I-05.04

Big Swing Sales is a rapidly growing speciality advertising company that distributes golf balls with personalized corporate logos printed on them. Heretofore, the company has used a manual perodic inventory system. However, the company is evaluating installation of an automated inventory tracking system that can be integrated with a perpetual inventory module in the company's accounting software package that is presently under development.

The company's information technology staff is working on the basic software development for this task, and is needing some help understanding the mechanics of periodic vs. perpetual inventory accounting techniques.

(a) Develop journal entries for each of the following representative transactions, to show how the they would be handled with a periodic (gross and net) vs. perpetual system (gross and net).

#1 Purchased $55,000 of balls on account, F.O.B. destination, terms 2/10, n/30.

#2 Paid the amount due for the preceding purchase within the discount period.

#3 Sold golf balls for $80,000 on account, F.O.B. shipping point, freight-collect, terms 1/10, n/30. The balls had a net cost of $39,300.

(b) Using the representative transactions, show how cost of goods sold is measured under the alternative systems. Assume Big Swing had a beginning inventory of $21,000.