GRADE 11 INVENTORY	LESSON

INVENTORY SYSTEMS

Perpetual inventory system	Periodic Inventory System
➢ The movement of stock is recorded on an **ongoing** or **continuous basis**. The exact quantities and types of stock items on hand are shown by the system at any point in time. ➢ Undertakings that are selling **one type** of commodity, like furniture, cars, or computers will make use of the perpetual stock method. ➢ The physical stocktaking is conducted to verify the stock on hand.	➢ There is **no continuous recording** of the movement of trading stock. The value of the trading stock on hand cannot be worked out during the financial year. ➢ It is used by businesses like supermarkets that sell **large quantities** of trading stock with **low value.** ➢ The value of the stock on hand at the financial year-end is calculated by doing a physical stocktaking.

COMPARISON BETWEEN PERPETUAL AND PERIODIC INVENTORY SYSTEMS

PERIODIC SYSTEM	PERPETUAL SYSTEM
Stock purchases are recorded in the **P**urchases account – **expense account**	Stock purchases are recorded in the trading stock account – **asset account**
Carriage on purchases/ custom duties are recorded directly in the Carriage on purchases / Custom duties account	Carriage on purchases/ custom duties are recorded in the trading stock account
Returns on stock purchases are credited in the Purchases account	Returns on stock purchases are credited in the trading stock account
Donations of stock are credited in the Purchases account	Donations of stock are credited in the trading stock account
Drawings of stock are credited in the purchases account	Drawings of stock are credited in the trading stock account
A stock-take is conducted **periodically** to determine the amount of stock on hand	The balance of the trading stock account is the amount of stock which should be on hand. A stock-take is conducted to verify this amount and determine stock losses / deficits
There is **no cost of sales account**. A calculation is required to determine the cost of sales	The **cost of sales** is calculated on a **continuous basis**

IMPORTANT	
Perpetual stock system	**Periodic stock system**
• The **Trading stock account** is used when goods are bought. • When goods are returned the Trading stock is credited.	• The **Purchases account** is used when goods are bought • When goods are returned the Purchases account is credited (recently changed)
• **Cost of sales is calculated** with every sale and returns.	• Cost of sales is **not calculated** with every sale or returns. In order to determine Cost of sales a calculation is required. • Cost of sales is only determine at the end of the month or at the end of the financial year.

PERIODIC SYSTEM means
NEVER
use
the
TRADING STOCK ACCOUNT (during the financial year)
the
use
ALWAYS

PERIODIC - ADVANTAGES
It is cost effective as there is expensive equipment like bar codes and scanning equipment
It is not necessary to calculate cost of sales on a continuous basis
This system is suitable for businesses where it is difficult to determine the cost price of individual items

PERIODIC - DISADVANTAGES
Control over stock is not very effective
Theft is not quickly detected – a stock-take is necessary to determine leakages or theft
No trading stock deficit can be calculated – the business does not know how much stock they should have

PERIODIC INVENTORY

CALCULATION OF COST OF SALES	
Opening stock	Value of the stock at the beginning of the year
Closing stock	Value of stock at the end of the year obtained by conducting a physical stock taking. The closing stock at the end of the year becomes the opening stock at the beginning of the next year
Purchases	Purchases of trading stock (cash and credit)
Creditors allowances	Returns of goods to creditors
Net purchases	Purchases less creditors allowances less donations of stock less drawings of stock
Net sales	Sales less debtors allowances
Gross profit	Sales less cost of sales

FORMULA TO CALCULATE COST OF SALES

Opening stock		xxx	<u>Other buying expenses</u>
Plus	Purchases	xxx	custom duties
	Carriage on purchases	xxx	freight costs
	Other buying expenses	xxx	import duties / taxes
		xxx	harbour / dock charges
Less	Closing stock	(xx)	
Cost of sales		**xxx**	

Remember
<u>Carriage on sales</u> does not affect cost of sales – it goes to Profit and Loss account

CALCULATING GROSS PROFIT	
Sales – Cost of sales = Gross profit	$\%\text{ Gross profit on cost of sales} = \frac{\text{gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
	$\%\text{ Gross profit on sales} = \frac{\text{gross profit}}{\text{sales}} \times \frac{100}{1}$

EXAMPLE

Use the following information to calculate the cost of sales on the last day of the accounting period on 28 February 201 3

Stock – 1 March 2012	R60 000
Purchases for the year	R450 000
Carriage on purchases	R20 000
Custom duty	R5 000
Stock 28 February 2013	R35 000

Answer

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Opening stock	60 000
Plus Purchases	450 000
Carriage on purchases	20 000
Custom duty	5 000
	535 000
Less Closing stock	35 000
Cost of sales	**500 000**