

Accounting I



7TH CLASS

OPERATING ACTIVITIES

INVENTORIES

VAT



Perpetual and Periodic Inventory Systems




There are two main systems for keeping inventory records:

- Perpetual system
- Periodic system

The **perpetual inventory system** keeps a continuous record of inventories and cost of goods sold

The **periodic inventory system** computes cost of goods sold and an updated inventory balance only at the end of the accounting period




Inventory systems

Perpetual inventory system

- Register all entrances of stocks
- So, at any time the firm knows
 - The quantity of products/stock in the warehouse;
 - The value of those stocks; and
 - The Margin after each sale.


Required system for Large and Medium Companies applying SNC. Only small companies can use the periodic inventory system.



Inventory systems

Periodic inventory system


- We do not use the inventories accounts at each entry and exit of inventories.
- The physical count of the inventories and its valuation needs to be done periodically in order to obtain the results of sales.



Inventory systems

Periodic inventory system

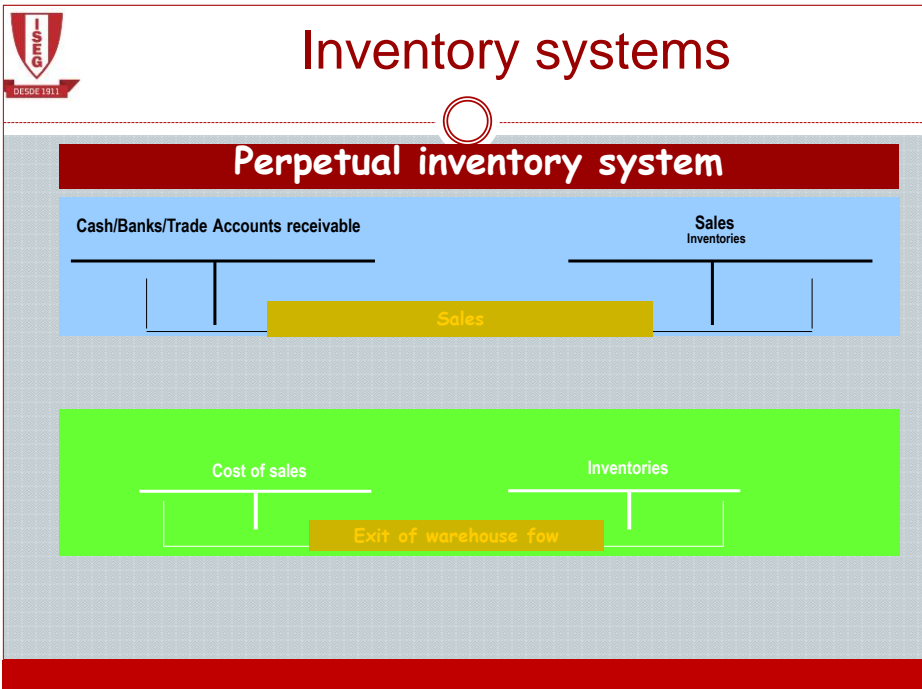
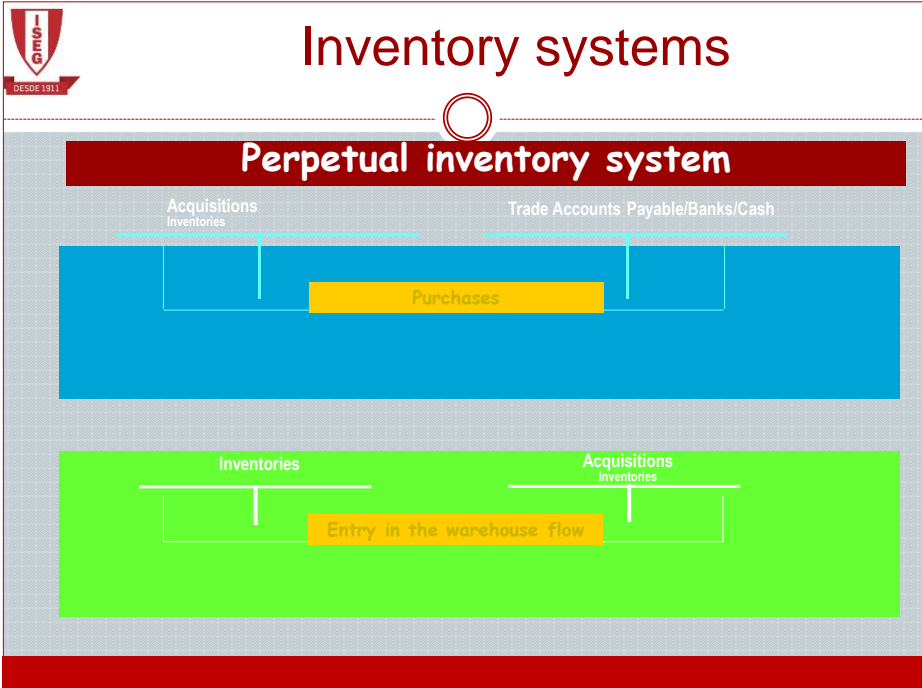
- Inventories (Merchandise/Raw materials) is not used after the acquisition or sale of products
- The firms only knows:
 - The quantity of stock in the warehouse.
 - The value of acquisitions and beginning of the year inventory
- The physical counting of stock and respectively valuation is essential to calculate the Cost of good sold in the end of the year

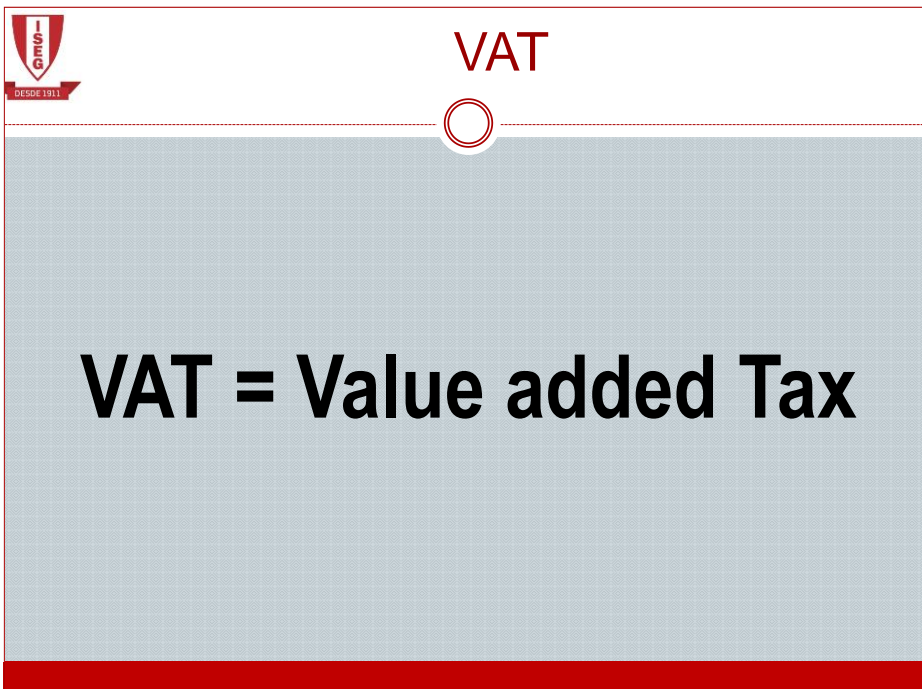
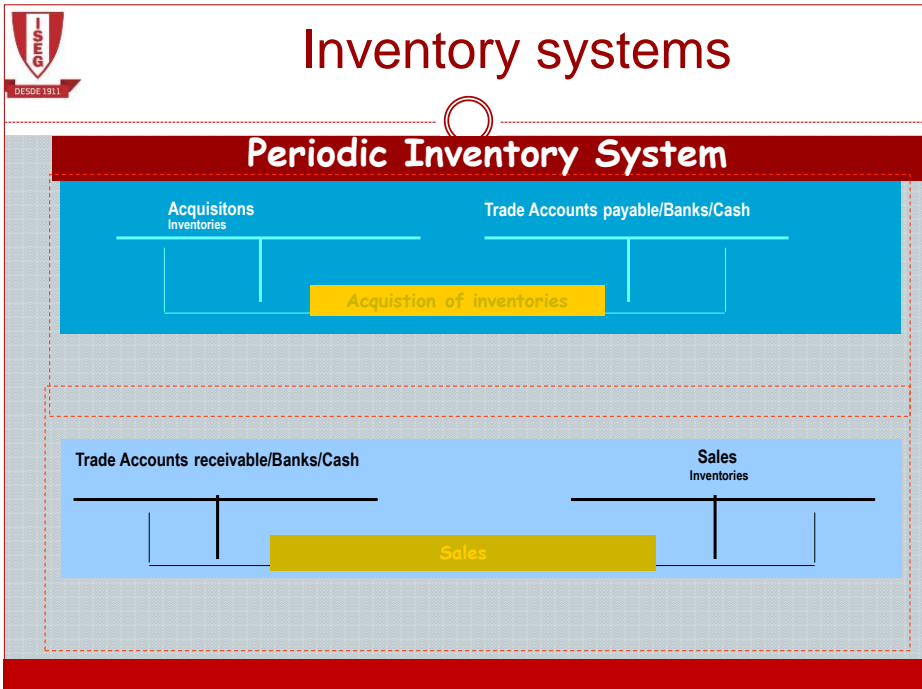



Periodic Inventory System

Under the periodic system, the calculation of cost of goods sold is delayed until there is a physical count:

$$\text{COGS} = \text{Beginning of the year Inventories} \\ + \text{Acquisitions of inventories} \\ - \text{End of the year inventories} \\ +/- \text{Reclassification/Regularization of inventories}$$








VAT

○

VAT

Value Added Tax Account (243) is divided into:

- VAT supported
- VAT deductible
- VAT liquidated
- VAT regularizations
- VAT calculations
- VAT to pay
- VAT to recover
- VAT reimbursable



Determining VAT

○

How to determine VAT?

VAT liquidated

-

VAT deductible

±

VAT regularizations

=

VAT calculated

- Sales of inventories;
- Services provided;
- Cash Advance from Customers;
- Internal consumption and free transactions.

- Purchase of inventories;
- Purchase of fixed tangible assets;
- Acquisition of External services;
- Cash Advances to suppliers.

- Errors;
- Returns and discounts;
- Annulment of cash advance received;
- Annulment of cash advance paid;
- Bad debt;
- Thefts, accidents, etc.
- Others.

VAT
to recover

VAT
To pay