Merchandise Accounting

Periodic vs. Perpetual

NOTE: The two methods differ only when the "costing" of inventory occurs.

Recall: All accounts associated with COGS (i.e. the cost of inventory) in the Periodic method are gone; all charges are made to the Merchandise Inventory account.

Here you use:

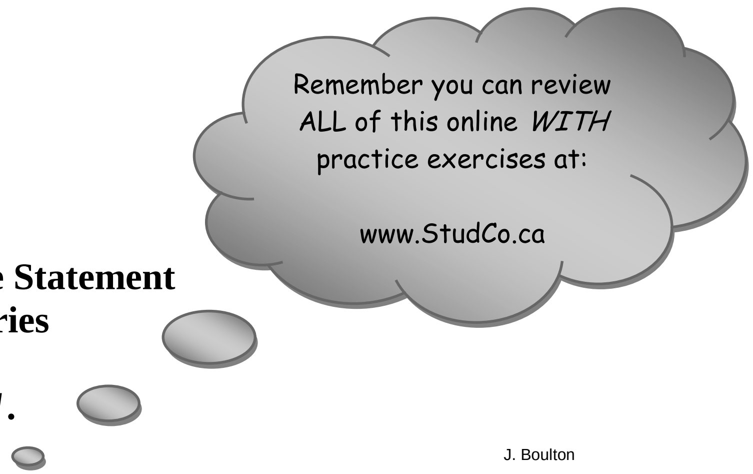
Merchandise Inventory (Shows period's beginning balance)
Purchases
Purchase Returns and Allowances
Purchase Discounts
Freight-in

Here you just use:

(Always shows current up-to-date balance) Merchandise Inventory
Cost of Goods Sold
Inventory Shortage

The steps in the accounting cycle that differ between the two methods are bolded below:

1. **Journalise**
2. Post
3. Balance on the Worksheet
4. **Adjustments**
5. **Completing the Worksheet**
6. Prepare the Balance Sheet and **Income Statement**
7. Journalise Adjusting and **Closing Entries**



Each "bolded" step will now be illustrated.

Periodic vs. Perpetual

1. Journal Entries

The following types of journal entries differ

Purchase of Inventory

Periodic

Apr	17	Purchases		1000~	
		GST Recoverable		60~	
		Cash			1060~
		Bought $1,000 of inventory (+GST)			

Perpetual

Apr	17	Merchandise Inventory		1000~	
		GST Recoverable		60~	
		Cash			1060~
		Bought $1,000 of inventory (+GST)			

Return of an Inventory Purchase

Periodic

Apr	18	Cash		1060~	
		GST Recoverable			60~
		Purchase Returns			1000~
		Returned $1,000 of inventory (+GST)			

Perpetual

Apr	18	Cash		1060~	
		GST Recoverable			60~
		Merchandise Inventory			1000~
		Returned $1,000 of inventory (+GST)			

Discount on a Purchase

Periodic

Apr	19	Accounts Payable		1060~	
		Purchase Discounts			21 20
		Cash			1038 80
		Payment on account for $1060. Terms taken: 2/10, n30.			

Perpetual

Apr	19	Accounts Payable		1060~	
		Merchandise Inventory			21 20
		Cash			1038 80
		Payment on account for $1060. Terms taken: 2/10, n30.			

Periodic vs. Perpetual

Freight-in

Periodic

Apr	19	Freight-in		100~	
		GST Recoverable		6~	
		Cash			106~
		Payment for shipping inventory to us from supplier.			

Perpetual

Apr	19	Merchandise Inventory		100~	
		GST Recoverable		6~	
		Cash			106~
		Payment for shipping inventory to us from supplier.			

Sale

Periodic

Apr	20	Cash		1140~	
		GST Payable			60~
		PST Payable			80~
		Sales			1000~
		Sold $1,000 of inventory (+GST & PST). Goods cost $700.			

Perpetual

Apr	20	Cash		1140~	
		Cost of Goods Sold		700~	
		Merchandise Inventory			700~
		GST Payable			60~
		PST Payable			80~
		Sales			1000~
		Sold $1,000 of inventory (+GST & PST). Goods cost $700.			

Sale Return

Periodic

Apr	21	Sales Returns and Allowances		1000~	
		GST Payable		60~	
		PST Payable		80~	
		Cash			1140~
		Customer returned $1,000 of inventory (+GST & PST). Goods cost $700.			

Perpetual

Apr	21	Sales Returns and Allowances		1000~	
		Merchandise Inventory		700~	
		GST Payable		60~	
		PST Payable		80~	
		Cost of Goods Sold			700~
		Cash			1140~
		Customer returned $1,000 of inventory (+GST & PST). Goods cost $700.			

Periodic	**vs.**	**Perpetual**

4. Adjustments

The only difference is the adjustment to correct inventory (if necessary)

Apr	22	Inventory Shortage		250~	
		Merchandise Inventory			250~
		To adjust inventory account to reflect actual merchandise on hand.			

5. Complete the Worksheet

The periodic method is different. Perpetual is the same as service.

A Partial Worksheet for a **Merchandising** Company

Accounts	Trial Balance		Adjustments		Income Statement		Balance Sheet	
	DR	CR	DR	CR	DR	CR	DR	CR
Merchandise Inventory	13500~				13500~	15250~	15250~	
Purchases	5000~				5000~			
Purchase Discounts		250~				250~		
Purchase Returns and Allowances		500~				500~		
Freight-in	500~				500~			

Periodic vs. Perpetual

6. Prepare Financial Statements

The Balance Sheet is the same. Only the COGS section on the Income Statement differs.

A Periodic Merchandising Company
Income Statement
Month Ended January 31, 2003

Operating Revenue			
Sales		$ 10,000	
Less: Sales Discounts	(100)		
Less: Sales Returns and Allowances	(400)	(500)	
Net Sales			$ 9,500
Cost of Goods Sold			
Merchandise Inventory, January 1		$ 13,500	
Add: Purchases	$ 5,000		
Less: Purchase Discounts	(250)		
Less: Purchase Returns and Allowances	(500)		
Net Purchases		4,250	
Add: Freight-in		500	
Goods Available for Sale		18,250	
Less: Merchandise Inventory, January 31		(15,250)	
Cost of Goods Sold			3,000
Gross Profit			$ 6,500
Operating Expenses			
Auto Expense		$ 1,000	
Delivery Expense		100	
Depreciation Exp. - Auto		300	
Insurance Expense		200	
Salaries Expense		1,500	
Supplies Expense		500	
Total Operating Expenses			3,600
Operating Income (Income before Interest, Taxes and Extraordinary Items)			**$ 2,900**
Loss on Disposal of Asset		$ 1,000	
Total Non-Operating Expenses			1,000
Net Income			**$ 1,900**

Condenses to just one line.

A Perpetual Merchandising Company
Income Statement
Month Ended January 31, 2003

Operating Revenue			
Sales		$ 10,000	
Less: Sales Discounts	(100)		
Less: Sales Returns and Allowances	(400)	(500)	
Net Sales		9,500	
Less: Cost of Goods Sold		(3,000)	
Gross Profit			$ 6,500
Operating Expenses			
Auto Expense		$ 1,000	
Delivery Expense		100	
Depreciation Exp. - Auto		300	
Insurance Expense		200	
Salaries Expense		1,500	
Supplies Expense		500	
Total Operating Expenses			3,600
Operating Income (Income before Interest, Taxes and Extraordinary Items)			**$ 2,900**
Loss on Disposal of Asset		$ 1,000	
Total Non-Operating Expenses			1,000
Net Income			**$ 1,900**

<u>Periodic</u> vs. <u>Perpetual</u>

7. Journalise Closing Entries

Since Merchandise Inventory is perpetually updated, it doesn't need to be adjusted in the closing entries for the Perpetual Method.

Periodic

General Journal					PAGE: ______
Date 2003		Particulars	P.R.	Debit	Credit
Jan	31	Sales		10000 ~	
		Purchase Discounts		250	
		Purchase Returns & Allowances		500 ~	
		Merchandise Inventory (ending)		15250 ~	
		Income Summary			26000 ~
	31	Income Summary		24100 ~	
		Merchandise Inventory (begin.)			13500 ~
		Auto Expense			1000 ~
		Delivery Expense			100 ~
		Depreciation Exp. - Auto			300 ~
		Insurance Expense			200 ~
		Loss on disposal of Asset			1000 ~
		Purchases			5000 ~
		Freight-in			500 ~
		Salaries Expense			1500 ~
		Sales Discounts			100 ~
		Sales Returns & Allowances			400 ~
		Supplies Expense			500 ~
	31	Income Summary		1900 ~	
		J. Smith, Capital			1900 ~
	31	J. Smith, Capital		500 ~	
		J. Smith, Drawings			500 ~

Perpetual

General Journal					PAGE: ______
Date 2003		Particulars	P.R.	Debit	Credit
Jan	31	Sales		20000 ~	
		Income Summary			20000 ~
	31	Income Summary		10350 ~	
		Auto Expense			1000 ~
		Cost of Goods Sold			5000 ~
		Delivery Expense			100 ~
		Depreciation Exp. - Auto			300 ~
		Insurance Expense			200 ~
		Inventory Shortage			250 ~
		Loss on disposal of Asset			1000 ~
		Salaries Expense			1500 ~
		Sales Discounts			100 ~
		Sales Returns & Allowances			400 ~
		Supplies Expense			500 ~
	31	Income Summary		9650 ~	
		J. Smith, Capital			9650 ~
	31	J. Smith, Capital		500 ~	
		J. Smith, Drawings			500 ~