Accounting Notes

Inventory Systems, Costing Methods

Inventory Systems:

Periodic - does not keep a continuous record of inventory on hand
- physical inventory is required at least once a year

Perpetual - keeps a continuous record of inventory on hand
- an annual physical inventory is still required

Journal entries for Purchases and Sales of Inventory:

	Perpetual System	Periodic System
Credit Purchases	Inventory Accounts Payable	Purchases Accounts Payable
Credit Sales	*To record sale of merchandise:* Accounts Receivable Sales *To record cost of merchandise:* Cost of Goods Sold Inventory	Accounts Receivable Sales No entry required
End of Period Entries *COGS:*	No entries required	*Transfer Beg. Inv. Bal. To COGS:* Cost of Goods Sold Inventory *Record End. Physical Inventory:* Inventory Cost of Goods Sold *Transfer cost of purchases to* Cost of Goods Sold Purchases

Accounting Notes
Inventory Systems, Costing Methods

Determining the Cost of Goods Sold (Periodic System):

Beginning Inventory Balance
\+ Purchases
= Cost of Goods Available for Sale
\- Ending Inventory Balance
= Cost of Goods Sold

Inventory Costing Methods:

(1) Specific Unit Cost - Cost method based on the specific cost of particular units of inventory
(2) Weighted Average Cost - Cost method based on the weighted average cost of inventory purchased and held during the period
(3) FIFO - Cost method by which the first costs into inventory (first units purchased) are the first costs out to cost of goods sold (first units sold). Ending Inventory consists of the most recent purchases.
(4) LIFO - Cost method by which the last costs into inventory (last units purchased) are the first cost out to cost of goods sold (first units sold). Ending Inventory consists of the beginning inventory and the earliest purchases made.

Accounting Principals and Concepts:

Consistency Principle - a business should use the same accounting method and procedures from period to period.

Disclosure Principle - a business ˇfinancial statements must report enough information for outsiders to make knowledgeable decisions about the business.

Materiality Concept - a business must perform strictly proper accounting only for items and transactions that are significant to the business ˇfinancial statements.

Conservatism - a business should report the least favorable figures in the financial statements

Lower of Cost or Market - requires that an asset be reported in the financial statements at whichever is lower - its historical cost or its current market value.

Estimating Inventory:

Gross Margin (Gross Profit) Method:

Beginning Inventory		$xxxxx
Purchases		xxxx
Cost of Goods Available for Sale		$xxxxx
Cost of Goods Sold		
Sales	$xxxxx	
Less Est. gross margin of ___%	(xxxxx)	
Est. Cost of Goods Sold		(xxxxx)
Est. Cost of Ending Inventory		$xxxxx