**Definitions and explanations**

**Periodic inventory system:**

A periodic inventory system is an inventory system in which real time updating of inventory balances are not made. In fact, physical counting of inventory determines inventory position on completion of a specified period – usually once a quarter or once a year.

In a periodic inventory system, purchases of inventory are recorded in the purchases account in the books of the business. At the end of the specified period, when a physical count is done, the balance of purchases is moved to the inventory account. The cost of sales is subsequently determined by application of a mathematical formula:

Opening balance of inventory + Net Purchases – Closing balance of inventory = Cost of sales

Where: Net purchases= Purchases + Carriage on purchases – Returns – Other allowances

The periodic inventory system is preferred by smaller enterprises with lower small volumes where physical inventory counting is more feasible. The periodic inventory system is less reliable as it provides accurate information only at the time of physical count of inventory. Determination of cost of goods sold in between physical count periods is based on estimation which may lead to several errors. This system is also unable to determine inventory losses until actually identified in physical counting.

**Perpetual inventory system:**

A perpetual inventory system is a system that accounts for movement of inventory continuously and on a real time basis. In a perpetual inventory system, purchases and [sales](https://www.termscompared.com/difference-between-sales-and-advertising/) of inventory are recorded as and when they occur. This system involves the use of point-of-sale systems and enterprise resource planning (ERP) systems for inventory [management](https://www.termscompared.com/difference-between-leadership-and-management/).

In perpetual inventory system, the cost of goods sold can be accurately determined at any point of time as purchases and sale of inventory are recorded on a real-time basis. The actual inventory balance is also available in the system at all times. Learners are encouraged to utilize their Grade 11 class work and home work books as they have dealt at length with Inventory Systems.

**CALCULATION OF GROSS PROFIT**

**PERIODIC INVENTORY SYSTEM**

### DR TRADING ACCOUNT (F1) CR

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2020 Feb | 29 | Opening stock |  | xxxx |  | 2020  Feb | 29 | (sales minus allowances)  Sales (net) |  | xxxxx |  |
|  |  | (Purchases minus allowances)  Purchases (net) |  | xxxx |  |  |  | Closing stock |  | xxxxx |  |
|  |  | Carriage on purchases |  | xxxx |  |  |  |  |  |  |  |
|  |  | Custom Duties |  | xxxx |  |  |  | \*Balancing figure |  |  |  |
|  |  | **Profit and loss ( gross profit)** |  | **\*xxxx** |  |  |  |  |  |  |  |
|  |  |  |  | xxxx |  |  |  |  |  | xxxx |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

PERPETUAL INVENTORY SYSTEM

**TRADING ACCOUNT (F1)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Cost of sales** | **XXX** | **Sales** | **XXX** |
| **Profit and loss (gross profit)** | **XXX (Bal.fig)** |  |  |
|  | **xxx** |  | **xxx** |
|  |  |  |  |
| WORKED EXAMPLE  The following information was taken from the books of Amatola Traders on 30 June 2020, the last day of the financial year. Amatola Traders uses a mark-up of 25% on cost.   |  |  | | --- | --- | | Trading stock (1 July 2019) | R 480 000 | | Purchases of stock during the year | 370 000 | | Sales | 910 000 | | Debtors Allowances | 90 000 | | Carriage on purchases | 6 000 | | Custom Duties | 5 000 | | Trading stock ( 30 June 2020) | 205 000 |   **REQUIRED:**  Prepare the Trading account of Amatola Traders on 30 June 2020 according to:   1. the perpetual inventory system 2. the periodic inventory system | | | | | |

|  |  |  |  |  |  |  |  |  |  |
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| **1. Perpetual inventory system** | | | | | | | | | |
| **Dr TRADING ACCOUNT ( F 1 ) N Cr** | | | | | | | | | |
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| **Calculation of cost of sales:** |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **2. Periodic inventory system** | | | | | | | | | |
| **Dr TRADING ACCOUNT ( F 1 ) N Cr** | | | | | | | | | |
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| **Calculation of cost of sales:** |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **1. Perpetual inventory system** | | | | | | | | | | |
| **Dr TRADING ACCOUNT ( F 1 ) N Cr** | | | | | | | | | | |
| 2020  June | 30 | Cost of Sales |  | **656 000** | 2020  June | 30 | Sales (net) |  | 820 000 | |
|  |  | Profit and Loss (gross profit) |  | **\*164 000** |  |  |  |  |  | |
|  |  | Balancing figure |  | **820 000** |  |  |  |  | 820 000 | |
|  |  |  |  |  |  |  |  |  |  | |
| **Calculation of cost of sales:**  **(910 000 – 90 000) x 100/125 = Cost of Sales**  **820 000 x 100/125= 656 000** | | | | | | | | | | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **2. Periodic inventory system** | | | | | | | | | |
| **Dr TRADING ACCOUNT ( F 1 ) N Cr** | | | | | | | | | |
| 2020  June | 30 | Opening Stock |  | **480 000** | 2020  June | 30 | Closing stock |  | **205 000** |
|  |  | Purchases(net) |  | **370 000** |  |  | Sales (910 000 – 90 000) |  | **820 000** |
|  |  | Carriage on Purchases |  | **6 000** |  |  |  |  |  |
|  |  | Custom Duties |  | **5 000** |  |  |  |  |  |
|  |  | Profit and Loss (gross) |  | **164 000** |  |  |  |  |  |
| Balancing figure |  |  |  | **1 025 000** |  |  |  |  | **1 025 000** |

|  |
| --- |
| **Calculation of cost of sales:**  **Opening stock …………… 480 000**  **+ purchases(net) …………. 370 000**  **+Carriage on Purchases…. 6 000**  **+ Custom Duties………….. 5 000**  **– Closing stock …………… (205 000)**  **= Cost of Sales…………… 656 000** |

What Is Inventory Valuation

Inventory valuation is the monetary amount associated with the goods in the inventory (i.e. unsold goods or stock on hand) at the end of the financial year. The valuation is based on the costs incurred to acquire the inventory and get it ready for sale.

Inventories are the largest Current Assets and are recorded in the Statement of Financial Position (Balance Sheet). Inventory valuation allows for the evaluation of Cost of Sales and, ultimately, profitability. The examinable methods of inventory valuation are FIFO (First-In-First-Out), SIM (Specific Identification Method) and WAM (weighted Average Method).

**Kindly NOTE that:**

* Inventory refers to the goods meant for sale but are unsold at the end of the financial year (i.e. on hand).
* In manufacturing, it includes raw materials, semi-finished and finished goods (**examiners can easily integrate inventory valuation methods with cost accounting**).
* Inventory valuation methods may be integrated to Inventories (Current Assets) as a note to the financial statements (
* Inventory valuation is done at the end of every financial year to calculate the cost of unsold goods, gross profit, number of missing units of inventory, etc.
* This is crucial as the excess or shortage of inventory affects the production and profitability of a business.

**DETERMINE THE GROSS PROFIT**

Inventory is used to find the gross profit, which is the excess of sales over cost of sales. To determine the gross profit or the trading profit, the cost of goods sold is matched with the revenue of the accounting period.

**Important identities or formulas for inventory valuation related questions**

**Cost of Sales** = Opening stock + Purchases+ Carriage on purchases + customs duties – Returns -Donations- Drawings – theft of stock- Closing stock

**Number of units stolen or missing** = Opening stock + Purchases – Returns –Sales –Donations – Drawings -Closing stock

**Number of units supposed to be on hand**

Opening Stock + Purchases – Returns – Closing Stock –Donations – Drawings – items sold = closing stock

**Calculate how long (in days) it is expected to sell the closing stock** =

|  |  |  |
| --- | --- | --- |
| Average inventory | x | 365 days |
| Cost of sales  **OR** |  |  |

**Stock holding period** = Closing stock x 365 days

Cost of sales

**Where Cost of sales** = Opening stock + Purchases -Returns – closing stock

**Stock turnover rate** = Cost of Sales ÷ Average Stock

The above equation shows that the inventory value affects the cost and thereby the gross profit. For example, if the closing stock is overvalued, it will inflate the current year’s profit and reduce profits for subsequent years.

**ASCERTAIN THE FINANCIAL POSITION**

Inventories is shown as a current asset. The value of the closing stock on the Statement of Financial Position (Balance Sheet) determines the financial position of the business. Overvaluation or undervaluation can give a misleading picture of the working capital position and the overall financial position of the business.

How Inventory Is Valued

The method for valuing inventory depends on how the stock is tracked by the business over time. A business must value inventory at cost and historical cost GAAP concept is applicable. Since inventory is constantly being sold and restocked and its price is continually changing, the business must make a cost flow assumption that it will use frequently.

There are 3 examinable methods of inventory valuation.

* Specific Identification Method (SIM)
* First-In-First-Out (FIFO)
* Weighted Average Method (WAM)

**SPECIFIC IDENTIFICATION**

Under this method, every item in your inventory is tracked from the time it is stocked to when it is sold. It is usually used for large items that can be easily identified and have widely different features and costs associated with these features.

The primary requirement of this method is that you should be able to track every item individually with (Radio-frequency identification) RFID tags, stamped receipt date or a serial number.

While this method introduces a high degree of accuracy to the valuation of inventory, it is restricted to valuing rare, high-value items for which such differentiation is needed.

**NOTE:**

* This is the simplest form of stock validation, where every item is assigned a specific cost price.
* The stock will be at the exact cost price that the stock was bought therefore the stock will be valued at the original cost price
* The gross profit will be as is**.**
* This system is relevant when large commodities are sold and every unit has its own cost price, e.g. vehicles, machinery, etc.
* That means that this system requires that the cost price must be identified of every commodity sold or when stocktaking is done.
* Specific identification is a more manually intensive method in managing the stock.
* Every item in stock will be recorded at the specific price originally bought.
* The disadvantage of this method is that the price of e.g. a vehicle can be manipulated.

**FIRST-IN, FIRST-OUT (FIFO)**

This method is based on the premise that the first inventory purchased is the first to be sold. The remaining assets in inventory are matched to the assets that are most recently purchased or produced.

It is one of the most common methods of inventory valuation used by businesses as it is simple and easy to understand. During inflation, the FIFO method yields a higher value of the ending inventory, lower cost of goods sold, and a higher gross profit.

Unfortunately, the FIFO model fails to present an accurate depiction of the costs when there is a rapid hike in prices (inflation).

NOTE:

* The stock that was bought first is sold first, and the stock on hand at stock taking, will be the stock that you recently bought.
* So you sell the goods in the order that you bought the stock
* **Units** are not separated from the **unit price** when calculating **value of closing inventory** in accordance to FIFO.
* The Gross profit will be higher than the gross profit of weighted average method in the current financial period
* The trader that stocks products that do not have a long life (short/ limited shelf life) will preferably use this method.
* Proper packing and display is essential - “old” stock should be in the front and “new” stock at the back.
* The Prudence concept is in action. The value of the stock at the year- end is realistic because the stock is valued at the most recent prices.

**WEIGHTED AVERAGE COST**

Under the weighted average cost method, the weighted average is used to determine the amount that goes into the cost of goods sold and inventory. Weighted average cost per unit is calculated as follows:

Weighted average cost per unit =

|  |
| --- |
| Opening stock + purchases – returns +carriage +custom duty |
| **units** of opening stock +purchased units -returned units  **OR** |

Weighted Average Cost per unit = Total Cost of Goods available for sale / Total Units available for sale

Where Total Cost of available for sale = cost of opening units + cost of purchases + carriage on purchases - returns

**Value of closing stock according to WAM =**

|  |
| --- |
| Opening stock + purchases – returns +carriage +custom duty **X**  units on hand |
| units of opening stock +purchases –returns  **OR**  Weighted Average Cost per unit x number of units on hand |
| **NOTE**: Carriage on purchases for goods returned is NOT **REFUNDED** under normal circumstances. You will be informed in the adjustment if there is a change in the norm. |

This method is commonly used to determine a cost for units that are indistinguishable from one another and it is difficult to track the individual costs.

**NOTE:**

* Weighted average cost per unit is to be calculated in order to arrive at the value of closing stock (weighted average cost per unit x numbers of closing units)
* The gross profit can show a smaller profit than FIFO

Which Inventory Valuation Method Is Best

Choosing the right inventory valuation method is important as it has a direct impact on the business’s profit margin. Your choice can lead to drastic differences in the cost of goods sold, net income and ending inventory.

There are advantages and disadvantages of each method for example, FIFO will give you the highest profit as the first items in stock are usually the cheapest.

To assess the method which is best for you, you need to pay attention to changes in the inventory costs.

* If the inventory costs are escalating or are likely to increase, FIFO costing may NOT be ideal.
* In case your inventory costs are falling, FIFO might be the best option for you.
* For a more accurate cost, use the FIFO or SIM methods of inventory valuation as unit costs are not separated from the units.
* Weighted average cost per unit is to be calculated in WAM every time there is movement to stock

**What Is the Difference Between a Specific Identification Inventory & an FIFO Inventory?**

To keep accurate books, a company has to know how much money it has tied up in inventory at any given time, and it must have a system for adjusting the value of its inventory when it sells items to customers. A specific identification inventory system treats each item individually, giving it a distinct value that it tracks from start to finish. A first-in, first-out, or FIFO, system treats individual items as interchangeable, but assigns them a bookkeeping value on their way out the door.

**Calculations expected in exams**

* Number of items on hand
* Number of items stolen
* The value of stock on hand
* Cost of sales
* Gross profit
* Average mark-up achieved
* Calculate the unit price
* Calculate how long (in days) it is expected to sell the closing stock

**1.3 INVENTORY VALUATION**

|  |
| --- |
| Eastern Traders buys and sells small wooden crates which other businesses use to transport their stock. The business currently uses the First In First Out (FIFO) method to calculate the stock value and the periodic system is used to record all transactions. The crates are sold at a 50% mark up on cost. |

**REQUIRED**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 1.3.1 | | Differentiate between the First In First Out method and the Weighted Average method. Provide ONE reason why the Weighted Average method would be better suited for his product. | | (3) |
| 1.3.2 | | Calculate the value of closing stock by using the FIFO method. | | (6) |
| 1.3.3 | | Calculate the value of closing stock by using the Weighted Average method. | | (10) |
| 1.3.4 | | The owner suspects that some of the stock was stolen, but there is no proof. | |  |
|  | (a) | | Calculate the number of units that cannot be accounted for. | (4) |
|  | (b) | | Provide any TWO internal control measures that can be implemented in order to prevent this loss in the future. | (4) |
| 1.3.5 | | The owner wants to charge an additional fee of R4,00 per crate for delivering the crates to his customers. Do you agree with his decision? Motivate your answer by providing ONE point. | | (3) |

**INFORMATION**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| A | **Balances for stock:**   |  |  |  |  | | --- | --- | --- | --- | |  | **Units** | **Unit price** | **Total** | | 1 March 2020 | 370 | R14,00 | R5 880 | | 31 March 2020 | 280 | ? | ? | |
| B | **Purchases and returns**   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **INFORMATION** | | **UNITS** | **UNIT PRICE** | **TOTAL** | |  | 6 March 2020 | 620 | R14,10 | R8 742 | |  | 13 March 2020 | 300 | R14,50 | R4 350 | |  | Returns from the order received on 13 March 2020 | 60 | ? | ? | |  | 24 March 2020 | 240 | R14,60 | R3 504 | |  | Extra boxes received from the supplier as a bonus | 10 | ‒ | ‒ | |  | **TOTAL** | 1 110 |  |  | |
| C | 1 190 units were sold during March 2020 at R18,00 per unit. His competitors sells the same type of crate at R20,00 per unit. |

**1.3 INVENTORY VALUATION**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **1.3.1** | **Differentiate between the First In First Out method and the Weighted Average method. Provide ONE reason why the Weighted Average method would be better suited for his product.**    **Difference:**  **Reason:** | | | **3** | | |
| **1.3.2** | **Calculate the value of closing stock by using the FIFO method.** | | | **4** | | |
| **1.3.3** | **Calculate the value of closing stock by using the weighted average method.** | | | | **10** | | |
| **1.3.4** | **The owner suspects that some of the stock was stolen, but there is no proof.** | | | | **4** | | |
| **(a)** | **Calculate the number of units that cannot be accounted for.** | | |
|  | **(b)** | **Provide any TWO internal control measures that can be implemented in order to prevent this loss in the future.** | **4** | | |
| **1.3.5** | **The owner wants to charge an additional fee of R4,00 per crate for delivering the crates to his customers. Do you agree with his decision? Motivate your answer by providing ONE point.** | |  | | |

**1.3 INVENTORY VALUATION**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **1.3.1** | **Differentiate between the First In First Out method and the Weighted Average method. Provide ONE reason why the Weighted Average method would be better suited for his product.**    **Difference:** With FIFO items are priced and kept separate ✓  With weighted average an average price is calculated  with each purchase ✓  **Reason:** The crates are small items ✓ which does not differ  greatly in price | | | **3** | | |
| **1.3.2** | **Calculate the value of closing stock by using the FIFO method.**  10 units x R0  240 units x R14,60 = R3 504   30 units x R14,50 = R 435   280 R3 939 🗹 one part correct | | | **3** | | |
| **1.3.3** | **Calculate the value of closing stock by using the weighted average method.**  ✓✓60 x 14,50 ✓  5 880 + (8 742 ‒ 870) + (4 350 + 3 504)  ✓ ✓ ✓ ✓  370 + (300 ‒ 60) + (620 + 240) + 10  = 21 606  1 480  = 14,60 🗹 x 280 ✓ = R4 088 🗹 | | | | **4**  **10** | | |
| **1.3.4** | **The owner suspects that some of the stock was stolen, but there is no proof.** | | | | **4** | | |
| **(a)** | **Calculate the number of units that cannot be accounted for.**  (370 + 1 110 ‒ 1 190)  290 ✓✓ ‒ 280 ✓ = 10 ✓ | | |
|  | **(b)** | **Provide any TWO internal control measures that can be implemented in order to prevent this loss in the future.**    Part marks for incomplete answers     * Check all stock receipts against the invoice confirming the transaction * Limit the access to the stock room * The person collecting the stock from the storeroom should not be the person who handles the sale * Any acceptable internal control measure of stock | **4** | | |
| **1.3.5** | **The owner wants to charge an additional fee of R4,00 per crate for delivering the crates to his customers. Do you agree with his decision? Motivate your answer by providing ONE point.**  **Comparison of the competitor’s price and the new price after increase with figures **   * R4,00 per crate would increase his sales price to R22, which would then be higher that his competitor’s price.  (part marks for an incomplete answer) | | **3** | | |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **QUESTION 2: INVENTORY VALUATION (45 marks)** | | | | | |
|  |  | | | | |
| 2.1 | | Provide a stock valuation method that is best described by each statement below. Write only the valuation method next to each number (2.1.1 – 2.1.3) in the ANSWER BOOK. | | |  |
|  | |  | | |  |
|  | | 2.1.1 | | Unique stock items of high value such as motor cars are valued individually. |  |
|  | |  | |  |  |
|  | | 2.1.2 | | Stock of appliances such as microwave ovens are always reflected at their most recent cost price. |  |
|  | |  | |  |  |
|  | | 2.1.3 | | Low-cost items such as golf balls are purchased in large quantities and reflect a similar value over time. | (3) |
|  | |  | |  |  |
| 2.2 | | **CASUAL OUTFITTERS** | | |  |
|  | |  | | |  |
|  | | The information relates to Casual Outfitters, owned by Funiwe, for June 2020. The business sells men’s jeans. Stock is valued using the weighted average method and the periodic inventory system. | | |  |
|  | |  | | |  |
|  | | **REQUIRED:** | | |  |
|  | |  | | |  |
|  | | 2.2.1 | Calculate: | |  |
|  | |  |  | |  |
|  | |  | * Amount paid for carriage on 11 June 2020 | | (4) |
|  | |  |  | |  |
|  | |  | * Value of the closing stock on 30 June 2020 | | (9) |
|  | |  |  | |  |
|  | | 2.2.2 | Funiwe wants to change the method of valuing stock. The value of closing stock using the FIFO method will be R4 853 higher than the value using the weighted-average method. | |  |
|  | |  |  | |  |
|  | |  | * Explain the effect that this decision will have on the gross profit. | | (2) |
|  | |  |  | |  |
|  | |  | * Give ONE valid reason **for** and ONE valid reason **against** changing the stock valuation method. | | (4) |
|  | |  |  | |  |
|  | | 2.2.3 | Funiwe is concerned about the control of her stock of jeans. She has sold **1 788 pairs of jeans** during the year. Provide a calculation to support her concern. | | (5) |
|  | |  |  | |  |
|  | | 2.2.4 | Comment on the stock balance on 30 June 2020. Is this appropriate? Explain. Provide ONE point. | | (3) |
|  | |  |  | |  |

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| --- | --- | --- | --- |
|  | **INFORMATION:** | |  |
|  |  | |  |
|  | A. | **Stock balances:** |  |
|  |  | |  |  |  | | --- | --- | --- | | **DATE** | **NO. OF UNITS** | **TOTAL COST** | | 1 June 2020 | 230 | R28 633 | | 30 June 2020 | 415 | **?** | |  |
|  |  |  |  |
|  | B. | **Purchases and returns:** |  |
|  |  | |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Date** | **No. of units** | **Price per unit** | **Carriage on purchases** | **Total cost** | | 11 June 2020 | 835 | R130 | **?** | R116 065 | | 18 June 2020 | 780 | R142 | R7 020 | R117 780 | | 26 June 2020 | 380 | R148 | R3 420 | R 59 660 | | **Total purchases** | **1 995** |  |  | **R293 505** | | **Returns** from 18 June purchases | 15 | The supplier refunded the purchase price, excluding the carriage cost. | | ? | |  |

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| **QUESTION 2: INVENTORY VALUATION** | | | |
|  |  |  |
| **2.1** | |  |  | | --- | --- | | **2.1.1** |  | | **2.1.2** |  | | **2.1.3** |  | | |  | | --- | |  | | **3** | | |
|  |  |  | |
| **2.2.** | **CASUAL OUTFITTERS** |  | |
|  |  |  | |
| **2.2.1** | **Calculate: The amount paid for carriage on 11 June 2020** |  | |
|  |  | |  | | --- | |  | | **4** | | |
|  | **Calculate: The value of the closing stock on 30 June 2020** |  | |
|  |  | |  | | --- | |  | | **9** | | |
|  |  |  | |
| **2.2.2** | **Explain the effect that this decision will have on the gross profit.** |  | |
|  |  | |  | | --- | |  | | **2** | | |
|  | **Give ONE valid reason for and ONE valid reason against changing the stock valuation method.** |  | |
|  | |  |  | | --- | --- | | **REASON FOR** |  | | **REASON AGAINST** |  | | |  | | --- | |  | | **4** | | |
|  |  |  | |

|  |  |  |
| --- | --- | --- |
| **2.2.3** | **Funiwe is concerned about the control of her stock of jeans. She has sold 1 788 pairs of jeans during the year. Provide a calculation to support her concern.** |  |
|  |  | |  | | --- | |  | | **5** | |
|  |  |  |
| **2.2.4** | **Comment on the stock balance on 30 June 2020. Is this appropriate? Explain. Provide ONE point.** |  |
|  |  | |  | | --- | |  | | **3** | |

|  |  |  |  |
| --- | --- | --- | --- |
| **QUESTION 2: INVENTORY VALUATION** | | | |
|  |  |  |
| **2.1** | |  |  |  | | --- | --- | --- | | **2.1.1** | Specific identification ✓ |  | | **2.1.2** | First-in-first-out (FIFO) ✓ |  | | **2.1.3** | Weighted average ✓ | Accept recognisable abbreviations | | |  | | --- | |  | | **3** | | |
|  |  |  | |
| **2.2.** | **CASUAL OUTFITTERS** |  | |
|  |  |  | |
| **2.2.1** | **Calculate: The amount paid for carriage on 11 June 2020** |  | |
|  | (835 x 130) two or nothing  116 065 🗸 – 108 550 🗸🗸 = 7 515 🗹 one part correct | |  | | --- | |  | | **4** | | |
|  | **Calculate: The value of the closing stock on 30 June 2020** |  | |
|  | 320 008 four marks (15 x 142)  28 633 🗸 + 293 505 🗸 – 2 130 🗸🗸 x 415 🗸 = 60 092 🗹 one part correct  230 🗸 + 1 995 🗸 – 15 🗸 must x by 415 to receive method mark  2 210 three marks  Weighted average: 144,80 seven marks | |  | | --- | |  | | **9** | | |
|  |  |  | |
| **2.2.2** | **Explain the effect that this decision will have on the gross profit.** |  | |
|  | It will reflect an increase in gross profit ✓✓ of R 4 853. need not quote figure (given) | |  | | --- | |  | | **2** | | |
|  | **Give ONE valid reason for and ONE valid reason against changing the stock valuation method.** |  | |
|  | |  |  | | --- | --- | | **REASON FOR** 🗸🗸 | Increased profitability creates a better image.  Clients will have confidence in the business.  Employees will feel a sense of security. | | **REASON AGAINST** 🗸🗸 | Comparing results would not be meaningful.  Book-entry; create a false impression.  Workers may expect (or negotiate) higher pay increases based on profitability. | | |  | | --- | |  | | **4** | | |
|  |  |  | |

Workings:

**Cost of sales:** (WAM) 28 633 + 293 505 – 2 130 – 60 092 = 259 916

35 x 151

59 660 + 5 285

(FIFO) 28 633 + 293 505 – 2 130 – 64 945 = 255 063

|  |  |  |
| --- | --- | --- |
| **2.2.3** | **Funiwe is concerned about the control of her stock of jeans. She has sold 1 788 pairs of jeans during the year. Provide a calculation to support her concern.** |  |
|  | (230 + 1 995 – 15)  2 210 – 415 – 1 788 = 7 missing  🗸🗹 🗸 🗸 🗹 one part correct  one part correct be aware of alternative presentations for this calculation. | |  | | --- | |  | | **5** | |
|  |  |  |
| **2.2.4** | **Comment on the stock balance on 30 June 2020. Is this appropriate? Explain. Provide ONE point.** |  |
|  | Yes / No 🗸 Explanation 🗸🗸  Yes  Jeans are durable products that has a long shelf life.  The business would be able to sell the jeans at any time.  No:  The closing stock is almost double the opening balance. Money is tied up in excess stock.  The jeans may go out of fashion and people would not want to buy. | |  | | --- | |  | | **3** | |

|  |  |  |  |
| --- | --- | --- | --- |
| **QUESTION 3: INVENTORY VALUATION AND INTERNAL CONTROL**  **(30 marks; 18 minutes)** | | | |
|  | | | |
| Mthetho Electronics uses the periodic stock system and FIFO method to value stock of Smart television sets. The business is owned by Manyano Mthetho. He employs Unathi Mngeni to run the shop for him. The financial year end is 29 February 2020. | | |  |
|  |  | |  |
| 3.1 | **INVENTORY VALUATION** | |  |
|  |  | |  |
|  | **REQUIRED:** | |  |
|  |  | |  |
|  | 3.1.1 | Calculate the value of the closing stock of Smart television sets on 29 February 2020. | (6) |
|  |  |  |  |
|  | 3.1.2 | Calculate the Cost of sales for the year ended 29 February 2020. | (5) |
|  |  |  |  |
|  | 3.1.3 | Calculate how long (in days) it will take to sell the closing stock of 145 television sets. | (4) |
|  |  | |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **INFORMATION:** | | | | | | | | |  |
|  |  | | | | | | | | |  |
|  | **A.** | **Stock balances of Smart television sets:** | | | | | | | |  |
|  |  |  | | | | | | | |  |
|  |  | **DATE** | | **NUMBER OF UNITS** | | | **UNIT PRICE**  **(INCLUDING CARRIAGE)** | | **TOTAL** |  |
|  |  | 1 March 2019 | | 70 | | | R 5 500 | | R 385 000 |  |
|  |  | 29 February 2020 | | 145 | | | ? | | ? |  |
|  |  |  | | | | | | | |  |
|  | **B.** | **Purchases and returns of Smart television sets during the year:** | | | | | | | |  |
|  |  |  | | | | | | | |  |
|  |  | **Purchases:** | | | | | | | |  |
|  |  | **DATE** | **NUMBER OF UNITS** | | **UNIT PRICE** | **TOTAL CARRIAGE** | | **TOTAL**  **(INCLUDING CARRIAGE)** | |  |
|  |  | 30 May 2019 | 150 | | R 5 000 | R 18 750 | | R 768 750 | |  |
|  |  | 25 August 2019 | 120 | | R 4 750 | R 15 000 | | R 585 000 | |  |
|  |  | 30 Dec 2019 | 90 | | R 4 450 | R 11 250 | | R 411 750 | |  |
|  |  | **TOTAL** | **360** | |  | **R 45 000** | | **R1 765 500** | |  |
|  |  | **Returns:** | | | | | | | |  |
|  |  | **DATE** | **NUMBER OF UNITS** | | **UNIT PRICE** | **TOTAL CARRIAGE** | | **TOTAL (INCLUDING CARRIAGE)** | |  |
|  |  | 5 Sep 2019 | 3 | | R4 750 | R375 | | R14 625 | |  |
|  |  | These returns are from the purchases of August 2019. | | | | | | | |  |
|  |  |  | | | | | | | |  |
|  | **C.** | **Sales for the year:** | | | | | | | |  |
|  |  |  | | | | | | | |  |
|  |  | 276 units for R2 303 800 | | | | | | | |  |
|  |  |  | | | | | | | |  |
|  | **D.** | **Possible theft of television sets:**  Manyano has been informed by a cleaner that he suspects Unathi of giving away television sets to her family members and friends. | | | | | | | |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3.2 | | **INTERNAL CONTROL** | | | | | | | | | | |  |
|  | |  | |  | | | | | | | | |  |
|  | | Mthetho Electronics also sells Smart watches and cameras. | | | | | | | | | | |  |
|  | |  | |  | | | | | | | | |  |
|  | | **REQUIRED:** | | | | | | | | | | |  |
|  | |  | |  | | | | | | | | |  |
|  | | 3.3.1 | | **SMART TELEVISION SETS** | | | | | | | | |  |
|  | |  | |  | | | | | | | | |  |
|  | |  | | **Refer to Information D in 3.1** | | | | | | | | |  |
|  | |  | |  | | | | | | | | |  |
|  | |  | | Provide a calculation to prove that the information given by the cleaner about the television sets is true.  Give ONE point of advice. | | | | | | | | | (7) |
|  | |  | |  | | | | | | | | |  |
|  | | 3.3.2 | | **SMART WATCHES** | | | | | | | | |  |
|  | |  | |  | | | | | | | | |  |
|  | |  | | The business decided to change the supplier in 2020 and to change the mark-up%.  Explain how this decision had affected the business. Provide TWO points. Quote figures. | | | | | | | | | (4) |
|  | |  | |  | | | | | | | | |  |
|  | | 3.3.3 | | **SMART CAMERAS** | | | | | | | | |  |
|  | |  | |  | | | | | | | | |  |
|  | |  | | The business reduced the selling price of cameras in the 2020 financial year in response to a new competitor who sells similar cameras at R900 each.  Based on the information below, make TWO separate suggestions on how they can improve the profit on cameras in 2019. | | | | | | | | | (4) |
|  | |  | |  | | | | | | | | |  |
|  | | **INFORMATION:** | | | | | | | | | | |  |
|  | |  | | | | | | | | | | |  |
|  | |  | | | **SMART**  **TELEVISION** | **SMART**  **WATCHES** | | **SMART**  **CAMERAS** | | | | |  |
|  | | **2020** | **2020** | **2019** | **2020** | | | **2019** | |  |
|  | | Units sold | | | 276 | 150 | 160 | 265 | | | 310 | |  |
|  | | Opening stock | | | 70 | 85 | 45 | 105 | | | 30 | |  |
|  | | Closing stock | | | 145 | 95 | 85 | 115 | | | 105 | |  |
|  | | Purchases | | | 357 | 160 | 200 | 275 | | | 385 | |  |
|  | | Selling price | | |  | R1 650 | R1 085 | R910 | | | R1 054 | |  |
|  | | Cost price | | |  | R1 000 | R700 | R650 | | | R620 | |  |
|  | | Mark-up% | | |  | 65% | 55% | 40% | | | 70% | |  |
|  | | Gross profit | | |  | R97 500 | R61 600 | R68 900 | | | R134 540 | |  |
|  | | Stock-holding period | | | **See 3.1.3** | 231 days | 195 days | 158 days | | | 125 days | |  |
|  | |  | |  | | | | | | | | |  |
|  | |  | |  | | | | | | | | | **30** |
| **QUESTION 3** | | | | | | | | | | |  | | | |
|  | | | |  | | | | | |  | | |  | |
| **3.1** | | | | **INVENTORY VALUATION** | | | | | |  | | |  | |
|  | | | |  | | | | | |  | | |  | |
| **3.1.1** | | | | **Calculate the value of the closing stock of Smart television sets on 29 February 2020.** | | | | | | | | |  | |
|  | | | |  | | | | | | | | | |  | | --- | |  | | **6** | | |
|  | | | |  | | | | | | | | |  | |
| **3.1.2** | | | | **Calculate the Cost of sales for the year ended 29 February 2020.** | | | | | | | | |  | |
|  | | | |  | | | | | | | | | |  | | --- | |  | | **5** | | |
|  | | | |  | | | | | | | | |  | |
| **3.1.3** | | | | **Calculate how long (in days) it will take to sell the closing stock of 145 Smart television sets.** | | | | | | | | |  | |
|  | | | |  | | | | | | | | | |  | | --- | |  | | **4** | | |
|  | |  | | | | | | | | | | |  | |
| **3.2** | | **INTERNAL CONTROL** | | | | | | | | | | |  | |
|  | |  | | | | | | | | | | |  | |
| **3.3.1** | | **Provide a calculation to prove that the information given by the cleaner about Smart television sets is true.** | | | | | | | | | | | |  | | --- | |  | | **7** | | |
| **Give ONE point of advice.** | | | | | | | | | | |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **3.3.2** | **Explain how the decision of changing the supplier and the mark-up % affected the business. Provide TWO points. Quote figures.** |  |
|  |  | |  | | --- | |  | | **4** | |
|  |  |  |
| **3.3.3** | **Make TWO separate suggestions on how they can improve the profit on cameras in 2019.** |  |
|  |  | |  | | --- | |  | | **4** | |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **QUESTION 3** | | | |  | |
|  | |  |  | |  |
| **3.1** | | **INVENTORY VALUATION** |  | |  |
|  | |  |  | |  |
| **3.1.1** | | **Calculate the value of the closing stock of Smart television sets on 29 February 2020.** | | |  |
|  | | 4 750 one mark + 125 two marks  R411 750🗸 + (55🗸 x R4 875🗸🗸🗸)  = R679 875 ☑ one part correct | | | |  | | --- | |  | | **6** | |
|  | |  | | |  |
| **3.1.2** | | **Calculate the Cost of sales for the year ended 29 February 2020.** | | |  |
|  | | R385 000🗸+ 1 765 500🗸–14 625🗸 – 679 875 ☑= R1 456 000 ☑ one part correct  see 3..1.1 | | | |  | | --- | |  | | **5** | |
|  | |  | | |  |
| **3.1.3** | | **Calculate how long (in days) it will take to sell the closing stock of 145 Smart television sets.** | | |  |
|  | | 145🗸/276🗸 x 365 🗸 = 191,7 or 192 days ☑ one part correct | | | |  | | --- | |  | | **4** | |
|  |  | | | |  |
| **3.2** | **INTERNAL CONTROL** | | | |  |
|  |  | | | |  |
| **3.3.1** | **Provide a calculation to prove that the information given by the cleaner about Smart television sets is true.**  70🗸 + 357🗸 – 276🗸 = 151 – 145🗸 = 6☑one part correct  6 sets missing | | | | |  | | --- | |  | | **7** | |
| **Give ONE point of advice.**  Any ONE point 🗸  Possible responses:   * Do regular stock counts * Division of duties * Physical security e.g. camera’s * Reduce stock to acceptable levels. | | | |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **3.3.2** | **Explain how the decision of changing the supplier and the mark-up % affected the business. Provide TWO points. Quote figures.** |  |
|  | Any two valid points Explanations 🗸 🗸 Figures 🗸 🗸  Possible answers:   * Total units sold decreased from 160 to 150/ by 10 units (6%) * Stock-holding period increased from 195 days to 231 days/by 36 days * However, the gross profit increased from R61 600 to R97 500/by R35 900 (58%) | |  | | --- | |  | | **4** | |
|  |  |  |
| **3.3.3** | **Make TWO separate suggestions on how they can improve the profit on cameras in 2019.** |  |
|  | Any two valid points Explanations 🗸 🗸 Figures 🗸 🗸  Possible answers:   * Advertise more to increase the sales as it went down from 310 to 265 * Find a cheaper supplier as cost price went up from R620 to R650 * Decrease the selling price to below R900 of the competitor. | |  | | --- | |  | | **4** | |