

QUESTION 3

3.1 Although this business has done well, David is considering closing it down and investing his capital in fixed property. State TWO points that he should consider before making a final decision. (2009 PAPER)

Good answer = 2 marks; Poor answer = 1 mark; Incorrect = 0 marks ✓✓ ✓✓

- Soccer World Cup will be in SA soon – keep the business operational until then.
- Property prices are not doing well at the moment – move into this later.
- Financial implication to the business, future prospects
- Implications for staff – retrenchment
- Property prices are low and it is the right time to invest and cash in later
- Property can be let out during the world cup for future the income for property is somewhat guarantee
- What is the market value of the business

3.2 Calculate the number of soccer balls stolen.

$$\text{O. stock} + \text{purchases} - \text{sales} - \text{closing stock} = \text{missing}$$

$$1\,200 \checkmark + 3\,400 \checkmark - 3\,500 \checkmark - 900 \checkmark = 200 \checkmark$$

3.3 Calculate the closing stock value of soccer balls using the weighted average method:

$$\begin{array}{r} \text{Opening stock} + \text{Purchases} + \text{Carriage} \\ 144\,000 + 502\,000 + 30\,200 \end{array}$$

$$\begin{array}{r} \hline 4\,600 \\ \text{Number available} \end{array}$$

$$\frac{R676\,200 \checkmark \checkmark}{4\,600 \checkmark} = R147$$

$$= 900 \checkmark \times 147 \checkmark = R132\,300 \checkmark$$

Calculate the closing stock value of soccer jerseys using the FIFO method:

$$100 \times R300 = R30\,000 \checkmark \checkmark$$

$$150 \times R255 = R38\,250 \checkmark \checkmark$$

$$\begin{array}{r} 250 \\ \hline R68\,250 \checkmark \end{array}$$

3.4 Calculate the following for Soccer jerseys (you may prepare a Trading Account to calculate these figures):

Calculate cost of sales:

Opening stock	✓	166 400
Purchases - CA	✓	602 000
Less closing stock	☑	<u>(68 250)</u>
Cost of sales	☑	700 150

Calculate mark-up% on cost:

$$\begin{array}{r} \text{Sales} - \text{COS} \\ = \frac{(1\,108\,000 \checkmark - 700\,150 \checkmark)}{700\,150 \checkmark} \end{array} \times \frac{100}{1} = 58,3\% \checkmark \checkmark$$

OR

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$$\frac{407\,850}{700\,150} \times \frac{100}{1}$$

$$= 58,3\% \checkmark \checkmark$$

Calculate stock turnover rate:

Cost of sales

Average stock

$$= \frac{700\,150 \checkmark}{(68\,250 \checkmark + 166\,400 \checkmark) / 2}$$

$$= \frac{700\,150}{117\,325}$$

$$= 5,97 \text{ times } \checkmark \checkmark$$

3.5 If David decides to continue with this business, what advice would you offer him? State TWO points and quote financial indicators or specific information from the question to support your answer.

Good answer = 2 marks; Satisfactory answer = 1 mark; Incorrect = 0 marks

Appropriate financial indicator/figures = 1 each

Any two valid points $\checkmark \checkmark \checkmark$ $\checkmark \checkmark \checkmark$

- Implement tighter control measures over soccer balls – 200 balls were stolen
- The business is carrying a lot of stock, particularly soccer balls – 900 on hand at end of year
- Selling price must change if cost increases
- The stock for soccer balls must be turned over quicker – 3,9 times per annum.

