

# INVENTORY SYSTEMS

This is the way a business records their inventory (trading stock).

There are 2 systems:

1) Perpetual (Continuous system)

All transactions for inventory are recorded in a Trading Stock Account.

The cost of every sale and return is recorded in the Cost of Sales account.

2) Periodic System

All transactions for inventory are recorded in an account

specifically for that type of transaction (i.e. Opening Stock, Purchases, Carriage on Purchases, Creditors Allowances and Closing Stock).

The cost of sales is NOT recorded.

## RECAP of the PERIODIC INVENTORY SYSTEM

In the periodic inventory system, there is no *continuous* recording of the trading stock movements.

Cost of Sales is NOT recorded, and the only way to determine stock on hand is by doing a stock take (physical stock count).

## LEDGER ACCOUNTS FOR PERIODIC INVENTORY SYSTEM

### Accounts for:

<b>Opening Stock</b>	-	opening balance of stock
<b>Purchases</b>	-	to record any stock purchased during the year.
	-	Donations and drawings of stock are deducted from the purchases account.
<b>Carriage on purchases</b>	-	carriage that is paid on any stock during the year.
<b>Creditors Allowances</b>	-	stock that is returned to the supplier during the year.
	-	closed off to Purchases at year end, to determine net purchases.
<b>Closing Stock</b>	-	closing balance of stock, on hand at year-end.
<b>Trading Stock</b>	-	only use on 1 <sup>st</sup> day and last day of the financial year, to reflect stock on hand in the balance sheet.

## CALCULATIONS

The only way of finding the cost of sales figure is to calculate it:

### Calculation for Cost of Sales !

Opening Stock

+ Net Purchases (Purchases – Creditors Allowances)

+ Carriage on Purchases

= Goods available for sale

- Closing Stock

= COST OF SALES

## AT YEAR END:

The following takes place at year-end:

### 1. **Adjustment**

**Given:**

*The value of stock on hand at year end according to the physical stock take is R 500.*

**General Journal entry:**

Trading Stock	dr.		500
Closing Stock	cr.		500

**General Ledger:**

<u>Trading Stock</u>	<u>Closing Stock</u>
500	500

## 2. Closing Transfers

### General Journal Entries:

(a)	Sales	4600	
	Trading Account		4600
(b)	Trading Account	2400	
	Opening Stock		400
	Purchases (net)		1900
	Carriage on Purchases		100
(c)	Closing Stock	500	
	Trading Account		500
(d)	<b>Trading Account</b>	<b>2700</b>	
	<b>Profit and loss</b>		<b>2700</b>
	(transfer of Gross profit)		

### Check by:

#### 1. Calculating Cost of Sales:

	O/S	400
+	Purchases	1900
+	Carriage	<u>100</u>
		2400
-	C/S	<u>500</u>
=	Cost of Sales	<u>1900</u>

#### 2. Find Gross Profit:

	Sales	4600
-	Cost of Sales	<u>1900</u>
=	<b>Gross Profit</b>	<b><u>2700</u></b>

# FINANCIAL STATEMENTS FOR PERIODIC INVENTORY SYSTEM

## Income Statement

Income Statement for the year ended \_\_\_\_\_

	Notes	R
Sales		
Cost of Sales		(            )
Gross Profit		
Other Operating Income		
...		
...		
Gross Operating Income		
Operating Expenses		(            )
...		
...		
Operating Profit (Loss)		
Interest Income	1	
Profit (Loss) before interest expense		
Interest Expense	2	(            )
Net Profit (Loss) for the year/ period	7	

<b>CALCULATION FOR COST OF SALES</b>	
<b>Opening Stock</b>	
<b>Net Purchases</b>	
<b>Carriage</b>	
<b>Closing Stock</b>	(            )

## Notes to Financial Statements

<b>4</b>	<b>INVENTORIES</b>	
	Trading Inventory	
	Consumable Stores on Hand	

*This is your closing stock amount*