Seller Entries Using the Perpetual Inventory System

Instructions: Journalize the following Transactions for the Seller assuming they are using the Perpetual Inventory System.

May 4th, PW Audio Supply sold $3,800 of Merchandise Inventory to Sauk Stereo on Account with terms 2/10/n/30 which cost PW $2,400. On May 6th, Sauk paid $150 freight charge to Haul-It. On May 8th it was determined that $300 of the goods shipped was inoperable, so they were returned to PW Audio Supply. These goods cost PW $140. On May 14th, PW audio Supply paid in full.

Entries on the sellers' Side (PW Audio Supply)

The first entry one must make is to put the inventory Sold into the system. When a company performs a sale, it is composed of two entries. The first is the Sale of the item, which in this case is a debit to Accounts Receivable, and a credit to Sales Revenue. This is the "external" entry, or the cost the customer knows about. The "internal" entry involves the Cost required to get the item, and the loss of inventory, so it requires a debit to Cost of Goods Sold, and a Credit to Merchandise Inventory.

Date	Transaction	Account name	Debit	Credit
5/4	Sale of merchandise on credit	Accounts Receivable Sales	3,800 0	0 3,800
		Cost of Goods Sold Merchandise inventory	2,400 0	0 2,400

Since PW didn't pay for the shipping costs, there will be no entry for the freight.

However, they did have some of their sale returned to them which they must account for.
Once again, there is an "internal" entry and a "external" entry. The "external" entry would be the lowering of the Accounts Receivable by $300, which would be a credit, and PW would debit Sales Returns and Allowances for $300. The "internal" entry would be the returning of the Merchandise Inventory, and reduction of the Cost of Goods sold, or the reverse of the last entry. This is accomplished by debiting Merchandise inventory for $140, and crediting Cost of Goods Sold by $140.

5/8	Return of Damaged Goods	Sales Returns and Allowances Accounts Receivable	300 0	0 300
		Merchandise Inventory Cost of Goods Sold	140 0	0 140

Finally they must recognize the receipt of payment which they received on the 14th. Sauk will pay them for the $3,500 dollars they are owed ($3,800-$300 = $3,500 Debit balance.) In order to eliminate the Accounts Receivable, PW must Credit them for $3,500. Since Sauk paid within the credit terms of 10 days, they will receive a Sales discount of 2%, which is $70. The remaining $3,430 will be paid in cash. Thus, there will be 3 accounts involved with journalizing this entry.

5/8	Payment on Account with Discount	Cash Sales Discount Accounts Receivable	3,430 70 0	0 0 3,500

This instructional aid was prepared by the Tallahassee Community College Learning Commons.