

Lecture 6 Current Assets

Accounting for Inventory

<table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 5%;">+ Beginning inventory</td><td style="width: 5%;"></td><td style="width: 5%;"></td><td style="width: 5%;"></td><td style="width: 5%;"></td><td style="width: 5%;"></td></tr> <tr><td>+ Purchases</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td colspan="6"><hr/></td></tr> <tr><td>= Goods available for sale</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>- Ending inventory (BS)</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td colspan="6"><hr/></td></tr> <tr><td>= COGS (IS)</td><td></td><td></td><td></td><td></td><td></td></tr> </table>	+ Beginning inventory						+ Purchases						<hr/>						= Goods available for sale						- Ending inventory (BS)						<hr/>						= COGS (IS)						<table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 5%;">+ Beginning inventory</td><td style="width: 5%;"></td><td style="width: 5%;"></td><td style="width: 5%;"></td><td style="width: 5%;"></td><td style="width: 5%;"></td></tr> <tr><td>+ Purchases</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td colspan="6"><hr/></td></tr> <tr><td>= COGS</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>- Ending inventory</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td colspan="6"><hr/></td></tr> <tr><td>= Ending inventory</td><td></td><td></td><td></td><td></td><td></td></tr> </table>	+ Beginning inventory						+ Purchases						<hr/>						= COGS						- Ending inventory						<hr/>						= Ending inventory					
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Perpetual Inventory System

➤ *General Journals*

Beginning of periods:

No entry

Buy inventory:

Dr Inventory	X				
Cr Cash/Accounts payable					X

Sell inventory:

Dr Cash/Accounts receivable	X				
Cr Sales revenue					X

Dr COGS	X				
Cr Inventory					X

Other expenses:

Dr Operating expenses	X				
Cr Cash					X

Record inventory shortage/loss:

Dr Inventory shortage expense	X				
Cr Inventory					X

End of period

No entry

Closing entry for expenses:

Dr P&L Summary	X				
Cr COGS					X
Cr Other expenses					X
Cr Inventory shortage expense					X

Dr Sales revenue	X				
Cr P&L Summary					X

Dr P&L Summary	X	
Cr Retained profits		X
➤ <i>Income statement</i>		
Sales		X
Less: COGS	(X)	
Inventory shortage	(X)	(X)
Gross profit		X
Less operating expense		(X)
Net profit before tax		X

Period Inventory System

➤ *General Journals*

Beginning of periods:

Dr COGS - opening	X	
Cr Inventory		X

Buy inventory:

Dr Purchases	X	
Cr Cash/Accounts payable		X

Sell inventory:

Dr Cash/Accounts receivable	X	
Cr Sales revenue		X

Other expenses:

Dr Operating expenses	X	
Cr Cash		X

Record inventory shortage/loss:

No entry

End of period

Dr Inventory	X	
Cr COGS closing		X

Closing entry for expenses:

Dr P&L Summary	X	
Dr COGS - Closing	X	
Cr COGS - Opening		X
Cr Purchases		X
Cr Other expenses		X

