

**QUESTION 5: INVENTORY VALUATION, INTERNAL CONTROL AND ETHICS**  
**(35 marks; 20 minutes)**

You are provided with information relating to Highveld Traders for the financial year ended 28 February 2013. The business is owned by Anele and managed by Chris, who is responsible for running the shop.

The business buys and sells cricket bats and cricket balls.

**REQUIRED:**

- 5.1 Calculate the value of the closing stock for the following stock items. Show all workings, using both the number of units and the value of the units.
- 5.1.1 Cricket bats (use the FIFO method) (5)
- 5.1.2 Cricket balls (use the weighted-average method) (7)
- 5.2 For cricket bats, calculate the following:
- 5.2.1 Cost of sales (6)
- 5.2.2 Gross profit (3)
- 5.3 Anele is concerned that a number of cricket bats have gone missing.
- 5.3.1 Calculate the number of cricket bats that appear to be missing. (3)
- 5.3.2 Explain TWO control measures she could put in place to avoid this from happening in future. (4)
- 5.4 Anele is concerned about the way in which Chris has managed the cricket balls. Anele has found that Chris had changed the supplier of cricket balls in November without informing her.
- Provide evidence from the information provided to support Anele's concern. State TWO points and quote figures to support your answer. (4)
- 5.5 Anele has since discovered that the new supplier of cricket balls is a family member of Chris.
- What advice would you offer to Anele in this regard? (3)

**INFORMATION:****1. Inventories:**

The physical stock counts revealed the following stock on hand at the beginning and at the end of the financial year:

Date	Cricket bats			Cricket balls		
	No. of units	Per unit (including carriage)	Total value	No. of units	Per unit (no carriage)	Total value
01/03/2012	110	R450	R49 500	320	R60	R19 200
28/02/2013	175	?	?	220	?	?

**2. Purchases:**

During the financial year ended 28 February 2013 the following stock items were purchased. Refer below to returns and carriage:

Date	Cricket bats			Cricket balls		
	No. of units	Per unit	Total value	No. of units	Per unit	Total value
30/05/2012	80	R500	R40 000	220	R60	R13 200
30/08/2012	105	R550	R57 750	180	R65	R11 700
28/11/2012	250	R600	R150 000	280	R85	R23 800
25/01/2013	100	R625	R62 500	160	R95	R15 200
<b>TOTALS</b>	<b>535</b>		<b>R310 250</b>	<b>840</b>		<b>R63 900</b>

**3. Returns during the year:**

Returns of faulty cricket balls	No. of units	Per unit	Total value
From November purchases	40	R85	R3 400
From January purchases	20	R95	R1 900
	<b>60</b>		<b>R5 300</b>

**4. Carriage on purchases:**

The total amount of carriage on purchases paid:

- Cricket bats – R30 per bat on all purchases (not included in the purchase price in table above)
- Cricket balls – no carriage payable

**5. Sales during the year:**

Item	Units	Per unit	Total value
Cricket bats	455	R875	R398 125
Cricket balls	880	?	?

### 3.3 INVENTORY VALUATION

Bamjee Stores sells two types of men's watches:

- Johx, imported from Germany
- Kwatz, locally manufactured

The financial year ended on 31 August 2015.

#### REQUIRED:

3.3.1 Calculate the following in respect of Johx watches on 31 August 2015:

- (a) Closing stock (5)
- (b) Cost of sales (4)
- (c) Average stock-holding period (in days) (4)

3.3.2 Calculate the following values (in rands) in respect of Kwatz watches on 31 August 2015:

- (a) Closing stock (7)
- (b) Sales (3)

3.3.3 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:
    - Johx – specific identification
    - Kwatz – weighted average
  - No watches were stolen or lost during the financial year.

**B.** Information relating to Johx watches:

	UNITS	UNIT PRICE	TOTAL AMOUNT	UNITS SOLD	TOTAL SALES
Opening stock	12	R6 500	R78 000	11	R125 125
Purchases:	<b>35</b>		<b>R252 000</b>		
September 2014	15	R6 800	R102 000	10	R119 000
January 2015	12	R7 300	R87 600	10	R127 750
April 2015	8	R7 800	R62 400	5	R68 250
	<b>47</b>		<b>R330 000</b>	<b>36</b>	<b>R440 125</b>

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

**C.** Information relating to Kwatz watches:

	<b>UNITS</b>	<b>UNIT PRICE</b>	<b>TOTAL AMOUNT</b>
Opening stock	95	R340	R32 300
Purchases:	<b>675</b>		<b>R259 900</b>
September 2014	320	R375	R120 000
January 2015	210	R390	R81 900
April 2015	145	R400	R58 000

- Kwatz watches are sold at a fixed selling price of R520 each.
- Cost to transport Kwatz watches from local suppliers amounted to R11 950 for the financial year and is not included in the figures above.
- There were 92 Kwatz watches in stock on 31 August 2015.