

## **ACCT 101 – Chapter 5**

### **TWO INVENTORY SYSTEMS**

#### **PERPETUAL:**

- |↵| The Merchandise Inventory account is increased when inventory is purchased.
- |↵| The Merchandise Inventory account is decreased when inventory is sold to a customer.
- |↵| Therefore, the Merchandise Inventory account always (perpetually) shows the amount of inventory on hand.

#### **PERIODIC:**

- |↵| Purchases of inventory are recorded in a Purchases account.
- |↵| Inventory is not removed from the accounting records when it is sold.
- |↵| Therefore, the amount of inventory on hand must be determined by taking a physical inventory count.

#### **SUMMARY:**

The perpetual inventory system requires more accounting entries, but it provides more up-to-date information for managing inventor