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		?

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- **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)

5.2.1 **Calculate the value of the closing stock on 30 June 2018 using the first-in-first-out method.**

Workings	Answer

5

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

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

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)

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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:

4

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 Disposals	(i) 0	0 0	172 500 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).

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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)		

17

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

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

2

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.**

2

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