

Short Questions 1

Question 1

3 marks

A business is valuing its inventory. In inventory are 12 lamps whose packaging has been damaged by a water leak. The packaging will be replaced, and the lamps will then be sold at the usual selling price of £25 per lamp.

These lamps cost £17 each to purchase, but, due to price increases by the supplier, the replacement cost would now be £18 per lamp.

The replacement packaging will cost, per lamp, £2.30 in materials, and £1.65 in labour.

What is the correct total inventory value for the 12 lamps?

Question 2

3 marks

A business is planning to purchase a machine for its workshop. The machine they are considering buying costs £26,000. The contribution from the units the machine will make will result in the following future cash inflows:

Year	Cash inflow (£)
1	5,000
2	7,200
3	7,800
4	8,200

What is the payback period of the machine?

Question 3

3 marks

You are a trainee accountant at a company that makes sports equipment. Your neighbour, a director in a rival sports equipment business, has asked you to show him a copy of the company's most recent financial statements, which haven't been published yet. Identify and explain the fundamental ethical principle which is threatened in this situation.

Question 4

4 marks

During their last financial year, a business budgeted to sell 7,400 units of Product Y at a selling price of £14.99 per unit. They actually sold 7,140 units at a selling price of £15.50 per unit. Calculate the sales sub-variances

Question 5

5 marks

Armadillo Ltd is preparing their statement of cash flows for the most recent year. You have been provided with the information shown in the table below, and have been asked to calculate the cash from operating activities for the year

	£
Profit from operating activities	87,940
Depreciation for the year	14,500
Loss on disposal of a non-current asset	2,680
Increase in inventory	3,680
Increase in trade receivables	1,750
Decrease in trade payables	1,410

ANSWERS

Question 1

Net Realisable Value = Estimates sales proceeds – cost of getting the goods to a saleable condition
= 25 – 2.30 – 1.65 = £21.05 per lamp

Cost = £17 per lamp

The lamps must be valued at the lower of cost (£17) and net realisable value (£21.05). The lower of these is the cost.

So, the inventory value = 12 lamps x cost of £17 per lamp = **£204**

Question 2

£26,000 (Year 0) = £5,000 (Year 1) + £7,200 (Year 2) + £7,800 (Year 3) + £6,000 (Year 4)

For Year 4, the number of days through the year when the payback point occurs is calculated as:

$(6,000 \div 8,200) \times 365 = 267.1$ days. This should be rounded UP to the next whole number of days, ie
268 days.

The payback period is therefore **3 years and 268 days**

Question 3

The fundamental ethical principle in this situation is **confidentiality**. An employee must keep information about the company private and confidential, unless they have been given permission by the company to disclose it or are required to disclose it by law.

Question 4

Sales Price Variance = actual quantity x (actual price – standard price)

$$= 7,140 \times (15.50 - 14.99) = 7,140 \times 0.51 = \mathbf{\pounds 3,641.40 \text{ Favourable}}$$

(This may be rounded to £3,641 Favourable)

Sales Volume Variance = standard price x (actual quantity – standard quantity)

$$= 14.99 \times (7,140 - 7,400) = 14.99 \times (260) = \mathbf{\pounds 3,897.40 \text{ Adverse}}$$

(This may be rounded to £3897 Adverse)

Note: You can check these answers by calculating the total sales variance and using the additivity of variances...

Total sales variance = $(7,140 \times 15.50) - (7,400 \times 14.99) = 110,670 - 110,926 = \pounds 256 \text{ Adverse}$

Combining the two sub-variances: £3,641 Favourable combines with £3,897 Adverse to give an overall variance of £256 Adverse ✓

Question 5

	£
Profit from operating activities	87,940
Depreciation	14,500
Loss on disposal	2,680
Increase in inventory	(3,680)
Increase in Trade Receivables	(1,750)
Decrease in Trade Payables	(1,410)
Cash from operating activities	98,280