

QUESTION 5: INVENTORY VALUATION AND FIXED ASSETS

(45 marks; 30 minutes)

COLUMN A		COLUMN B	
5.1.1	Assumes that stock is sold in date order as purchased.	A	straight-line method
5.1.2	A unique value is assigned to each stock item.	B	weighted-average method
5.1.3	Depreciation is constant over the useful life of the fixed asset.	C	first-in-first-out method
5.1.4	Depreciation is calculated on the carrying value of the fixed asset.	D	diminishing-balance method
		E	specific identification method

(4 x 1) (4)

5.2 PACKER'S SUITCASE SHOP

Charles Packer sells travel suitcases. The year-end is 30 June 2018.

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 2017	850	R2 250	R1 912 500
December	980	R2 670	R2 616 600
March 2018	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.

5.2.1 Calculate the value of the closing stock on 30 June 2018 using the first-in-first-out (FIFO) method. (5)

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Workings	Answer

5

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

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Workings	Answer

5

5.2.3 Charles 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)

5.2.3 Charles 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:

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5.3 MINDEW LIMITED

The financial year-end is 31 May 2018.

INFORMATION FOR YEAR-END 31 MAY 2018:

A.	FIXED ASSETS	LAND AND BUILDINGS	COMPUTERS	EQUIPMENT	VEHICLES
	Carrying value: Begin	6 000 000	13 000	1 027 500	1 300 000
	Cost	6 000 000	108 000	1 250 000	2 100 000
	Accumulated depreciation	-	(95 000)	(222 500)	(800 000)
	Movements				
	Additions	(i)	0	172 500	0
	Disposals	0	0	0	(iv)
	Depreciation	0	(ii)	(iii)	(256 000)
	Carrying value: End				
	Cost				
	Accumulated depreciation				(v)

B. Land and buildings:

Grant Construction was paid R882 000 for building new offices (R610 000) and repairing windows (R272 000).

C. Computers:

- The three computers were all bought on the same day at R36 000 each.
- Depreciation is 33⅓% on cost.
- These computers are expected to last another two years.

D. Equipment:

- Additional equipment was purchased on 1 February 2018.
- Depreciation is 10% p.a. on cost.

E. Vehicles:

- Depreciation is 20% p.a. on carrying value.
- A vehicle was sold for cash at carrying value on 31 December 2017.
The Fixed Assets Register reflected the following:

Cost	R176 000
Accumulated depreciation (1 June 2017)	R128 000

- 5.3.1 Calculate the missing figures indicated by (i) to (v) in the table below. (17)

5.3.1		WORKINGS	ANSWER
	(i)		
	(ii)		
	(iii)		
	(iv)		
	(v)		

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- 5.3.2 Explain how the internal auditor should check that movable fixed assets were not stolen. (2)

- 5.3.2 Explain how the internal auditor should check that movable fixed assets were not stolen.

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- 5.3.3 Land and buildings were bought five years ago for R6 m. Property prices have increased by 20% since then. The directors want to increase the value of this asset and reflect a profit of R1 200 000 in the financial statements.

As an independent auditor, what advice would you give? Provide ONE point.

- 5.3.3 As an independent auditor, what advice would you give? Provide ONE point.

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