

# 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 \_\_\_\_\_



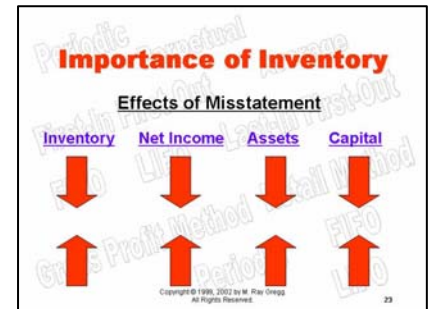
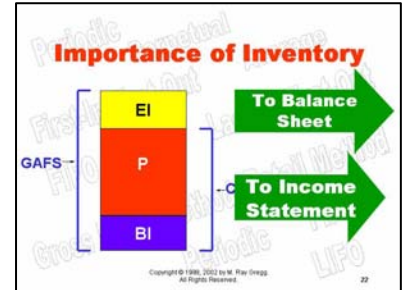
Physical Inventory Procedures (cont'd)



- 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



