

## Accounting for purchases, sales goods

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Begins with the purchase of merchandise and ends with the collection of cash from the sale of merchandise.



The two principal systems for determining the inventory quantities on hand are the periodic system and the perpetual system. Both systems may be used simultaneously by companies with different classes of inventory.

Periodic systems	Perpetual systems
Accounting records relating to merchandise transactions are updated only at the end of the accounting period .	Continually update accounting records for merchandising transactions .

## 1- Periodic Inventory System

In periodic inventory system, merchandise inventory and cost of goods sold are not updated continuously. Instead purchases are recorded in Purchases account and each sale transaction is recorded via a single journal entry. Thus cost of goods sold account does not exist during the accounting period. It is determined at the end of accounting period via a closing entry.

### Journal Entries

#### - Purchases on account or cash :

Purchases    ××

Accounts Payable **or** Cash    ××

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#### - Sales on account or cash :

Accounts Receivable **or** Cash    ××

Sales    ××

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#### - Inventory Count :

Ending Inventory    ××

Income Summary    ××

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**Example (1)**

The balance of inventory as 1/1/2011 60,000 \$ for Zain Company. The total amount of purchases on account is 540,000 \$ in 30/6/2011 , The total amount of sales on account is 750,000 \$ in 30/9/2011, Value of inventory as 31/12/2011 100,000 \$ .

**Required:**

- 1- Record journal entries of Zain Company if this company used a periodic inventory system.
- 2- Find gross profit for that company by preparing the first part of income Statement .

**Solution:**

**1- Journal entries:**

**1/1/2011**

No entry

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**30/6/2011**

Purchases     540,000

Accounts Payable     540,000

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**30/9/2011**

Accounts Receivable     750,000

Sales             750,000

**31/12/2011**

Ending Inventory    100,000

Income Summary      100,000

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2- Partial Income statements for 31/12/2011

Details	Amounts
Sales	750,000
<u>Cost of goods sold:</u>	
Beginning inventory	60,000
+ Purchases	<u>540,000</u>
Cost of goods available for sale	600,000
- Ending inventory	<u>(100,000)</u>
	<u>(500,000)</u>
<b>Gross Profit</b>	<b>250,000</b>

## 2- Perpetual System Inventory

In perpetual inventory system, merchandise inventory and cost of goods sold are updated continuously on each sale and purchase transaction. Some other transactions may also require an update to inventory account for example, sale/purchase return, purchase discounts etc. Purchases are directly debited to inventory account whereas for each sale two journal entries are made: one to record sale value of inventory and other to record cost of goods sold. Purchases account is not used in perpetual inventory system.

### Journal Entries:

#### - Purchases on account or cash :

Inventory	××	
	Accounts Payable or Cash	××

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#### - Sales on account or cash:

Accounts Receivable or Cash	××	(at sales value)	
	Sales	××	(at sales value)

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Cost of goods sold	××	(at cost amount)	
	Inventory	××	(at cost amount)

**Example (2)**

The balance of inventory as 1/1/2011 60,000 \$ for Zain Company. The total amount of purchases on account is 540,000 \$ in 30/6/2011 , The total amount of sales on account is 750,000 \$ in 30/9/2011, Value of inventory as 31/12/2011 100,000 \$ .

**Required:** Record journal entries of Zain Company if this company used a perpetual inventory system and the Post to Inventory account.

**Solution:**

**1/1/2011**

No entry

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**30/6/2011**

Inventory      540,000

Accounts Payable      540,000

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**30/9/2011**

Accounts Receivable      750,000

Sales      750,000

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Cost of goods sold      500,000

Inventory      500,000

**Example (3)**

The beginning inventory of Beta Company consisted of 100 units at \$60 each. The following transactions occurred during the month of March 2013.

1. 5/3 Purchased 300 units @ \$60 each.
2. 7/3 Out of these 300 units, 10 units were returned to supplier.
3. 15/3 Sold 250 units @ \$100 each.

**Required :** Make journal entries for the month of March assuming :

1. The Beta Company uses perpetual inventory system.
2. The Beta Company uses periodic inventory system.

**Solution:**

**(1) If perpetual inventory system is used :**

<b>5/3/2013</b>	Inventory (300 × \$60)	\$18,000
	Accounts payable	\$18,000
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<b>7/3/2013</b>	Accounts payable (10 × \$60)	\$600
	Inventory	\$600
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<b>15/3/2013</b>	Cost of goods sold (250 × \$60)	\$15,000
	Inventory	\$15,000
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<b>15/3/2013</b>	Accounts receivable (250 × \$100)	\$25,000
	Sales	\$25,000

**(2) If periodic inventory system is used :**

<b>5/3/2013</b>	Purchases	\$18,000
	Accounts payable	\$18,000
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<b>7/3/2013</b>	Accounts payable	\$600
	Purchases returns	\$600
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<b>15/3/2013</b>	Accounts receivable	\$25,000
	Sales	\$25,000
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<b>15/3/2013</b>	Ending Inventory	\$8,400*
	Income Summary	\$8,400

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Beginning inventory	100	units
Purchased during the month	300	
Less returns	(10)	units
	290	
	—	—
Available for sale	390	units
Sold during the month	250	units
	—	
Ending inventory	140	units
	—	
<b>Ending inventory in dollars: <math>140 \times \\$60 = \\$8,400</math></b>		