

Thirteenth lecture: Inventory accounting (02)

6- Accounting for the sales process according to the permanent inventory method

The sales process is one of the current operations carried out by entities, whether commercial, industrial or service. It is represented in the sale of goods, the sale of various products, and the sale of services. The entities may also sell services and provide other services such as transportation and rent. We try, in the following, to clarify the accounting entry for each of the sales mentioned above.

6-1-Accounting registration for selling goods (or merchandises)

The business entity sells the goods which it has purchased without any change to them. The accounting treatment of the sales process goes through two stages if the sale is in cash or check, and in three stages if the sale is on account, namely:

Delivering the sales invoice for the goods

- **First stage: Delivering the sales invoice for the goods:** it expresses the transfer of ownership of the goods from the suppliers to the customers, this is done at the selling price and is recorded as follows:

		Date		
411	4457 700	Customers collected v.a.t sales goods, (Merchandise sale Invoice no...)	xxx	x xx

- **Second stage : Delivering The goods to the customers** after taking out them from the warehouses. This is done at the purchase cost and is recorded as follows:

		Date		
600	30	Purchase of sales goods, merchandise stocks (Merchandise receipt no...)	xx	xx

Note : If Packaging (or damaged packaging) are consumed while delivering goods to the customers , the accounting recording will be as follows :

		Date		
600		Raw materials	xx	
602		Other supplies	xx	
	30	Raw materials and supplies		xx
	326	Packaging (or damaged packaging)		xx
		(stock exit receipt no...)		

➤ **Third stage : Collecting sell amounts from customers.** this is done by recording:

		Date		
512 or 53		Bank or cashbox	xx	
	411	Customers		xx
		(Check no... or cashbox receipt no...)		

Example 3:

1°) During the month of July 2018, an entity carried out the following operations, which are required to be recorded in the journal, noting that the value-added tax rate is 19%.

On 07/04/2018: Goods purchased for 100,000 DZD were sold on account with a profit margin of 25%, delivered on the same day.

On 07/20/2018: Goods were sold for 260,000 DZD on account, bearing in mind that these goods were sold with a profit margin of 30% on the purchase price, and the goods were delivered the next day with damaged packaging consumption of 20,000 DZD.

On 07/29/2018: the sales amount for the month of April 2018 was collected from customers by bank check

2°) Find the result achieved from these operations for the month of July 2018.

		07/04/2018		
411	4457 700	Customers collected v.a.t salled goods, (Merchandise sale Invoice no...)	148 750	23 750 125 000
		//		
600	30	Purchase of salled goods, merchandise stocks (Merchandise receipt no...)	100 000	100 000

		Date		
411	4457 700	07/02/2018	309 400	49 400 260 000
		//		
600 602	30 326		200 000 20 000	200 000 20 000
512	411	07/29/2018	458 150	458 150

Result = revenue - costs

Result =(All credit amounts recorded in account 7 or 6) - (All debit amounts recorded in account 6 or 7)

Result = (125 000 + 260 000) - (100 000 + 200 000 + 20 000) = 65 000

6-2-Accounting registration for selling various products

The production entity sells the various products it has produced. The accounting treatment of the sale process goes through two stages (preparation and delivery of the invoice and then delivery of the products) in addition to the stage of collecting the sales amounts from customers if the sale was made on account.

First stage: Editing and delivering the invoice to the customer, which expresses the transfer of ownership of the products from the supplier to the customer. This is done **at the selling price** and is recorded as follows:

		Date		
411	4457 701 702 703		XXXX	X X X X

- **Second stage : Delivering The various products to the customers** after taking out them from the warehouses. This is done at the product cost and is recorded as follows:

		Date		
724		Product stock variations	xxx	
	351	Intermediate Products		x
	355	Manufactured Products		x
	358	Remaining products		x
		(stock exit receipt no...)		

- **Third stage : Collecting sell amounts from customers** if the sale was made on account. This is done by recording:

		Date		
512 or 53		Bank or cashbox	xxxx	
	411	Customers		xxxxx
		(Check no... or cashbox receipt no...)		

Example 4: (Continued with Example 2)

On 06/22/2018: All products obtained from the manufacturing process were sold on account with profit margins of 40%, 25% and 15%, respectively, and delivered on the same day to the customer.

On 06/30/2018: The sales amount was received in cash from the customer.

The solution :

		06/22/2018		
411		Customers	253 470	
	4457	collected v.a.t		40 470
	701	sale of finished products (100000 × 1.4)		140 000
	702	sale of intermediate products (40000 × 1.25)		50 000
	703	sale of residual products (20000 × 1.15)		23 000
		(The various products sale invoice no...)		
		//		
724		Product stock variations	160 000	
	351	Intermediate Products		40 000
	355	Manufactured Products		100 000
	358	Remaining products		20 000
		(stock exit receipt no...)		
		06/30/2018		
53		cashbox	253 470	
	411	Customers		253 470
		(Cashbox receipt no...)		

6-3-Other operations for sale in service entities (sale of works, studies and performance of services)

The service entity whose main activity is to provide services to others in the form of:

- Public works and are recorded in account A/704 "sales of works"
- Engineering studies..... and are recorded in account A/705 "Studies Sales"
- Provision of other services such as rent or transportation and are recorded in account 706 "Provision of other services".

➤ **When selling works** (preparing a building, for example..), the accounting registration is as follows:

		Date		
411	4457 704	Customers collected v.a.t sales of works (sales of works Invoice no...)	xxx	x xx

➤ **When selling studies** (engineering studies, for example..), the accounting registration is as follows:

		Date		
411	4457 705	Customers collected v.a.t Studies sales (Studies sales Invoice no...)	xxx	x xx

➤ **When providing services** (transportation or rent, for example..), the accounting registration is as follows:

		Date		
411	4457 706	Customers collected v.a.t Provision of other services (Services Invoice no...)	xxx	x xx

7-Inventory accounting according to the final inventory method

7-1-Inventory accounting according to the final inventory method in a commercial entity

The principle of the method: It is represented in evaluating the final inventory at the end of the accounting period, after doing the inventory outside accounting (physical inventory). As for during the period, the various

inventory accounts (A30, A32) do not record any movement in them, and the only registration that is done during the period is the registration of purchase invoices of goods and purchase invoices of other supplies.

7-1-1- Accounting registration during the period

Upon receipt of any purchase invoice, the following shall be recorded:

During the year				
38x 4456	401	Stocked merchandises or Stocked other supplies deductible v.a.t Stocks and sevice suppliers, (purchase Invoice no...)	xx x	xxx

7-1-2- Accounting registration at the end of the period

At the end of the accounting period and after conducting an inventory outside accounting, the following three stages are recorded:

- The stage of canceling the balances of the beginning of the period related to the existing stocks (Account 30 or account 32), by recording:

12/31/N				
603x 3x		Inventory changes merchandise stocks or Other supplies (Cancellation of beginning stock balances)	S ₁	S ₁

- The stage of recording stocks at the end of the period obtained after conducting the inventory outside accounting, by recording:

12/31/N				
3x 603x		merchandise stocks or Other supplies Inventory changes (Recording physical inventory stocks outside accounting)	S ₂	S ₂

- **Account balance stage 38 Stored purchases** This is done with the next entry :

12/31/N				
603x 38x		Inventory changes Stocked merchandises or Stocked other supplies (Balance 38 Account: Stored purchases)	xx	xx

Example 01

A commercial entity applying the final inventory method. During the year 2018, it purchased goods for 2,955,000 DA outside tax and other supplies for 30,000 DA outside tax.(v.a.t rate 19 %)

At the end of the year, after doing the inventory outside the accounting, you get the following information:

Statement	goods	Other supplies
Beginning stock	496 000	15 850
Ending stock (after inventory outside accounting)	1 090 000	10 988

Required:

- 1)The accounting registration that the entity must make during and then at the end of 2018. (v.a.t rate 19 %)
- 2) find this year's consumption of goods and other supplies.

The solution

- 1)The accounting registration during and then at the end of 2018:

During 2018				
380 382 4456	401	Stocked merchandises Stocked other supplies deductible v.a.t Stocks and sevice suppliers, (purchase Invoices...)	2955000 30000 567150	3552150
12/31/2018				
6030 6032	30 32	Inventory changes of goods Inventory changes of other supplies merchandise stocks Other supplies (Cancellation of beginning stock balances)	496000 15850	496000 15850
12/31/2018				
30 32	6030 6032	merchandise stocks Other supplies Inventory changes of goods Inventory changes of other supplies (physical inventory stocks outside accounting)	1090000 10988	1090000 10988
12/31/2018				
6030 6032	380 382	Inventory changes Stocked merchandises Stocked merchandises Stocked other supplies (Balance 380 account and 382 account)	2955000 30000	2955000 30000

2) consumption of goods and other supplies of the year 2018

Debit	A/6030	Credit
496000	10900000	
2955000	2361000 d.a	
3451000	3451000	

Debit	A/6032	Credit
15850	10988	
30000	34862 d.a	
45850	45850	

consumption of goods = 2361000 consumption of other supplies = 34862

7-2-Inventory accounting according to the final inventory method in a productive enterprise

The principle of the method: It is represented in evaluating the final inventory at the end of the accounting period, after carrying out the inventory outside accounting (physical inventory). As for during the period, the various inventory accounts (A31, A32, A35...) do not record any movement in them, and the only registration that is done during the period is the registration of purchase invoices of raw materials and supplies and purchase invoices of other supplies.

7-2-1- Accounting registration during the period

Upon receipt of any purchase invoice, the following shall be recorded:

During the year				
38x 4456	401	Stocked raw materials and supplies or Stocked other supplies deductible v.a.t Stocks and services suppliers, (purchase Invoice no...)	xx x	xxx

7-2-2- Accounting registration at the end of the period

At the end of the accounting period and after conducting an inventory outside accounting, the following **three stages** are recorded:

- The stage of canceling the balances of the beginning of the period related to the existing stocks (Account 31 or account 32) by recording:

12/31/N				
603x	3x	Inventory changes raw materials and supplies or Other supplies (Cancellation of beginning stock balances)	S ₁	S ₁

- The stage of recording stocks at the end of the period obtained after conducting the inventory outside accounting, by recording:

12/31/N				
3x	603x	raw materials and supplies or Other supplies Inventory changes (Recording physical inventory stocks outside accounting)	S ₂	S ₂

- **Account balance stage 38 Stored purchases** This is done with the next entry :

12/31/N				
603x	38x	Inventory changes Stocked raw materials and supplies or Stocked other supplies (Balance 38 Account: Stored purchases)	xx	xx

7-2-3- Accounting registration of manufactured products

At the end of the period and after conducting the inventory outside accounting, the following stages should be followed

- The stage of canceling the balances of the beginning of the period related to the existing stocks (Account (35) by recording:

12/31/N				
724	35	Stock changes of products stocks de produits (Cancellation of beginning stock balances)	S ₁	S ₁

- The stage of recording stocks at the end of the period obtained after conducting the inventory outside accounting, by recording:

12/31/N				
35	724	stocks de produits Stock changes of products (Recording physical inventory stocks outside accounting)	S ₂	S ₂

Example 2

A production entity provided you with the following information related to inventories during the year 2019

Statement	raw materials	Other supplies	products
Beginning stock	950 000	196 000	1 385 000
Ending stock (after inventory outside accounting)	263 000	127 000	1 156 000
period purchases	1 500 000	388 000	/

Required:

1) The accounting registration that the entity must make during and then at the end of 2019. (v.a.t rate 19 %)

2) find this year's consumption of raw materials and other supplies.

The solution

1) The accounting registration during and then at the end of 2019:

During 2019				
381 382 4456	401	Stocked raw materials and supplies Stocked other supplies deductible v.a.t Stocks and services suppliers, (purchase Invoices...)	1500000 388000 658720	2246720
12/31/2019				
6031 6032	31 32	Inventory changes of raw materials Inventory changes of other supplies raw materials and supplies Other supplies (Cancellation of beginning stock balances)	950000 196000	950000 196000
12/31/2019				
31 32	6031 6032	raw materials and supplies Other supplies Inventory changes of raw materials Inventory changes of other supplies (physical inventory stocks outside accounting)	263000 127000	263000 127000
12/31/2019				
6031 6032	381 382	Inventory changes of raw materials Stocked merchandises Stocked merchandises Stocked other supplies (Balance 380 account and 382 account)	1500000 388000	1500000 388000
12/31/2019				
724	35	Stock changes of products stocks de produits (Cancellation of beginning stock balances)	1385000	1385000
12/31/2019				
35	724	stocks de produits Stock changes of products (Recording physical inventory stocks outside accounting)	1156000	1156000

2) consumption of raw materials and other supplies of the year 2019

Debit	A/6031	Credit
950000	263000	
1500000	2187000 d.a	
2450000	2450000	

Debit	A/6032	Credit
196000	127000	
388000	457000 d.a	
584000	584000	

consumption of raw materials = 2187000 DZD

consumption of other supplies = 457000 DZD.