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GRADE 12

Accounting

SELF STUDY GUIDE

INVENTORY VALUATION

PAPER 2

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1. INTRODUCTION

The declaration of COVID-19 as a global pandemic by the World Health Organisation led to the disruption of effective teaching and learning in many schools in South Africa. The majority of learners in various grades spent less time in class due to the phased-in approach and rotational/ alternate attendance system that was implemented by various provinces. Consequently, the majority of schools were not able to complete all the relevant content designed for specific grades in accordance with the Curriculum and Assessment Policy Statements in most subjects.

As part of mitigating against the impact of COVID-19 on the current Grade 12, the Department of Basic Education (DBE) worked in collaboration with subject specialists from various Provincial Education Departments (PEDs) developed this Self-Study Guide. The Study Guide covers those topics, skills and concepts that are located in Grade 12, that are critical to lay the foundation for Grade 12. The main aim is to close the pre-existing content gaps in order to strengthen the mastery of subject knowledge in Grade 12. More importantly, the Study Guide will engender the attitudes in the learners to learning independently while mastering the core cross-cutting concepts.

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2. HOW SHOULD WE USE THIS STUDY GUIDE?

1. This study guide addresses content and offer strategies to understand the difference between stock systems and stock valuation methods, to perform calculations and to comment on internal control processes relating to inventory valuation. The approach is to address each component in a piecemeal approach, with consolidation activities to conclude.
2. The explanations and activities are intended to supplement the work you may have covered in class or have gained from textbooks.
3. They proceed from the short, simple focused examples to more complex calculations and interpretation of information.
4. It is important to allocate sufficient time to:

- Carefully read the explanations provided; underline/highlight key concepts, difficult vocabulary, important dates and relevant amounts.
- Interrogate the worked example to gain an understanding of the message being conveyed or the sequence of events being illustrated.

5. Attempt the activities on your own; make constant reference to the explanatory notes, but avoid referring to the suggested answers before completing an activity.
6. Compare your answers to the suggested answers and do your corrections in a different colour ink. Note that you will learn more by discovering your weaknesses (when you get things wrong), and making an effort to understand why your thinking was out of sync.
7. The activities provided may not be sufficient to perfect your skills. Always refer to similar questions from past examination papers for this purpose.
8. Become familiar with the use of Answer Books and prepared writing material as this is the trend with all Accounting examinations.

PRE-AMBLE:

- Inventories is covered in Term 2, under Valuation of stock methods.
- It will feature in the Accounting P2 (Managerial Accounting and Internal Auditing).
- Recent trends on this topic focus mainly on valuation of inventories FIFO, Weighted average & Specific identification.
- Internal control is integrated in the topic.
- It can be integrated into Paper 1.

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3. INVENTORY VALUATION

A BRIEF EXPLANATION

Inventories refers to trading stock purchased by the business for the purposes of resale, with the intention of making a profit. Inventories represents the least liquid of the three Current Assets and is reflected on the Statement of Financial Position. Stock is purchased at different intervals and at different prices throughout the financial year.

It is therefore necessary to value the stock as accurately as possible so that a true reflection of the financial position as well as profit or loss is reported.
Depending on the system in use, a physical stock count may be necessary to determine the value of the closing stock, or to establish whether a deficit of surplus exists.

Regular stock count is an essential internal control process and it helps to:

- Minimise fraudulent practices
- Ensure accurate recording and reporting (documents)
- Facilitate reconciliation of records with actual stock

This study guide will offer explanations and examples on the different stock systems introduced in grade 10 and 11, and on the THREE stock valuation methods that must be covered in Grade 12.

KEY CONCEPTS

Opening Stock	Stock balance at the beginning of a financial year. This is equal to the stock unsold at the end of the previous financial year.
Purchases of stock	Stock bought during the year for the purpose of resale. The net purchases would be adjusted for donations and drawings.
Carriage on purchases	This represents the cost of transporting the stock to the business, which is recorded separately under the periodic inventory system
Customs / Import duties	It will include taxes and duties if goods are purchased from foreign countries, and will form part of the cost of the stock when determining selling price and profit mark-up.
Returns of stock	Stock sent back to the suppliers for reasons such as damaged, an incorrect order or inferior quality goods. This is also adjusted against the purchases account.
Closing stock	This is the value of the unsold stock (stock on hand) at the end of the financial year. This figure is recorded in the Balance Sheet, and is the opening stock of the following year.

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4. PRIOR KNOWLEDGE

(Content you would have covered in previous Grades)

In Grade 10 transactions involving stock were recorded using the perpetual inventory system. This was reflected in the General Ledger as:

- Trading Stock (Balance Sheet Account)
- Cost of Sales (Nominal Account)

In Grade 11 the periodic system was introduced. In this case, stock purchased for resale was recorded in the Purchases account, Carriage on Purchases was recorded separately. Both these accounts are nominal accounts. The cost of sales had to be calculated at the end of a financial period.

Perpetual Inventory System

- A perpetual inventory system is a system that accounts for movement of inventory continuously and on real time basis (on the point of transaction).
- Purchases and sales of inventory are recorded as and when they occur.
- This system involves the use of point-of-sale recording systems, such as scanning.
- The cost of goods sold can therefore be easily determined at any point that results in a movement of stock (purchase, sale, return).

Periodic Inventory System

- The periodic inventory system does not focus on real-time updating of stock balances; the cost of stock sold is not captured at the point of sale.
- Physical stock counting of inventory is therefore necessary to determine inventory position at the end of a specified accounting period as required by the business.
- This physical stock count is also necessary to determine the stock unsold or closing balance.
- The cost of sales is determined by application of a mathematical formula:

  Cost of sales = Stock balance at the beginning of the year
  + Net Purchases
  + Carriage on purchases
  + Customs/Import duties
  – Stock balance at the end of the year.

Advantages (perpetual system)	Advantages (periodic system)
• Accurate and realistic • Stock on hand is available in the records • Stock surplus/deficit is determined by comparing records to physical count.	• **Cheaper** and **easy to use** – no need to use scanners. • No need to calculate cost of sales every day.

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DIFFERENCES	
PERPETUAL(Continuous)	**PERIODIC**
• Trading of individual, easily recognisable items • Transactions are recorded in the Trading Stock account (B) • Cost of sales calculated when goods are sold or returned • A stock count is performed to validate stock records and determine losses. • Additional costs e.g. carriage on purchases, are debited to the trading stock	• Trading in large volume, low value goods • Transactions recorded in Purchases account (N) • Cost of sales calculated periodically usually at the end of the accounting period. • A physical stock-count at the end of the accounting period is necessary to determine the value of closing stock. • Cost of sales is then calculated using the closing stock amount. • Additional expenses e.g. carriage on purchases are recoded separately in a nominal account (expense account).

BASELINE ACTIVITY 1 = 504 900
XZY Traders end 31 December 2019

Required

Calculate the cost of sales for the financial year ended 31 December 2019

INFORMATION:

A. Stock balance on 1 January 2019, R98 400.

B. Transactions during the current financial year:

		R
i)	Cash and credit purchases of trading goods	530 000
ii)	Transport cost on trading goods paid by EFT	32 500
iii)	Damaged goods returned to creditors.	12 600
iv)	Goods donated to a local school (fund raising)	8 500
v)	Goods taken by the owner for personal use.	4 000

C. Stock take on 31 December 2019 revealed that R76 550 was on hand.

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SUGGESTED ANSWER

Balance at the end of the previous financial year is the opening balance of the current financial year

COST OF SALES

	R
Opening stock	98 400
+ Purchases (530 000 – 12 600 – 8500 – 4 000)	504 900
+ Carriage on purchases	**32 500**
- Closing stock	76 550
Cost of sales	**559 250**

Drawings and Donations always @ **cost price**. Do not confuse the concepts of **"cost price"** and **"cost of sales"**.

Balance at the end of the current financial year, or the closing balance. (Left over stock, to be used next year).

BASELINE ACTIVITY 2

Mandla Traders 31 October 2020

REQUIRED:

Use the information below to prepare the Trading Account for the year ended on 31 October 2020. The business uses periodic inventory system

INFORMATION:

A. Balances on 31 October 2020

	R
Trading inventory (1 November 2019)	112 500
Cash and credit purchases of trading goods	478 900
Carriage on purchases	46 300
Sales	951 000
Debtors Allowances	27 900
Customs duties	14 500

B. Adjustments and additional information:

1	Damaged goods returned to creditors.	R 21 500
2	Goods taken by the owner for personal use.	R 5 200
3	Delivery of merchandise	R 1 850

Stock taking on 31 October 2020 revealed: Stock on hand of R 77 900.

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SUGGESTED ANSWER

Subtract debtors' allowances from sales

Take the additional information into account to adjust purchases

Additional information is taken into account to adjust carriage on purchases

Trading Account			
Opening stock	112 500	Sales (951 000 - 27 900)	923 100
Purchases (478 900 - 21 500 - 5 200)	452 200	Closing stock	77 900
Carriage on purchases (46 300 +1 850)	48 150		
Customs duties	14 500		
Profit & Loss (Gross Profit)	373 650		
	1 001 000		**1 001 000**

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5. STOCK VALUATION METHODS

Businesses would value their stock using different stock valuation methods, depending on the type of goods they buy and sell. The stock valuation method is recognized as business policy:

- To achieve a level of consistency in determining the value of the closing stock and the gross profit and subsequently taxable income (if applicable)

A SUMMARY OF THE DIFFERENT STOCK METHODS

FIFO (First-In First-Out)	Weighted Average	Specific Identification
• This method is based on the order in which stock is bought and sold. (E.g. items which have a limited shelf life due to fashion / seasons / technology / expiring dates such as clothing / cellphone /milk / medicine • It assumes that stock bought first is sold first • Closing stock value would be the most recent purchases.	• This is based on an average unit cost, that is calculated • Mainly suited for similar valued stock items purchased regularly and in large quantities. E.g. canned food/sports gear (cricket bats)/school uniforms	• Large, easily identifiable, unique stock items; • Each item has its own cost price (as per the invoice) such as cars. • Closing stock is the value of what is unsold

CALCULATIONS RELEVANT TO ALL THREE METHODS*

Refer to the Worked Examples

	FIFO	Weighted Average	Specific identification
Closing Stock value	Closing stock units x the unit cost of the last batches purchased	$\frac{\text{Total value of stock}}{\text{No. of units available for sale}}$ x units on hand	Cost of unsold items x no. of units unsold.
Cost of sales	Opening stock + Purchases + Carriage on purchases + Customs/Import duties – returns **– Closing stock** depending on the method used (above).		
Gross Profit	Sales – Cost of sales		
% mark-up achieved.	$\frac{\text{Gross Profit}}{\text{Cost of sales*}} \times 100$ * based on the closing stock calculated above		
(Average) stock holding period	$\frac{\text{Average stock}}{\text{Cost of sales}} \times \frac{365}{1}$		
Rate of stock turnover	$\frac{\text{Cost of sales}}{\text{Average Stock}}$ = no. of times per year.		
Missing Items	Sales – (Opening stock + Purchases – Returns) – Closing stock		

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*** Carriage on purchases (when goods are returned)**

When goods are returned to a supplier, the supplier would generally provide a full refund of the purchase price.

- If the supplier provides the transport (carriage on purchases), they may decide to also refund the carriage cost.
- If the supplier has outsourced the transport, then this cost may not be recovered – remain the cost of the business.
- In either case, this condition will always be stated by the question, so that you will know whether to include the carriage on purchases (or exclude this) when calculating the value of returns.

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5.1 FIFO - WORKED EXAMPLE 1

You are provided with the information related to Nosi Traders. The business used the first - in - first - out method to value stock.

REQUIRED:

Calculate the following for February 2020

- Value of closing stock
- Cost of sales
- Gross profit
- Average stock holding period

INFORMATION:

A. Stock balances:

	UNITS	UNIT PRICE	TOTAL
1 March 2019	20		R 6 030
28 February 2020	**38**		?

B. Purchases during the year:

	UNITS	UNIT PRICE	TOTAL
May 2019	40	R345	R 13 800
September 2019	45	R360	16 200
January 2020	30	R375	11 250
TOTAL	115		41 250

C. RETURNS: Three units (3) from September 2019 purchases.

D. Total sales revenue amounted to R41 400 (92 units)

SUGGESTED ANSWER

Calculate the following on 28 February 2020:

Value of the closing stock using First-In-First-Out. (30 x 375) (8 x 360) 11 250 + 2 880 = **14 130**	The closing stock takes into account the most recent batches purchased. The **38 units** on hand is reflected at **30 units** from the **January** purchases and **8** must be taken from the **September** batch.
The cost of sales 6 030 + 41 250 – 1 080 – **14 130** = **32 070**	The closing stock amount calculated above must be used in the formula.
The gross profit 41 400 – **32 070** = 9 330	The **sales amount** is given. If not, it must be calculated using relevant information that will be provided. The **cost of sales** calculated above is then used.
The average stock holding period. $\frac{½ (6\ 030 + 14\ 130)}{32\ 070}$ x 365 = 114,7 / 115 days	Note that both amounts calculated above are used. The **closing stock** is part of the average stock (14 130) and the **cost of sales**

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Points to Note:

- The closing stock value is more realistic as it uses the cost of the last batches purchased.
- The cost of sales is low because the earlier cost prices are used.
- If a fixed selling price was applied, then a higher profit was made on the earlier sales than on the most recent sales (it would be problematic to set a fixed % mark-up, due to the change in the cost prices over time).
- Be alert to returns from the most recent batch purchased. This must be subtracted, before calculating the value of the closing stock.
- Always add any carriage on purchases to the cost (and add this to the individual cost of the products). At times, the supplier may decide to refund the carriage on purchases. Read carefully, before doing the calculation.

PRACTICE ACTIVITY 1 NSC NOV 2018 ADAPTED

VUYISILE'S SUITCASE SHOP

Tabile Vuyisile sells travel suitcases. The year-end is 30 June 2020.

REQUIRED:

1.1.1 Calculate the value of the closing stock on 30 June 2020 using the first-in-first-out (FIFO) method. (5)

1.1.2 Tabile suspects that suitcases have been stolen. Provide a calculation to support his concern. (5)

1.1.3 Tabile is concerned about the volume of stock on hand.

- Calculate for how long his closing stock is expected to last. (6)
- State ONE problem with keeping too much stock on hand and ONE problem with keeping insufficient stock on hand. (4)

INFORMATION:

- **Stock balances:**

	UNITS	UNIT PRICE	TOTAL
Opening stock	420	R2 175	R913 500
Closing stock	496		**?**

- **Purchases, returns and carriage:**

	UNITS	UNIT PRICE	TOTAL
Purchases	**3 155**		**R8 460 850**
September 2019	850	R2 250	R1 912 500
December	980	R2 670	R2 616 600
March 2020	875	R2 930	R2 563 750
June* (see returns)	450	R3 040	R1 368 000
Returns* (from June purchases)	25	R3 040	R76 000

- **Sales:** 3 050 travel suitcases were sold at R4 200 each.

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ANSWER SHEET

1.1 VUYISILE'S SUITCASE SHOP

1.1.1 **Calculate the value of the closing stock on 30 June 2020 using the first-in-first-out method.**

Workings	Answer

5

1.1.2 **Tabile suspects that suitcases have been stolen. Provide a calculation to support his concern.**

Workings	Answer

5

1.1.3 **Tabile is concerned about the volume of stock on hand.**
Calculate for how long his closing stock is expected to last.

Workings	Answer

6

ONE problem with keeping too much stock on hand:

ONE problem with keeping insufficient stock on hand:

4

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SOLUTION - PRACTICE ACTIVITY 1

1.1 VUYISLE'S SUITCASE SHOP

1.1.1 Calculate the value of the closing stock on 30 June 2020 using the first-in-first-out method.

two marks

425 x 3 040 ✓

450 – 25

71 ☑ x 2 930 ✓

496 – 425 or units above

two marks

1 368 000 – 76 000

1 292 000 ✓

208 030

1 500 030 ☑

5

1.1.2 Tabile suspects that suitcases have been stolen. Provide a calculation to support his concern.

(3 155 – 25)

420 + 3 130 – 3 050 – 496 = 4 units

✓ ✓ ✓ ✓ ☑

–420 – 3 130 + 3 050 + 496 = –4 units

5

1.1.3 Tabile is concerned about the volume of stock on hand.

Calculate for how long his closing stock is expected to last.

$$\frac{1\,500\,030 \text{ ☑}}{913\,500 \text{ ✓} + 8\,384\,850 \text{ ✓} - 1\,500\,030 \text{ ☑}} \times 365 \text{ (or 12) ✓}$$

8 460 850 – 76 000

9 298 350 two marks / 7 798 320 three marks

= 70,2 days ☑

OR: 2,3 months

OR COS: 913 500 + 1 912 500 + 2 616 600 + 2 355 720

one mark one mark one mark one mark

OR: IF UNITS ARE USED:

two marks one mark one method mark

$\frac{496}{3\,050}$ x 12 = 1,95 months (two marks)

OR two marks one mark one method mark

$\frac{496}{3\,050}$ x 365 = 59,4 days (two marks)

6

ONE problem with keeping too much stock on hand: ONE point ✓✓

Can become obsolete and therefore useless to customers.
Staff may see less movement in stock and decide to steal.
Cost of storage / lack of storage space.

ONE problem with keeping insufficient stock on hand: ONE point ✓✓

Will not meet the needs of consumers – they may go elsewhere to buy.
Loss of income from sales.

4

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5.2 THE WEIGHTED AVERAGE METHOD USED THE FOLLOWING FORMULA:

$$\frac{\textit{total value of the units available to be sold}}{\textit{number of units available}} \text{ x units of stock on hand}$$

WORKED EXAMPLE 2 (Weighted Average Method)

TBT uses the weighted average method for stock valuation

Calculate the following on 29 February 2020, the financial year-end:

- Value of closing stock using the weighted average method.
- Cost of sales
- Gross profit
- Average stock holding period

INFORMATION:

A.

Stock balances:	**UNITS**	**UNIT PRICE**	**TOTAL**
1 March 2019	25	R330	R 8 250
29 February 2020	**38**		**?**

B.

Purchases during the year:	**UNITS**	**UNIT PRICE**	**TOTAL**
May 2019	45	R350	R 15 750
September 2019	45	R365	16 425
January 2020	25	R380	9 500
TOTAL	115		41 675
Returns	3	R380	?

*__Carriage on purchases__: R1 905.

C. **RETURNS:** Three units (3) from the January 2020 purchases.

D. Sales amounted to R50 050 (91 units)

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SUGGESTED ANSWER

Calculate the following on 29 February 2020:

Value of the closing stock using the weighted average. 50 690 (3 x 380) 8 250 + 41 675 + 1 905 – 1 140 x 38 25 + 115 – 3 137 **= R14 060**	The total value of the goods, **50 690 ÷** by the units available, **137 = 370** is referred to as the weighted average price per item. Multiplying this by the **units on hand (38)** is the value of the closing stock that will be recorded in the Balance Sheet.
The cost of sales **8 250 + 41 675 + 1 905 - 1 140 - 14 060** **= 36 630**	The **closing stock** is used in the calculation of the cost of sales. The **average price** is generally less than the most recent prices (used in FIFO) resulting in a **larger cost of sales.**
Gross profit **50 050 - 36 630 = 13 420**	Subtracting the **larger cost of sales** will result in a **smaller gross profit.**
The number of units missing or stolen. Available for sale units sold and closing stock units 137 129 **(25 + 115 – 3) – (38 + 91) = 8 units**	Compare the units sold (sales) and closing stock units to the total number of units that was available for sale. If this is not the same, then the difference will be missing.

Points to note:

- The weighted average is only the average cost per unit; multiplying the closing number of units by this figure will equal to the closing stock value thus completing the answer.

- It is easier to determine the loss due to theft by using the average price. This is difficult to establish under FIFO method where we will need to know the affected batch.

PRACTICE ACTIVITY 2:

Feb/March 2017 adapted

2.1 Complete the following sentences by filling in the missing words. Write only the words next to the question number (2.1.1–2.1.3) in the ANSWER BOOK.

2.1.1 The method that is appropriate for very expensive, individually recognisable items is the … method. (1)

2.1.2 The method that assumes that the older stock is sold first is the … method. (1)

2.1.3 The method that divides the total cost of goods available for sale by the number of units is the … method. (1)

2.2 **XY SPORT SHOP**

Popo Shabalala is the owner of this business. This business uses the periodic inventory system.

2.2.1 Calculate the unit price of cricket bats on 1 July 2019. (2)

2.2.2 Calculate the value of the stock on hand on 30 June 2020 using the weighted-average method. (10)

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2.2.3 Calculate the gross profit on 30 June 2020. (5)

2.2.4 Calculate how long (in days) it is expected to sell the closing stock of 465 cricket bats. Use the closing stock in your calculation. (4)

2.2.5 Popo is concerned about the control of cricket bats.
- Provide a calculation to support his concern. (5)
- How can Popo solve this problem? Explain ONE point. (2)

INFORMATION:

A. STOCK OF CRICKET BATS

	UNITS	UNIT PRICE	TOTAL
Opening stock (1 July 2019)	350	**?**	R420 000
Closing stock (30 June 2020)	465	**?**	**?**

B. PURCHASES, RETURNS AND CARRIAGE

	UNITS	UNIT PRICE	TOTAL
Purchases	3 150		R4 302 500
September 2019	1 100	R1 250	R1 375 000
January 2020	950	R1 350	R1 282 500
March 2020	650	R1 475	R958 750
June 2020	450	R1 525	R686 250
Returns (from June purchases)	20	?	?

Carriage on purchases:
- Total transport cost of stock purchased during the year is R110 400.
- No refund was received for carriage on the returns.

C. **SALES:** Total sales of R5 400 000 comprised 3 000 cricket bats sold at R1 800 each.

ANSWER SHEET

2.1

2.1.1		
2.1.2		
2.1.3		**3**

2.2.1 **Calculate the unit price of cricket bats on 1 July 2019.** **2**

2.2.2 **Calculate the value of the stock on hand on 30 June 2020 using the weighted-average method.** **10**

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2.2.3 **Calculate the gross profit on 30 June 2016.**

5

2.2.4 **Calculate how long (in days) it is expected to sell the closing stock of 465 cricket bats. Use the closing stock in your calculation.**

4

2.2.5 **Provide a calculation to support Popo concern about the control of cricket bats.**

How can Popo solve this problem? Explain ONE point.

7

SOLUTION PRCTICE ACTIVITY 2

2.1

2.1.1	Specific identification ✓
2.1.3	First In First Out/FIFO ✓
2.1.3	Weighted Average ✓

3

2.2.1 **Calculate the unit price of cricket bats on 1 July 2019.**

420 000 / 350 = R1 200 ✓✓

2

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2.2.2 **Calculate the value of the stock on hand on 30 June 2020 using the weighted-average method.**

Net purchases = R 4 272 000 three marks
Purchases with carriage = R4 412 900 two marks
Net purchases with carriage = R4 382 400 four marks

4 802 400 five marks

$$\frac{\text{R420 000✓ + R4 302 500✓ + R110 400✓ – R30 500✓✓}}{\text{350 ✓ + 3 150 ✓ – 20 ✓}} \times \frac{365✓}{1} = \text{R641 700 ☑}$$

3 480 three marks

eight marks	one mark	one method mark	
1 380	x 365	=	R641 700

10

2.2.3 **Calculate the gross profit on 30 June 2020**

4 802 400 ☑ – 641 700 ☑ = 4 160 700 ☑

400 000✓ – 4 160 700 = R1 239 300☑
OR
5 400 000 – 4 802 400 – 641 700 = R1 239 300

5

2.2.4 **Calculate how long (in days) it is expected to sell the closing stock of 465 cricket bats. Use the closing stock in your calculation.**

$$\frac{641\,700\ ☑}{4\,160\,700☑} \times \frac{365✓}{1} = 56{,}3 \text{ days ☑}$$

OR: IF UNITS ARE USED

one mark	one mark	one mark	one method mark
465 /	3 000 x 365	=	56,6 days
	3 480 - 480		

4

2.2.5 **Provide a calculation to support Popo's concern about the control of cricket bats.**

3 480 ✓☑
(350 + 3 150 – 20) – 3 000 ✓ – 465 ✓ = 15 missing ☑

How can André solve this problem? Explain ONE point.

Expected responses for 2 marks: ✓✓

- Count stock regularly/randomly and check against stock records
- Order smaller quantities, but more frequently
- Improve physical security e.g. controls at entrance/security cameras
- Restrict access to the storeroom

Expected responses for 1 mark:
Stock count / Security cameras

7

5.3 SPECIFIC IDENTIFICATION - WORKED EXAMPLE 3:

The business sells TWO models of bicycles.

Refer to the different calculations in the table below.

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A.

Opening Stock	Model	Units	Unit cost	Total	UNITS SOLD
1 March 2017	YYY	6	R9 000	R54 000	**5**
	ZZZ	8	R7 000	R56 000	**6**
				110 000	

B.

Purchases:	Model	Units	Unit cost	Total	UNITS SOLD
June 2017	YYY	10	R9 000	R90 000	**YYY: 18**
	ZZZ	5	R7 500	R37 500	
September 2017	YYY	15	R9 000	R135 000	**ZZZ: 9**
	ZZZ	8	R7 500	R60 000	
				322 500	

C. **Sales:**
YYY is sold at a profit mark-up of 75% on cost.
ZZZ is sold at a fixed selling price of R15 500 each.

SPECIFIC CALCULATIONS RELEVANT TO SPECIFIC IDENTIFICATION:

Value of closing stock.

6 - 5 = 1 x 9 000	9 000
8 - 6 = 2 x 7 000	14 000
25 -18 = 7 x 9 000	63 000
13 9 = 4 x 7 500	30 000
	116 000

Determine the number of units unsold, for each model. **8 of YYY** and **6 of ZZZ**.
Multiply this by the cost price of each model.

The cost of sales

110 000 + 322 500 – **116 000**	316 500

The same formula as used in FIFO and WAM. The closing stock is subtracted from the available stock for sale.

Sales

YYY	(5 + 18 = 23 x 15 750)	362 250
ZZZ	(6 + 9 = 15 x 15 500)	232 500
		594 750

It is important to determine the selling price per model. Then calculate the number of units sold, per model.

The gross profit

594 750 – 316 500	**278 250**

Use the figures calculated above, in this calculation.

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PRACTICE ACTIVITY 3

NSC Nov 2017 adapted

3.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.

3.1.1 The (specific identification/weighted-average) stock valuation method is best suited for products of similar value purchased in large quantities.

3.1.2 Cost of sales is determined at the point of sale in the (perpetual/ periodic) inventory system.

3.1.3 Stock valued according to the (first-in-first-out/weighted-average) method determines stock on hand by recording the cost prices of the most recent stock purchases.

3.1.4 In the periodic inventory system, carriage on goods purchased is recorded as an (expense/asset) to the business. (4)

3.2 **SHINY-WHEELS (PTY) LTD**

You are provided with information relating to Shiny-Wheels (Pty) Ltd for the three months ending 30 September 2020. The business trades in motorbikes and helmets. Beauty, the owner, wants to assess his stock records before any price increases.

REQUIRED:

Motorbikes:

3.2.1 Calculate the value of the closing stock on 30 September 2020 using the specific identification method. (7)

3.2.2 Beauty requires your advice on the three different models of motorbikes in which he is trading. Explain TWO points of advice. (4)

Helmets:

3.2.3 Beauty suspects that helmets are being stolen from the shop despite security cameras being installed.

- Provide a calculation to verify his suspicion. (5)
- What can Beauty do to improve the internal control of stock? State THREE points. (3)

INFORMATION:

A. Motorbikes: Information for three months ended 30 September 2020:

Stock on 1 July 2020:

MODEL	UNITS	COST PRICE PER UNIT	TOTAL (R)
AO2	12	R 24 300	291 600

Total purchases:

MODEL	UNITS	COST PRICE PER UNIT	TOTAL (R)
AO2	6	R 24 300	145 800
AO3	15	R 27 400	411 000
AO4	18	R 31 600	568 800
	39		1 125 600

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Sales:

MODEL	UNITS SOLD	TOTAL SALES AMOUNT (R)
AO2	8	311 040
AO3	11	482 240
AO4	10	505 600
	29	1 298 880

B. Helmets: Information for three months ended 30 September 2020:

Stock balances according to physical count:

	UNITS	COST PRICE PER UNIT (R)	TOTAL (R)
1 July 2020	30	R500	R15 000
30 September 2020	12		?

Purchases:

DATE	UNITS PURCHASED	COST PRICE PER UNIT (R)	TOTAL (R)
20 July 2020	25	R510	R12 750
20 August 2020	30	R525	R15 750
20 September 2020	20	R540	R10 800
TOTAL	75		R39 300

Returns: Five defective helmets from the purchases in August 2020 were returned to suppliers for a full refund.

Sales: 85 helmets were sold at R600 each.

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ANSWER SHEET

3.1 CONCEPTS

3.1.1		
3.1.2		
3.1.3		
3.1.4		4

3.2 SHINY-WHEELS (PTY) LTD

Motorbikes:

3.2.1 Calculate the value of the closing stock on 30 September 2020 using the specific identification method. **7**

3.2.2 BEAUTY requires your advice on the three different models of motorbikes in which he is trading. Explain TWO points of advice. **4**

Point 1:

Point 2:

Helmets:

3.2.3 Calculate the value of the closing stock on 30 September 2020 using the weighted-average method. **9**

3.2.4 BEAUTY suspects that helmets are being stolen from the shop despite security cameras being installed. Provide a calculation to verify his suspicion. **5**

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What can BEAUTY do to improve the internal control of stock?
State THREE points.

Point 1:

Point 2:

Point 3:

3

SOLUTION PRACTICE ACTIVITY 3

3.1

3.1.1	Weighted average / WA	✓
3.1.2	Perpetual	✓
3.1.3	First-in-first-out / FIFO	✓
3.1.4	Expense	✓

4

3.2 SHINY-WHEELS (PTY) LTD

Motorbikes:

3.2.1 Calculate the value of the closing stock on 30 September 2020 using the specific identification method.

243 000 ✓✓ + 109 600 ✓✓ + 252 800 ✓✓ = 605 400 ☑
18 – 8 15 – 11 18 – 10
(10 x 24 300) + (4 x 27 400) + (8 x 31 600)

OR

OS	+ P	– COS	= CS
one mark	one mark	four marks	one method mark
291 600 + 1 125 600		– 811 800	= 605 400
		316 000 + 301 400 + 194 400	

7

3.2.2 BEAUTY requires your advice on the three different models of motorbikes in which he is trading. Explain TWO points of advice.

Any TWO valid point of advice ✓✓ ✓✓

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Expected responses:

- Reduce the price of AO2 to increase sales / A lower mark-up% will help in reducing stock levels.
- Discontinue / decrease the AO2 product and look at stocking alternative later model products.
- Stock more AO3 products as they seem to be more popular and in an affordable range.
- Stock more of the AO4 model because gross profit per unit is the biggest on the item.

4

Helmets:

3.2.3 Calculate the value of the closing stock on 30 September 2020 using the weighted-average method.

51 675 four marks

54 300 two marks (5 x 525) two marks

15 000 ✓ + 39 300 ✓ – 2 625 ✓✓ x 12 ✓ = 6 201 ☑

30 ✓ + 75 ✓ – 5 ✓

105 two marks 100 three marks

(517 x 12)

OR 516,75 x 12 = 6 201 or 6 204 (weighted-average rounded off)

seven marks

9

3.2.4 BEAUTY suspects that helmets are being stolen from the shop despite using security cameras. Provide a calculation to verify his suspicion.

(30 + 75 – 5)

100 ✓☑ – 12 ✓ – 85 ✓ = 3 helmets missing ☑

5

What can BEAUTY do to improve the internal control of stock? State THREE points.

Three valid points ✓ ✓ ✓

Expected responses:

- Do regular physical stock counts
- Place tracking devices on the products / security price tags
- Provide secure display cabinets for the stock
- Improve security at the gates / inspect items and check to sales slip
- Division of duties (if staff is suspected)
- Buy in smaller quantities / more regularly

Do NOT accept security cameras / CCTV

3

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6. INTERNAL CONTROL PROCESSES

- Internal control is learned from grade 10.
- The topic can be integrated with stock.
- Comment about internal control measures from within the business.
- Identify problems and provide solutions.

- Count stock regularly/randomly and check against stock records/ record of lost material.
- Order smaller quantities, but more frequently.
- Improve physical security e.g. controls at entrance/security cameras.
- Insure the stock against theft, fire and damages resulting from natural disaster.
- Division of duties-receiving of stock, payments and stock keeping should be done by separate individuals to minimise the risk of fraudulent activities. Responsible person should be able to provided explanations.
- Standardise record keeping -check if records of stock received match payments for stock.
- Accountability – responsible person should be able to provided explanations.
- Locate the right suppliers in terms of quality, negotiate discounts.

WORKED EXAMPLE 4
SCENARIO

Nomsa, the owner of TT Traders selling cell phones, suspects that although cameras are installed in the building and the security personnel is available, her employees are stealing from the business.

Provide other TWO internal control measures she can put in place to address the problem of theft.

SUGGESTED ANSWER

Provide other TWO internal control measures she can put in place to address the problem of theft.
Any two valid points - Improve the physical security at doors/bar coded strips/tracking devices etc. - Use security detectors on products - Rotate duties (if staff is suspected) - Do regular/random stock control/checks/stock-take. - Put dummy phones on display and keep real phone locked in cabinet.

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7. CONSOLIDATION ACTIVITIES

ACTIVITY 1: INVENTORY VALUATION AND INTERNAL CONTROL

Feb/March 2018 adapted

SASA TRADERS

You are provided with information relating to SASA Traders. The business sells one type of plastic table. Their financial year ends on 31 December. The business uses the FIFO method to value their stock. They use the periodic inventory system.

REQUIRED:

1.1.1 Calculate the value of the closing stock according to the FIFO method on 31 December 2020. (6)

1.1.2 Calculate the following for the year ended 31 December 2020:
- Cost of sales
- Gross profit (8)

1.1.3 The owner considers changing the stock valuation method to the weighted-average method. Calculate the value of the closing stock on 31 December 2020 by using the weighted-average method. (6)

INFORMATION:

A. Inventories:

DATE	NUMBER OF UNITS	PER UNIT	TOTAL VALUE
1 January 2020	540	R350	R189 000
31 December 2020	440	?	?

B. Purchases and returns in 2020:

Purchases:

DATE	NO. OF UNITS	PER UNIT	TOTAL PURCHASES	CARRIAGE PER UNIT	TOTAL CARRIAGE	TOTAL PURCHASE COST
31 Mar.	550	R370	R203 500		R13 750	R217 250
30 Jun.	900	R380	R342 000		R22 850	R364 850
30 Sep.	500	R350	R175 000	R25	R12 500	R187 500
30 Nov.	300	R400	R120 000	R30	R9 000	R129 000
Totals	**2 250**		**R840 500**		**R58 100**	**R898 600**

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Returns:					
DATE	NO. OF UNITS	PER UNIT	TOTAL RETURNS	CARRIAGE PER UNIT	TOTAL CARRIAGE
5 Jul.	50	R380	R19 000	0	0
These returns are from the purchases of June 2020. There is no refund for carriage.					

C. Sales:

2 300 units at R600 each = R1 380 000

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ACTIVITY 2

NSC Nov 2019 adapted

George Sicwetsha is the majority shareholder and CEO of Sicwetsha Ltd. The company supplies hotels with cabinets and lamps.
The periodic system is used. The year-end is 30 September 2020.

REQUIRED:

CABINETS

2.1 Calculate the value of closing stock for cabinets on 30 September 2020 using the FIFO method. (6)

2.2 In 2020, the company decided to extend the target market and to grant trade discounts to increase sales.

2.2.1 Calculate the % mark-up achieved in 2020. (4)

2.2.2 Provide TWO points (with figures) to prove that this decision achieved its aims. (4)

2.2.3 The CEO feels that this decision also negatively affected the company.
- Provide TWO points (with figures) to support his opinion. (4)
- Give the directors advice to solve this problem. Explain TWO points. (2)

LAMPS

2.3 Calculate the stockholding period for lamps (use closing stock). (3)

2.4 George is concerned about the control of lamps. An investigation revealed that the store manager was supplying local boarding houses with lamps without documentation.
- Calculate the number of missing lamps. (5)
- Give TWO suggestions to solve this problem. (4)

TELEVISION SETS

2.5 During April 2020, while George was in hospital, Mzwandile Sefatsa (the chief financial officer) decided to include television sets in their product range. He was able to secure bulk discounts from Thisway on two TV set models, namely LYN and KYA.

Calculate the value of the closing stock of TV sets on 30 September 2020 using the specific identification method. (7)

2.6 An employee of Thisway told George that Mzwandile received a 10% 'commission' from Thisway for buying excess stock. George wants to discuss this at the next board meeting.
Explain THREE different concerns that George would have about this problem. (6)

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INFORMATION:

A. Stock records of cabinets and lamps:

	CABINETS			LAMPS	
	UNITS	**UNIT PRICE**	**TOTAL**	**UNITS**	**TOTAL**
Stock balances					
1 Oct. 2019	370	R800	R 296 000	600	R108 000
30 Sep. 2020	280		**?**	265	R59 625
Purchases: 2020					
January	800	R920	R 736 000	1 200	R240 000
April	1 200	R990	R 1 188 000	1 800	R432 000
July	250	R1 100	R 275 000	800	R210 000
Total	**2 250**		**R2 199 000**	**3 800**	**R882 000**
Returns	**20**	R1 100			
Sales				**3 675**	
Cost of sales					**R930 375**

B. Information relating to cabinets:

	2020	**2019**
Sales	R3 480 000	R3 375 000
Cost of sales	R2 170 500	R1 950 000
Units sold	2 320	2 500
Selling price per unit	R1 500	R1 400
% mark-up achieved	**?**	73%
Customers on record	37	26

C. Stock records of television sets:

	MODELS	**UNITS**	**UNIT PRICE**	**TOTAL**
Purchases				
May 2020	LYN	800	R6 000	R4 800 000
	KYA	950	R7 200	R6 840 000
July 2020	LYN	500	R6 000	R3 000 000
	KYA	500	R7 200	R3 600 000
TOTAL		**2 750**		**R18 240 000**
Sales	LYN	430	R8 400	R3 612 000
	KYA	540	R10 080	R5 443 200

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ACTIVITY 3

NSC Nov 2020 adapted

VANDERBIJLPARK ACCESSORIES

The owner is Xolo VANDERBIJLPARK. The business uses the first-in first-out method to value gas lamps. They decided to sell gas stoves as well, expecting a demand due to increased load shedding. The specific identification method is used to value these stoves.

The financial year-end is 30 April each year.

REQUIRED:

3.1.1 Calculate the following for the **gas lamps** on 30 April 2021:

- Value of closing stock (using FIFO) (6)
- Stockholding period in days (using closing stock) (6)

3.1.2 Xolo suspects that the stock of gas lamps are not well controlled.

Calculate the number of gas lamps missing. (4)

3.1.3 An investigation revealed that Xolo's brother (employed at the store) orders gas lamps using the business ordering system, and sells them privately to his friends.

What should Xolo say to his brother when dealing with this matter? Provide TWO points. (4)

3.1.4 Calculate the closing stock value for **gas stoves** on 30 April 2021 (using the specific identification method). (5)

3.1.5 Xolo thinks he should stop selling gas stoves as they are causing a liquidity problem and the profit is low.

- Provide figures to support his opinion. (2)
- Explain TWO points to convince him NOT to discontinue trading in gas stoves. (4)

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INFORMATION:

A. STOCK RECORDS FOR GAS LAMPS:

	UNITS	UNIT PRICE (R)	AMOUNT (R)
Stock balance on 1 May 2020	**230**		**R12 650**
Purchases during the year:	**2 770**		**R193 500**
July 2020	650	R60	39 000
September 2020	800	R68	54 400
January 2021	1 100	R75	82 500
March 2021	220	R80	17 600
Returns (from March 2021)	**40**	**?**	**?**
Available for sale	**2 960**		
Stock balance: 30 April 2021	**270**	**?**	**?**
Total sales	**2 180**	**R140**	**R305 200**

B. STOCK RECORDS FOR GAS STOVES:

PURCHASES:

MONTH	MODEL	UNITS	UNIT PRICE	AMOUNT
August 2020	B-LITE	80	R495	R39 600
October 2020	B-LITE	80	R495	R39 600
	SMART	100	R700	R70 000
February 2021	B-LITE	120	R495	R59 400
	SMART	60	R700	R42 000

SALES:

MODEL	UNITS SOLD	SELLING PRICE	AMOUNT
B-LITE	132	R790	R104 280
SMART	54	R980	R52 920

GROSS PROFIT AND MARK-UP:

MODEL	COST OF SALES	GROSS PROFIT	MARK-UP
B-LITE	R65 340	R38 940	60%
SMART	R37 800	R15 120	40%

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ACTIVITY 4: INVENTORY VALUATION

SC June 2018 adapted

4.1 BAFANA CYCLES

Fred You are provided with information for the year ended 31 May 2019. The owner is Mzangwa. The business sells different models of bicycles. Fred uses the periodic inventory system and the specific identification method to value stock.

REQUIRED:

4.1.1 Calculate:

- Value of the closing stock of bicycles on 31 May 2019 (8)
- Cost of sales for the year ended 31 May 2019 (4)
- Gross profit for the year ended 31 May 2019 (3)

4.1.2 Fred is satisfied that he is selling approximately 18 Cruze bicycles per month. However, he is concerned that the new Ryder model, despite its lower selling price, is not selling as quickly as the Cruze model.

- Calculate the selling price of a Ryder bicycle. (3)
- Calculate the average number of Ryder bicycles sold per month. (3)
- Indicate how long it will take Fred to sell the closing stock of the Ryder bicycles. Show calculations. (3)
- Give ONE possible reason for the slow sales of Ryder bicycles, and give advice (ONE point) to Fred in this regard. (4)

INFORMATION:

A. Three different models of bicycles were sold during the 2019 financial year.

MODEL	MARK -UP	UNITS SOLD	SALES	OTHER INFORMATION
Tempo	60%	66	R897 600	This model is no longer produced.
Cruze	60%	220	R3 308 800	
Ryder	35%	98	R979 020	This model was introduced on 1 Sep. 2018.
TOTAL SALES			**R5 185 420**	

B. Opening stock:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
1 Jun. 2018	Tempo	70	R8 500	R595 000
	Cruze	0		

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C. Purchases and returns:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
PURCHASES:				
1 Jun. 2018	Cruze	260	R9 400	R2 444 000
1 Sep. 2018	Ryder	200	R7 400	R1 480 000
RETURNS:				
Feb. 2019	Ryder	45	R7 400	(R333 000)
Net purchases				**R3 591 000**

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4.2 MANAGEMENT OF INVENTORIES: CELIA'S CLOTHING

Celia Mtolo owns a small clothing business. You are provided with information for the year ended 28 February 2019. The business sells T-shirts, jackets and pants.

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

REQUIRED:

Quote relevant figures for ALL the questions below.

4.2.1 **T-shirts:**

Explain why it was NOT a good idea to change to a cheaper supplier of T-shirts. State TWO points. (4)

4.2.2 **Jackets:**

Celia decided to change the supplier in 2019 and to change the mark-up %.
How has this decision affected the business? State TWO points. (4)

4.2.3 **Pants:**

Celia reduced the selling price of pants significantly in the 2019 financial year in response to a new competitor who sells similar pants at R990.
Based on the information below, make TWO separate suggestions to Celia to improve the profit on pants in 2019. (4)

INFORMATION:

	T-SHIRTS		JACKETS		PANTS	
	2019	2018	2019	2018	2019	2018
Gross units sold	1 200	1 080	150	165	280	325
Returns by customers	40	0	0	5	15	15
Selling price	R75	R120	R1 650	R1 085	R910	R1 054
Cost price	R50	R80	R1 000	R700	R650	R620
Mark-up %	50%	50%	65%	55%	40%	70%
Gross profit	R29 000	R43 200	R97 500	R61 600	R68 900	R134 540

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ACTIVITY 5: INVENTORY VALUATION **(40 marks; 25 minutes)**

5.1 Choose the correct term from those given in brackets. Write only the term next to the question numbers (5.1.1 to 5.1.3) in the ANSWER BOOK.

51.1 The most recent purchases will be considered as closing stock in the (FIFO/weighted-average) stock valuation method.

5.1.2 Merchandise purchased is recorded in a Trading Stock Account in the (perpetual/periodic) inventory system.

5.1.3 Carriage on purchases is recorded as an (asset/expense) in the periodic inventory system. (3)

5.2 **PHOTO-FIX TRADERS**

The information relates to Photo-fix Traders for the financial year ended 30 April 2020. The business is owned by PETER Samuels and sells two models of cameras (Grand and De-Lux) and photo frames.

- The stock of cameras is valued using the specific identification method.
- Photo frames are valued using the weighted average method.

REQUIRED:

5.2.1 Calculate the value of closing stock of **cameras** on 30 April 2020. (9)

5.2.2 Calculate the value of closing stock of **photo frames**. (8)

5.2.3 The owner suspects that **photo frames** are being stolen. Provide a calculation to confirm his suspicions. (5)

5.2.4 PETER is thinking of employing an assistant at a wage of R3 500 per month to control the stock of **photo frames**. Explain why this is NOT a good idea. Provide TWO points with figures/calculations. (6)

INFORMATION:

The following information is in respect of the year ended 30 April 2020:

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A. CAMERAS: STOCK, BOUGHT AND SOLD

	BOUGHT			UNITS SOLD
	UNITS	UNIT COST	TOTAL	
GRAND MODEL				
Opening stock	20	R5 500	R110 000	14
Purchases	240	R5 750	R1 380 000	170
DE-LUX MODEL				
Net purchases:	**270**		**R1 104 000**	**235**
September 2018	180	R4 000	R720 000	140
Returns	(30)	R4 000	(R120 000)	
January 2020	120	R4 200	R504 000	95

B. PHOTO FRAMES: STOCK, BOUGHT AND SOLD

	UNITS	AMOUNTS
Opening stock	60	R7 200
Purchases	720	R108 000
Returns	30	R4 500
Closing stock	80	**?**
Sales	657	

5.3 MANAGEMENT OF INVENTORIES

The information relates to Lyle Furnishers for the financial year ended 28 February 2020. The business sells cupboards, tables and chairs. No stock went missing during the year.

REQUIRED:

Provide ONE different problem (with figures) relating to EACH product and ONE solution to EACH problem. (9)

INFORMATION:

	CUPBOARDS	TABLES	CHAIRS
Opening stock (units)	200	160	1 300
Purchases (units)	2 500	3 050	6 000
Selling price per unit	R1 750	R850	R350
Credit sales (units)	800	2 400	2 100
Returns by customers (units)	(500)	(10)	0
Cash sales (units)	1 000	600	2 250
Closing stock (units)	400	200	2 950
Cash received from cash sales	R1 750 000	R470 000	R787 500

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ACTIVITY 6

EC 2020 Trial adapted

Nigari Stores sells ladies' and men's watches:

- Ladies' watches are imported from Germany.
- Men's watches are locally manufactured.

The financial year ended on 31 August 2020.

REQUIRED:

6.1.1 Calculate the following in respect of ladies watches on 31 August 2020:

(a) Value of Closing stock (5)
(b) Cost of sales (5)
(c) Stock-holding period (in days), using average stock. (4)

6.1.2 Calculate the following in respect of men's watches on 31 August 2020:

(a) Value of Closing stock (7)
(b) Sales (3)

6.1.3 Explain why the business uses different methods to value each type of watch. State ONE valid point. (2)

INFORMATION:

A.
- The business uses the following methods to value the stock of watches:
  - Ladies watches – specific identification
  - Men's watches – weighted average
- No watches were stolen or lost during the financial year.

B. Information relating to ladies' watches:

	UNITS	UNIT PRICE	TOTAL AMOUNT	UNITS SOLD	TOTAL SALES
Opening stock	12	R6 500	R78 000	11	R125 125
Purchases:	**35**		**R252 000**		
September 2019	15	R6 800	R102 000	10	R119 000
January 2020	12	R7 300	R87 600	10	R127 750
April 2020	8	R7 800	R62 400	5	R68 250
	47		**R330 000**	**36**	**R440 125**

- The cost price of ladies watches includes transport costs and customs duties.
- These watches are sold at a mark-up of 75% on cost.

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C. Information relating to men's watches:

	UNITS	UNIT PRICE	TOTAL AMOUNT
Opening stock	95	R340	R32 300
Purchases:	**675**		**R259 900**
September 2019	320	R375	R120 000
January 2020	210	R390	R81 900
April 2020	145	R400	R58 000

- Men's watches are sold at a fixed selling price of R520 each.
- Cost to transport of the men's watches from local suppliers amounted to R11 950 for the financial year and is not included in the figures above.
- There were 92 men's watches in stock on 31 August 2020.

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8. GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET

$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Total assets : Total liabilities	Current assets : Current liabilities
(Current assets – Inventories) : Current liabilities	Non-current liabilities : Shareholders' equity
(Trade & other receivables + Cash & cash equivalents) : Current liabilities	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax + Interest on loans}}{\text{Average shareholders' equity + Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit – Variable costs per unit}}$	

NOTE: In this case, if there is a change in the number of issued shares during a financial year, the weighted-average number of shares is used in practice.

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ANSWER SHEETS

ACTIVITY 1

1.1.1	**Calculate the value of the closing stock according to the FIFO method on 31 December 2020.**	6
1.1.2	**Calculate the cost of sales.** **Calculate the gross profit.**	8
1.1.3	**Calculate the value of the closing stock on 31 December 2020 by using the weighted-average method.**	6
	What will be the effect on the gross profit if the owner changes to this valuation method? Provide figures.	3

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ACTIVITY 2

CABINETS

2.1 Calculate the value of closing stock using FIFO.

Workings	Answer

6

2.2.1 Calculate the % mark-up achieved in 2019.

Workings	Answer

4

2.2.2 Provide TWO points (with figures) to prove that this decision achieved its aims.

Point 1	
Point 2	

4

2.2.3 The CEO feels that this decision also negatively affected the company. Provide TWO points (with figures) to support his opinion.

Point 1	
Point 2	

4

Give the directors advice to solve this problem. Explain TWO points.

Point 1	
Point 2	

2

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LAMPS

2.3

Calculate the stockholding period for lamps (use closing stock).	
Workings	**Answer**

3

2.4

Calculate the number of missing lamps.	
Workings	**Answer**

5

Give TWO suggestions to solve this problem.	
Suggestion 1	
Suggestion 2	

4

TELEVISION SETS

2.5

Calculate the value of the closing stock of TV sets on 30 September 2019 using the specific identification method.	
Workings	**Answer**

7

2.6

Explain THREE different concerns that George would have about this problem.	
Concern 1	
Concern 2	
Concern 3	

6

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ACTIVITY 3

3.1 VANDERBIJLPARK ACCESSORIES

3.1.1 Calculate: Value of closing stock for gas lamps (using FIFO)

Workings	Answer

6

Calculate: Stockholding period in days for gas lamps (using closing stock)

Workings	Answer

6

3.1.2 Xolo suspects that the stock of gas lamps are not well controlled. Calculate the number of gas lamps missing.

Workings	Answer

4

3.1.3 What should Xolo say to his brother when dealing with this matter? Provide TWO points.

4

3.1.4 Calculate the closing stock value for gas stoves on 30 April 2021 (using the specific identification method).

Workings	Answer

5

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3.1.5	Xolo thinks he should stop selling gas stoves as they are causing a liquidity problem and the profit is low. Provide figures to support his opinion.	2
	Explain TWO points to convince him NOT to discontinue trading in gas stoves.	4

ACTIVITY 4

4.1.1 Calculate the value of the closing stock of bicycles on 31 May 2018.

	Workings	Answer
Tempo		
Cruze		
Ryder		

8

Calculate the cost of sales for the year ended 31 May 2018.

Workings	Answer

4

Calculate the gross profit for the year ended 31 May 2018.

Workings	Answer

3

4.1.2 Calculate the selling price of a Ryder bicycle.

Workings	Answer

3

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Calculate the average number of Ryder bicycles sold per month.		
Workings	Answer	
		3

Indicate how long it will take Fred to sell the closing stock of the Ryder bicycles. Show calculations.		
Workings	Answer	
		3

Give ONE possible reason for the slow sales of Ryder bicycles. Give advice (ONE point) to Fred in this regard.	4

4.2.1	Explain why it was NOT a good idea to change to a cheaper supplier of T-shirts. State TWO points. Point 1: Point 2:	4

4.2.2	Celia decided to change the supplier in 2018 and to change the mark-up %. How has this decision affected the business? State TWO points. Point 1: Point 2:	4

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4.2.3 **Make TWO separate suggestions to Celia to improve the profit on pants in Mzangwa.**

Point 1:

Point 2:

4

ACTIVITY 5

5.1

5.1.1	
5.1.2	
5.1.3	

3

5.2 **PHOTO-FIX TRADERS**

5.2.1 **Calculate:**

Value of closing stock of cameras

Workings	Answer

9

5.2.2 **Value of closing stock of photo frames**

Workings	Answer

8

5.2.3 **The owner suspects that photo frames are being stolen. Provide a calculation to confirm his suspicions.**

Workings	Answer

5

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5.2.4 **Tom is thinking of employing an assistant at a wage of R3 500 per month to control the stock of photo frames. Explain why this is NOT a good idea. Provide TWO points with figures/calculations.**

	Explanation	Figures
Point 1		
Point 2		

6

5.3 MANAGEMENT OF INVENTORIES

Product	Problem	Solution
Cupboards		
Tables		
Chairs		

9

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ACTIVITY 6

6.1.1 **Calculate the following in respect of ladies watches on 31 August 2020:**

(a) Value of closing stock

(b) Cost of sales

(c) Average stock-holding period (in days) using average stock.

6.1.2 **Calculate the following in respect of the men's watches on 31 August 2020:**

(a) Value of closing stock

(b) Sales

6.1.3 **Explain why the business uses different methods to value each type of watch. State ONE valid point.**

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CONSOLIDATION ACTIVITY 1

1.1.1 **Calculate the value of the closing stock according to the FIFO method on 31 December 2020.**

300 x R430 = R129 000 ✓✓
140☑x R375 ✓ = R52 500 ☑
(440–300)(350+25) = R181 500 ☑

6

1.1.2 **Calculate the cost of sales.**

(840 500 + 58 100)
189 000✓ + 898 600 ✓– 19 000✓= 1 068 600 – 181 500 ☑ = 887 100 ☑

OR: Using units sold:

540	189 000	one mark
550	217 250	
900 – 50 = 850	345 850	one mark
500 – 140 = 360	135 000	two marks
	887 100	one method mark

Calculate the gross profit.

1 380 000 ✓ – 887 100 ☑ = 492 900 ☑

8

1.1.3 **Calculate the value of the closing stock on 31 December 2020 by using the weighted-average method.**

1 068 600✓☑ one part correct
189 000 + 898 600 – 19 000 x 440 ✓ = 171 600 ☑one part correct (must be x 440)
540 + 2 250 – 50
2 740 ✓☑ one part correct
390 (WA) four marks

6

What will be the effect on the gross profit if the owner changes to this valuation method? Provide figures.

Gross profit will decrease / be less ✓* by 9 900 ☑☑ (181 500 – 171 600)

OR 492 900 – 483 000
FIFO WA

3

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ACTIVITY 2

CABINETS

2.1 **Calculate the value of closing stock using FIFO.**

Workings	Answer
If 280 – units in first part (230 ✓ x 1 100 ✓) + (50 ☑☑ x 990 ✓) 253 000 49 500 Op. Stock Purchases Returns Cost of sales OR 296 000 + 2 199 000 – 22 000 – 2 170 500 one mark one mark two marks one mark	302 500 ☑

6

2.2.1 **Calculate the % mark-up achieved in 2019.**

Workings	Answer
3 480 000 – 2 170 500 1 309 500 ✓✓ x 100 2 170 500 ✓	60,3% ☑

4

2.2.2 **Provide TWO points (with figures) to prove that this decision achieved its aims.**

✓ ✓ TWO different & valid points ✓ ✓ Figures	Sales increased to R3 480 000 (from R3 375 000) / by R105 000 / by 3,1%
	Number of customers increased to 37 (from 26) / by 11 / by 42%

4

2.2.3 **The CEO feels that this decision also negatively affected the company. Provide TWO points (with figures) to support his opinion**

✓ ✓ TWO different & valid points ✓ ✓ Figures	Gross profit decreased to R1 309 500 (from R1 425 000) / by R115 500 / by 8,1% / Cost of sales increased to R2 170 500 (from 1 950 000) / by R220 500 / by 11,30%
	Average units per customer dropped to 63 (from 96) (2 500/26) (2 320/37) / by 33 / by 34%
	Units sold dropped by from 2 500 to 2 320 / by 180 / by 7,2%

4

Give the directors advice to solve this problem. Explain TWO points.

✓ ✓ TWO different & valid points	Restrict (be selective with) trade discounts to good customers only
	Find a cheaper supplier (to compensate for keeping selling prices low)
	Increase marketing / advertising in areas outside the current areas targeted
	Provide other incentives such as after-sales services, maintenance or free deliveries

2

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LAMPS

2.3

Calculate the stockholding period for lamps (use closing stock).	
Workings	**Answer**
OR $\frac{59\,625}{930\,375}$ ✓ x $\frac{365}{1}$ ✓✓ $\frac{265}{3\,675}$ one mark x $\frac{365}{1}$ one mark	23,4 days ☑ OR 0,8 months OR 26,3 days OR 0,9 months Accept 23 or 26 days

3

2.4

Calculate the number of missing lamps.	
Workings	**Answer**
Op.stock 600 ✓ + Purchases 3 800 ✓ – Clos.stock 265 ✓ – Sales 3 675 ✓	460 ☑

5

Give TWO suggestions to solve this problem.	
✓✓ ✓✓	Divide duties / delegate to different employees
	Threaten strong disciplinary action (in future) / recover cost from culprit
	Increase supervision at regular intervals / random physical inspection of stock
	Change to the perpetual inventory system to record stock
	CCTV as an internal control measure
	Insist on proper documents for all stock supplied

4

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TELEVISION SETS

2.5 **Calculate the value of the closing stock of TV sets on 30 September 2019 using the specific identification method.**

Workings		Answer
LYN:	7 800 000 – 2 580 000 = R5 220 000 (4 800 000 + 3 000 000) (430 x 6 000) [(800 + 500) x 6 000] OR 870 x R6 000	R11 772 000 ☑
KYA:	10 440 000 – 3 888 000 = R6 552 000 (6 840 000 + 3 600 000) (540 x 7 200) (1 450 x R7 200) OR 910 x R7 200	
OR: LYN + KYA	430 x R6 000 540 x R7 200 18 240 000 – 2 580 000 – 3 888 000	

7

2.6 **Explain THREE different concerns George would have about this problem.**

THREE different & valid concerns ✓✓ ✓✓ ✓✓	Directors engaging in fraud and corruption / bribes / conflict of interests
	Unethical behaviour of CFO places the company placing at risk
	Image of the company negatively affected / will affect the share price and further investments from potential investors
	High stock value is tied up in stock / Obsolete / Affects liquidity
	Shareholders may want to sell their shares
	It will negatively affect the audit report
	Business will lose goodwill as it is unethical

6

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ACTIVITY 3

3.1 VANDERBIJLPARK ACCESSORIES

3.1.1

Calculate: Value of closing stock for gas lamps (using FIFO)	
Workings	**Answer**
(220 – 40) 180✓✓ x R80 = R14 400 ☑* (270 – 180) 90 ☑ x R75 = R 6 750 ☑*	R21 150 ☑*

6

Calculate: Stockholding period in days of gas lamps (using closing stock)	
Workings	**Answer**
Using totals: $\frac{21\ 150 \text{ ☑ see above}}{12\ 650 \checkmark + 193\ 500 \checkmark - 3\ 200 \checkmark - 21\ 150 \text{ ☑ see above}} \times 365$ 181 800 (40 x 80) **OR:** Using units: $\frac{270}{2\ 180} \times 365$	42,5 days ☑ **OR** 45,2 days

6

3.1.2

XOLO suspects that the stock of gas lamps are not well controlled. Calculate the number of gas lamps missing.	
Workings	**Answer**
✓ ✓ ✓ 2 960 – 2 180 – 270 **OR** (230 +2 770 – 40) - 2180 - 270	510 ✓

4

3.1.3

What should XOLO say to his brother when dealing with this matter? Provide TWO points.

ONE comment ✓✓ ✓✓ part marks for incomplete answers

- His actions are unethical; it compromises the profitability of the business; he is taking advantage of being a family member;
- Enriching himself at the expense of the business;
- He should not be expected to be treated differently and he will be subject to the rules and procedures of the business.
- It is a conflict of interest and he must stop this practice.

4

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3.1.4 **Calculate the closing stock value for gas stoves on 30 April 2021 (using the specific identification method).**

Workings	Answer
(80 + 80 + 120) 280 – 132 148 x R495 = R73 260 ✓☑* (100 + 60) 160 – 54 106 x R700 = R74 200 ✓☑*	R147 460 ☑*

5

3.1.5 **XOLO thinks he should stop selling gas stoves as they are causing a liquidity problem and the profit is low. Provide figures to support his opinion.**

Too much cash tied up in stock, R147 460 ✓✓
Total profit on gas stoves is R54 060
Only 186 units of 440 (42,3%) Too much stock on hand, 254 units.

2

Explain TWO points to convince him NOT to discontinue trading in gas stoves.

TWO points ✓✓ ✓✓

- He is achieving a 60% profit on B-Lite and a 40% profit on Smart.
- He could reduce the mark-up to increase sales (recognising the state of the economy and his customers).
- These stock items are durable and can be sold in the future.
- The trend is to move towards gas because of load shedding – demand will increase in the future.
- Customers may not be aware that he is selling these products.
- He must advertise more extensively.

4

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ACTIVITY 4

4.1.1 **Calculate the value of the closing stock of bicycles on 31 May 2019.**

	Workings	Answer
Tempo	8 500 x 4✓	☑ 34 000
Cruze	9 400 x 40✓	☑ 376 000
Ryder	7 400 x 57✓✓	☑ 421 800
		☑ 831 800

OR: Op.Stock Purchases COS Tempo COS Cruze COS Ryder

[……– 3 354 200……]

595 000 + 3 591 000 [– 561 000 – 2 068 000 – 725 200] = 831 800

One mark for both together One accuracy mark & one method mark for each model One method mark

8

Calculate the cost of sales for the year ended 31 May 2019.

Opening stock	✓ 595 000
Net purchases	✓ 3 591 000
Closing stock	☑ (831 800)
Cost of sales	☑ 3 354 200

OR One mark One mark One mark One method mark

(8 500 x 66) + (9 400 x 220) + (7 400 x 98) = 3 354 200

561 000 2 068 000 725 200

4

Calculate the gross profit for the year ended 31 May 2019.

✓ ☑ ☑

5 185 420 – 3 354 200 = 1 831 220

OR (66 x 8 500 x 60%) + (220 x 9 400 x 60%) + (98 x 7 400 x 35%)

336 600 + 1 240 800 + 253 820 = 1 831 220

3

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4.1.2 Calculate the selling price of a Ryder bicycle.

✓ ☑

R979 020 = R9 990
98✓

One mark One mark One method mark

OR R7 400 x 135/100 = R9 990 **OR** R7 400 + R2 590 = R9 990

3

Calculate the average number of Ryder bicycles sold per month.

✓ ✓ ☑

98 ÷ 9 = 10,9 per month

3

Indicate how long it will take Fred to sell the closing stock of the Ryder bicycles. Show calculations.

For three marks: 57 units ☑ ÷ 10,9 per month ☑ = 5,2 months ☑

OR $\frac{57 \text{ units}}{98 \text{ units}} \times \frac{9}{1}$ = 5,2 months or approx. 157 days

OR $\frac{421\,800}{725\,200} \times \frac{270}{1}$ = 5,2 months or approx. 157 days

For two marks:

$\frac{421\,800}{725\,200} \times \frac{365}{1}$ = 212,3 days

OR $\frac{57 \text{ units}}{98 \text{ units}} \times \frac{12}{1}$ = 7 months

3

Give ONE possible reason for the slow sales of Ryder bicycles.

ONE valid reason: ✓✓ Part-marks for unclear / incomplete answer

- The customers do not like the new Ryder model
- High returns indicate the quality is not good
- This is a new model / Customers not familiar with this model / poor marketing strategy.

Give advice (ONE point) to Fred in this regard.

ONE valid point of advice ✓✓ Part-marks for unclear / incomplete answer

- Look for another model to replace the Ryder model
- Discontinue selling this model as mark-up % is low
- Advertise/promote the positive characteristics of the new model.

4

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4.2.1 **Explain why it was NOT a good idea to change to a cheaper supplier of T-shirts. State TWO points.**

Any two valid points Explanations ✓ ✓ Figures ✓ ✓

Possible answers:

- The returns by customers are up from 0 to 40 (do not accept poor quality only)
- Although more units were sold the total gross profit decreased from R43 200 to R29 000 or by R14 200 (32,9%)
- Maintaining the profit mark-up at 50% on cost resulted in a lower selling price (R45 cheaper) made customers doubt the quality.

4

4.2.2 **Celia decided to change the supplier in 2019 and to change the mark-up %. How has this decision affected the business? State TWO points.**

Any two valid points Explanations ✓ ✓ Figures ✓ ✓

Possible answers:

- Total units sold decreased from 165 to 150 / by 15 units / by 9%
- No returns (zero) in 2019 / returns by customers went down from 5 to 0
- The gross profit increased from R61 600 to R97 500 /by R35 900 / 58,3%)

4

4.2.3 **Make TWO separate suggestions to Celia to improve the profit on pants in 2019.**

Any two valid points Explanations ✓ ✓ Figures ✓ ✓

Possible answers:

Advertise more to increase the sales as it went down from 325 to 280

Increase the selling price (increase mark-up) to be > 910 and < 990

Find a cheaper supplier as cost price went up from R620 to R650

4

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ACTIVITY 5

5.1

5.1.1	FIFO ✓
5.1.2	Perpetual ✓
5.1.3	Expense ✓

3

5.2 PHOTO-FIX TRADERS

5.2.1 Calculate:

Value of closing stock of cameras

(6 x 5 500) (70 x 5 750) (10 x R4 000) (25 x 4 200)
33 000 + 402 500 + 40 000 + 105 000
✓✓ ✓✓ ✓✓ ✓✓
= 580 500 ☑

OR (OS + P – COS)
110 000 + 1 104 000 + 1 380 000 – 2 013 500
(77 000 + 977 500 + 560 000+ 399 000)

= 580 500

9

5.2.2 Value of closing stock of photo frames

110 700 three marks
7 200 ✓ + 108 000 ✓– 4 500 ✓ x 80✓ = 11 808 ☑ x 80
60 ✓ + 720 ✓ – 30✓

750 three marks
R147,60 six marks

8

5.2.3 The owner suspects that photo frames are being stolen. Provide a calculation to confirm his suspicions.

✓☑ ✓ ✓ ☑
(60 + 720 – 30) – 80 – 657 = 13
750

5

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5.2.4 **Tom is thinking of employing an assistant at a wage of R3 500 per month to control the stock of photo frames. Explain why this is NOT a good idea. Provide TWO points with figures/calculations.**

	Explanation ✓ ✓	Figures✓✓ ✓✓
Point 1	Wages greatly exceed the cost of the missing units	Wages one mark R42 000 p a / R 3 500 p m Cost of units missing: one mark 13 x R147,60 = R1 918,80 (could use unit cost price)
Point 2	Units missing are a very small % of units available	Units missing = 13 one mark Units available = 750 one mark % missing = Less than 2% two marks

6

5.3 **MANAGEMENT OF INVENTORIES**

Product	Problem Problem ✓ ✓ ✓ Figures ✓ ✓ ✓	Solution ✓ ✓ ✓
Cupboards	High returns 500/2 500 (20%) 500/1 800 sold (27, 7%)	Possible change to new supplier Ensure high quality ordered Order as per customer specifications
Tables	Credit sales much higher than cash sales 2 400/3 210 (75%); 600/3 210 (25%) Missing money, 40 000 (510 000/470 000)	Promote cash sales by providing incentives such as cash discount Division of duties/ banking of money
Chairs	Slow selling item/ high stock figures (1 300 and 2 950) Purchases much higher than sales (6 000/4 350)	Change to a different type of chair. Advertise more to increase sales Buy stock according to sales. Reduce mark-up%

9

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ACTIVITY 6

6.1.1 **Calculate the following in respect of ladies watches on 31 August 2020:**

(d) Closing Stock

1 x 6 500 5 x 6 800 2 x 7 300 3 x 7 800
6 500 ✓ + 34 000 ✓ + 14 600 ✓ + 23 400 ✓

= 78 500 ☑ One part correct (1 + 5 + 2 + 3 = 11 units) / 47 – 36 = 11

5

(b) Cost of sales

330 000 two marks
78 000 ✓ + 252 000 ✓ – 78 500 ☑ (see above)

= 251 500 ✓☑ One part correct

OR

440 125 x 100/175 = 251 500
(1 mark) (2 marks) (1 mark) (w/w)

OR

71 500 (11 x 6 500)
68 000 (10 x 6 800)
73 000 (10 x 7 300)
39 000 (05 x 7 800)
251 500

5

(c) Stock-holding period (in days), using average stock.

78 250 2 marks see 6.3.1 (a)
½ (78 000✓ + 78 500☑) x 365 = 113,6 days ☑ One part correct
251 500 ☑ see 6.3.1 (b) Accept 114 days

4

6.1.2 **Calculate the following in respect of men's watches on 31 August 2020:**

(a) Value of closing stock

304 150 (3 marks)
32 300 ✓+ 259 900 ✓ + 11 950 ✓
95 ✓+ 675 ✓
770 (2 marks)
= 395

395 x 92 ✓ = 36 340 ☑ One part correct

7

(b) Sales
(770 – 92) = 678 (units sold)✓✓ (2 or 0)

678 x R520 = 352 560☑ One part correct

3

6.1.3 **Explain why the business uses different methods to value each type of watch. State ONE valid point.**

One valid point ✓✓

- Ladies watches are sold at a high value. Small quantities are purchased.
- Each item can be monitored individually.
- The value is continuously changing.

Men's watches are sold at a low value. Large quantities are purchased.
The value of the watches are almost the same.

2

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9. EXAMINATION GUIDANCE (INVENTORY VALUATION)

1. The study guide provides explanation of concepts, steps to do calculations, worked activities, formula sheet, and suggested marking guidelines and practice activities adapted from pat NSC papers.
2. Stock systems covered in Grade 11 must be clearly understood and revised as prior knowledge in understanding stock valuation methods.
3. Although Inventory valuation is tested independently in P2, it can feature in P1 and in P2. In P1 it can feature as an adjustment to the preparation of the financial statements. It can also be integrated with P2 topics such as stock account in manufacturing or purchases and sale in budgets. This topic is integrated in deep problem solving scenarios and you are expected to critically analyse the information.
4. The questions is structured in the same layout. The required first, followed by information needed to and answer the question. You are expected to sift and extract relevant information to answer the question.
5. A clear distinction of the three methods First in First out (FIFO), weighted average and specific identification methods can be understood by making reference to types of products offered by different businesses.
6. You need to understand the calculation for closing stock, cost of sales, gross profit and missing items and financial indicators relevant to stock valuation.
7. Understanding the format for the calculation of the closing stock under each level of stock valuation method is required. Calculating the value of closing stock using FIFO requires to focus on the latest purchases and to also take the returns into account.
8. You are expected to have the arithmetical skill and understanding of logic of the calculations to formulate simple calculations.
9. Show all workings, to ensure that maximum part marks can be achieved.
10. Understanding of business ethics is required to answer problem solving question in a form of internal control.
11. A special ANSWER BOOK is provided, to assist with time management. Take note of the information included in the ANSWER BOOK.
12. GENERAL STUDY AND EXAMINATION TIPS

1. Note that Accounting is now assessed in TWO papers;
   - P1 Financial Reporting and Evaluation 150 marks 2 hours
   - P2 Managerial accounting and internal controls 150 marks 2 hours

2. It is important to be familiar with the specific content for each paper so that you can plan effectively for examinations. Note that certain topics are relevant to both paper and some topics may be integrated within one question.

3. Obtain many past examination papers, the examination guidelines and exemplar papers to form the basis of your study programme.

4. Prepare a functional study time table and focus on specific topics at different intervals. Align this to time management; exploring short-cuts for calculations, frequently asked predictable questions and recommended responses for interpretive questions.

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5. Pay close attention to the language used in past papers such as key vocabulary and action verbs.

6. For calculations, always show all workings – they carry many part marks.

7. Familiarize yourself with the structure and layout of Questions. They follow the same pattern which is: Appetizer, Required, Information.

8. Note that the ANSWER BOOK is a vital part of the Question Paper, as many amounts and details will be included for most Questions. This is a time-saving device. Ensure that you include these amounts in your final answers, where relevant.

9. Always arrive at least 30 minutes before the commencement of the paper. You will then be able to easily take care of all the administration requirements and to make effective use of your 10 minutes reading time.

10. Use the reading time to get a global picture of the paper, and identify where you wish to start (according to your strengths). You already have the ANSWER BOOK to assist in this regard. Simply go to the relevant pages for that Question.

11. You can also answer the sub-questions in any order; always inserting what is given, working from the simple to the more challenging.

12. Write legibly and neatly; markers must be clear about your answers.

13. Keep your comments short and to-the-point. The mark allocation is your guide about the expected length of your response.

14. Have your own stationery and a good calculator (even a spare – just in case).

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