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No.	TOPIC	Question page no.	Memo page no.	Exercise Book page No.	Maximum Marks	Time (minutes)
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69.	Problem solving, VAT	109	233	140	25	20
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QUESTION 36

[Memo p182; Ex Bk p79]

Inventory systems and valuation, Internal control, Problem solving (50 marks; 30 minutes)

36.1 BRIGGS BICYCLES INC.

(24)

Briggs Bicycles Inc. uses the specific identification method to value stock of bicycles. Jeff Briggs owns the business.

REQUIRED:

36.1.1 Give ONE difference between the perpetual stock system and the periodic stock system. (2)

36.1.2 Calculate the following on 30 April 20.6, using the specific identification method.

- The value of the stock on hand (closing stock) (8)
- The cost of sales (5)
- The gross profit (5)

36.1.3 Jeff wants to change the stock valuation method of bicycles to the weighted average method. What advice would you offer him? Give TWO points. (4)

INFORMATION:

A. Stock records of bicycles:

Information	Model	Number of bicycles purchased	Cost price	Total	Number sold
Opening stock - 1 May 20.5	M15	70		R280 000	70
Purchases		640		R2 682 500	540
July 20.5	J15	245	R3 700	R906 500	218
December 20.5	D15	205	R4 400	R902 000	175
February 20.6	F16	190	R4 600	R874 000	147

Note:

- 5 bicycles from the December purchases [Model D15] were defective and were returned to the suppliers.
- On 30 April 20.6, there were 95 bicycles in stock

B. Bicycles are sold at a fixed selling price of R6 450 each.

SOLUTION

QUESTION 36

**Inventory systems and valuation, Internal control, Problem solving
(50 marks; 30 minutes)**

36.1 BRIGGS BICYCLES INC.

(24)

36.1.1	Give ONE difference between the perpetual stock system and the periodic stock system.	(2)										
<p>Any ONE valid difference with comparison. ✓✓ Expected responses:</p> <table border="1"> <thead> <tr> <th>Perpetual stock system</th> <th>Periodic stock system</th> </tr> </thead> <tbody> <tr> <td>• Cost of sales calculated at point of sale.</td> <td>• Cost of sales calculated at end of financial period.</td> </tr> <tr> <td>• Stock value can be determined/ identified at any time (from records).</td> <td>• Stock value determined/identified by stock count.</td> </tr> <tr> <td>• Cost of sales account used.</td> <td>• Purchases account used.</td> </tr> <tr> <td>• Stock bought regarded as an asset.</td> <td>• Stock bought regarded as an expense.</td> </tr> </tbody> </table> <p>Incomplete / one-system only explanation: 1 mark</p>			Perpetual stock system	Periodic stock system	• Cost of sales calculated at point of sale.	• Cost of sales calculated at end of financial period.	• Stock value can be determined/ identified at any time (from records).	• Stock value determined/identified by stock count.	• Cost of sales account used.	• Purchases account used.	• Stock bought regarded as an asset.	• Stock bought regarded as an expense.
Perpetual stock system	Periodic stock system											
• Cost of sales calculated at point of sale.	• Cost of sales calculated at end of financial period.											
• Stock value can be determined/ identified at any time (from records).	• Stock value determined/identified by stock count.											
• Cost of sales account used.	• Purchases account used.											
• Stock bought regarded as an asset.	• Stock bought regarded as an expense.											

NOTE:

The specific identification method of valuing stock is very different from the FIFO and weighed average method. It is a method used when large items are valued and calculated separately. You DO NOT USE the normal method of Opening stock + Purchases – returns.

Instead each item must be calculated separately by determining how many items you had to sell – what you did sell and finding out the number of units still in stock. This amount is then multiplied by the cost price. In this example you have 4 different types of bicycles and each one is valued separately. This is why it is referred to as the SPECIFIC IDENTIFICATION METHOD.

36.1.2	• The value of the stock on hand (closing stock)	(8)
<p>[You had 70 M15's but they were all sold so there is no stock.] J15: 245 – 218 = 27✓ x 3 700 = R99 900 ✓ [27 items left over x the cost price of R3 700] D15: 205 – 5 – 175 = 25✓ x 4 400 = R110 000 ✓ [Minus the returns] F16: 190 – 147 = 43✓ x 4 600 = <u>R197 800</u> ✓ <u>R407 700</u> ✓✓ (one part correct) [Make sure you understand this method and that the calculation is different from the FIFO and weighted average method, otherwise you will not earn any marks in the examination. This method is used again in Question 38. Ensure that you understand and can apply all three methods of stock valuation.]</p>		
• The cost of sales		(5)
<p>280 000 + 2 682 500 – (5 x 4 400) – 407 700 (see 36.1.2) 280 000✓ + 2 682 500✓ – 22 000✓ – 407 700☑ = <u>R2 532 800</u> ☑ (one part correct)</p>		
• The gross profit		(5)
<p>(70 + 540) ✓ x 6 450 ✓ 3 934 500 ✓ – 2 532 800 ☑ = <u>R1 401 700</u> ☑ (one part correct)</p>		
36.1.3	What advice would you offer him? Give TWO points.	(4)
<p>Any TWO reasons. ✓✓ ✓✓</p> <ul style="list-style-type: none"> • Weighted average will not be suited for high valued, individual products (bicycles). • It is unethical to change to manipulate financial results. • He will not be able to use the figures for comparisons. • A change must have valid motivation and application with SARS, etc. 		

ANSWER BOOK

QUESTION 36

[Memo p182]

Inventory systems and valuation, Internal control, Problem solving
(50 marks; 30 minutes)

36.1 BRIGGS BICYCLES INC.

(24)

36.1.1	Give ONE difference between the perpetual stock system and the periodic stock system.	(2)
Perpetual stock system		Periodic stock system
36.1.2	• The value of the stock on hand (closing stock)	(8)
	• The cost of sales	(5)
	• The gross profit	(5)
36.1.3	What advice would you offer him? Give TWO points.	(4)
•		
•		