

Accounting for purchases, sales goods

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 xx

Accounts Payable or Cash xx

- Sales on account or cash :

Accounts Receivable or Cash xx

Sales xx

- Inventory Count :

Ending Inventory xx

Income Summary xx

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

30/6/2011

Purchases 540,000

Accounts Payable 540,000

30/9/2011

Accounts Receivable 750,000

Sales 750,000

31/12/2011

Ending Inventory 100,000

Income Summary 100,000

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>
Gross Profit	250,000