

Summary

Perpetual inventory system

- The business keeps a record using a computerized bookkeeping system for the purchasing and selling of inventory.
- This ensures that the business knows how much inventory it needs on the shelves at all times.
- The balance at the end of the month will therefore reflect how much inventory should be purchased to be replenish stock.
- If there is shrinkage of inventory, immediate control measures can be applied.
- The disadvantage is that the system can be costly and time consuming.

Periodic inventory system

- A method of finding the value of merchandise at certain intervals by performing a physical count of the inventory.
- It provides inventory and cost of goods sold data only when inventory is counted (for example, at year end).
- Advantages are that this system is not costly and involves less work.
- Disadvantages
 - » Profit or loss is determined only at the end of the period.
 - » Inventory loss/gain is only noticed at the end of the year when the physical count of the inventory is taken.
 - » Lacks readily available inventory data.
 - » Sales revenue is booked when a sale is made, but not cost of goods sold.
 - » Records documenting quantity and per unit cost of individual inventory items are not maintained.
 - » Inventory on hand is determined via a physical count, and then cost of goods sold is worked out.

Calculation of Cost of sales

	R
Opening inventory	XXXX
Purchases	XXXX
Carriage on purchases	XXXX
Import duties	XXXX
Amount available to be sold	XXXX
Closing inventory	(XXXX)
Cost of sales	XXXX