Buyer Entries Using the Perpetual Inventory System

Instructions: Journalize the following Transactions for the buyer 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 was paid in full.

Entries on the buyer's Side (Sauk Stereo)

The first entry one must make is to put the inventory purchased into the system. This is done by debiting Merchandise Inventory (since you bought merchandise it goes up), and setting up an Accounts payable as a credit (since you bought them on account). Notice the costs to the company are ignored, since the buyer does not care how much the company paid for the goods.

Date	Transaction	Account name	Debit	Credit
5/4	Purchase of merchandise on credit	Merchandise Inventory Accounts Payable	3,800 0	0 3,800

Next, Sauk must account for the freight costs of the inventory that occurred on May 6th. Since these were spent attempting to acquire the inventory, they require a debit to merchandise inventory directly, since this is the perpetual system of inventory. The credit is to Cash, as we had to pay the company who delivered the goods.

5/6	Freight costs on purchase	Merchandise Inventory Cash	150 0	0 150

Afterwards, the company returned a portion of their product back to their supplier on May 8th. When this happens, they reduce how much they owe their supplier by giving them the goods. This is accomplished by Debiting Accounts payable and crediting Merchandise Inventory. Once again, Sauk doesn't care how much the inventory they are returning cost PW, just how much they paid for it.

5/8	Return of damaged Goods	Accounts Payable Merchandise Inventory	300 0	0 300

Finally they must pay off their account, but since they paid within the 10 day period, they receive a 2% discount on the goods. We know they are eliminating their Accounts Payable (which had an account balance of $3,500 after the return) so they must debit it for $3,500 to eliminate it. They saved 2% on the 3,500 which is $70, and paid the remaining $3,430 in cash. Thus, this will require 3 accounts when journalizing this entry.

5/14	Payment on Account with Discount	Accounts Payable Cash Merchandise Inventory	3,500 0 0	0 3,430 70