

**TOPIC 3**  
**[week 3]**

**PERIODIC**  
**MEASUREMENT**

# 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 because they are defective, damaged in transit or otherwise unsuitable. A contra account to Sales Revenues.

- **Returns Outwards**

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

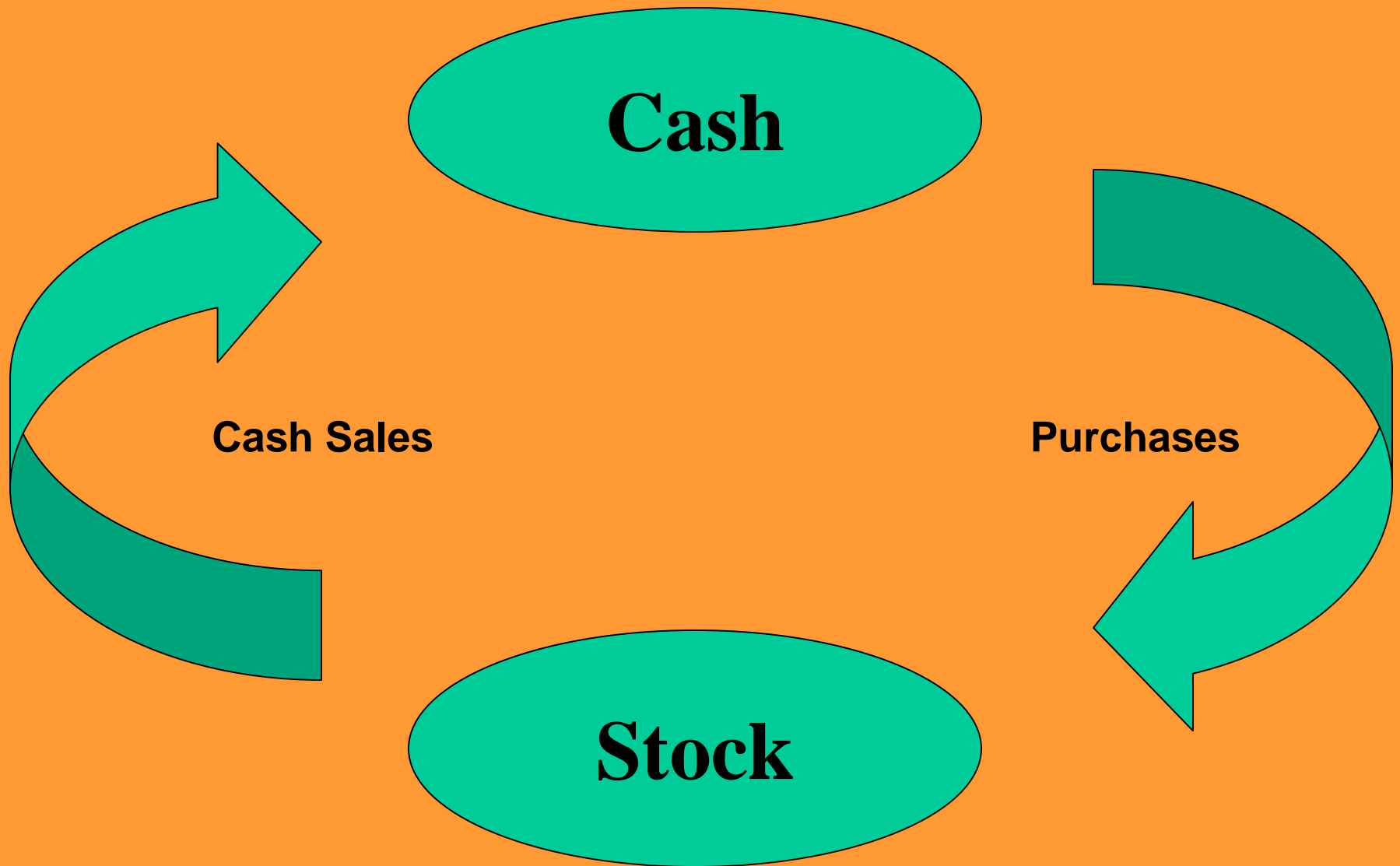
- **Carriage Inwards**

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

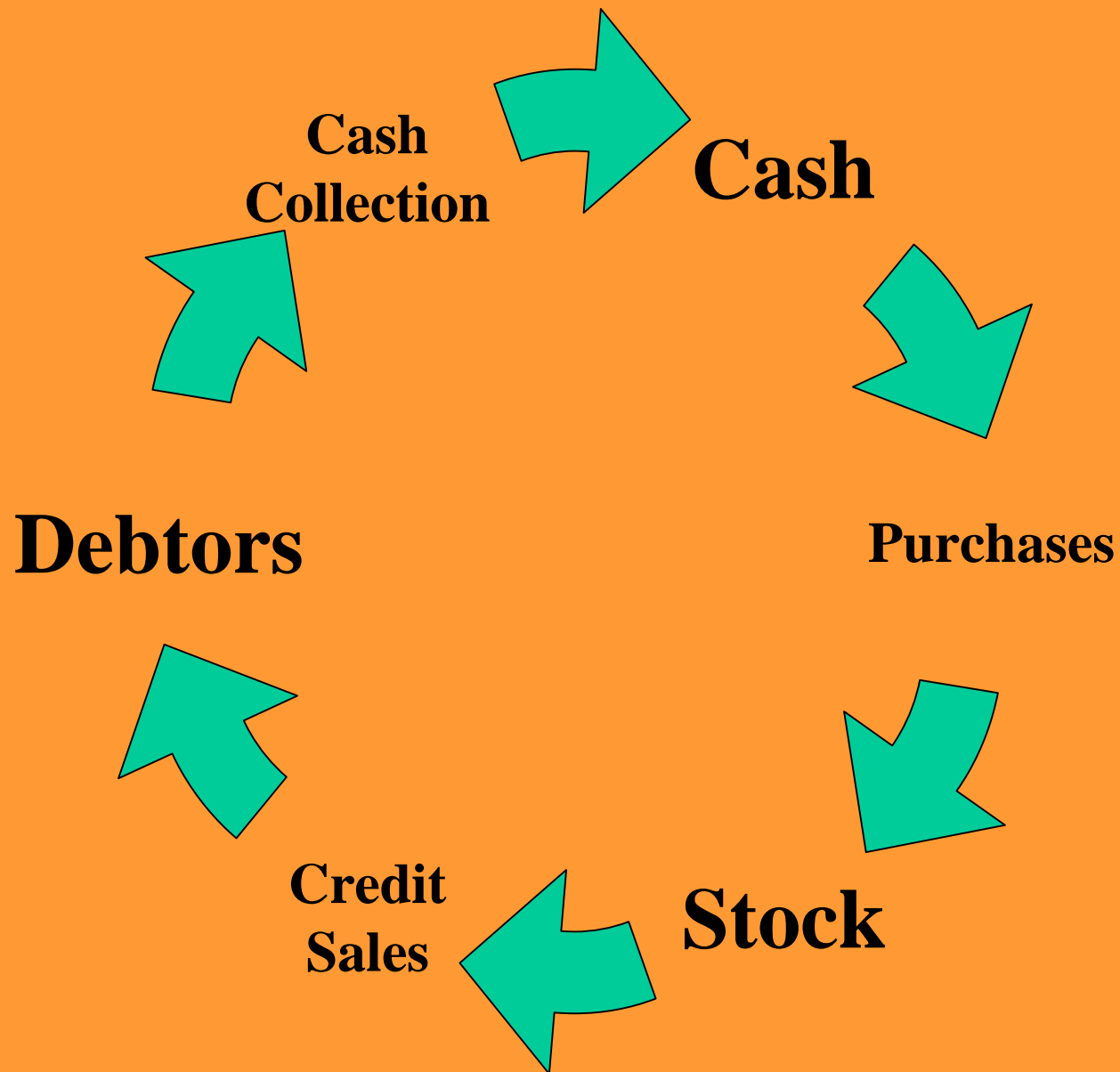
- **Carriage Outwards**

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



# 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**