

Inventory Assumptions

Chapter 6

(Appendix 6A, Appendix 6B)

Inventory Systems

Perpetual Inventory

- Continuously discloses inventory on hand
- Increases in inventory debited to _____
(and posted to subsidiary ledger)
- Two entries to record sales transactions

REVENUE:

Accounts Receivable – Customer	retail	
Sales		retail

REDUCTION IN INVENTORY:

Cost of Goods Sold	cost	
Merchandise Inventory		cost

- _____ still needed _____ to compare with and update inventory records

Periodic Inventory

- increases recorded in _____
- at time of sale, record revenue but _____ for reduction in inventory
- physical inventory (actual count) _____ at end of period to determine _____

Physical Inventory Procedures

- necessity for both periodic and perpetual
- goal: count _____; do not count any time _____
- have plan and follow it
 - establish proper _____ of transactions
 - business often _____ in order to count
 - best to count in _____



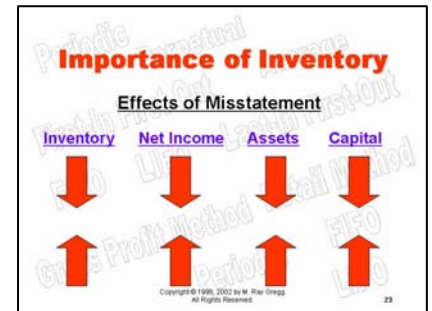
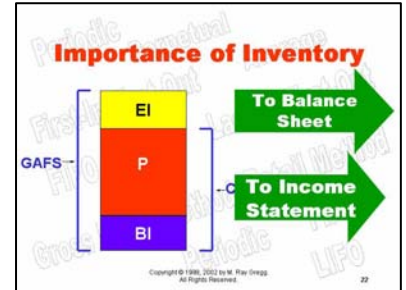
Physical Inventory Procedures (cont'd)



- shipping terms determine when title passes
 - FOB shipping point – title passes when goods are _____
 - FOB destination – title passes when goods _____

Importance of Inventory

- Most active element of a merchandising business
- Principle source of _____
- Largest _____
- Largest deduction from _____
- Ending inventory directly effects presentation on the _____
- UNDERSTATEMENT of ending inventory causes net income, assets, and capital to be _____
- OVERSTATEMENT of ending inventory causes net income, assets, and capital to be _____



Arbitrary Assumptions Concerning COST Flow

- In order expenditures were made or _____
- In reverse order expenditures were made or _____
- _____ of expenditures



