year		

[2]

Sue provided the following information for the year ended 31 December 2015.

	$
Cost of sales	49 900
Average inventory	7 500

REQUIRED

(d) (i) State the formula for the calculation of the rate of inventory turnover.

....

....[1]

(ii) Calculate the rate of inventory turnover for the year ended 31 December 2015. The calculation should be correct to **two** decimal places.
Show your workings.

....

....

....

....[2]

Sue's rate of inventory turnover for the previous year was 8.15 times.

REQUIRED

(e) State whether you consider that Sue would be satisfied with the change in the rate of inventory turnover. Give a reason for your answer.

Satisfied? ....

Reason ....

....[2]

(f) Suggest **one** way in which the rate of inventory turnover could be improved.

....

....[1]

J16/22

5 Paul always values his inventory at the lower of cost and net realisable value.

REQUIRED

(d) Explain why Paul should continue his policy of including inventory in his financial statements at the lower of cost and net realisable value.

....

....

....[2]

J17/11

4 Elil is a trader dealing in clocks.

REQUIRED

(a) State how inventory should be valued in the financial statements.

....[1]

Elil buys clocks for $24 each. The following information is available about Elil's business:

1 Elil had inventory of 100 clocks on 1 January 2016.
2 During the year he bought 2 000 clocks.
3 During the year he sold 50 clocks at a promotional price of $40 each. All other sales were made at a selling price of $60 each.
4 He had inventory of 180 clocks on 31 December 2016.
5 All sales were made on a credit basis.

REQUIRED

(b) Calculate the value of Elil's sales for the year ended 31 December 2016.

....

....

....

....[4]

(c) Calculate Elil's gross profit for the year ended 31 December 2016.

....

....

....

....

....

....

....

....

....[5]

J18/12

3 Kumu purchases goods for resale on both cash and credit terms. Kumu's credit suppliers allow 30 days for payment of invoices.

Kumu provided the following information for the year ended 30 April 2018.

	$
Trade payables 1 May 2017	19 800
Trade payables 30 April 2018	22 200
Discount allowed	480
Discount received	330
Interest charged by suppliers	122
Credit purchases	180 870
Cash purchases	26 400
Sales ledger balances set off against purchases ledger balances	400

REQUIRED

(a) Select the relevant items and prepare the purchases ledger control account for the year ended 30 April 2018. Insert the amount paid to credit suppliers.

Kumu

Purchases ledger control account

Date	Details	$	Date	Details	$

[8]

Kumu provided the following information for the year ended 30 April 2018.

	$
Cost of sales	205 000
Gross profit	92 250
Inventory at 30 April 2018	35 000

REQUIRED

(f) Calculate the percentage mark-up Kumu has applied.

....

....

....

....[2]

(g) Calculate the value of inventory at 1 May 2017.

....

....

....

....

....

....

....

....

....[3]

(h) State the formula for the rate of inventory turnover.

....

....[1]

(i) Calculate Kumu's rate of inventory turnover for the year ended 30 April 2018. The calculation should be correct to **two** decimal places.

....

....

....

....[2]

J18/21

5 Ravi is a wholesaler. His financial year ends on 31 March. He provided the following information for the year ended 31 March 2018.

	$
Revenue	
cash sales	8 750
credit sales	34 450
Purchases returns	950
Inventory at 1 April 2017	2 900
Mark-up	20%

Inventory at 31 March 2018 was 50% greater than that at 1 April 2017.

REQUIRED

(a) Prepare the income statement (trading account section) for the year ended 31 March 2018 to calculate the purchases for the year.

Ravi
Income Statement (Trading Account section) for the year ended 31 March 2018

....

....

....

....

....

....

....

....

....

....

....

....[8]

(b) State the formula for the calculation of the rate of inventory turnover (in times).

....

....[1]

(c) Suggest **two** reasons why Ravi's rate of inventory turnover is lower than the average for this type of business.

1 ....

....

2 ....

....[2]

(d) State the basis on which Ravi should value his inventory.

....[1]

(e) Name the accounting principle which Ravi is applying by valuing his inventory on this basis.

....[1]

(f) Complete the table by placing a tick (✓) in the correct column to indicate the effect of Ravi overvaluing his inventory at 31 March 2018. The first one has been completed as an example.

	Overstated	Understated
current assets at 31 March 2018	✓	
cost of sales for the year ended 31 March 2018		
gross profit for the year ended 31 March 2018		
cost of sales for the year ending 31 March 2019		
profit for the year ending 31 March 2019		

[4]

[Total: 21]

J19/22

4 Shen's rate of inventory turnover for the year ended 31 January 2018 was 11.50 times.

He provided the following information for the year ended 31 January 2019.

	$
Revenue	25 850
Gross profit	5 150
Inventory 1 February 2018	1 890
Inventory 31 January 2019	2 040

REQUIRED

(b) Calculate the rate of inventory turnover for the year ended 31 January 2019. The calculation should be correct to **two** decimal places.

....

....

....

....

.... [3]

(c) State whether Shen would be satisfied with the change in the rate of inventory turnover. Give a reason for your answer.

Satisfied? ....

Reason ....

.... [2]

(d) Suggest **two** ways in which Shen could improve the rate of inventory turnover.

1 ....

....

2 ....

.... [2]

(e) Suggest **two** reasons why Shen always values his inventory at the lower of cost and net realisable value.

1 ....

....

2 ....

.... [2]

After the preparation of the income statement for the year ended 31 January 2019, Shen discovered that the inventory at 31 January 2019 had been overstated.

REQUIRED

(f) Complete the table by placing a tick (✓) in the correct column to indicate whether **each** item would be overstated or understated as a result of the error. The first one has been completed as an example.

	Overstated	Understated
current assets at 31 January 2019	✓	
gross profit for the year ended 31 January 2019		
capital at 31 January 2019		
cost of sales for the year ending 31 January 2020		
profit for the year ending 31 January 2020		

[4]

N19/21

4 Ishaq knows that he must place a value on his inventory at the end of his financial year.

REQUIRED

(e) **(i)** State the basis on which Ishaq should value his inventory.

.... [1]

(ii) Name the accounting principle which Ishaq would be applying by valuing his inventory on this basis.

.... [1]

(f) Complete the table by placing a tick (✓) in the correct column to indicate the effect of Ishaq undervaluing his inventory at 31 July 2019.

	Overstated	Understated
gross profit for the year ended 31 July 2019		
current assets at 31 July 2019		
cost of sales for the year ending 31 July 2020		
profit for the year ending 31 July 2020		

[4]