Name

QUESTION 3: INVENTORY VALUATION **(40 marks; 25 minutes)**

3.1 SPEEDY CYCLES

You are provided with information for the year ended 31 May 2018. The owner is Fred Fakude. The business sells different models of bicycles. Fred uses the periodic inventory system and the specific identification method to value stock.

REQUIRED:

3.1.1 Calculate:

- Value of the closing stock of bicycles on 31 May 2018 (8)
- Cost of sales for the year ended 31 May 2018 (4)
- Gross profit for the year ended 31 May 2018 (3)

3.1.2 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 2018 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. 2017.
TOTAL SALES			**R5 185 420**	

B. **Opening stock:**

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
1 Jun. 2017	Tempo	70	R8 500	R595 000
	Cruze	0		

C. Purchases and returns:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
PURCHASES:				
1 Jun. 2017	Cruze	260	R9 400	R2 444 000
1 Sep. 2017	Ryder	200	R7 400	R1 480 000
RETURNS:				
Feb. 2018	Ryder	45	R7 400	(R333 000)
Net purchases				**R3 591 000**

3.2 MANAGEMENT OF INVENTORIES: CELIA'S CLOTHING

Celia Mtolo owns a small clothing business. You are provided with information for the year ended 28 February 2018. The business sells T-shirts, jackets and pants.

Celia took certain decisions at the beginning of the 2018 financial year.

REQUIRED:

Quote relevant figures for ALL the questions below.

3.2.1 **T-shirts:**

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

3.2.2 **Jackets:**

Celia decided to change the supplier in 2018 and to change the mark-up %.

How has this decision affected the business? State TWO points. (4)

3.2.3 **Pants:**

Celia reduced the selling price of pants significantly in the 2018 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**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
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

QUESTION 3

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

	Workings	Answer
Tempo		
Cruze		
Ryder		

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

Workings	Answer

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

Workings	Answer

3.1.2

Calculate the selling price of a Ryder bicycle.	
Workings	Answer

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

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

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

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

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

Point 1:

Point 2:

3.2.2 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:

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

Point 1:

Point 2: