

# LECTURE 3

# PERIODIC MEASUREMENT

The logo for Stanford Online, featuring a stylized orange 'S' and the text 'Stanford Online' in blue and orange, with the tagline 'EDUCATION BEYOND BORDERS' in smaller blue text below it.

# 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 defects, damage etc. it is a contra account to Sales Revenues.

- **Returns Outwards**

The goods that are returned to the business due to defects, damage etc. it is a contra account to Purchases.

- **Carriage Inwards**

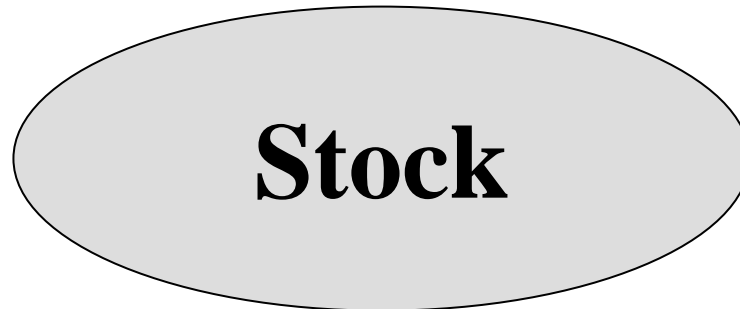
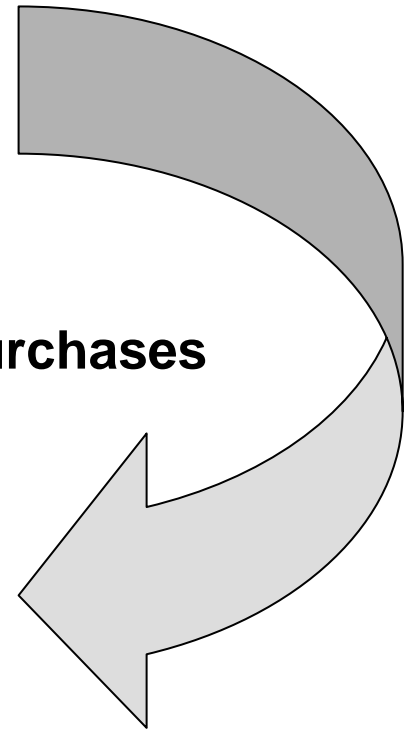
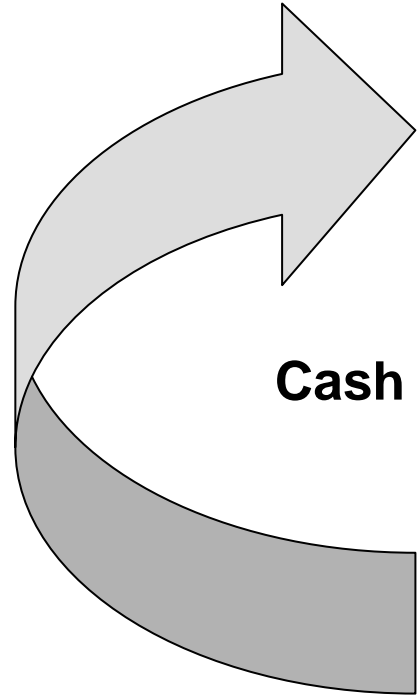
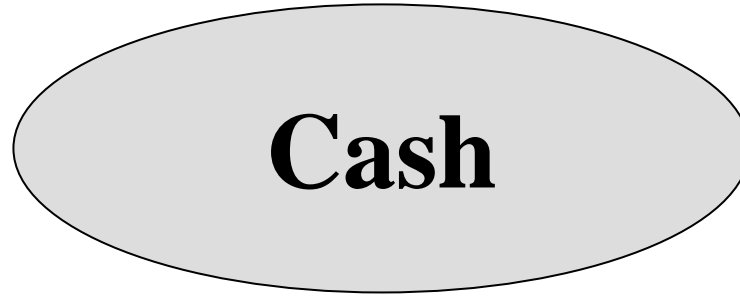
The cost of moving the stocks from the seller to the buyer. This cost is considered as part of the cost of purchases.

- **Carriage Outwards**

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



# Purchase and Cash Sale



# Purchase and Sale on Credit



# Double-entry System for Purchases

- **Cash Purchases**

**Dr. Purchases Account**

**Cr. Cash Account**

- **Credit Purchases**

**Purchases of Goods**

**Dr. Purchases Account**

**Cr. Supplier's Account**

**Payment for Goods**

**Dr. Supplier's Account**

**Cr. Cash Account**



# Double-entry System for Sales

- **Cash Sales**

**Dr. Cash account**

**Cr. Sales account**

- **Credit Sales**

**Sales of the Goods**

**Dr. Debtor's Account**

**Cr. Sales Account**

**Payment for the Goods**

**Dr. Cash Account**

**Cr. Debtor's Account**

# **Double-entry System for Returns Inwards and Returns Outwards**

- **Returns Inwards**

**Stock is increased by the goods returned and there is also a decrease of debt owing by the customer.**

Dr. Returns Inwards Account

Cr. Debtor's Account

- **Returns Outwards**

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

Dr. Creditor's Account

Cr. 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 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**

