

GRADE 11 STUDY GUIDE | 2024

Inventory Systems and Valuation

Accounting

1. Periodic vs Perpetual Inventory Systems

- Periodic: stock count done at the END of the period to determine closing stock. COS calculated: Opening + Purchases - Closing.
- Perpetual: stock records updated CONTINUOUSLY with each purchase and sale. More complex but more accurate.

2. Stock Valuation Methods

FIFO -- First In, First Out

The OLDEST items are assumed to be sold first. Closing stock consists of the MOST RECENT purchases.

Weighted Average

A new average cost is calculated after each purchase. All items carry the same average cost.

Specific Identification

Each item is tracked individually. Used for unique/expensive items (e.g. cars, jewellery).

KEY: In a period of RISING prices: FIFO gives LOWER COS and HIGHER gross profit. Weighted average falls between. The choice of method is a CONSISTENT accounting policy.

Example: Opening stock: 10 units at R50. Purchase: 15 units at R60. Units sold: 18.

FIFO: $\text{COS} = (10 \times \text{R}50) + (8 \times \text{R}60) = \text{R}500 + \text{R}480 = \text{R}980$. Closing stock: $7 \times \text{R}60 = \text{R}420$.

Weighted Avg: new avg = $(10 \times 50 + 15 \times 60) / (10 + 15) = (500 + 900) / 25 = \text{R}56/\text{unit}$.

COS = $18 \times \text{R}56 = \text{R}1008$. Closing: $7 \times \text{R}56 = \text{R}392$.

3. Debtors and Creditors Management

- Debtors: customers who owe money; asset on balance sheet
- Bad debts: amounts written off as uncollectable; debit Bad Debts expense, credit Debtors Control
- Provision for bad debts: estimate of future bad debts; shown as contra-asset to reduce Debtors on balance sheet
- Creditors: suppliers owed money; current liability
- Credit policy: credit terms (e.g. 30 days); credit checks; follow-up on overdue accounts

4. Debtors Reconciliation

Compare Debtors Control in General Ledger (running total) with Debtors List (individual debtor balances). They must agree.

- If they differ: check for missing postings, incorrect amounts, transposed figures
- Debtors Age Analysis: classifies outstanding amounts by how long overdue (current, 30, 60, 90+ days)