

# MyStudyBro - Revision Exercise Tool

This Revision Handout includes the Questions and Answers of a total of 5 exercises!

## Chapters:

### Inventory Valuation - Unit 1 (Pearson Edexcel)

Page 1	(WAC01 or WAC11) 2018 Summer
Page 3	(WAC01 or WAC11) 2018 Summer - Answer
Page 9	(WAC01 or WAC11) 2018 Autumn
Page 12	(WAC01 or WAC11) 2018 Autumn - Answer
Page 17	(WAC01 or WAC11) 2015 Summer
Page 18	(WAC01 or WAC11) 2015 Summer - Answer
Page 19	(WAC01 or WAC11) 2013 Summer
Page 21	(WAC01 or WAC11) 2013 Summer - Answer
Page 23	(WAC01 or WAC11) 2011 Summer
Page 25	(WAC01 or WAC11) 2011 Summer - Answer

- 5 Brit Gold buys gold coins from the National Mint and sells them to customers. The price of gold in the three months January to March 2018 fluctuated owing to economic conditions.

The following information is available for Brit Gold for the three months January to March 2018.

- (1) Inventory of gold coins 1 January 2018, 200 coins with a **total** value of £180 000
- (2) Purchases of coins from the National Mint and sales to customers.

	Purchases from National Mint (coins)	Sales (coins)
January	200 @ £950	110
February	250 @ £980	220
March	150 @ £1050	200

- (3) Brit Gold uses the First In First Out (FIFO) **perpetual inventory** method of valuation.
- (4) Revenue for the three months ended 31 March 2018 totalled £550 000
- (5) Total expenses, including depreciation, were £12 200 per month.

**Required**

- (a) Explain the following accounting concepts as they relate to the valuation of inventory:
  - (i) historic cost (2)
  - (ii) consistency. (2)
- (b) Calculate the inventory value at the 31 March 2018 using the First In First Out (FIFO) **perpetual inventory** method. (8)
- (c) Prepare the Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2018. (6)
- (d) Calculate:
  - (i) the value of the inventory at 31 March 2018 using the Last In First Out (LIFO) **perpetual inventory** method (4)
  - (ii) the difference in the profit for the three months ended 31 March 2018 if Brit Gold had used the Last In First Out (LIFO) **perpetual inventory** method. (2)

The Sales Manager of Brit Gold stated: 'We use the First In First Out (FIFO) inventory valuation because our profit is **always greater**'.

(e) Evaluate the Sales Manager's statement.

(6)

**(Total for Question 5 = 30 marks)**

---

Level 3	5-6	<p>Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>
---------	-----	---

Question Number	Answer	Mark
5 (a)	<p><b>AO1 (4)</b>  <b>AO1: Four marks for explaining the concepts.</b></p> <p>(i) Historic cost – All assets and expenses are recorded in the ledger accounts at their <b>actual cost (1) AO1</b> at the time of purchase/<b>not at current market value. (1) AO1</b></p> <p style="text-align: right;"><b>(2)</b></p> <p>(ii) Consistency – where a choice of method is available, <b>once a method has been selected (1) AO1</b> the method must be used consistently from <b>one accounting period to the next/to not distort profits. (1) AO1</b></p> <p style="text-align: right;"><b>(2)</b></p>	<b>(4)</b>

Question Number	Answer	Mark
5 (b)	<b>AO2 (8)</b> <b>AO2: Eight marks for calculating the value of the inventory.</b>	(8)

**First In First Out (F.I.F.O)**

	Purchases from national mint (coins)	Sales (coins)	Balance
Balance			200 @ £900 (1) <b>AO2</b>
January	200 @ £950	110	90 @ £900 (1) <b>AO2</b> 200 @ £950 (1) <b>AO2</b>
February	250 @ £980	220	70 @ £950 (1) <b>AO2</b> 250 @ £980 (1) <b>AO2</b>
March	150 @ £1050	200	120 @ £980 (1) <b>AO2</b> 150 @ £1050 (1) <b>AO2</b>
Total closing value			£275 100 (1) <b>AO2</b>

Question Number	Answer	Mark																																	
5 (c)	<p><b>AO1 (4), AO2 (1), AO3 (1)</b>  <b>AO1: Four marks for using the correct figures.</b>  <b>AO2: One mark for calculating the value of the expenses.</b>  <b>AO3: One mark for calculating the total value of the purchases.</b></p> <p style="text-align: center;">Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2018</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">£</th> <th style="width: 20%; text-align: right;">£</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">550 000 (1)AO1</td> </tr> <tr> <td>Less</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">180 000 (1)AO1</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;"><u>592 500 (1)AO3</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">772 500</td> <td></td> </tr> <tr> <td>Less closing inventory</td> <td style="text-align: right;"><u>(275 100) (1of)AO1</u></td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>(497 400)</u></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">52 600</td> </tr> <tr> <td>Expenses (12 200 x 3)</td> <td></td> <td style="text-align: right;"><u>(36 600) (1)AO2</u></td> </tr> <tr> <td>Profit for the 3 months</td> <td></td> <td style="text-align: right;"><u>16 000 (1of)AO1</u></td> </tr> </tbody> </table>		£	£	Revenue		550 000 (1)AO1	Less			Opening inventory	180 000 (1)AO1		Purchases	<u>592 500 (1)AO3</u>			772 500		Less closing inventory	<u>(275 100) (1of)AO1</u>		Cost of sales		<u>(497 400)</u>	Gross profit		52 600	Expenses (12 200 x 3)		<u>(36 600) (1)AO2</u>	Profit for the 3 months		<u>16 000 (1of)AO1</u>	(6)
	£	£																																	
Revenue		550 000 (1)AO1																																	
Less																																			
Opening inventory	180 000 (1)AO1																																		
Purchases	<u>592 500 (1)AO3</u>																																		
	772 500																																		
Less closing inventory	<u>(275 100) (1of)AO1</u>																																		
Cost of sales		<u>(497 400)</u>																																	
Gross profit		52 600																																	
Expenses (12 200 x 3)		<u>(36 600) (1)AO2</u>																																	
Profit for the 3 months		<u>16 000 (1of)AO1</u>																																	

Question Number	Answer	Mark
5 (d) (i)	<p><b>AO1 (1), AO2 (3)</b>  <b>AO1: One mark for using the correct opening inventory.</b>  <b>AO2: Three marks for calculating the monthly balance.</b></p>	<b>(4)</b>

**Last In First Out (L.I.F.O)**

	Purchases from National Mint (coins)	Sales (coins)	Balance
Balance			200 @ £900 <b>(1) AO1</b>
January	200 @ £950	110	200 @ £900 90 @ £950 <b>(1) AO2</b>
February	250 @ £980	220	200 @ £900 90 @ £950 30 @ £980 <b>(1) AO2</b>
March	150 @ £1050	200	200 @ £900 70 @ £950 <b>(1) AO2</b>
Total closing value			£246 500

Question Number	Answer	Mark
5 (d) (ii)	<p><b>AO3 (2)</b>  <b>AO3: Two marks for the effect on quarterly profit.</b></p> <p>Closing inventory valuation – FIFO £275 100 – LIFO £246 500 = £28 600 <b>(1of) AO3</b> less <b>(1of) AO3</b></p>	<b>(2)</b>

Question Number	Indicative Content		Mark
<b>5 (e)</b>	<p><b>AO2 (1), AO3 (2), AO4 (3)</b></p> <p>Positive points FIFO</p> <p>FIFO is a more logical approach to inventory rotation in that you would look to sell your oldest inventory first. This is not particularly important with gold but would be important with perishable items.</p> <p>FIFO will yield higher profits <b>when commodity prices are rising</b> because the most expensive items are valued in closing inventory. Therefore a higher value is deducted from the goods for resale giving a lower cost of sales and a higher profit. If prices are rising FIFO will yield a higher profit but if the reverse is the case the profits will be lower.</p> <p>The value of inventory in the statement of financial position will be nearer to the replacement valuation.</p> <p>Negative points for FIFO</p> <p>The reverse will be the case <b>when commodity prices are falling</b>. When prices are falling profit will be reduced because the value of the closing inventory will be smaller increasing the cost of sales and reducing the profit.</p> <p>Decision Candidates should conclude that the Sales Manager's statement is not always valid. Candidates should support that decision with an appropriate rationale.</p>		<b>(6)</b>
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.	

Level 2	3-4	<p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid.</p> <p>An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.</p>
Level 3	5-6	<p>Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>

Question Number	Answer	Mark
6 (a)	<p><b>AO1 (3)</b></p> <p><b>AO1: Three marks for stating the rule.</b></p> <p>Interest on loans – Will be paid at 5% per annum  <b>(1) AO1</b></p> <p>Partners salaries – There will be no salaries paid  <b>(1) AO1</b></p> <p>Share of profit or loss- Equal shares <b>(1) AO1</b></p>	<p><b>(3)</b></p>

- 6 Ameer purchased a business that buys and sells electrical household goods. When taking over the business, Ameer realised that the existing inventory was obsolete. He therefore decided to have a clearance sale of the existing inventory and replace it with a new, up-to-date inventory.

The following information is available for July 2018.

- (1) Inventory on 1 July 2018

	<b>Cost</b> £	<b>Clearance sale price</b> £
5 Cookers	180 each	190 each
8 Fridges	90 each	60 each
10 Washing machines	160 each	170 each

- (2) Purchases of new inventory during July

	<b>Cost</b> £
12 Cookers	200 each
10 Fridges	100 each
15 Washing machines	200 each

Ameer will 'mark-up' all **new inventory** for resale by 20%.

- (3) Sales for July 2018

	<b>Clearance inventory</b>	<b>New inventory</b>
	<b>Number sold</b>	<b>Number sold</b>
Cookers	3	8
Fridges	5	6
Washing machines	4	12

### Required

- (a) Explain the following as they relate to inventory:
- net realisable value
  - the accounting concept of historic cost
  - the accounting concept of realisation.
- (6)
- (b) Calculate the total value of the inventory on 1 July 2018.
- (3)
- (c) Complete the table showing the calculation of the total value of the inventory on 31 July 2018.
- (7)
- (d) Prepare the trading section of the Statement of Profit or Loss and Other Comprehensive Income for the month ended 31 July 2018.
- (8)

(e) Evaluate the use of accounting concepts and conventions in the preparation of financial statements.

(6)

---

**(Total for Question 6 = 30 marks)**

---

**TOTAL FOR SECTION B = 90 MARKS**

**TOTAL FOR PAPER = 200 MARKS**

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

(b) Calculate the total value of the inventory on 1 July 2018.

(3)

.....

.....

.....

.....

.....

.....

.....

(c) Complete the table showing the calculation of the total value of the inventory on 31 July 2018.

(7)

		Inventory	Purchases	Sales	Inventory	Total value
		1 July			31 July	31 July
		Quantity	Quantity	Quantity	Quantity	£
Cookers	Clearance	5	---			
	New	---				
Fridges	Clearance	8	---			
	New	---				
Washing machines	Clearance	10	---			
	New	---				



Question Number	Answer	Mark
6 (a)	<p><b>AO1 (6)</b> <b>AO1: Six marks for explaining terms.</b></p> <p>Net realisable value- The <b>estimated receipt/selling price</b> from the sales of the inventory. <b>(1)AO1 Less any costs of completing</b> the goods or costs of selling the goods. <b>(1)AO1</b></p> <p>Historic cost – All assets and expenses are recorded in the ledger accounts at their actual <b>cost</b> not at <b>market value</b>. <b>(1)AO1</b> The cost of the inventory is a known fact and can be verified. <b>(1)AO1</b></p> <p>Realisation- <b>Not recording a profit/revenue (1)AO1</b> on goods until it has actually been <b>earned by selling the goods</b>. <b>(1)AO1</b></p>	<b>(6)</b>

Question Number	Answer	Mark																		
6 (b)	<p><b>AO2 (3)</b> <b>AO2: Three marks for valuing individual elements of inventory.</b></p> <p style="text-align: center;">1 July</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;">Value</th> </tr> <tr> <th></th> <th style="text-align: center;">£</th> <th style="text-align: center;">£</th> </tr> </thead> <tbody> <tr> <td>5 Cookers</td> <td style="text-align: center;">180 each =</td> <td style="text-align: center;">900 <b>(1)AO2</b></td> </tr> <tr> <td>8 Fridges</td> <td style="text-align: center;">60 each =</td> <td style="text-align: center;">480 <b>(1)AO2</b></td> </tr> <tr> <td>10 Washing machines</td> <td style="text-align: center;">160 each =</td> <td style="text-align: center;"><u>1 600</u> <b>(1)AO2</b></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">2 980</td> </tr> </tbody> </table>		Value			£	£	5 Cookers	180 each =	900 <b>(1)AO2</b>	8 Fridges	60 each =	480 <b>(1)AO2</b>	10 Washing machines	160 each =	<u>1 600</u> <b>(1)AO2</b>			2 980	<b>(3)</b>
	Value																			
	£	£																		
5 Cookers	180 each =	900 <b>(1)AO2</b>																		
8 Fridges	60 each =	480 <b>(1)AO2</b>																		
10 Washing machines	160 each =	<u>1 600</u> <b>(1)AO2</b>																		
		2 980																		

Question Number	Answer	Mark
6 (c)	<p><b>AO2 (6), AO3 (1)</b></p> <p><b>AO2: Six marks for valuing individual elements of inventory.</b></p> <p><b>AO3: One mark for valuing total closing inventory.</b></p>	<b>(7)</b>

31 July

		Inventory 1 July Number	Purchases Number	Sales Number	Inventory 31 July Number	Value (£)
Cookers	Clearance	5		(3)	2	@180 = 360 <b>(1)AO2</b>
	New		12	(8)	4	@200 = 800 <b>(1)AO2</b>
Fridges	Clearance	8		(5)	3	@60 = 180 <b>(1)AO2</b>
	New		10	(6)	4	@100 = 400 <b>(1)AO2</b>
Washing machines	Clearance	10		(4)	6	@160 = 960 <b>(1)</b> <b>AO2</b>
	New		15	(12)	3	@200 = 600 <b>(1)AO2</b>
						Total = 3 300 <b>(1of)</b> <b>AO3</b>

Question Number	Answer	Mark
6 (d)	<p><b>AO1 (3), AO2(3), AO3(2)</b>  <b>AO1: Three marks for transferring previously calculated figures.</b>  <b>AO2: Three marks for revenue and cost of sales calculations.</b>  <b>AO3: Two marks for purchases and revenue calculations.</b></p>	<b>(8)</b>

Statement of Profit or Loss and Other Comprehensive Income  
for the month ending 31 July 2018

	£	£
Revenue		7 070 <b>(3)AO2/3</b>
Less		
Inventory -1 July	2 980 <b>(1of)AO1</b>	
Purchases	<u>6 400</u> <b>(1)AO3</b>	
	9 380	
Inventory 31 July	<u>(3 300)</u> <b>(1of)AO1</b>	
Cost of sales		<u>6 080</u> <b>(1of)AO2+w</b>
Gross profit		<u>990</u> <b>(1of)AO1+w</b>

**Workings**

		Revenue		Purchases	
		£	Total £	£	Total £
Cookers	Clearance	3@190	570 <b>(1)AO2</b>		
	New	8@240	1 920	12@200	2 400
Fridges	Clearance	5@60	300 <b>(1)AO3</b>		
	New	6@120	720	10@100	1 000
Washing	Clearance	4@170	680 <b>(1)AO2</b>		
machines	New	12@240	<u>2 880</u>	15@200	<u>3 000</u>
			7 070		6 400 <b>(1)AO3</b>

**Note:** Revenue allow **(1of)AO2** for **any three** correct in own figure

Question Number	Indicative Content		Mark
<b>6 (e)</b>	<p><b>AO2 (1), AO3 (2), AO4 (3)</b></p> <p>Points in favour of accounting concepts</p> <p>The use ensures consistency of approach of different organisations. The financial statements can be relied upon by various stakeholders. Comparisons can be drawn between different businesses.</p> <p>Points against accounting concepts</p> <p>The concepts can be contradictory on occasions. There is a cost implication of employing the skills to prepare the statements complying with the concepts. Does not consider non-financial factors.</p> <p>Decision</p> <p>Candidates should generally be positive towards the use of accounting concepts and conventions. Candidate's conclusion should be supported with an appropriate rationale.</p>		<b>(6)</b>
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.	
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid.	

		An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

**SOURCE MATERIAL FOR USE WITH QUESTION 7**

7 There was a fire at the business premises of Lucia on 20 April 2015. Lucia did not keep full accounting records, but is able to provide the following information:

- Balances at 1 April 2015:
 

Inventory at cost	£25 000
Trade receivables	£18 000
Trade payables	£15 500
  
- Transactions between 1 April and 20 April 2015:
 

Receipts from trade receivables	£138 000
Payments to trade payables	£69 000
Cash purchases	£25 800
  
- Balances at 20 April 2015:
 

Remaining inventory at cost	£14 300
Trade receivables	£20 000
Trade payables	£16 700
  
- Lucia uses a 'mark-up' of 40%.

**Required:**

- (a) Explain the:
- (i) accounting term **net realisable value**. (4)
  - (ii) effect on the financial statements if the closing inventory is overvalued. (4)
- (b) Calculate the:
- (i) purchases for the period 1 April to 20 April 2015. (5)
  - (ii) revenue for the period 1 April to 20 April 2015. (4)
- (c) Prepare the trading account for the period 1 April to 20 April 2015 showing the value of the inventory remaining and the value of the inventory destroyed. (11)
- "It would be more appropriate for Lucia to record the inventory at market value in her books."
- (d) Evaluate this statement. (4)

**(Total for Question 7 = 32 marks)**

**Answer space for question 7 is on pages 35 to 38 of the question paper.**

7 (a)(i) Net realisable value – Estimated receipts from the sale of the inventory, less any costs of completing the goods or costs of selling the goods. (4)

(ii) If inventory was overvalued, due to damage, this would result in profit to be over stated for a period and asset/current assets overvalued in the financial statements. (4)

(b)(i) Purchases 69 000 + 25 800 – 15 500 + 16 700 = 96 000 (5)

(ii) Revenue 138 000 + 20 000 – 18 000 = 140 000 (4)

(c)

	£		£	
Revenue			140 000	✓ (of)
Less				
Inventory 1 April	25 000	✓		
Purchases	<u>96 000</u>	✓ (of)		
	121 000			
Inventory 20 April:				
Remaining	(14 300)			✓✓
Destroyed	<u>( 6 700)</u>			✓✓ of If inventory combined ✓✓ of
Cost of sales			(100 000)	✓✓ of
Gross profit			<u>40 000</u>	✓✓
			<u>140 000</u>	

(11)

(d) Valid answers may include

In favour

- Inventory would be recorded in the business at a single value
- If lower or the same then cost would be market value
- Makes the inventory up to date with market/replacement values

Against

- Would not comply with realisation/prudence/historic cost concepts
- Profit over stated
- Inventory overvalued
- Market value is a question of judgement

✓ per point (Max one point in favour and one point against) (4)

(Total 32 marks)

**SOURCE MATERIAL FOR USE WITH QUESTION 5**

5. Home Oil buys and sells heating oil. The following purchases and sales of oil took place in the three months ended 31 March 2013:

1 January	Balance b/d	8 000 litres @ £0.80 per litre
January	Purchases	15 000 litres @ £1.00 per litre
	Sales	12 000 litres
February	Purchases	15 000 litres @ £1.25 per litre
	Sales	16 000 litres
March	Purchases	12 000 litres @ £1.50 per litre
	Sales	8 000 litres

**Additional information for the three months ended 31 March 2013:**

- Home Oil marked up the cost of the heating oil to cover distribution costs and administration costs. Home Oil sold to customers at the following rates:
 

January	£1.50 per litre
February	£1.75 per litre
March	£2.00 per litre
- Home Oil uses the First In First Out (FIFO) perpetual inventory method of inventory valuation
- Distribution costs were £4 750. Administration costs were £8 300.

**Required:**

- (a) Distinguish between **inventory rotation** and **inventory valuation**. (4)
- (b) Calculate the value of the closing inventory at 31 March 2013. (6)
- (c) Prepare the Statement of Comprehensive Income for the three months ended 31 March 2013. (10)

Home Oil has been considering changing the method of inventory valuation to Last In First Out (LIFO) perpetual inventory.

- (d) (i) Calculate the value of the inventory at 31 March 2013 if the Last in First Out (LIFO) perpetual inventory method had been used. (6)
- (ii) State the effect on the gross profit if Home Oil had used the Last In First Out (LIFO) method. (2)
- (e) Evaluate the potential effect of the change to Last In First Out (LIFO) perpetual inventory. (4)

**(Total 32 marks)**

**Answer space for question 5 is on pages 25 to 28 of the question paper.**

---

Question Number	Answer	Mark																																								
4(b)(iii)	<p style="text-align: center;">Current Account of Chung</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">£</td> <td style="width: 10%;"></td> </tr> <tr> <td>Balance b/d</td> <td style="text-align: right;">200</td> <td>Interest on capital</td> <td style="text-align: right;">2 400</td> <td style="text-align: right;">✓ of</td> </tr> <tr> <td>Int on drawings</td> <td style="text-align: right;">160</td> <td>Salary</td> <td style="text-align: right;">8 000</td> <td></td> </tr> <tr> <td>Drawings</td> <td style="text-align: right;">4 000</td> <td>Loan interest</td> <td style="text-align: right;">300</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Salary paid</td> <td style="text-align: right;">8 000</td> <td>Share of profit</td> <td style="text-align: right;">4 800</td> <td style="text-align: right;">✓ of</td> </tr> <tr> <td>Balance c/d</td> <td style="text-align: right;"><u>3 140</u></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>15 500</u></td> <td></td> <td style="text-align: right;"><u>15 500</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td>Balance b/d</td> <td style="text-align: right;">3 140</td> <td style="text-align: right;">✓ of</td> </tr> </table>		£		£		Balance b/d	200	Interest on capital	2 400	✓ of	Int on drawings	160	Salary	8 000		Drawings	4 000	Loan interest	300	✓	Salary paid	8 000	Share of profit	4 800	✓ of	Balance c/d	<u>3 140</u>					<u>15 500</u>		<u>15 500</u>				Balance b/d	3 140	✓ of	(6)
	£		£																																							
Balance b/d	200	Interest on capital	2 400	✓ of																																						
Int on drawings	160	Salary	8 000																																							
Drawings	4 000	Loan interest	300	✓																																						
Salary paid	8 000	Share of profit	4 800	✓ of																																						
Balance c/d	<u>3 140</u>																																									
	<u>15 500</u>		<u>15 500</u>																																							
		Balance b/d	3 140	✓ of																																						

Question Number	Answer	Mark
4(c)	<p>Valid points may include:</p> <p>Points for</p> <ul style="list-style-type: none"> <li>• Clarity upon the distribution of profit</li> <li>• Avoids disputes at a later date</li> </ul> <p>Points against</p> <ul style="list-style-type: none"> <li>• Formality of creating the agreement</li> <li>• Cost of preparation</li> </ul> <p>NOT</p> <ul style="list-style-type: none"> <li>• Cover for absence/holidays</li> <li>• Wide expertise available</li> <li>• Time consuming</li> </ul> <p>✓✓ per valid point x Max one point in favour and one point against</p>	(4)

Question Number	Answer	Mark
5(a)	<p>Inventory rotation refers to the <u>physical movement</u> of inventory through the stores. The oldest stock will normally be sold first to avoid deterioration. ✓✓</p> <p>Inventory valuation refers to the <u>theoretical value</u> of the inventory that is sold or issued to production. ✓✓ This may be influenced by the need to charge the customer the most recent prices paid.</p>	(4)

Question Number	Answer	Mark																																								
5(b)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;"></td> <td style="width: 20%;"></td> <td style="width: 10%; text-align: center;"><u>FIFO</u></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td></td> <td style="text-align: center;">Receipts</td> <td style="text-align: center;">Sales</td> <td style="text-align: center;">Balance</td> <td></td> </tr> <tr> <td>Balance</td> <td></td> <td></td> <td style="text-align: right;">8 000 @ £0.80</td> <td></td> </tr> <tr> <td>January</td> <td style="text-align: right;">15 000 @ £1</td> <td style="text-align: right;">12 000</td> <td style="text-align: right;">11 000 @ £1</td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>February</td> <td style="text-align: right;">15 000 @ £1.25</td> <td style="text-align: right;">16 000</td> <td style="text-align: right;">10 000 @ £1.25</td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>March</td> <td style="text-align: right;">12 000 @ £1.50</td> <td style="text-align: right;">8 000</td> <td style="text-align: right;">2 000 @ £1.25</td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>12 000 @ £1.50</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">£20 500</td> <td></td> </tr> </table>			<u>FIFO</u>				Receipts	Sales	Balance		Balance			8 000 @ £0.80		January	15 000 @ £1	12 000	11 000 @ £1	✓✓	February	15 000 @ £1.25	16 000	10 000 @ £1.25	✓✓	March	12 000 @ £1.50	8 000	2 000 @ £1.25	✓✓				<u>12 000 @ £1.50</u>					£20 500		(6)
		<u>FIFO</u>																																								
	Receipts	Sales	Balance																																							
Balance			8 000 @ £0.80																																							
January	15 000 @ £1	12 000	11 000 @ £1	✓✓																																						
February	15 000 @ £1.25	16 000	10 000 @ £1.25	✓✓																																						
March	12 000 @ £1.50	8 000	2 000 @ £1.25	✓✓																																						
			<u>12 000 @ £1.50</u>																																							
			£20 500																																							

Question Number	Answer	Mark																																																				
5(c)	<p style="text-align: center;"><b>Home Oil</b> Statement of comprehensive income for the three months ended 31 March 2013</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 15%; text-align: right;">£</th> <th style="width: 15%; text-align: right;">£</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">62 000</td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">6 400</td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;"><u>51 750</u></td> <td></td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td></td> <td style="text-align: right;">58 150</td> <td></td> <td></td> </tr> <tr> <td>Closing inventory</td> <td style="text-align: right;"><u>20 500</u></td> <td></td> <td style="text-align: right;">✓of</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>37 650</u></td> <td></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">24 350</td> <td></td> </tr> <tr> <td>Distribution costs</td> <td style="text-align: right;">4 750</td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td>Administrative costs</td> <td style="text-align: right;"><u>8 300</u></td> <td></td> <td style="text-align: right;">✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>13 050</u></td> <td></td> </tr> <tr> <td>Profit for the three months</td> <td></td> <td style="text-align: right;"><u>11 300</u></td> <td style="text-align: right;">✓✓ (✓of)</td> </tr> </tbody> </table>		£	£		Revenue		62 000	✓	Less				Opening inventory	6 400		✓✓	Purchases	<u>51 750</u>		✓✓		58 150			Closing inventory	<u>20 500</u>		✓of	Cost of sales		<u>37 650</u>		Gross profit		24 350		Distribution costs	4 750		✓	Administrative costs	<u>8 300</u>		✓			<u>13 050</u>		Profit for the three months		<u>11 300</u>	✓✓ (✓of)	(10)
	£	£																																																				
Revenue		62 000	✓																																																			
Less																																																						
Opening inventory	6 400		✓✓																																																			
Purchases	<u>51 750</u>		✓✓																																																			
	58 150																																																					
Closing inventory	<u>20 500</u>		✓of																																																			
Cost of sales		<u>37 650</u>																																																				
Gross profit		24 350																																																				
Distribution costs	4 750		✓																																																			
Administrative costs	<u>8 300</u>		✓																																																			
		<u>13 050</u>																																																				
Profit for the three months		<u>11 300</u>	✓✓ (✓of)																																																			

Question Number	Answer	Mark																																																		
5(d)(i)	<p style="text-align: center;"><u>LIFO</u></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 20%; text-align: center;">Receipts</th> <th style="width: 20%; text-align: center;">Issues</th> <th style="width: 20%; text-align: center;">Balance</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Balance</td> <td></td> <td></td> <td style="text-align: right;">8 000 @ £0.80</td> <td></td> </tr> <tr> <td>January</td> <td style="text-align: right;">15 000 @ £1</td> <td style="text-align: right;">12 000</td> <td style="text-align: right;">8 000 @ £0.80</td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">3 000 @ £1</td> <td></td> </tr> <tr> <td>February</td> <td style="text-align: right;">15 000 @ £1.25</td> <td style="text-align: right;">16 000</td> <td style="text-align: right;">8 000 @ £0.80</td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">2 000 @ £1</td> <td></td> </tr> <tr> <td>March</td> <td style="text-align: right;">12 000 @ £1.50</td> <td style="text-align: right;">8 000</td> <td style="text-align: right;">8 000 @ £0.80</td> <td style="text-align: right;">✓✓</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">2 000 @ £1</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>4 000 @ £1.50</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">£14 400</td> <td style="text-align: right;">(6)</td> </tr> </tbody> </table>		Receipts	Issues	Balance		Balance			8 000 @ £0.80		January	15 000 @ £1	12 000	8 000 @ £0.80	✓✓				3 000 @ £1		February	15 000 @ £1.25	16 000	8 000 @ £0.80	✓✓				2 000 @ £1		March	12 000 @ £1.50	8 000	8 000 @ £0.80	✓✓				2 000 @ £1					<u>4 000 @ £1.50</u>					£14 400	(6)	
	Receipts	Issues	Balance																																																	
Balance			8 000 @ £0.80																																																	
January	15 000 @ £1	12 000	8 000 @ £0.80	✓✓																																																
			3 000 @ £1																																																	
February	15 000 @ £1.25	16 000	8 000 @ £0.80	✓✓																																																
			2 000 @ £1																																																	
March	12 000 @ £1.50	8 000	8 000 @ £0.80	✓✓																																																
			2 000 @ £1																																																	
			<u>4 000 @ £1.50</u>																																																	
			£14 400	(6)																																																

Question Number	Answer	Mark
5(d)(ii)	The closing inventory will be £14 400 compared to the present £20 500. Therefore profit will be lower ✓✓ by £6 100	(2)

Question Number	Answer	Mark
5(e)	<p>Valid points may include:</p> <p>Points for</p> <ul style="list-style-type: none"> <li>• Profit will be more prudently lower</li> <li>• Issues to customers more accurately reflect replacement value</li> </ul> <p>Points against</p> <ul style="list-style-type: none"> <li>• Not approved by the tax authorities</li> <li>• Inventory does not reflect market replacement value</li> <li>• Does not reflect rotation</li> </ul> <p>✓✓ per valid point x Max one point in favour and one point against</p>	(4)

**SOURCE MATERIAL FOR USE WITH QUESTION 5**

5. Shavani started business on 1 April 2011 buying mobile phones and renting them to customers. The following information is available for the month of April 2011:
- (i) Mobile phones are purchased by Shavani and rented to customers on a monthly contract. Customers choose one of two tariffs: Low Usage or High Usage.
  - (ii) During April, inventory (stock) movements were as follows:
    - 1 April, purchased inventory (stock) of 1 000 mobile phones, at £20 each
    - 20 April, purchased inventory (stock) of 1 500 mobile phones, at £22 each
    - During April, issued 2 000 mobile phones to customers.
  - (iii) Shavani operates the First In First Out (F.I.F.O) periodic valuation method of inventory (stock) valuation.
  - (iv) On 30 April, Shavani found that 200 of the mobile phones in the closing inventory (closing stock) were damaged and would cost £6 per phone to repair.
  - (v) Of the mobile phones issued: 800 customers chose the Low Usage tariff and the remaining customers chose the High Usage tariff. Tariff charges to each customer were:

	Low Usage	High Usage
Monthly fixed charge	£8	£20
Cost per minute	£0.40	£0.10

- (vi) In April, each Low Usage customer used on average 20 minutes and each High Usage customer used on average 130 minutes.
- (vii) Shavani also had the following additional expenses in April:

	£
Wages and salaries	4 320
Mobile phone network access charges	5 000
Depreciation on equipment	1 400

On 30 April wages and salaries of £730 were accrued.

**Required:**

- (a) Distinguish between **stock valuation** and **stock rotation**. (4)
- (b) Calculate the value of the closing inventory (closing stock) at 30 April 2011. (8)
- (c) (i) Calculate the Revenue (Sales) for the month of April 2011. (4)
- (ii) Prepare the statement of comprehensive income (trading and profit & loss account) for the month of April 2011. (6)
- Hinal is considering renting a mobile phone from Shavani. Hinal estimates that he will use his mobile phone for 75 minutes per month.
- (d) (i) Calculate the cost to Hinal for one month of the
- Low Usage tariff
  - High Usage tariff.
- (4)
- (ii) Advise Hinal whether he should enter into a Low Usage tariff or High Usage tariff agreement. (2)
- (e) Evaluate the use of First In First Out (F.I.F.O) as a method of valuing inventory (stock). (4)

**(Total 32 marks)**

**Answer space for question 5 is on pages 26 to 30 of the question paper.**

---



Question Number	Answer	Mark												
5(d)(i)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 35%; text-align: center;">Low tariff</th> <th style="width: 35%; text-align: center;">High tariff</th> </tr> </thead> <tbody> <tr> <td>Monthly charge</td> <td style="text-align: center;">£8    ✓</td> <td style="text-align: center;">£20    ✓</td> </tr> <tr> <td>Call charges</td> <td style="text-align: center;"><u>£30</u>    ✓</td> <td style="text-align: center;"><u>£7.50</u>    ✓</td> </tr> <tr> <td></td> <td style="text-align: center;">£38</td> <td style="text-align: center;">£27.50</td> </tr> </tbody> </table>		Low tariff	High tariff	Monthly charge	£8    ✓	£20    ✓	Call charges	<u>£30</u> ✓	<u>£7.50</u> ✓		£38	£27.50	
	Low tariff	High tariff												
Monthly charge	£8    ✓	£20    ✓												
Call charges	<u>£30</u> ✓	<u>£7.50</u> ✓												
	£38	£27.50												
(ii)	For the usage that Hinal will make of the mobile phone he is advised to enter into a High tariff contract. ✓✓ Accept OF recommendation.	(6)												

Question Number	Answer	Mark
5(e)	<p>Valid points may include:</p> <p>Points in favour</p> <ul style="list-style-type: none"> <li>• Accepted by the tax authorities/accounting standards</li> <li>• Is logical in that the oldest stock values are sold/issued first</li> <li>• Gives a higher closing stock value and higher profits when prices are rising.</li> </ul> <p>Points against</p> <ul style="list-style-type: none"> <li>• Stock is sold/issued at values that may be below current market prices</li> <li>• Higher profits will mean higher taxes.</li> </ul> <p>✓✓ per valid point x 2. MAXIMUM one point in favour and one against.</p>	(4)

Question Number	Answer	Mark
6(a)(i)	<p>Appropriation is the way that overheads are shared/divided between various departments or cost centres. ✓✓ This could involve allocation and/or apportionment. ✓✓</p> <p>The costs may be shared on the most reasonable basis available ✓✓ e.g. floor area for rent. ✓✓</p> <p>Any two points x ✓✓</p>	(4)
(ii)	Business advertising is undertaken to increase sales and therefore it would be best to apportion this cost on the basis of the revenue (sales). ✓✓	(2)