



## CIPS Whole Life Asset Management Sample Questions (Q109-Q114):

### NEW QUESTION # 109

A piece of machinery has reached the end of its manufacturing life cycle and is due to be disposed of. What is the process that must take place for this to occur?

- A. Commissioning
- **B. Decommissioning**
- C. Whole-life costing
- D. Inventory management

**Answer: B**

Explanation:

Decommissioning is the process of safely retiring equipment from use. It involves steps such as cleaning, dismantling, and responsibly disposing of the asset, especially if it contains hazardous materials. Whole-life asset management includes decommissioning as a key phase, ensuring that assets are disposed of cost-effectively and in compliance with environmental standards.

### NEW QUESTION # 110

XYZ Ltd is looking for new office space overseas. To keep the overhead expense minimal, it chooses leasing rather than purchasing new office. In leasing contract, which of the following costs are most likely to be attributable to the lessee?

1. Disposal costs
2. Rentals
3. Operating costs
4. Vendor selection costs

- A. 1, 3 and 4
- B. 1, 2 and 3
- C. 1, 2 and 4
- **D. 2, 3 and 4**

**Answer: D**

Explanation:

A lease is a contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset.

Property, buildings and vehicles are common assets that are leased. Industrial or business equipment is also leased. Since the lessee does not own the asset, it is not responsible for disposing of the assets, and therefore, disposal costs are not attributable to the lessee. The lessee usually incurs rentals and operating costs. Finally, a company should treat the lease the same as other contracts, which they must qualify the supplier.

Reference: CIPS study guide page 144-147

LO 3, AC 3.1

### NEW QUESTION # 111

When accounting for the disposal of fixed assets, the gain or loss on disposal is equal to...?

- A. The difference between resale price and the cost of that asset
- B. The difference between resale price and the cost or valuation less accumulated depreciation up to the date of disposal
- C. The difference between resale price and the cost or valuation plus depreciation up to the beginning of the year in which disposal took place
- **D. The difference between resale price and the cost of the asset less depreciation up to the beginning of the year in which disposal took place**

**Answer: D**

Explanation:

Fixed assets may be sold anytime during their useful life. This gives rise to the need to derecognize the asset from balance sheet and recognize any resulting gain or loss in the income statement.

The accounting for disposal of fixed assets can be summarized as follows:

- Record cash receive or the receivable created from the sale:

Debit Cash/Receivable

- Remove the asset from the balance sheet

Credit Fixed Asset (Net Book Value)

- Recognize the resulting gain or loss

Debit/Credit Gain or Loss (Income Statement)

Example

ABC LTD purchased a machine for \$2000 on 1st January 2001 which had a useful life of 5 years and an estimated residual value of \$500. The machine was being depreciated on straight line basis. However, ABC LTD decided to sell the asset on 1 January 2003 for \$1500 in order to raise cash for the purchase of a new machine.

The disposal of the fixed asset will be recorded as follows:

Record cash received or the receivable arising from the sale:

Debit Cash \$1,500

Remove the asset from the balance sheet

As a fixed asset is recognized in the balance sheet at the Net Book Value (i.e. Cost less Accumulated Depreciation), the machine will be removed from the accounts of ABC LTD in two parts:

First, the Machine Cost must be removed by crediting the ledger:

Credit Machine Cost \$2,500

Second, the Accumulated Depreciation in respect of the machine must be removed by debiting the ledger:

Debit Accumulated Depreciation \$600\*

\*Accumulated Depreciation:  $(2000 - 500)/5 \times 2$  Years

The combined effect of the above two transactions would be to remove the machine's net book value of \$1400 (2000 - 600) from the balance sheet.

Recognize the resulting gain or loss on the sale of machine

ABC LTD received \$1500 for an asset with a balance sheet worth of \$1400. It therefore earned a gain of \$100. The gain will be recorded as follows:

Credit Gain on Disposal \$100

#### NEW QUESTION # 112

What are the contents of master production schedule in MRP system?

- A. The total number of labour required to produce the final product
- B. The investment required for production
- C. What components and materials are and when to purchase them
- **D. How many final products will be made and when to make them**

**Answer: D**

Explanation:

A master production schedule (MPS) is a plan for individual commodities to be produced in each time period such as production, staffing, inventory, etc.[1] It is usually linked to manufacturing where the plan indicates when and how much of each product will be demanded.[2] This plan quantifies significant processes, parts, and other resources in order to optimize production, to identify bottlenecks, and to anticipate needs and completed goods. Since a MPS drives much factory activity, its accuracy and viability dramatically affect profitability. Typical MPSs are created by software with user tweaking.

Reference: CIPS study guide page 116-119

LO 2, AC 2.3

#### NEW QUESTION # 113

Which of the following statements represent a definition for 'obsolescence' in inventory management? Select TWO that apply.

- A. The usage of the items has decreased
- **B. The users of the items no longer need them**
- C. The forecasts for the items have exceeded demand
- **D. The previous technology has been replaced**
- E. The previous supplier has been replaced

**Answer: B,D**

