**SELLER SIDE**

|  |  |  |
| --- | --- | --- |
| **TRANSACTIONS** | **PERIODIC INVENTORY RECORDING SYSTEM** | **PERPETUAL INVENTORY RECORDING SYSTEM** |
| **1. Sales of products for cash** | Dr. Cash …………………………………….xxx  Cr. Sales Revenue…………………………..xxx | Dr. Cash…………………………………….xxx  Cr. Sales Revenue …………………….….xxx  Dr. Cost of goods sold……………….xxx  Cr. Inventory …………………………………xxx |
| **2. Sales of products on credit term (on account)** | Dr. Accounts Receivable …………….xxx  Cr. Sales Revenue…………………………..xxx | Dr. Accounts Receivable……………xxx  Cr. Sales Revenue………………………..xxx  Dr. Cost of goods sold……………….xxx  Cr. Inventory…………………………….…..xxx |
| **3. Returns of defective products from Customers (Sales returns)**  3.1) Return product from cash sales | 3.1)  Dr. Sales returns & allowances…..xxx  Cr. Cash ………………………………………….xxx | 3.1)  Dr. Sales returns & allowances…..xxx  Cr. Cash………………………………………….xxx  Dr. Inventory……………………………….xxx  Cr. Cost of goods sold…………………….xxx |
| 3.2) Return product from credit sales | 3.2)  Dr. Sales returns & allowances……xxx  Cr. Accounts Receivable…………………xxx | 3.2)  Dr. Sales returns & allowances……xxx  Cr. Accounts Receivable…………………xxx  Dr. Inventory……………………………….xxx  Cr. Cost of goods sold…………………….xxx |
| **4. Seller gives price reduction to customer without receiving product return.**  **5. Seller received payment from customer within discount period.** | Dr. Sales returns & allowances……xxx  Cr. Accounts Receivable…………………xxx  Dr. Cash……………………………………..xxx  Sales discount………………………xxx  Cr. Accounts Receivable………………….xxx | Dr. Sales returns & allowances……xxx  Cr. Accounts Receivable…………………xxx  Dr. Cash……………………………………..xxx  Sales discount………………………xxx  Cr. Accounts Receivable………………….xxx |
| **6. Seller received payment from customer beyond discount period.** | Dr. Cash……………………………………..xxx  Cr. Accounts Receivable………………….xxx | Dr. Cash……………………………………..xxx  Cr. Accounts Receivable………………….xxx |
| **7. Seller paid freight for the product sold on transaction 1) and 2) above** | Dr. Freight-out…………………………..xxx  Cr. Cash…………………………………………..xxx | Dr. Freight-out…………………………..xxx  Cr. Cash…………………………………………..xxx |

**BUYER SIDE**

|  |  |  |
| --- | --- | --- |
| **TRANSACTIONS** | **PERIODIC INVENTORY RECORDING SYSTEM** | **PERPETUAL INVENTORY RECORDING SYSTEM** |
| **1. Purchase product for cash** | Dr. Purchase……………………………..xxx  Cr. Cash…………………………………………..xxx | Dr. Inventory……………………………..xxx  Cr. Cash…………………………………………..xxx |
| **2. Purchase product on credit term** | Dr. Purchase……………………………..xxx  Cr. Accounts Payable………………………xxx | Dr. Inventory……………………………..xxx  Cr. Accounts Payable………………………xxx |
| **3. Return of damage product to supplier(Purchase return)** 3.1 from cash purchase | 3.1)  Dr. Cash……………………………………..xxx  Cr. Purchase returns & allowances…xxx | 3.1)  Dr. Cash……………………………………..xxx  Cr. Inventory………………………………..…xxx |
| 3.2 from credit purchase | 3.2)  Dr. Accounts Payable…………………xxx  Cr. Purchase returns & allowances…xxx | 3.2)  Dr. Accounts Payable…………………xxx  Cr. Inventory………………………………..…xxx |
| **4. Buyer gets price reduction from supplier From credit purchase without return product** (Purchase allowance)  **5. Buyer paid to supplier within discount period. We have to deduct cash discount before paying cash.** | Dr. Accounts Payable…………………xxx  Cr. Purchase returns & allowances…xxx  Dr. Accounts Payable……………… xxx  Cr. Purchase discount……………………xxx  Cash…………………………………………xxx | Dr. Accounts Payable…………………xxx  Cr. Inventory………………………………..…xxx  Dr. Accounts Payable……………… xxx  Cr. Inventory…………..……………………xxx  Cash…………………………………………xxx |
| **6. Buyer paid to supplier beyond discount period.** | Dr. Accounts Payable……………… xxx  Cr. Cash…………………………………………xxx | Dr. Accounts Payable……………… xxx  Cr. Cash…………………………………………xxx |
| **7. Buyer paid freight for the product purchased.** | Dr. Freight-in……………………………xxx  Cr. Cash…………………………………………xxx | Dr. Inventory……………………………xxx  Cr. Cash………………………………………..xxx |

Under Perpetual inventory system, the accountant will record Cost of goods sold when they record sales revenue. While under Periodic inventory system, the accountant will not record Cost goods sold when they record sales revenue. They will find the cost of goods sold in the income statement.

**Income statement under Perpetual inventory system**

ABC Trading Co., Ltd.

Multiple Step Income Statement

For the year ended December 31, 20xx

Sales Revenue xxx

Less: Sales returns & allowances…………………………………… xxx

Sales discount………………………………………………… xxx xxx

Net Sales…………………………………………………………………………………. xxx

Cost of Goods Sold………………………………………………… xxx

Gross Profit……………………………………………………………………………… xxx

**Operating expenses:**

Salary Expense…………………………………………………….. xxx

Freight-out…………………………………………………………. xxx

Supplies Expenses…………………………………………………. xxx

Advertising Expenses……………………………………………… xxx

Total Operating Expenses…………………………………………………………… xxx

Income from Operation …………………………………………………………….. xxx

**Other Incomes and Gains:**

Interest Revenue………………………………………………… xxx

Gain on disposal ……………………………………………….. xxx xxx

**Other Expenses and Losses:**

Loss from Suenami……………………………………………… (xxx)

Loss on disposal ……………………………………………………………………. (xxx)

Interest Expenses…………………………………………………. (xxx) (xxx)

Net income…………………………………………………………………………… xxxxx

**Income statement under Periodic inventory system**

ABC Trading Co., Ltd.

Income Statement

For the year ended December 31, 20xx

Sales Revenue…………………………………………………………. xxx

Less: Sales returns & allowances……………………………………… xxx

Sales discount…………………………………………………… xxx xxx

**Net Sales……………………………………………………………… xxx**

**Cost of Goods Sold:**

Beginning Inventory 01/01/2016 xxx

Purchases xxx

Less: Purchase Discount xxx

Purchase Returns & Allowances xxx xxx

Net Purchase xxx

Add: Freight-in xxx

Cost of Goods Purchased xxx

Cost of goods available for sales xxx

Less: Ending Inventory 31/12/2016 xxx

**Cost of goods sold xxx**

Gross Profit xxx

Operating expenses:

Salary Expense…………………………………………………….. xxx

Freight-out…………………………………………………………. xxx

Supplies Expenses…………………………………………………. xxx

Advertising Expenses……………………………………………… xxx

Total Operating Expenses…………………………………………………………… xxx

**Income from Operation …………………………………………………………….. xxx**

**Other Incomes and Gains:**

Interest Revenue………………………………………………… xxx

Gain on disposal ……………………………………………….. xxx xxx

**Other Expenses and Losses:**

Loss from Suenami……………………………………………… (xxx)

Loss on disposal ……………………………………………………………………. (xxx)

Interest Expenses…………………………………………………. (xxx) (xxx)

Net income…………………………………………………………………………… xxx