

Stock Control, Net Realisable Value, Mark-up & Margin



- 3 Moma keeps full accounting records and makes up her financial statements (final accounts) to 31 October in each year.

For
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Use

Extracts from her accounting records for October 2010 show the following:

Purchases Journal

		\$
October 5	Summa	320
17	Carter	500
29	Summa	270

Purchases Returns Journal

		\$
October 8	Summa	100

Cash Book (credit side)

		Discount	Bank
		\$	\$
October 30	Summa		220
31	Carter	15	485

REQUIRED

- (a) Write up the accounts of Summa and Carter in Moma's purchases ledger for the month of October 2010. Show any balances carried and brought down.

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Purchases Ledger

Summa account

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[7]

Carter account

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At 1 October Moma had 200 units of inventory (stock) which had cost \$2.80 per unit. In the month of October her purchases were:

October	Units	Cost per unit
		\$
5	100	3.20
10	130	3.10
27	120	2.90

REQUIRED

(b) Calculate the following. Show your workings.

(i) The value of inventory (stock) at 1 October.

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(ii) The total cost of purchases for October.

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- (c) Stock is sold in the order in which it is received. At 31 October Moma had 250 units in stock. The net realisable value of each unit was \$3.00.

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Calculate the value of inventory (stock) at 31 October.

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..... [5]

[Total: 25]

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5 (a) State the basis of stock valuation which is applied in preparing financial statements.

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Manton is in business making garden tools.

REQUIRED

(b) Insert the missing words and figures into the following trading and profit and loss account:

Manton		
Trading and Profit and Loss account for the year ended 31 March 2010		
		\$
Sales		130 000
Less: sales returns		<input type="text"/> (i)
		125 000
Cost of goods sold:		
Stock at <input type="text"/> (ii)	42 000	
Add: purchases <input type="text"/> (iii)		
carriage <input type="text"/> (iv)	2 000	
	124 000	
Less: stock at 31 March 2010	36 000	
	88 000	
Gross profit		<input type="text"/> (v)
Rent	1 200	
Electricity	600	
Water charges	350	
Wages	<input type="text"/> (vi)	
Provision for depreciation	1 450	
<input type="text"/> (vii)		9 200
		<input type="text"/> (viii)

[8]

- (c) From your answer to part (b), calculate Manton's rate of stock turnover for the year ended 31 March 2010.

Show your workings.

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Manton finds that the net realisable value of his stock at 31 March 2010 was in fact \$32 000.

REQUIRED

- (d) (i) Manton writes down the value of his closing stock to \$32 000.
Place a tick (✓) in the box below to show the effect on his net profit.

Increase	
Decrease	

[2]

- (ii) Calculate Manton's revised rate of stock turnover using the closing stock figure of \$32 000.

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[Total: 19]

3 Ah Sung has a business buying and selling parts for machines.

You are given the following information about part Q.

At 1 April there were 200 units in stock which cost \$3.20 each. In the month of April purchases were:

April	Units	Cost per unit
		\$
5	100	3.20
10	150	3.00
27	100	3.00

At 30 April there were 300 units in stock and the net realisable value of each unit was \$3.00.

REQUIRED

Calculate the following for part Q. Show **all** workings.

(a) The value of stock at 1 April.

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(b) The total cost of purchases for April.

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 [4]

(c) The value of stock at 30 April.

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 [3]

(d) The number of units sold in April.

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..... [4]

(e) The cost of goods sold for the month of April.

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[Total: 18]

5 Mark Utaka prepared the following trial balance **after** the calculation of the gross profit for the year ended 31 October 2010.

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Use

	\$	\$
Gross profit		85 000
Expenses	49 000	
Inventory (stock) 31 October 2010	41 000	
Non-current (fixed) assets	300 000	
Trade receivables (debtors)	36 000	
Trade payables (creditors)		38 000
Bank	27 000	
Capital 1 November 2009		<u>330 000</u>
	<u>453 000</u>	<u>453 000</u>

Additional information:

- 1 The cost of sales was \$340 000.
- 2 The non-current (fixed) assets were purchased on 30 September 2010. No depreciation is charged in the year of purchase.

REQUIRED

(a) Calculate the following ratios. The calculations should be correct to **two** decimal places.

Show your workings.

(i) Percentage of gross profit to sales

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..... [3]

(ii) Percentage of profit for the year (net profit) to sales

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..... [3]

(iii) Return on capital employed (ROCE), using the capital on 1 November 2009

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..... [2]

(b) State **three** reasons why **each** of the above ratios is important to Mark Utaka.

(i) Percentage of gross profit to sales

1
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2
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3
..... [3]

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(ii) Percentage of profit for the year (net profit) to sales

1
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2
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3
..... [3]

(iii) Return on capital employed (ROCE)

1

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2

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3

..... [3]

Mark Utaka provided the following information about his inventory (stock).

	Cost	Net realisable value
	\$	\$
Inventory (stock) 1 November 2009	39 000	42 000
Inventory (stock) 31 October 2010	43 000	41 000

REQUIRED

(c) State the difference between cost and net realisable value.

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(d) Explain why the inventory (stock) at 31 October 2010 was included in the financial statements (final accounts) at net realisable value rather than at cost.

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After the preparation of the income statement (trading account) for the year ended 31 October 2010 it was discovered that the inventory (stock) on 1 November 2009 had been included at net realisable value.

REQUIRED

- (e) Complete the following table to indicate the effect of this error on the cost of sales, the gross profit and the net profit for the year ended 31 October 2010.

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

	Overstated	Understated
Cost of sales		
Gross profit		
Profit for the year (Net profit)		

[3]

- (f) Explain **two** ways in which Mark Utaka could improve his rate of inventory (stock) turnover.

(i)
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(ii)
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[2]

[Total: 26]

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

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REQUIRED

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

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 [2]

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

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 [2]

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

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 [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:

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	\$
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.

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

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..... [2]

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

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..... [1]

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

(i)

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(ii)

..... [2]

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

(i) Employee

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.....

(ii) Bank manager

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..... [2]

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[Total: 20]

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