CONCEPT: PERIODIC INVENTORY – PURCHASES

● A merchandising company generally buys goods in _____ and then sells them to customers _____

    □ Companies "purchase" many things:

        - Goods acquired for resale   →   _____

        - Pens, paper, staplers   →   _____

        - Copy machine   →   _____

    □ In a periodic system, we use _____ accounts to account for Inventory purchase transactions:

1. **Purchases** – the value of all goods _____ during the period (not straight to Inventory!)

2. **Purchase Returns and Allowances** – value of purchases _____ or _____ because of a quality issue

3. **Purchase Discounts** – value of discounts received for _____

● When the company purchases good, we debit the _____ account.

TOS Company purchased 500 units of Things on account at a price of $5 per Thing.				
Journal Entry:				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>

● If the company returns the goods to the supplier for a refund, the transaction is called a **purchase return**.

TOS Company returned 100 units of Things to its supplier.				
Journal Entry:				
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>

● An unsatisfied company may also keep the goods if the supplier lowers the price. This is a *purchase allowance*.

TOS ordered 500 Things on account at $5 per Thing. When low quality Things arrived, the supplier agreed to lower the price of each Thing to $2 per thing for this order.

Journal Entry:

Assets	=	Liabilities	+	Equity

PRACTICE: Never Satisfied Incorporated (NSI) purchased 400 units of High Quality Goods for $300,000 on account. After inspecting the goods, they decided that 300 units did not meet their standards and NSI received a refund for these goods. If NSI uses a periodic inventory system, the entry to record the return of goods would include:

a) A credit to Inventory for $225,000

b) A debit to Accounts Payable for $225,000

c) A credit to Purchase Discounts for $225,000

d) A credit to Purchases for $225,000