Perpetual vs. periodic inventory system

Business, Management

The perpetual inventory system requires the maintenance of records calledstock cardsthat usually offer a running summary of the inventory inflow and outflow. Inventory increases and decreases are reflected in the stock cards and the resulting balance represents the inventory. This inventory system is also commonly used where the inventory items treated individually represent a relatively large peso investment.

This procedure is designed for control purposes. When this kind of system is used, a physical count of the units on hand should at least be made once a year or at frequent intervals to confirm the balances appearing on the stock cards.

The periodic inventory system calls for the physical counting of goods on hand at the end of the accounting period to determine quantities. The quantities are then multiplied by the corresponding unit cost to get the inventory value for balance sheet purposes. This approach gives the actual or physical inventories. This inventory procedure is generally used when the individual inventory items have small peso investment such that it may prove impractical or inconvenient to record inventory inflow and outflow.

- Differences between a service organization and a merchandising organization.

A service type organization is a type of business where people or trained professionals use their skill as their main product of their business. Examples of this type are dentist clinic, accounting firm, law firm and the like.

A merchandising organization is a type of business that purchases or buys products which are subject for resale. The costs of those products are given some mark-ups to arrive at their selling prices. Examples of this type are mini-stores, convenient stores, supermarkets and the like.

- Meanings of FIFO, LIFO and the weighted average cost methods of inventory valuation.

Weighted Average Cost is the type of inventory valuation which prices inventory on the basis of the average cost of all similar goods available during the period.

First-in, First-out (FIFO) is the type of inventory valuation which assumes that goods are used in the order in which they are purchased.

Last-in, First-out (LIFO) is the type of inventory valuation which uses the very recent cost (recent purchases) as inventory value.

References:

Valix, C. (1996). Financial Accounting Volume One, C. M. Recto Manila

Kieso, D. (2001). Intermediate Accounting Ninth Edition. Caloocan City Philippines