

Processing

The student has accurately prepared a FIFO inventory card.

Describing elements of the entity's inventory subsystem

The uniform shop sells basic uniforms like PE shorts, shirt, socks, pants and jackets. It is staffed by Miss H, located at the student counter in C block and open on Mondays and Wednesdays from 8.30 to 11.30 am. Payment options are cash, EFTPOS and automatic payment.

There are two types of inventory systems, perpetual and periodic. The perpetual system requires the business to keep a running record of the inventory it should have on hand at any time. This system also requires a running record to be kept of the cost of goods sold. The periodic inventory system keeps a separate purchases account whenever inventory is purchased. The COGS is calculated at the end of the year. Using a periodic inventory system, a business does not know how much stock it should have unless it does a physical stocktake.

1

I think the uniform shop uses a perpetual inventory system because it keeps a theoretical record of the inventory they have on hand at any time and because the inventory system is computerised and because the uniform shop has a minimum stock level of 50 for each item. The uniform shop keeps a running record of the quantity of inventory it has and the COGS in its own ledger account.

Inventory cards

Since the uniform shop uses a perpetual system it has to keep inventory cards (like ledger cards) for each type of inventory. They also have to decide which measurement to use to establish the cost of inventory, either FIFO (first in first out) or the weighted average. Inventory cards must be updated after every transaction affecting that particular inventory. The FIFO method keeps a running record of the inventory by ensuring that the business accounts for its inventory by selling the oldest stock first. Weighted average is the same as FIFO but instead of selling the oldest stock first it averages out the cost of the inventory after each transaction. I think the uniform shop uses the weighted average measurement base.

2

To ensure adequate levels of inventory are maintained at all times, the uniform shop stocks more school shirts and shorts than any other piece of uniform as these are the most popular among the students. They try to keep at least 50 of each item on hand at any time. I think the uniform shop meets this objective.

To ensure prompt and accurate processing of purchase requisitions and orders of inventory, Miss H has to request the purchase order number and get it authorised by Mrs R. If the inventory is over \$500 it has to be authorised by the principal Mr G then she gets a quote before sending the purchase order off to the supplier. I think the uniform shop meets this objective.

Documentation, inventory records and internal control sections have been omitted

3

To minimise the likelihood of obsolete stock being sold, the uniform shop sells old stock at discounted price to sell it first and also Miss H is the only person in charge of ordering so I think the uniform shop meets this objective.

To ensure prices of inventory purchases are quoted prior to purchase and the best value is sought, the uniform shop has a five year contract with ISO so the price remains the same for five years, so as to get the best deal. The uniform shop meets this objective.

To provide relevant and accurate information for decision-making in relation to the inventory system, the uniform shop uses MYOB for stock on hand and stock movement so they can keep track of how much stock they have on hand. If stock is being moved then they will know where it is going and the quantity of stock being moved. I think the uniform shop meets this objective.