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Inventory systems

Perpetual: (the normal way of doing things)

- Amount of stock constantly controlled. At any given time, you know cost of sales.
- At end of year a stock take will be done to check for trading stock deficit/ surplus.
- This system used by grocery/ stationary stores and other high selling volume stores.
- Advantages:
 - ✓ good stopping theft because all stock recorded coming in and out of business.
 - ✓ Produces more accurate financial statements.
 - ✓ Managers see what sells fast, running out, too much of and isn't selling.
- Disadvantages:
 - ✓ high cost getting the system installed. Need special equipment and software.
 - ✓ Have to train staff on how the system works which costs more money

Periodic:

- You don't have continues tracking of stock going into and out of the business.
- There is no Cost of Sales account
- You now have a Purchases account which is basically all trading stock brought.
- Now have separate Carriage on Purchases account + Creditors allowances account.
- All customs duties/ import duties are recorded as Carriage on Purchases.
- Used by jewelry stores, farm stalls and other stores that have a low volume of sales.
- Advantages:
 - ✓ Easy record keeping- need record stock bought and sold. No cost of sales
 - ✓ Low cost
 - ✓ Uses simple equations to work out cost of sales, gross profit and mark up
- Disadvantages:
 - ✓ You cannot track stock as it come in and leaves the business.
 - ✓ physically look at shelves and store rooms to see if need to buy more stock.
 - ✓ The business is more vulnerable to theft.
- Equations:
 - ✓ $\text{Cost of Sales} = \text{Opening stock} + \text{Purchases} + \text{Carriage on Purchases (Carriage} + \text{import/customs duties)} - \text{Closing stock}$
 - ✓ $\text{Gross Profit} = (\text{Sales} - \text{debtors allowances}) - \text{Cost of Sales}$
 - ✓ $\% \text{ profit markup} = \text{gross profit} \div \text{Cost of Sales} \times 100$
- Trading Account:
 - ✓ account permitting to gross profit+cost of sales go to trading account in general ledger.

Trading Account			
Opening Stock	C	Sales	A
Purchases	D	Closing stock	B
Carriage on purchase	E		
Profit & Loss	(A+B)-C-D-E		
	A+B		A+B

- ✓ All the above go through the general journal.
- Common Transactions:
 - ✓ Good brought for sales:
 - ♥ Cash
 - ❖ Debit= purchases
 - ❖ Credit= Bank
 - ♥ Credit
 - ❖ Debit= purchases
 - ❖ Credit= Bank
 - ✓ Returning goods to manufacture:
 - ♥ Cash
 - ❖ Debit= bank
 - ❖ Credit= Purchases
 - ♥ Credit
 - ❖ Debit= Creditors control
 - ❖ Credit= Creditors Allowances
 - ✓ Selling of goods:
 - ♥ Cash
 - ❖ Debit= bank
 - ❖ Credit= Sales
 - ♥ On Credit
 - ❖ Debit= debtors control
 - ❖ Credit= sales
 - ✓ Goods returned by customer:
 - ♥ Cash
 - ❖ Debit= sales
 - ❖ Credit= Bank
 - ♥ On Credit
 - ❖ Debit= Debtors allowances
 - ❖ Credit= Debtors control
 - ✓ Carriages on purchases:
 - ♥ Paid by cheque
 - ❖ Debit= Carriage on Purchases/ Customs or import duties
 - ❖ Credit= Bank
 - ♥ On credit
 - ❖ Debit= Carriage on Purchases/ Customs or import duties
 - ❖ Debit= creditors control
 - ✓ Goods taken by owner or donated
 - ♥ Debit= Drawings/Donations
 - ♥ Credit= Purchases
 - ✓ Carriage on sales
 - ♥ Debit= carriage on sales
 - ♥ Credit= bank