**PERPETUAL STOCK SYSTEM**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |   | **Trading**  | **Stock** |   |  |  |
|  | Opening Balance  |  |  Cost of sales – cash sales CRJ |  |  |  |
|  | Cash Purchases CPJ |  |  Cost of sales – credit sales – DJ |  |  |  |
|  | Credit Purchases CJ  |  |  Return to creditors – CAJ |  |  |  |
|  | Returns from Debtors DAJ |  | General Journal GJ  |  |  |  |
|  | Petty Cash PCJ |  |  Balance c/d |  |  |  |
|  | General Journal |  |   |  |  |  |
|  |  |  |   |  |  |  |
|  | Balance b/d |  |   |  |  |  |
|  |  |  |   |  |  |  |
|  |  |  |   |  |  |  |
|  |  |  |   |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |

**Perpetual stock system**

**•***• Trading Stock* and *Cost of Sales* accounts are

updated each time stock is bought and sold.

**•**• The cost price of goods sold (cost of sales) can be

determined when stock is sold.

**•**• The physical stocktaking can therefore be

compared to the financial records (*Trading Stock*

account).

**•**• Stock deficits can easily be determined.

**YEAR END: CALCULATION OF GROSS PROFIT (TRADING ACCOUNT)**

|  |  |  |  |
| --- | --- | --- | --- |
|   |  **Cost**  | **Of Sales** |   |
| Total for year |  | Transfer to Trading Acc |  |
|  |  |   |  |
|  |  |   |  |
|  |  |  |  |
|  |  |  |  |
|   |  **Sales** |   |
| Transfer to trading acc |  | Total for year |  |  |
|  |  |   |  |  |
|  |  |   |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|   |  **Trading Account** | Account |   |
| Cost of sales |  | Sales |  |  |
| Gross Profit - to P&L |  |   |  |  |
|  |  |   |  |  |
|  |  |  |  |  |

**PERIODIC STOCK SYSTEM**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **BALANCE SHEET SECTION** |  |  |  |  |
|  |   | **Opening**  | **Stock** |   |  |
|  | Balance (beginning of year) | Transfer to Trading account |  |  |
|  |  |  |   |  |  |
|  |  |  |   |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |   | **Closing**  | **Stock** |   |  |
|  | Transfer to trading account | Counted stock actual |  |  |
|  |  |  |   |  |  |
|  |  |  |   |  |  |
|  |  |  |  |  |  |
| **NOMINAL ACCOUNT SECTION** |  |  |  |  |
|  |   | **Purchases** |   |  |
|  | Cash purchases CPJ |  | Transfer total to Trading account |  |  |  |
|  | Credit Purchases CJ |  |   |  |  |  |
|  |  |  |   |  |  |  |
|  |  |  |  |  |  |  |
|  |   | **Carriage** | **on Purchases** |   |  |  |
|  | Delivery etc Cash CPJ |  | Transfer total to trading account |  |  |
|  | Delivery etc Credit CJ |  |   |  |  |  |
|  | Delivery petty cash PCJ |   |  |  |  |
|  |  |  |  |  |  |  |
|  |   |  **Sales** |  |   |  |  |
|  | Transfer to Trading account | Total year (same as perpetual) |  |  |
|  |  |  |   |  |  |  |
|  |  |  |   |  |  |  |
|  |  |  |  |  |  |  |
| **FINAL ACCOUNTS** |  |  |  |  |  |
|  |   |  **Trading Account** |  |   |  |
|  | Opening stock |  | Closing stock actual stock |  |  |  |
|  | Purchases |  | Sales |  |  |  |
|  | Carriage on purchases  |  |   |  |  |  |
|  | Import duties |  |   |  |  |  |
|  | Gross profit to P&L |  |   |  |  |  |

**Periodic stock system**

**•**• The *Purchases* account is used to record

stock bought.

**•**• The *Sales* account is used to record stock sold.

**•**• The cost price of goods sold (cost of sales) is not

available when stock is sold.

**•**• So, no ongoing record of stock is kept in the

*Trading Stock* account.

**•**• Cost of sales is only calculated at the end of a

financial year.

**•**• It is important to perform regular stocktaking to

validate stock.

**•**• It is very difficult to determine stock deficits.

**Ethics and ethical behaviour in stock control**

• The business must disclose its stock valuation method in the notes to the

financial statements.

• Discrepancies can arise if the valuation method is not calculated correctly. This

could affect the financial results of the business.

• The stock registers must be updated regularly and proper records kept.

• Proper documentation must be available to support the information recorded in

the books of the business.

• The business must ensure that the stock valuation method chosen is correctly

implemented and controlled, so that opportunities for theft are minimal.

• The business cannot change to a different stock valuation method during a

particular financial year. This will affect the financial reporting.

**Internal control of stock**

• The business must ensure that division of duties is applied when receiving,

pricing, distributing and returning stock.

• Stock registers must be updated and checked by senior management.

• Regular stocktaking must be done.

• Ledger accounts must be updated when stock is bought and sold.

• Stock deficits must be identified and reasons for the losses must be investigated.

• Stock records must be internally audited regularly.

• Staff must be trained how to administer their business’s particular stock

valuation method.

**GAAP and stock control**

Two GAAP principles apply to stock:

**Historical cost:** Stock will remain in the books at its historical cost. This method

applies especially to the FIFO method but not to the weighted average method.

**Prudence:** The adjustment for Trading Stock Deficit is made at the end of the

financial year in order to bring the book value of stock in line with the value of

stock on hand. In this way the missing stock is taken into account and the value of

stock in the books is not overstated and the Net Realisable Value is determined.

Closing stock

Opening balance

Purchases

Carraige

= Available

Less Sales

= Closing stock

Cost of sales

Opening balance

+ Purchase

+ Caraige

Less Closing stock

= Cost of sales

Gross profit Sales – Cost of sales