

TOPIC 3

[week 3]

**PERIODIC
MEASUREMENT**

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MEASUREMENT

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EDUCATION BEYOND BORDERS

LEARNING OUTCOMES

Upon completion of the lecture, the students should be able to:

- Understand the double-entry system for the purchases of stock, sales of stock, return inwards, return outwards, carriage inwards, and carriage outwards.
- Understand the double-entry system for expenses and revenues.



Accounting Terminology

- **Purchases**

The purchases of goods which the business buys with the prime intention of selling.

- **Sales Revenue**

The sales of goods in which the business normally deals and which the business buys with the prime intention of resale.

- **Returns Inwards**

The goods that are returned by the customers due to defective, damaged in transit or otherwise unsuitable. A contra account to Sales Revenues.

- **Returns Outwards**

The goods that are returned by the business due to defective, damaged in transit or otherwise unsuitable. A contra account to Purchases.

- **Carriage Inwards**

The cost of moving the stocks from the seller to the buyer. This cost is considered as part of the purchase cost.

- **Carriage Outwards**

The cost of transporting goods to customers. This cost is treated as selling expense and is not considered as part of the cost of stock or inventory.

Purchase and Cash Sale

Cash

Stock

Cash Sales

Purchases



Purchase and Sale on Credit



Double-entry System for Purchases

- **Cash Purchases**

Debit the purchases account

Credit the cash account

- **Credit Purchases**

Purchases of the Goods

Debit the purchases account

Credit the supplier's account

Payment for the Goods

Debit the supplier's account

Credit the cash account



Double-entry System for Sales

- **Cash Sales**

Debit Cash account

Credit Sales account

- **Credit Sales**

Sales of the Goods

Debit Debtor's account

Credit Sales account

Payment for the Goods

Debit Cash account

Credit Debtor's account

Double-entry System for Returns Inwards and Returns Outwards

- **Returns Inwards**

The asset of stock is increased by the goods returned and there is also a decrease of debt by the customer.

Debit Returns Inwards account

Credit Debtor's account

- **Returns Outwards**

The liability of the business is decreased by the goods returned and there is also a decrease in the asset of stock.

Debit Creditor's account

Credit Returns Outwards account

Double-entry system for Carriage Inwards and Carriage Outwards

- **Carriage Inwards**

If the business receives the transport bill directly from the transport firm.

Debit Carriage Inwards account

Credit the Cash account for cash payment or

Credit the Transport firm account for credit payment

If the seller prepays the transportation cost for the business and list the cost on the invoice.

Debit Purchases account

Debit Carriage Inwards account

Credit Creditor's account

- **Carriage Outwards**

Is considered as selling expense and therefore will be discussed later.

Expenses

- **Represent the cost of operating a business or the consumption of the economic benefits. Expenses reduce the owner's equity and therefore, the normal balance for expense is the debit side.**
- **Typical Expenses account:**
 - Rent expense**
 - Salary or Wage expense**
 - Gas and Electricity expense**
 - Supplies expense**
 - Advertising expense**
 - Interest expense**

