

Identifying cost prices

Major advantage of the perpetual inventory system is the continuous updating of stock. This is because the business can identify the cost price of goods sold at the point of sale. The following methods are used:

1. Specific identification from accounting records - looking up the cost price of goods sold from the business's accounting records.
2. Secret price code - e.g. using a 10 lettered word - method learnt on Grade 9.
3. Mark-up (MU) percentage - this is when a MU is given in order to calculate the cost price of an item sold. This method is limited in a supermarket as many items are sold at different MUs.
4. Bar code system - most widely used and effective method. Every single item in a shop has its own bar code. When the item is scanned at the till the selling price and cost price are retrieved from the business's database. Thus making it easy to determine the balance of stock on hand at any time.

Periodic inventory system

Used when cost price is unknown or cannot be retrieved at the point of sale.

Why?

1. No bar code system is used
2. Not possible to look up cost price of each item sold - e.g. at the till it is difficult to look up the cost price of each item on the trolley.
3. MU percentage used is not the same for all items sold.

Trading account - periodic inventory system

Look at the TS a/c below. The entries struck out, we would not be able to write as we are unable to determine the CP in a periodic inventory system.

General ledger of Alpok operations					Trading stock				
Dr					Cr				
20.8					20.8				
Jan	1	balance	b/d	20 000	Jan	31	cost of sales	CRJ	30 000
	31	bank	CPJ	50 000			cost of sales	DJ	45 000
		petty cash	PCJ	200			creditors control	CAJ	1 400
		creditors control	CJ	80 000			donation	GJ	500
		cost of sales	DAJ	1 000			drawings	GJ	10 000
							balance	e/d	64 300
				151 200					151 200
Feb	1	balance		64 300					

1. Value of goods at the beginning of a period + goods bought are still on the Dr side. - info is from invoice/receipts when goods are bought.
2. Goods returned will still be on Cr side (info from debit note to creditor); donations + drawings as well.
3. COS unable to determine. Will have to count goods left + subtract from goods we had in the beginning of a period.
4. Therefore, no COS, then no balance on the a/c.
5. Since we don't have a balance TS in this system will have to change into another a/c.

2. Calculate the COS

opening stock = 46 000

ADD:Purchases = (100 240 + 120 650 + 500 + 1 450) - (2700 + 1 200)

ADD:Carriage on purchases = (12 450 + 420 + 590)

ADD:Customs duty = 1500

MINUS:Closing stock = 56 700

EQUALS: COS = 46 000 + 218 940 +13 460 + 1500 - 56 700 = 223 200

3. Calculate the GP for the year

GP = Sales - COS = {250 000 + 150 000 - 2400} - 223 200 = R174 400

Extension - was not required by the question.

Achieved MU = $\frac{174\,400}{223\,200} \times \frac{100}{1} = 78\%$ possible reasons for not achieving target - too many

discounts, mark-downs, stock losses due to theft, damage or inaccurate calculations. Remember under the perpetual inventory system stock losses due to theft would not be a valid reason because stock is accounted for when making sales entries. It is the trading stock deficit which shows the amount of stock stolen

Info:

Summary of info for the period ended 28 Feb 20.9

Opening stock (1 Mar 20.8) Opening balance of the Purchases a/c	46 000
Cash sales	250 000
Credit sales	150 000
Debtors allowances	2 400
Cash purchases	100 240
Credit purchases	120 650
Carriage on purchases Dr Carriage on purchases (E)	12 450
Customs duty Dr Carriage on purchases (E)	1 500

Additional info:

The following have not yet been recorded:

- The owner took merchandise for his personal use at cost price, R2 700, on 27 Feb 20.9 Dr Drawings Cr Purchases
- The owner returned merchandise which he had previously taken for his own use, R500 Cr Drawings Dr Purchases
- The business donated goods to a charity valued at R1 200 (cost price) Dr Donation Cr Purchases
- Errors discovered:
 - Merchandise purchased on credit for R1 450 had been incorrectly recorded as consumable stores Dr Purchases Cr Consumable stores
 - Transport charges on stock purchased R420 had been inadvertently charged to carriage on sales Dr Carriage on Purchases Cr Carriage on sales
- An invoice was received from Speed Freight for transporting merchandise:

- To Turbo Stores R590 Dr Carriage on purchases Cr Creditors control
- To customers R340 Dr Carriage on sales Cr Creditors control
- The stock on hand on 28 Feb 20.9 amounted to R56 700.