

**ACCOUNTING 2020 RESOURCES**

**INVENTORY VALUATION AND INTERNAL CONTROL**

**QUESTION 1**

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| **1.1** | **INVENTORY VALUATION**  |  |  |  |
|  | You are provided with information relating to Michelle Stores. The business sells blankets and towels. The financial year ends on 28 February each year. The business uses both First in First Out (FIFO) and weighted average methods to value the stock. |
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|  | **REQUIRED:** |  |  |
|  | 1.1.1 | Use the information given to calculate the closing stock value of: |
|  |  | 1. Towels (using the FIFO method)
 | (5) |
|  |  | 1. Blankets (using the weighted-average method)
 | (9) |
|  |  |  |  |  |
|  | 1.1.2 | Calculate the following for towels (you may prepare a trading account to calculate this figures): |  |
|  |  |   |  |  |
|  |  | 1. Cost of sales
 |  | (4) |
|  |  | 1. Stock turnover rate
 |  | (5) |
|  |  |  |  |  |
|  | 1.1.3 | **Michelle is complaining about the work load in managing the selling of two items. She is considering closing one item. Which one will you recommend and provide one answer for your decision. Use figures to support your answer.**  | (3) |
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| INFORMATION: |  |
| **A** | The following details relate to the stock, purchases and sales: |  |
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| --- | --- | --- | --- |
| **Details** | **Date** | **Towels** | **Blankets** |
|  |  | **No. of units** | **Per unit** | **Total** | **No. of units** | **Per unit** | **Total** |
| Stock | 1/3/15 | 1 100 | R100 | R110 00 | 450 | R210 | R94 500 |
| Purchases |  | 3 500 |  | R389 000 | 2 500 |  | R534 000 |
|  | 4/4/15 | 1 200 | R110 | R132 000 | 600 | R220 | R132 000 |
|  | 11/6/15 | 600 | R130 | R78 000 | 400 | R230 | R92 000 |
|  | 2/11/15 | 1 400 | R100 | R140 000 | 1 300 | R200 | R260 000 |
|  | 15/12/15 | 300 | R130 | R39 000 | 200 | R250 | R50 000 |
| Sales |  | 4 200 | R165 | R693 000 | 1 200 | R280 | R336 000 |
| Stock | 28/2/16 | 400 | **?** | **?** | 1 732 | **?** | **?** |

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|  |  |
| **B** | Michelle donated 18 blankets to the local orphanage home from the June purchases. This was recorded. |
| **C** | Carriage on purchases for blankets amounted to R29 476 and is not included in the figures above. The price of towels includes carriage. |
| **D** | Rate of stock turnover for blankets is 1,25 times.  |
| **1.2 STOCK VALUATION METHOD & INTERNAL CONTROL**  |
|  |  |  |
| The statements below relate to stock valuation methods. |  |
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| **REQUIRED:** |  |
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| 1.2.1 | Choose the description from COLUMN B that best describes the stock valuation method in COLUMN A. Write only the letter (A–C) next to the question number (2.1.1–2.1.3) in the ANSWER BOOK. |  |
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| **COLUMN A** | **COLUMN B** |
| 1.2.1 | Specific identification  | A | Oldest stock is sold before latest purchases. |
| 1.2.2 | First-in-first out (FIFO) | B | Total value of goods divided by number of units available for sale to calculate value of closing stock. |
| 1.2.3 | Weighted average | C | Stock is valued based on actual cost prices. |

 | (3) |
|  |  |  |
| 1.2.2 | **Westhuizen Traders** |  |
|  |  |  |
|  . | The business buys and sells generators. The business uses the periodic inventory system and the FIFO (first in first out) method to value stock. |  |
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|  | **REQUIRED:** |  |
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|  | 1.2.2.1 | Calculate the value of the following on 30 June 2019: |  |
|  |  |  |  |  |
|  |  |  | Closing stock | (6) |
|  |  |  |  |  |
|  |  |  | Cost of sales | (6) |
|  |  |  |  |  |
|  | 1.2.2.2 | The owner suspects that generators had been stolen.  |  |
|  |  |  |  |  |
|  |  |  | Calculate the number of generators stolen. | (5) |
|  |  |  |  |  |
|  |  |  | Give TWO points of advice. | (4) |
|  |  |  |  |
|  | 1.2.2.3 | The owner, Mrs Westhuizen, is considering changing to theweighted-average cost method. |  |
|  |  |  |  |
|  |  |  | Calculate the value of closing stock using the weighted- average cost method.  | (9) |
|  |  |  |  |  |
|  |  |  | The owner, Mrs Westhuizen, thinks that changing to the weighted-average method will lessen her tax burden. She approaches you for advice. Provide TWO points of advice in this regards. | (4) |
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|  | **INFORMATION:** |  |
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| **A.** | **Stock balances:**

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| --- | --- | --- | --- |
| **Date** | **No. of generators** | **Unit price** | **Total** |
| 1 May 2019 | 60 | 2 300 | 138 000 |
| 30 June 2019 | 80 | ? | ? |

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| **B.** | **Purchases for the period 1 May 2019 – 30 June 2019**

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| --- | --- | --- | --- |
| **Date** | **No. of generators** | **Unit price** | **Total** |
|  5 May 2019 | 90 | 2 500 | 225 000 |
| 31 May 2019 | 30 | 2 800 | 84 000 |
| 18 June 2019 |  70  | 2 900 | 203 000 |
| **Total purchases** | 190 |  | 512 000 |
| Returns to suppliers: Bought on 18 June 2019 | 5 |  |  |

Carriage on purchases, R 26 000 was paid on the purchases for 5 May. No carriage on purchases was paid on the rest of the purchases. |  |

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| **C.** | **Sales for the period 1 May 2019 – 30 June 2019**

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| --- | --- | --- | --- |
| **Date** | **No. of generators** | **Unit price** | **Total** |
| May 2019 | 100 | 3 400 | 340 000 |
| June 2019 | 62 | 3 600 | 223 200 |
| **Total sales** | 162 |  | 563 200 |

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| **1.3** | **INVENTORY VALUATION**  |  |
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|  | Mani Traders sells branded Amor Shoes and footwear accessories. The business uses the periodic inventory system. The financial year ends annually on 30 June. |  |
|  |  |  |
|  | **REQUIRED:** |  |
|  |  |  |  |
|  | 1.3.1 | What does FIFO stand for? | (1) |
|  |  |  |  |
|  | 1.3.2 | **Refer to information A.** |  |
|  |  | Calculate the closing stock of shoes according to the weighted average method on 30 June 2019. | (10) |
|  |  |  |  |
|  | 1.3.3 | **Refer to information B.** |  |
|  |  |  |  |
|  |  | * Calculate the number of stolen items for footwear accessories.
 | (4) |
|  |  | * Calculate the average stock holding period in days in respect of footwear accessories on 30 June 2019.
 | (8) |
|  |  | * Should Mani Traders continue buying and selling accessories? Provide **TWO** points of advice. Quote figures to support your answer.
 | (7) |

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|  | **INFORMATION:** |  |
|  | **A.** | **SHOES** |  |
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| --- | --- | --- | --- |
| **Details** | **No. of items** | **Unit Price** | **Total****R** |
| Opening Stock | 235 |  | 163 150 |
| Purchases | 1 525 |  | 1 144 300 |
|  September 2018 | 870 | 720 | 626 400 |
|  December 2018 | 230 | 755 | 173 650 |
|  May 2019 | 425 | 810 | 344 250 |
| Closing stock | 400 | ? | ? |
| Sales | 1 210 | 1 450 | 1 754 500 |

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|  |  | 150 pairs of shoes were returned from the September 2018 purchases. |  |
|  |  |  |  |
|  | **B.** | **FOOTWEAR ACCESSORIES** |  |
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| --- | --- | --- |
| **Details** | **No. of items** | **Total** |
| Opening Stock  | 575 | 35 000 |
| Purchases | 2 625 | ? |
|  | 3 200 | ? |
| Total sales  | 1 700 | 85 000 |
| Closing stock | 1 020 | 40 800 |

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|  |  | The mark-up on accessories is 25% on cost.**QUESTION 1*** 1. **INVENTORY VALUATION**

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| 1.1.1 | **Calculate the closing stock value on hand on 30 June 2019 for:**1. **Towels (using the FIFO method)**
2. **Blankets (using the weighted average method)**
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| 1.1.2 | **Calculate the following for towels:** |

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| **1.1.3** | **Michelle is complaining about the work load in managing the two items. She is considering closing one item. Which one will you recommend and provide one reason for your answer.** **Item:** **Reason:**  |

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**1.2.1 Choose the description from COLUMN B that best describes the stock valuation method in COLUMN A.**

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| **1.2.1** |  |  |

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| **1.2.2** |  |  |
| **1.2.3** |  |  |

**1.2.2 Calculate the following on 30 June 2019:**

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| --- | --- | --- | --- | --- |
| **1.2.2.1** | **Closing stock** |

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| **6** |

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|  | **Cost of sales** |

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|  |
| **6** |

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| **1.2.2.2** | **The owner suspects that generators had been stolen. Calculate the number of generators stolen.** |

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|  |
| **5** |

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|  | **Give TWO points of advice** |

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| **4** |

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| **1.2.2.3** | **Calculate the value of closing stock using the weighted-average cost method.**   |

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| **9** |

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|  | **The owner, Mrs Westhuizen, thinks that changing to the weighted-average method will lessen her tax burden. She approaches you for advice. Provide TWO points of advice.** |

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**1.3**

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|  | **INVENTORY CALCULATIONS** |  |
| **1.3.1** | **What does FIFO stand for?** |  |
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|  |
| **1** |

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| **1.3.2** | **Calculate the closing stock of shoes according to the weighted average method on 30 June 2019.** |  |
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|  |
| **10** |

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| **1.3.3** | **Calculate the number of stolen items for footwear accessories.**  |  |
|  |  |

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| **4** |

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|  | **Average stock holding period in days.** |  |
|  |  |

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|  |
| **8** |

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|  | **Should Mani Traders continue with buying and selling the accessories stock. Provide TWO points of advice. Quote figures to support your answer** |  |
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 **QUESTION 2: INVENTORY VALUATION, INTERNAL CONTROL**

 **2.1 INVENTORY VALUATION**

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|  | Makro Stores sells television sets to the public. The financial year ended on 28 February 2019.They are unsure which method to use in valuing their stock. The cost price of the products has changed significantly during the current year.The owner Naidoo, has decided to keep selling the same model of TV set (Ekasi TV sets), despite the fact that other shops are now selling newer models. |  |
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|  | **REQUIRED:** |  |  |
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|  | 2.1.1 | Calculate the value of closing stock using the FIFO (first-in-first-out) method. | (6) |
|  |  |  |  |
|  | 2.1.2 | Calculate the value of closing stock using the weighted average method. | (4) |
|  |  |  |  |
|  | 2.1.3 | Which method of stock valuation would you advice the owner to use? Explain your answer. | (3) |
|  |  |  |  |
|  | **INFORMATION:** |  |
|  |  |  |
|  | The following information appeared in the records of Makro Stores for the year ended 28 February 2019. The business used a fixed selling price of R16 000 per TV set. |  |
|  |  |  |
|  | **Stock Records:** | **Number of TV Sets** | **Cost per unit** | **Total value** |  |
|  | TV sets on hand on 1 March 2018 | 50 | R11 000 | R550 000 |  |
|  | TV Sets bought during the year | 750 |  | R8 090 000 |  |
|  |  May 2018 | 300 | R12 000 | R3 600 000 |  |
|  |  September 2018 | 250 | R11 560 | R2 890 000 |  |
|  |  February 2019 | 200 | R8 000 | R1 600 000 |  |
|  | Sub total | **800** |  | **R8 640 000** |  |
|  | TV sets sold during the year | 440 | R16 000 | R7 040 000 |  |
|  | TV sets on hand on 28 February 2019 | 360 | ? | ? |  |

 **2.2 PROBLEM SOLVING**

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| --- | --- | --- |
|  |  |  |
|  | Apart from TV sets, Makro Stores also sell other products. You are provided with information taken from their stock records on 28 february 2019. The owner Naidoo is uncertain if he should be satisfied with control of all these items. | (9) |
|  |  |  |
|  | **REQUIRED:** |  |
|  |  |  |
|  | Comment on the stock control of each item, quoting figures to support your comment. In each case, offer Naidoo advice for the future. |  |
|  |  |  |
|  |  | **Ekasi** **TV sets** | **Smart Talk Cell phones** | **Pocket Radios** |  |
|  | Number of units sold during the year | 440 | 2 250 | 120 |  |
|  | Number of units on hand per stock records at year end | 360 | 150 | 40 |  |
|  | Number of units per physical count at year-end | 360 | 100 | 39 |  |
|  | Selling price per unit | R16 000 | R1 200 | R100 |  |
|  | Stock holding period  | ? | 15 days | 65 days |  |

|  |  |  |
| --- | --- | --- |
| 2.3 | **STOCK VALUATION** |  |
|  |  |  |
|  | The following information was extracted from the records of Roux Traders for the financial year ended 28 February 2019. The business uses the weighted-average method and the periodic inventory system to value the stock of school bags.  |  |
|  |  |  |
|  | **REQUIRED:** |  |
|  |  |  |
|  | 2.3.1 Calculate the following:  |  |
|  |  |  |
|  | * The value of the closing stock
 | (8) |
|  |  |  |
|  | * The gross profit for the year ended 28 February 2019
 | (7) |
|  |  |  |
|  | 2.3.2 The owner suspects that bags are missing. |  |
|  |  |  |
|  | * Do a calculation to justify his suspicion on the missing bags.
 | (6) |
|  |  |  |
|  | * Explain TWO control measures that can be used to prevent this from happening in the future.
 | (4) |
|  |  |  |
|  | 2.3.3 Mention TWO possible benefits to the business from the  donations made to support needy learners. |  (4) |
|  |  |  |
|  | **INFORMATION:** |  |
|  |  |  |
|  | **A. STOCK BALANCES** |  |
|  |  |  |
|  |

|  |  |  |
| --- | --- | --- |
| **Date** | **Units** | **Total** |
| 1 March 2018 (Opening stock) | 150 | R11 280 |
| 28 February 2019 (Closing stock) | 635 | ? |

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|  | **B. PURCHASES**  |  |
|  |  |  |
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| --- | --- | --- | --- | --- | --- |
| **Date** | **Units** | **Unit price** | **Amount****(before carriage)** | **Carriage (per unit)** | **Total amount** |
| **Purchases** | **2 700** |  |  |  | **R239 400** |
| May 2018 | 800 | R82 | R65 600 | R3,00 | R68 000 |
| August 2018 | 900 | R83 | R74 700 | R3,00 | R77 400 |
| January 2019 | 1 000 | R90 | R90 000 | R4,00 | R94 000 |

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|  |  |  |
|  | **C. Additional information:** |  |
|  |  |  |
|  | * 40 school bags bought in May 2018 were donated to needy learners at a local school.
 |  |
|  |  |  |
|  | * 2 180 bags were sold for R130 each during the year. Fifteen (15) of these bags were returned by debtors.

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|  | **2.4** | **STOCK VALUATION** |  |  |
|  |  |  |  |  |  |
|  |  | You are provided with information relating to Tholeni Stores. The business sells one type of leather jackets. The financial year ended on 28 February 2019. The business uses the weighted-average method for stock valuation and the periodic stock system. |  |  |
|  |  |  |  |  |  |
|  |  | **REQUIRED:** |  |  |
|  |  |  |  |  |  |
|  |  | **2.4.1** | Calculate the value of the closing stock on 28 February 2019 using the weighted-average method. |  | (9) |
|  |  |  |  |  |  |
|  |  | **2.4.2** | Calculate the average stock-holding period (in days) on 28 February 2019.  |  | (6) |
|  |  |  |  |  |  |
|  |  | **2.4.3** | Comment on the stock-holding period and explain how this would affect the business. Stock-holding period for 2018 was 100 days. |  | (4) |
|  |  |  |  |  |  |
|  |  | **2.4.4** | Calculate the value of the closing stock using the FIFO method. |  | (7) |

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|  |  | **INFORMATION:** |  |  |
|  |  |  |  |  |  |
|  |  | **A.** | **Stock balances:**

|  |  |  |
| --- | --- | --- |
| **Date** | **Jackets** | **Total value****(including carriage)** |
| 1 March 2018 | 610 | R312 900 |
| 28 February 2019 | 420 | **?** |

 |  |
|  |  |  |  |  |  |
|  |  | **B.** | **Purchases:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Number of jackets** | **Cost price per jacket** | **Total purchases** | **Carriage per jacket** | **Total cost (including carriage)** |
| 15/03/2018 | 500 | R450 | R225 000 | R20 | R235 000 |
| 20/08/2018 | 800 | R480 | R384 000 | R25 | R404 000 |
| 28/11/2018 | 700 | R620 | R434 000 | R20 | R448 000 |
| 05/02/2019 | 400 | R650 | R260 000 | R25 | R270 000 |
| **TOTAL** | 2 400 |  | R1 303 000 |  | R1 375 000 |

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|  |  | **C.** | **Returns:** |  |
|  |  |  |  |  |
|  |  |  | Twenty (20) jackets from the purchases on 5 February 2019 were returned. The supplier agreed to refund the business the full amount for the cost including the carriage per jacket. |  |
|  |  |  |  |  |
|  |  | **D.** | **Sales for the financial year ended:** |  |
|  |  |  |  |  |
|  |  |  |

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| --- | --- |
| **28 February2019** | **28 February 2018** |
|  R 3 100 000 | R1 800 000 |

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| **QUESTION 2** **2.1 MAKRO STORES**

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| **2.1.1** | **Calculate the value of closing stock on using the FIFO (first-in-first-out) method.** |

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| **2.1.2** | **Calculate the value of closing stock using the weighted average method.** |

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| **2.1.3** | **Which method of stock valuation would you advise the owner to use? Explain a reason for your answer.** |

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| **3** |

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| **2.2** | **Comment on the stock control of each item, quoting figures to support your comment. In each case, offer Naidoo advice for the future.**

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| --- | --- | --- |
| **Stock item** | **Comment**  | **Advice** |
| **Ekasi TV sets** |  |  |
| **Smart Talk Cellphones** |  |  |
| **Pocket Radios** |  |  |

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| **9** |

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| **2.3.1** | **Calculate the value of closing stock using the weighted average method on 28 February 2019.** |

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|  | **Calculate the gross profit on 28 February 2019.**

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| **7** |

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| **2.3.2** | **The owner suspects that bags are missing.** **Calculate the number of missing bags**    **Explain TWO control measures that can be used to prevent this from happening in the future.**  |

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| **2.3.3** | **Mention TWO possible benefits to the business from the** **donations made to support needy learners.** |

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**2.4**

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| **2.4.1** | **Calculate the value of the closing stock on 28 February 2019 using the weighted-average method.** |  |  |
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| **2.4.2** | **Calculate the average stock-holding period (in days) on** **28 February 2019.** |  |  |
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| **2.4.3** | **Comment on the stock-holding period and explain how this would affect the business.** |  |  |
|  | **Comment** |  |  |
|  |  |  |  |
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|  | **How this would affect the business.** |  |  |
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| **2.2.4** | **Calculate the value of the closing stock by using the FIFO method.** |  |  |
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|  |  |  | **7** |
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**QUESTION 3: INVENTORY VALUATION AND INTERNAL CONTROL**  |
|  |  |  |
| 3.1 | **CONCEPTS** |  |
|  |  |  |
|  | Give ONE word/term for each of the following descriptions by choosing a word/term from the list below. Write only the word/term next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.  |  |
|  | perpetual inventory system; weighted-average method;specific identification method; periodic inventory system;  first in first out (FIFO) |  |
|  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | 3.1.1 | This method assumes that stock is sold in the order of date purchased. |  |
|  |  |  |  |
|  | 3.1.2 | This system ensures that cost of sales is calculated at the point of sale. |  |
|  |  |  |  |
|  | 3.1.3 | This method of stock valuation assigns a unique or individual value to each stock item.  |  |
|  |  |  |  |
|  | 3.1.4 | This stock system is more suited for low-value goods that are purchased in bulk. (4 x 1) | (4) |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| 3.2. | **SPEEDY BICYCLES SHOP** |  |
|  |  |  |
|  | You are provided with information relating to Speedy Bicycle Shop for the financial year ended 30 June 2019. The business sells one type of bicycles.The business uses the First in first out method (FIFO) for stock valuation and the periodic stock system. The owner of the business is Andrew Muller. |  |
|  |  |  |  |
|  | **REQUIRED:** |  |
|  |  |  |  |
|  | 3.2.1 | Calculate the value of the stock on hand on 30 June 2019 using the First in first out method (FIFO). | (5) |
|  |  |  |  |
|  | 3.2.2 | The owner is concerned about the management of stock with regard to stock levels and stock control. |  |
|  |  |  |  |
|  |  | * Provide a calculation to support his concern on stock levels. Take into account that the stock holding period for 2018 was 75 days.
 | (8) |
|  |  | * Provide a calculation to support his concern on stock control.
 | (6) |
|  |  |  |  |

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| --- | --- |
| **INFORMATION:** |  |
|  |  |  |
| **A.** | **Stock records of bicycles** |  |
|  |
|  |  | **NUMBER OF BICYCLES** | **COST PRICE PER BICYCLE** | **TOTAL****VALUE** |  |
|  | Opening stock (1 July 2018) | 80 | ? | R320 000 |  |
|  | Closing stock (30 June 2019) | 198 | ? | ? |  |
|  |
| **B.** | **Purchases and returns** |  |
|  |
|  |  | **NUMBER OF BICYCLES** | **COST PRICE PER BICYCLE** | **TOTAL PURCHASES** |  |
|  | **Purchases** | **640** |  | **R 2 682 500** |  |
|  | August 2018 | 245 | 3 700 | R906 500 |  |
|  | January 2019 | 205 | 4 400 | R902 000 |  |
|  | May 2019 | 190 | 4 600 | R874 000 |  |
|  |  |  |
|  | **Returns:*** FIVE (5) bicycles from the January purchases were defective and were returned to the suppliers.
 |  |
|  |
| **C.** | **Sales and Cost of sales** |  |
|  |  |  |
|  | * Total sales of R3 289 500 comprised of 510 bicycles sold at R6 450 each.
 |  |
|  | * Cost of sales was calculated as R2 040 500 for the year.
 |  |

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| --- | --- | --- |
| 3.3 | **INTERNAL CONTROL** |  |
|  |  |  |
|  | Best Computers sells one brand of computers. The owner, Zanele Maziya has three branches in different shopping centres.Athough the business is making a profit, Zanele is concerned about the profitability of each branch. She investigated and presented the information below, for August 2019 (one month). |  |
|  |  |  |
|  | **REQUIRED:** |  |
|  |  |  |
|  | Identify ONE different problem in relation to each branch. Quote relevant figures to support your answer. In each case, offer Zanele advice on how to solve the problem. | (9) |
|  |  |  |  |

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| --- | --- | --- |
|  | **INFORMATION:** |  |
|  |
|  | * The shops are open 7 days a week.
* Normal time is from 8:30 to 16:30, Mondays to Fridays (160 hours per month).
* Overtime is from 16:30 to 18:30 Mondays to Fridays and 9:30 to 12:30  on weekends (56 hours per month)
* Overtime salary rate is 1,5 times the normal rate.
 |  |
|  |
|  | **INFORMATION**  | **KENI MALL** | **HAZY MALL** | **TONGA MALL** |  |
|  | Salesperson (age) | Jan (42 years) | Den (27 years) | Han (62 years) |  |
|  | Stock on hand – 1 Aug 2019 | 50 units  | 50 units  | 50 units  |  |
|  | Selling price per computer. | R4 200 | R4 200 | R4 200 |  |
|  | Computers sold (before returns) | 42 | 36 | 22 |  |
|  | Returns by customers | 5 | 12 | 1 |  |
|  | Credit sales  | R54 600 | R88 200 | R21 000 |  |
|  | Deposits from cash sales | R79 800 | R12 600 | R67 200 |  |
|  | Hours worked (normal time) | 154 hours | 117 hours | 102 hours |  |
|  | Overtime hours | 20 hours | 52 hours | 2 hours |  |
|  | Rent expense (per month) | R6 000 | R8 000 | R5 500 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  **QUESTION 3** |
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|  **3.1** | **CONCEPTS** |  |
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| --- | --- | --- |
| **3.1.1** |  |  |
| **3.1.2** |  |  |
| **3.1.3** |  |  |
| **3.1.4** |  |  |

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|  **3.2.1** | **Calculate the value of the stock on hand on 30 June 2019 using the First in first out method (FIFO).** |  |
|  |

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|  **3.2.2** | **The owner is concerned about the management of stock with regard to stock levels and stock control.** |  |
|  | * **Provide a calculation to support his concern on stock levels. Take into account that the stock holding period for 2018 was 75 days.**
 |  |
|  |  |

|  |
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|  |
| **8** |

 |
|  | * **Provide a calculation to support his concern on stock control.**
 |

|  |
| --- |
|  |
| **6** |

 |
|  |  |  |
| **3.3.1** | **Identify ONE different problem in relation to each branch. Quote relevant figures to support your answer. In each case, offer Zanele advice on how to solve the problem.** |

|  |
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| **9** |

 |
| **BRANCH** | **Problem** **Figures**  | **Advice**  |
| **KENI MALL** |  |  |
| **HAZY MALL** |  |  |
|  |  |
| **TONGA MALL** |  |  |

**QUESTION 4** |  |
| **INVENTORY SYSTEM AND STOCK VALUATION** |  |

The information provided is from the accounting records of Camp Out Ltd.

The company sells cooler boxes and tents. The financial year ended on 28 February 2019.

The business uses **the periodic inventory system** and the **weighted average method of stock valuation** for cooler boxes and **the specific identification method** for tents.

**REQUIRED:**

4.1 Explain the difference between the **specific identification** and the **weighted**

**average** methods of valuing stock. (4)

**COOLER BOXES:**

|  |  |  |
| --- | --- | --- |
| 4.2 | Provide a calculation to show the number of missing cooler boxes on 28 February |  |
|  | 2019. | (4) |
| 4.3 | Calculate the following in respect of cooler boxes: |  |
|  | * The value of closing stock
 | (4) |
|  | * Cost of sales of cooler boxes
 | (5) |
|  | * Gross profit on cooler boxes
 | (3) |
| 4.4 | The manager feels that the business is more efficient in controlling stock. |  |
|  | 4.4.1 Calculate the stock holding period (in days) of cooler boxes for 2018. |  |
|  | Use the closing stock. | (4) |
|  | 4.4.2 Comment on your findings in response to the manager’s feelings. | (3) |

**TENTS:**

 4.5 Calculate the value of the closing stock of tents. (7)

 4.6 The mark-up percentage on tents is 25% on cost. Calculate the total sales for the

 financial period. (6)

**INFORMATION: COOLER BOXES**

1. **Value of Stock on hand**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **No. of Items** | **Unit Price** | **Total (R)** |
| 01 March 2018 | 520 | R60 | 31 200 |
| 28 February 2019 | 850 | ? | ? |

1. **Purchases and sales of cooler boxes**

|  |  |
| --- | --- |
| **Date** | **PURCHASES** |
| **No. of Items** | **Unit Price** | **Total (R)** |
| August 2018 | 1 600 | R64 | 102 400 |
| February 2019 | 2 700 | R70 | 189 000 |
| **TOTAL** | **4 300** |  | **291 400** |
|  |  |  |  |

1. **SALES OF COOLER BOXES: 3 900 units were sold for R387 000. D RETURNS:**

20 damaged cooler boxes costing R60 each were returned to the supplier. The supplier only agreed to give an allowance of **R1 000** due to late notification.

**E**

|  |  |  |
| --- | --- | --- |
| **Financial Indicators** | **2019** | **2018** |
| Stock Holding Period | ? | 125 days |
| Stock Turnover Rate | 5.7 times | 2.9 times |

**INFORMATION: TENTS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **TENT RANGE** | **STOCK ON HAND****1 MARCH****2018** | **PURCHASES DURING THE YEAR** | **PRICE PER TENT** | **NUMBER OF TENTS SOLD DURING THE YEAR** |
| 1. Bush Baby | 14 | - | R1 260 | 14 |
| 2. Leopard | 10 | 32 | R1 400 | 28 |
| 3. Lizzard | 7 | 28 | R1 680 | 28 |
| 4. Buffalo | 8 | 34 | R1 540 | 35 |

|  |  |  |  |
| --- | --- | --- | --- |
| **4.7** | **INVENTORY VALUATION** |  |  |
|  |  |  |  |
|  | You are provided with information related to Ladysmith Traders for the year ended 28 February 2019. The business is owned by Nonkululeko Mbatha. The business sells Rolex watches. The periodic inventory system and FIFO stock valuation method is in operation.  |  |  |
|  |  |  |  |
|  | **REQUIRED:** |  |  |
|  |  |  |  |  |
|  | **4.7.1** | Explain TWO differences between the perpetual stock system and the periodic stock system. |  |   (4) |
|  |  |  |  |  |
|  | **4.7.2** | Calculate the following: |  |  |
|  |  |  |  |  |
|  |  | * Customs duty paid per watch
 |  |  (2) |
|  |  | * The value of closing stock using FIFO method.
 |  |  (7) |
|  |  | * Cost of sales
 |  |  (8) |
|  |  | * Stock holding period in days for 2019.
 |  |  (5) |
|  |  |  |  |  |
|  | **4.7.3** | Comment on the stock holding period for 2019. (This period for 2018 was 158 days) |  |   (2) |
|  |  |  |  |
|  | **INFORMATION:** |  |  |
|  |  |  |  |  |
|  | **A.** | The Rolex watches are imported from USA. |  |  |
|  |  |  |  |  |
|  | **B.** | The watches are valued using the First-in-First-out method (FIFO) |  |  |
|  |  |  |  |  |
|  | **C.** | Balances: | **NUMBER OF UNITS** | **TOTAL****(R)** |  |  |
|  |  | Opening stock | 100 | 3 000 000 |  |  |
|  |  | Closing stock | 78 | ? |  |  |
|  |  |  |  |  |
|  | **D.** | Purchases and customs duties during the financial year: |  |  |
|  |  | **DATES** | **NUMBER OF UNITS** | **UNIT COST** | **TOTAL CUSTOMS DUTY** |  |  |
|  |  | 01 March 2018 | 120 | R33 000 | R18 000 |  |  |
|  |  | 15 August 2018 | 81 | R35 000 | R12 150 |  |  |
|  |  | 11 January 2019 | 69 | R37 000 | R10 350 |  |  |
|  |  |  |  |  |
|  |  | Total of purchases and customs duties  | R9 388 500 |  |  |
|  |  |  |  |  |
|  | **E.** | Carriage on purchases for the financial year: |  |  |
|  |  | * Watches were transported at R50 per watch from King Shaka International Airport to the business.
 |  |  |
|  |  |  |  |  |
|  | **F.** | 5 watches bought on 15 August 2018 were returned to the supplier. The supplier agreed to refund R35 000 per watch and no other costs.  |  |  |
| **4.8** | **PROBLEM SOLVING** |  |  |
|  |  |  |  |  |
|  | Vusi Mhlungu owns three bicycle shops, Shop A, Shop B and Shop C. He appointed a manager for each of these shops. You are supplied with information regarding each of the shops. He wants to improve the financial results of these shops and is asking your advice on them. |  |  |
|  |  |  |  |  |
|  | Each store calculates their selling price at cost plus 60%. Managers may decide to adjust these prices by 10% if necessary. |  |  |
|  |  |  |  |  |
|  | **REQUIRED:** |  |  |
|  |  |  |  |
|  | **4.8.1** | Comment on the price adjustment policy. Is it a good idea to allow the managers to adjust prices? Provide figures to support your answer.  |  | (3) |
|  |  |  |  |
|  | **4.8.2** | Identify one problem relating to each shop. Provide figures to support your answer. In each case provide a possible solution. |  | (9) |
|

|  |  |  |  |
| --- | --- | --- | --- |
|  | **SHOP A** | **SHOP B**  | **SHOP C**  |
| Name of Managers | **Mbambo** | **Mfusi** | **Shabalala** |
| Targeted profit mark-up | 60% | 60% | 60% |
| Mark-up achieved | 60% | 50% | 65% |
| Sales | 400 000 | 510 000 | 247 500 |
|  Cash sales | 180 000 | 510 000 | 24 750 |
|  Credit sales | 220 000 | Nil | 222 750 |
| Number of employees |  5 |  10 | 3 |
| Gross profit | 150 000 | 170 000 | 97 500 |
| Period stock on hand | 120 days’ | 60 days’ | 60 days’ |
| Creditors’ payment period | 21 days’ | 60 days’ | 110 days’ |
| Debtors’ collection period | 30 days’ | None | 90 days’ |
| Bad debts | 2 200 | None | 22 275 |
| Salaries | 105 000 | 210 000 | 63 000 |

 |  |  |
|  |  |  |  |  |  |  |

**QUESTION 4**

|  |  |  |
| --- | --- | --- |
| **4.1** | **Explain the difference between the specific identification method and****weighted average method of valuing stock.** |  |
|  | **Specific identification method**  |
|  | **Weighted average method**  |
|  |  |
| **4** |
|  |
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|  |  |  |
| --- | --- | --- |
| **4.2** | **Provide a calculation to show the number of cooler boxes missing.** |  |
|  |  |
|  |  |
| **4** |
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|  |  |  |
| --- | --- | --- |
| **4.3** | **Calculate the following in respect of cooler boxes:** |  |
|  | **The value of the closing stock of cooler boxes.** |
|  |  |
| **4** |
|  |
|  | **Cost of sales of cooler boxes.** |
|  |  |
| **5** |
|  |
|  | **Gross profit on cooler boxes.** |
|  |  |
| **3** |
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| --- | --- | --- |
| **4.4.1** | **Calculate the Stock Holding Period in days. Use Closing Stock in your****calculation.** |  |
|  |
|  |  |
| **4** |
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| --- | --- | --- |
| **4.4.2** | **Comment on your findings in response to the manager’s feelings.** |  |
|  |
|  |  |
| **3** |
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| --- | --- | --- |
| **4.5** | **Calculate the value of the closing stock of tents.** |  |
|  |
|  |  |
| **7** |
|  |

|  |  |
| --- | --- |
| **4.6** | **If the mark-up percentage is 25% on cost price, calculate the total sales****of tents for the period.** |
|  |

**4.7**

|  |  |  |  |
| --- | --- | --- | --- |
| **4.7.1** | **Identify TWO differences between the perpetual stock system and the periodic stock system.****Expected responses:**  |  |  |
|  | **perpetual stock system** | **periodic stock system** |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
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|  |  |  |  | **4** |
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| --- | --- | --- | --- |
| **4.7.2** | **Calculate the following:** |  |  |
|  | **Customs duty paid per watch** |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |
| **2** |
|  | **The value of closing stock using FIFO method** |  |  |
|  |  |  |  |
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|  |  |  | **7** |
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|  | **Cost of sales** |  |  |
|  |  |  |  |
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|  |  |  | **8** |
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|  |  |  |  |
|  |  |  |  |
|  | **Calculate the Stock holding period in days** |  |  |
|  |
|  |  |  |  |
|  |  |
| **5** |
|  |  |  |  |
| **4.7.3** | **Comment on stock holding period ( 2017 was 158 days)** |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  | **2** |
|  |  |  |  |
| **4.8** | **Comment on the price adjustment policy. Is it a good idea to allow the managers to adjust prices? Provide figures to support your answer** |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |
|  |  |  | **3** |
|  |  |  |  |
|  | **Identify one problem relating to each branch. Provide figures to support your answer. In each case provide a possible solution.** |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  | **SHOP A** |  |  |  |  |
|  | **SHOP B** |  |  |  |  |
|  | **SHOP C** |  |  |  |  |
|  |
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**QUESTION 5: INVENTORIES (30 marks; 20 minutes)**

* 1. **INVENTORY VALUATION**

Nikky Traders sell three different types of laptops: Lexus, Granite and Vision. They use the periodic inventory system and the specific identification method to value stock.

**REQUIRED:**

* + 1. Explain the following valuation methods:
			- FIFO (2)
			- Specific identification (2)
		2. Calculate the cost price per laptop on hand on 1 October 2018. (2)
		3. Calculate the value of the closing stock on 30 September 2019. (9)

**INFORMATION:**

The following information is in respect of the year ended 30 September 2019:

1. **Opening stock:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | **MODEL** | **UNITS** | **COST PRICE PER UNIT** | **TOTAL** |
| 1 Oct. 2018 | Lexus | 118 | **?** | R413 000 |

1. **Purchases and returns:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | **MODEL** | **UNITS** | **COST PRICE PER UNIT** | **TOTAL** |
| **PURCHASES:** |
| Dec. 2018 | Granite | 410 | R3 750 | R1 537 500 |
| Mar. 2019 | Vision | 630 | R4 650 | R2 929 500 |
| **RETURNS:** |  |
| Mar. 2019 | Vision | 20 | R4 650 | (R93 000) |
| **Net purchases** | **R4 374 000** |

1. **Sales for the year:**

|  |  |  |
| --- | --- | --- |
| **MODEL** | **UNITS** | **AMOUNT** |
| Lexus | 118 | R598 850 |
| Granite | 356 | R2 229 375 |
| Vision | 502 | R4 247 775 |
|  |  | R7 076 000 |

* 1. **MANAGEMENT OF INVENTORIES**

You are provided with information from the books of Kofie's Office Equipment for the year ended 29 February 2019. The business sells office desks, chairs and printers.

Kofie took certain decisions at the beginning of the 2019 financial year.

**REQUIRED:**

Provide relevant figures for ALL the questions below.

* + 1. **Desks:**
			- What decision did Kofie take regarding the selling price of the desks?
			- How has this decision affected the business? State TWO points.

(2)

(4)

* + 1. **Chairs:**

Was it a good idea for Kofie to change to a cheaper supplier of chairs? Explain TWO points. (5)

* + 1. **Printers:**

Kofie significantly reduced the selling price of printers in the 2019 financial year in response to a new competitor who sells the same model at R1 200.

Based on the information below, provide TWO separate suggestions to

Kofie to improve the profit on printers in 2020. (4)

**INFORMATION:**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **DESKS** | **CHAIRS** | **PRINTERS** |
| **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Orders received from customers | 300 | 370 | 770 | 730 | 925 | 615 |
| Gross units sold | 300 | 365 | 770 | 730 | 725 | 615 |
| Returns by customers | 0 | 5 | 90 | 0 | 15 | 15 |
| Selling price | R2 520 | R1 920 | R490 | R714 | R975 | R1 326 |
| Cost price | R1 400 | R1 200 | R350 | R510 | R780 | R780 |
| Mark-up % | 80% | 60% | 40% | 40% | 25% | 70% |
| Gross profit | R336 000 | R259 200 | R95 200 | R148 920 | R138 450 | R327 600 |
| Stock turnover rate | 6,0 | 7,2 | 4,0 | 4,0 | 11,8 | 10,0 |

**30**

**QUESTION 5**

* 1. **INVENTORY VALUATION 5.1.1**

**Explain the FIFO valuation method.**

**Explain the specific identification valuation method.**

**4**

**5.1.2**

**Calculate the cost price per laptop on hand on 1 October 2018.**

**2**

**5.1.3**

**Calculate the value of the closing stock on 30 September 2019.**

**9**

* 1. **MANAGEMENT OF INVENTORIES 5.2.1**

|  |  |
| --- | --- |
| **What decision did Kofie take regarding the selling price of the desks? Provide figures.** | **2** |
| **How has this decision affected the business? State TWO points. Provide figures.** | **4** |

**5.2.2**

**Was it a good idea for Kofie to change to a cheaper supplier of chairs? YES/NO:**

**Explain TWO points. Provide figures.**

**5**

**5.2.3**

**Based on the information given, provide TWO separate suggestions to Kofie to improve the profit on printers in 2020.**

**Suggestion 1 (with figures):**

**Suggestion 2 (with figures):**

**4**

**QUESTION 6: INVENTORY SYSTEM AND VAT**  **(46 marks; 30 minutes)**

The information provided is from the accounting records of Darky Ltd.

The company sells cooler boxes and tents. The financial year ended on 29 February 2020.

The business uses **the periodic inventory system** and the **weighted average method of stock valuation** for cooler boxes and **the specific identification method** for tents.

**REQUIRED:**

 6.1 Explain the difference between the **specific identification** and the **weighted**

**average** methods of valuing stock. (2)

**COOLER BOXES:**

 6.2 Provide a calculation to show the number of missing cooler boxes on 28 February

 2020. (4)

 6.3 Calculate the following in respect of cooler boxes:

 The value of closing stock (3)

 Cost of sales of cooler boxes (5)

 Gross profit on cooler boxes (3)

 6.4 The manager feels that the business is more efficient in controlling stock.

 6.4.1 Calculate the stock holding period (in days) of cooler boxes for 2020.

 Use the closing stock. (4)

 6.4.2 Comment on your findings in response to the manager’s opinion. (3)

**TENTS:**

 6.5 Calculate the value of the closing stock of tents. (4)

 6.6 The mark-up percentage on tents is 25% on cost. Calculate the total sales of tents for the financial period. (6)

**INFORMATION: COOLER BOXES**

1. **Value of Stock on hand**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **No. of Items** | **Unit Price** | **Total (R)** |
| 01 March 2019 | 520 | R60 | 31 200 |
| 29 February 2020 | 850 | ? | ? |

 **B Purchases of cooler boxes**

|  |  |
| --- | --- |
| **Date** | **PURCHASES** |
| **No. of Items** | **Unit Price** | **Total (R)** |
| August 2019 | 1 600 | R64 | 102 400 |
| February 2020 | 2 700 | R70 | 189 000 |
| **TOTAL** | **4 300** |  | **291 400** |
|  |  |  |  |

 **C SALES OF COOLER BOXES: 3 900 units were sold for R387 000.**

**D RETURNS:**

20 damaged cooler boxes costing R60 each were returned to the supplier. The supplier only agreed to give an allowance of **R1 000** due to late notification.

**E**

|  |  |  |
| --- | --- | --- |
| **Financial Indicators** | **2020** | **2019** |
| Stock Holding Period | ? | 125 days |
| Stock Turnover Rate | 5.7 times | 2.9 times |

**INFORMATION: TENTS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **TENT RANGE** | **STOCK ON HAND****1 MARCH** **2019** | **PURCHASES DURING THE YEAR** | **PRICE PER TENT** | **NUMBER OF TENTS SOLD DURING THE YEAR** |
| 1. Bush Baby | 14 | - | R1 260 | 14 |
|  6. Leopard | 10 | 32 | R1 400 | 28 |
| 3. Lizzard | 7 | 28 | R1 680 | 28 |
| 4. Buffalo | 8 | 34 | R1 540 | 35 |

**QUESTION 6**

|  |  |  |
| --- | --- | --- |
|  **6.1** | **Explain the difference between the specific identification method and****weighted average method of valuing stock.** |  |
|  | **Specific identification method** |
|  | **Weighted average method** |
|  |  |
| **2** |
|  |

|  |  |  |
| --- | --- | --- |
|  **6.2** | **Provide a calculation to show the number of missing cooler boxes.** |  |
|  |  |
|  |  |
| **4** |
|  |

|  |  |  |
| --- | --- | --- |
|  **6.3** | **Calculate the following in respect of cooler boxes:** |  |
|  | **The value of the closing stock of cooler boxes** |
|  |  |  |  |
| **3** |
|  |
|  | **Cost of sales of cooler boxes** |
|  |  |
| **5** |
|  |
|  | **Gross profit on cooler boxes** |
|  |  |
| **3** |
|  |

|  |  |  |
| --- | --- | --- |
|  **6.4.1** | **Calculate the Stock Holding Period in days for cooler boxes for 2020. Use closing Stock in your calculation.** |  |
|   |
|  |  |
| **4** |
|  |
|  **6.4.2** | **Comment on your findings in response to the manager’s feelings.** |
|  |
|  |  |
| **3** |
|  |
|

|  |  |  |
| --- | --- | --- |
|  **6.5** | **Calculate the value of the closing stock of tents.** |  |
|  |
|  |  |
| **4** |
|  |

|  |  |  |
| --- | --- | --- |
|  **6.6** | **If the mark-up percentage is 25% on cost price, calculate the total sales****of tents for the period.** |  |
|  |
|  |  |
| **6** |
|  |