STOCK VALUATION

In this lesson we will focus on examination questions on valuing stock using:

- First-in-first out method (fifo)
- Weighted average
- Specific Identification

QUESTION 1 STOCK VALUATIONS

You are provided with information in respect of Jodha Shoes for the year ended 28 February 2014. The business buys and sells one type of shoe.

The business uses the periodic inventory system and the weighted average method of valuing stock.

REQUIRED

1.1. Calculate the weighted average value per unit on 28 February 2014. (round off to the nearest rand) (9)

1.2. Calculate the value of the inventory on hand on 28 February 2014. (3)

1.3. Draw up the Trading Account to determine the Gross Profit for the year ended 28 February 2014. (11)

1.4. The owner of Jodha Shoes wants to sell her business. She approached you as the accountant and requested that you change the inventory valuation method to the FIFO method to create a higher profit to enable her to sell the business at a much higher price.

1.4.1. Calculate the value of inventory on hand on 28 February 2014 using the FIFO valuation method. (5)

1.4.2. Will it be ethical for the owner to change the inventory valuation method. Provide TWO reasons to support your answer. (5)

1.4.3. Briefly explain what does GAAP suggest in respect of stock valuation. (3)

1.4.4. Provide two differences between the Periodic inventory system and the Perpetual inventory system. (4)

INFORMATION

Accounting records of Jodha Shoes:

Details	Date	Units	Unit price	Total
Opening stock	1 March 2013	?	R200	R29 000
Purchases				
	May 2013	400	R250	R100 000
	October 2013	1 200	R275	R330 000
	November 2013	300	R425	R127 000
	December 2013	100	R160	R16 000
Closing stock	28 February 2014	?	?	?
Sales	1 Mar 2013 – 28 February 2014	2 000	R600	R1 200 000

- The shoes bought in November 2013 were imported. Import duties paid amounted to R15 000.
- 10 shoes purchased in December 2013 were defective and returned to the supplier. The supplier granted a full refund.

ANSWER BOOK

1.3.

TRADING ACCOUNT											

SOLUTIONS TO STOCK VALUATION

3.1.

WAP = 29000 + 573 000 + 15 000 -1600

145 +2 000 -10

= 615 400

2135

= R288

/9

3.2.

135 √√ x R288√

= **R38 880**

/3

3.3. /11

TRADING ACCOUNT												
		Opening stock		29000				Sales		1200000	
		Purchases		571400				Closing stock		38880	
		Carriage on Purchases		15 000							
		Profit & loss		6234800							

3.4.1. /5

135 -------------- 90 x 160 = 14 400

------------- 45 x (425 +50) = 21 375

Value = R35 775

3.4.2. /5

No , you cannot change your stock valuation method to inflate profits
Proper disclosure must be made in the case of a change in valuation

3.4.3. /3

Record stock at lower than or net –realisable value (prudence)

3.4.4.

Periodic inventory – There is no constant mark-up therefore cos cannot be calculated After a sale takes place. Trading stock is determined through a physical stock count Perpetual – There is a constant mark up and cos is calculated after a sale. Trading stock is Regularly updated in the general ledger (other differences as long as there is proper explanation)

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