CASH TRANSACTIONS

PERPETUAL INVENTORY SYSTEM

WORKSHEET 1

When the business is a trading concern it means that the business makes a profit by buying and selling trading stock (goods or merchandise). We can, therefore, see that our profit will be made by selling the goods at a higher price than we paid for them. We will need to record our transactions accordingly.

PERPETUAL INVENTORY SYSTEM
Cost price, selling price, mark-up

PERPETUAL SYSTEM
Stock purchases are recorded in the trading stock account – asset account
Carriage on purchases/ custom duties are recorded in the trading stock account
Returns on stock purchases are credited in the trading stock account
Donations of stock are credited in the trading stock account
Drawings of stock are credited in the trading stock account
The balance of the trading stock account is the amount of stock which should be on hand. A stock-take is conducted to verify this amount and determine stock losses / deficits
The cost of sales is calculated on a continuous basis

Cost price	It is the purchase price of the item, the amount at which the item is purchased.
Selling price	The price at which the item is sold.
Profit margin / Mark-up percentage	Most retailers maintain a fixed profit margin, by adding a fixed percentage to the cost price. If the profit margin is 50% on cost price, the selling price will be the cost price + 50%
Cost of sales	The cost price of the trading stock that has been sold.

CALCULATIONS OF COST PRICE, SELLING PRICE AND MARK-UP PERCENTAGE

EXAMPLE

Cost price	100%
+profit margin	10%
= selling price	110%

Accept that cost price is always 100

1 CALCULATE THE SELLING PRICE

Purchase trading stock for R10 000. Mark-up is 10%.   What is the selling price?

$$SP = \frac{SP\%}{CP\%} \times \frac{10\ 000}{1} = \frac{110}{100} \times \frac{10\ 000}{1}$$

What you want on top (SP)

$$= R11\ 000$$

You can now also calculate the profit. = R11 000 – R10 000 = R1 000

2 CALCULATE THE COST PRICE

Sell goods for R11 000. Mark-up is 10% on cost. What is the cost price?

CP = $\dfrac{\text{CP\% (what you want)}}{\text{SP \%}}$ X $\dfrac{11\,000}{1}$ = $\dfrac{100\text{ (CP always 100)}}{100 + \text{mark-up}}$ x $\dfrac{11\,000}{1}$

= $\dfrac{100}{110}$ x $\dfrac{11\,000}{1}$ = R10 000

> What you want on top (CP)

You can now also calculate the profit.
Profit = SP – CP = R11 000 – R10 000 = R1 000

3 CALCULATE THE PROFIT

Selling price is R11 000. Profit mark-up is 10% on cost. Calculate the profit.

= $\dfrac{\text{Profit \%(what you want)}}{\text{SP \%}}$ x $\dfrac{11\,000}{1}$ = $\dfrac{10}{110}$ x $\dfrac{11\,000}{1}$ = R1 000

You can now also calculate the cost price.
CP = SP – profit = R11 000 – R 1 000 = R10 000

> What you want on top (profit)

ACTIVITY 1

1 Calculate the SP

1.1   Goods cost R500, profit mark-up is 25% on cost

1.2   Goods cost R1 200. Mark-up is 40% on cost.

2 Calculate the CP

2.1   Selling price is R700, profit mark-up is 40% on cost.

2.2   Selling price is R1 000, mark-up is 100% on cost.

3 Calculate the profit mark-up percentage

3.1 Cost price is R300, selling price is R500.

3.2 Cost price is R500, selling price is R1 000.

ACTIVITY 2

2.1 If a retailer buys goods for R480 and sells them at a profit mark-up of 60% on cost price, calculate the selling price.
2.2 If goods are sold for R3 400 and the business sells them at a profit mark-up of 70% on cost price, calculate the original amount the retailer paid for the goods.
2.3 Calculate the profit if the retailer buys goods for R150 and sells them at a profit mark-up of 50% on cost price.
2.4 Calculate the profit mark-up if goods with a cost price of R630 are sold for R1 260.
2.5 A retailer buys goods for R180 and sells them at a profit mark-up of 50% on cost price. If he sells the goods less 10% cash discount, calculate the amount of profit.

3.1 Calculate the missing amounts:

Cost price	% profit	Selling price
R348,34	Profit 25%	?
?	Profit 30%	R590,50
R284,20	Profit 45%	?

3.2.   What is the selling price of an item if the retailer purchased it for R934,20 and adds 65% profit?

3.3   The total of the cash register roll is R2 385. Calculate the cost price if the business sells goods at a profit mark-up of 20%.
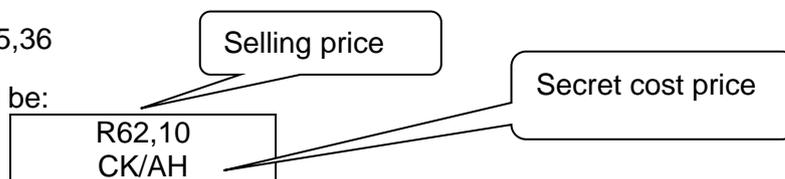
SECRET CODE PRICING

A business can use a secret code to show the cost price on each item. (e.g. BLACKHORSE)

B	L	A	C	K	H	O	R	S	E
1	2	3	4	5	6	7	8	9	0

EXAMPLE

SP = R62,10 and CP is R45,36

Therefore the price tag will be:

Selling price

Secret cost price

R62,10
CK/AH

Complete the following table.   What will the cost price for the following codes be:

KO/AE	BAH/EE	HLOO/EE	LAR/SE	AOR/KE	CCH/AA

Do the relevant calculations so that the table below can be completed. This business uses a secret price code of VOLKSWAGEN with V = 1.

COST PRICE	MARK UP	COST CODE	SELLING PRICE
	75%		R6 300
R4 750	50%		
	25%		R1 600
R5 400			R8 910
R3 800	80%		
	100%		R31 500
R45 750			R64 050