

Level 3 Certificate in Bookkeeping and Accounting (RQF)  
Study Text Book Model Answers

**Lesson 4 – Accounting for Stock**

**Question 4.1**

Identify which **one** of the following accounting concepts is being applied when the opening and closing stock valuations are used in the cost of goods sold calculation in the trading account?

	✓
<b>Going concern</b>	
<b>Accruals</b>	✓
<b>Materiality</b>	

**Question 4.2**

In accordance with the requirements of SSAP 9 (Stock and Long-Term Contracts), which **one** of the following statements describes how a business's stock must be valued:

	✓
<b>At the lower of cost or net realisable value</b>	✓
<b>At cost</b>	
<b>At net realisable value</b>	

**Question 4.3**

Which **one** of the following accounting concepts is being applied when valuing stock in accordance with the requirements of SSAP 9 (Stock and Long-Term Contracts)?

	✓
<b>Realisation</b>	
<b>Prudence</b>	✓
<b>Going concern</b>	

#### Question 4.4

A retailer prices the goods he sells in his shop to give him a gross margin of 40%.

If the retailer holds an item in stock with a selling price of £140 (ignore VAT), which **one** of the following represents the cost price of the item?

	✓
£84	✓
£100	
£80	

#### Question 4.5

When pricing goods for sale a retailer uses a mark-up of 50% to calculate the retail selling prices of all goods she sells in her boutique.

If the retailer holds an item in stock with a retail selling price of £300, which **one** of the following represents the cost price of the item?

	✓
£150	
£250	
£200	✓

#### Question 4.6

A business trades in four products. At the year-end 30 September 201Y the stock of the business was valued at both costs and net realizable value (NRV). The results of the valuations are shown below:

Product	Valuation at Cost £	Valuation at NRV £
1	4,125	6,500
2	6,650	9,250
3	2,750	1,800
4	5,180	7,750
<b>Total</b>	18,705	25,300

Given the information above, which **one** of the following represents the valuation at which the closing stock should be included in the financial statements prepared at the year-end?

	✓
<b>£25,300</b>	
<b>£17,755</b>	✓
<b>£18,705</b>	

### Question 4.7

The following account balances appeared in the ledger of a business at the financial year-end 31 December 201Y:

	£
Sales	650,860
Purchases	410,280
Stock (1 January 201Y)	48,160

The closing stock of the business has been counted and valued at the year-end 31 December 201Y, the valuation placed on the closing stock was £52,150.

Task 1 – Using the journal below, prepare the journal entry to transfer the balance on the sales account at the year-end to the trading account:

### Journal

201Y	Account name	DR £	CR £
31 Dec	<b>Sales</b>	<b>650,860</b>	
	<b>Trading account</b>		<b>650,860</b>
	Transfer of sales to the trading account at the year-end 31 December 201Y		

Task 2 – Using the journal below, complete the journal entry to transfer the opening stock to the trading account at the year-end:

**Journal**

<b>201Y</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
31 Dec	<b>Trading account</b>	<b>48,160</b>	
	<b>Stock</b>		<b>48,160</b>
	Transfer of opening stock to the trading account at the year-end 31 December 201Y		

Task 3 – Using the journal below, complete the journal entry to transfer the balance on the purchases account at the year-end to the trading account:

**Journal**

<b>201Y</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
31 Dec	<b>Trading account</b>	<b>410,280</b>	
	<b>Purchases</b>		<b>410,280</b>
	Transfer of purchases to the trading account at the year-end 31 December 201Y		

Task 4 – Using the journal below, prepare the journal entry to record the closing stock in the stock account and trading account at the year-end:

**Journal**

<b>201Y</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
31 Dec	<b>Stock</b>	<b>52,150</b>	
	<b>Trading account</b>		<b>52,150</b>
	Closing stock at the year-end 31 December 201Y		

Task 5 – Calculate the gross profit of the business for the year ended 31 December 201Y by completing the trading and profit and loss account extract provided below:

**Trading and Profit and Loss Account (extract)  
for the Year Ended 31 December 201Y**

	£	£	£
Sales			650,860
<b>Less Cost of Goods Sold</b>			
Opening Stock	48,160		
<b>Add Purchases</b>	410,280		
		458,440	
<b>Less Closing Stock</b>		52,150	
Cost of Sales			406,290
Gross Profit			244,570

Task 6 – Using the balance sheet extract provided below enter stock on the balance sheet:

**Balance Sheet (extract) at 31 December 201Y**

<b>Current Assets</b>	<b>£</b>
Closing stock	52,150

**Question 4.8**

Which **one** of the following statements is correct?

	✓
<b>The sales account balance is a debit entry in the trading account</b>	
<b>The sales account balance is a credit entry in the trading account</b>	✓

### Question 4.9

Which **one** of the following statements is correct?

	✓
<b>The purchases account balance is a debit entry in the trading account</b>	✓
<b>The purchases account balance is a credit entry in the trading account</b>	

### Question 4.10

Which **one** of the following statements is correct?

	✓
<b>The opening stock balance is a debit entry in the trading account</b>	✓
<b>The opening stock balance is a credit entry in the trading account</b>	

### Question 4.11

Which **one** of the following statements is correct?

	✓
<b>The closing stock balance is a debit entry in the trading account</b>	
<b>The closing stock balance is a credit entry in the trading account</b>	✓

### Question 4.12

Which **one** of the following statements is correct?

	✓
<b>The cost of goods sold figure represents a debit balance on the trading account</b>	✓
<b>The cost of goods sold figure represents a credit balance on the trading account</b>	

### Question 4.13

Which **one** of the following statements is correct?

	✓
<b>The gross profit figure represents a debit balance on the trading account</b>	
<b>The gross profit figure represents a credit balance on the trading account</b>	✓

### Question 4.14

The following account balances appeared in the ledger of a business at the financial year-end 30 June 201Y:

	<b>£</b>
Sales	785,500
Purchases	524,760
Stock (1 July 201X)	43,480

The closing stock of the business has been counted and valued at the year-end 30 June 201Y, the valuation placed on the closing stock was £41,080.

Calculate the gross profit of the business for the year ended 30 June 201Y and enter the figure you calculate in the box below:

**Gross profit £258,340**

### Question 4.15

The financial year of a business ends on 31 December.

You are provided with the following information at the year-end 31 December 201X:

Stock at 1 January 201X £65,540

Stock at 31 December 201X £68,180

Task 1 – record the opening stock at 1 January 201X as a balance brought

DR		Stock		CR	
201X	Details	£	201X	Details	£
1 Jan	Balance b/d	65,540	31 Dec	Trading account	65,540
31 Dec	Trading account	68,180	31 Dec	Balance c/d	68,180
		133,720			133,720
201Y	Details	£	201Y	Details	£
1 Jan	Balance b/d	68,180			

down (Balance b/d) in the stock account provided below:

Task 2 – Using the journal below, complete the journal entry to transfer the opening stock to the trading account at the year-end, and record the transfer in the stock account provided above:

#### Journal

201X	Account name	DR £	CR £
31 Dec	Trading account	65,540	
	Stock		65,540
	Transfer of opening stock to the trading account at the year-end 31 December 201X		

Task 3 – Using the journal below, complete the journal entry to record the closing stock in the stock account and the trading account. You are also required to record the closing stock in the stock account provided above:

**Journal**

<b>201X</b>	<b>Account name</b>	<b>DR £</b>	<b>CR £</b>
31 Dec	<b>Stock</b>	<b>68,180</b>	
	<b>Trading account</b>		<b>68,180</b>
	Closing stock at the year-end 31 December 201X		

Task 4 – Balance off the stock account provided above. Show the closing stock balance carried down (balance c/d) at 31 December 201X and brought down (balance b/d) at 1 January 201Y:

**Question 4.16**

The financial year of a business selling furniture ends on 31 May.

At 31 May 201Y the closing stock of the business was valued at £125,500. However, you have now been provided with the following information:

- Several items of furniture are included in the original stock valuation at their cost price of £600. It has been discovered that the items have been damaged whilst in stock and are unsellable in their current condition. It has now been decided that rather than repair the items they are to be given away free-of-charge to a local charity.
- One line of stock has been included in the original stock valuation at their retail selling price of £4,500. The purchase price of the items was marked-up by 50% to give selling price.

Calculate the amended closing stock valuation to be used at the year-end 31 May 201Y when preparing the trading and profit and loss account and balance sheet of the business. Enter the amended valuation figure in the box below:

<b>Amended stock valuation at 31 May 201Y £123,400</b>
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### Question 4.17

At the year-end 31 March 201Y a business valued its stock at £178,300. However, since the valuation was carried out the following information has been disclosed:

- One item of stock included in the original valuation is damaged. The stock item originally cost £1,000, repairs costing £250 are now necessary to get the item into a saleable condition. The item will then be sold in a 'clearance' sale for £1,500.
- One stock item of stock included in the original valuation at its cost to the business of £800 is now obsolete and is to be scrapped.
- One item of stock was valued at £2,400 this being its retail sales value. The stock item has been priced for sale to give a margin of 50%.

Which **one** of the following represents the value at which the closing stock should be included in the financial statements of the business at the year-end 31 March 201Y?

	✓
<b>£175,950</b>	
<b>£176,700</b>	
<b>£176,300</b>	✓
<b>£176,350</b>	

### Question 4.18

At 1 January 201Y a business carried a stock of goods valued at cost of £125,000. Sales in the year ended 31 December 201Y were £1,250,000 and purchases were £725,000. At 31 December 201Y the stock of the business was valued at cost of £175,000.

Given the information above, calculate the gross profit of the business for the year ended 31 December 201Y by completing the trading and profit and loss account extract provided below:

#### Trading and Profit and Loss Account (extract) for the Year Ended 31 December 201Y

	£	£	£
Sales			1,250,000
<b>Less Cost of Goods Sold</b>			
Opening Stock	125,000		
<b>Add Purchases</b>	<b>725,000</b>		
		<b>850,000</b>	
<b>Less Closing Stock</b>		<b>175,000</b>	
Cost of Sales			<b>675,000</b>
Gross Profit			<b>575,000</b>

### Question 4.19

An engineering business has valued its closing stock at cost price. The valuation placed on the stock is £75,850. The valuation is based on all items remaining in stock being valued at the most recent cost prices.

Given the above information, which **one** of the following stock valuation methods is the business using to value its stock at cost price?

	✓
<b>First in First Out (FIFO)</b>	✓
<b>Average Cost (AVCO)</b>	
<b>Last in First Out (LIFO)</b>	

### Question 4.20

Electricdirect.com is an internet trading company. They stock a wide range of electrical goods. At 30 September 201Y their stock was counted and valued at £898,456. Since the original stock count and valuation, the following additional information has been disclosed:

Stock Item Number	Details
ED 215	There are 50 items remaining in stock which cost £125 each. These are now 'end of line' items as they have been superseded by newer more advanced models. It is proposed that the items be sold in a 'clearance sale' at £50 each.
ED 1020	There are 20 items remaining in stock which cost £40 each. On examination it was found that these items were faulty and currently unsellable. It is proposed that the items be repaired at a cost of £15 each, and that the items be sold in the 'clearance sale' at £50 each.
ED 1150	There are 100 items in stock which cost £120 each. The packaging on these items is damaged. It is proposed that these items be repackaged at a cost of £2.50 per item. They will then be sold at £150 each.
ED 1210	There are 10 items remaining in stock which cost £150 each. These items have been damaged in storage and are currently unsellable. It is proposed that the items be repaired at a cost of £25 each. They will then be sold in the 'clearance sale' at £125 each.

Which **one** of the following represents the value at which the closing stock should be included in the financial statements of the business at the year-end 30 September 201Y?

	✓
£894,206	
£894,106	✓
£892,606	