ACCOUNTING	Lesson: Notes, Tasks and solutions
Inventory Control System	

<div style="text-align:center">ACCOUNTING</div>

Learning Outcome 3: Managing Resources 10.3.4 *Discuss the perpetual inventory system and record transactions in the subsidiary journals and ledgers*	

What is perpetual inventory system?

Perpetual (continuous) **inventory system** is a method of finding the value of merchandise after each purchase or sale. It provides inventory and cost of goods sold data on a continuous, up-to-date basis.

- The cost of each item is recorded in the Trading Stock account when purchased.
- There is a continuous recording of trading stock movement, i.e. Trading stock accounts is updated after each purchase or sale.
- Records of the inventory quantities are kept and updates as they are bought and sold.
- It is possible to ascertain from the trading stock account, what the stock on hand should be.
- No detailed records of the actual stock on hand are maintained during the period.
- As merchandise is sold, its cost is transferred from trading stock account to the Cost of Goods Sold.
- The balance of the Trading stock account equals the cost of goods on hand.
- The balance of the Cost of Goods Sold account equals the cost of the merchandise sold to customers

Example 1:

On May 1, 2006: Purchased 1,000 units of goods at R30 per unit. On May 6, 2006: Sold 200 units of goods at R50 per unit on credit. Record the transaction in the subsidiary journals and post to the ledger.

Perpetual inventory system:

1/5/2006		Debit	Credit
	Trading stock	30 000	
	Creditors Control		30 000
6/5/2006		Debit	Credit
	Debtors Control	10 000	
	Sales		10 000
6/5/2006		Debit	Credit
	Cost of goods sold	6 000	
	Trading Stock		6 000

* Changes in trading stock account are recorded after each transaction.

POSTING TO THE LEDGER

Dr			Trading stock Account			Cr
1/5/06	Creditors control	CJ	30 000	6/5/06	Cost of goods sold	GJ	6 000

Dr			Creditors Control account			Cr
1/5/06			1/5/06	Trading stock	GJ	30 000

Dr			Debtors Control Account			Cr
6/5/06	Sales	GJ	10 000			

Dr				Sales Account		Cr	
				6/5/06	Debtors Control	GJ	10 000

Dr				Cost of Goods Sold Account			Cr	
1/5/06	Trading stock	GJ	6 000				

Advantages

- In perpetual cost of goods sold is determined in every sale
- This system provides useful information for management purposes.
- Records are kept of the quantity and, usually, the cost of individual items as they are bought or sold.
- Stock loss/gain is immediately noticed and not at the end of year when the physical count of the inventory is taken.

Disadvantages

- Is too demanding and the cost of using this system is high, but this disadvantage is gradually fading away because users get used to the system.

TASK
1. On June 5, 2006: Purchased 600 units of merchandise at R35 per unit. On June 16, 2006: sold 400 units of merchandise at R55 per unit on credit.

Required: Use perpetual inventory system to record the above transaction in the subsidiary journal and post to the **trading stock, sales, creditors and debtors ledger** accounts.

SUMMARY:

Entries in the general ledger when the perpetual system is used

NO	TRANSACTION	PERPETUAL INVENTORY SYSTEM	
		Debit	Credit
1	Credit purchases of merchandise	Trading stock	Creditors control
2	Merchandise purchases by cheque	Trading stock	Credit Bank
3	Merchandise returned to suppliers /purchases returns	Creditors control	Trading stock
4	Carriage on purchases – merchandise for credit/for cash	Trading stock	Bank/ creditors control
5	Merchandise withdrawn for personal use	Drawings	Trading stock
6	Credit sales of merchandise	Debtors control	Sales
		Cost of sales	Trading stock
7	Merchandise returned by customers/sales returns	Debtors allowances	Debtors control
8		Trading stock	Cost of sales

COMPLETED THE TASK? SOLUTION

TASK:
On June 5, 2006: Purchased 600 units of merchandise at R35 per unit. On June 16, 2006: Sold 400 units of merchandise at R55 per unit on credit.

Perpetual inventory system:

		Debit	Credit
5/6/2006	Trading stock	21,000	

		Creditors Control				21,000
					Debit	**Credit**
16/6/2006		Debtors Control			22 000	
		Sales				22 000
					Debit	**Credit**
16/6/2006		Cost of goods sold			14 000	
		Trading Stock				14 000

POSTING TO THE LEDGER

Dr			Trading stock Account			**Cr**	
5/6/06	Creditors control	CJ	21 000	16/6/06	Cost of goods sold	GJ	14 000

Dr			Creditors Control account			**Cr**	
				5/6/06	Trading stock		21 000

Dr			Debtors Control Account			**Cr**	
16/6/06	Sales	GJ	22 000				

Dr			Sales Account			**Cr**	
				16/6/06	Debtors Control	DJ	22 000

Dr			Cost of Goods Sold Account			**Cr**	
16/6/06	Trading stock	GJ	14 000				