

Visual Learning Maps

Introductory Financial Accounting



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VIRTUAL TEXT BOOK

Purchases Account – 1 of 1 – the Purchases Account is used Only with the Periodic Inventory System

The word “Purchases” means a specific account that records expenditure amounts for goods or merchandise bought from suppliers that are then to be resold to customers.

The expenditure amounts include two components:

1. The cost of the goods or merchandise; and
2. The cost of shipping the goods, called “**Freight In**,” when the goods are FOB shipping point.

What FOB Means

FOB means **Free On Board**.

FOB shipping point means that the sales contract stipulates that the supplier’s price is for the goods at the supplier’s location, and the buyer will thus be required to pay the freight / shipping costs. The buyer must arrange and pay for shipping the merchandise to whatever location is desired. These Freight In (or Transportation In) costs are always recorded to the Purchases account because they are considered as part of the cost of inventory. In other words, the cost of shipping the merchandise is explicitly attached to the cost of the merchandise and is therefore booked to the Purchases account.

FOB destination point means that the sales contract stipulates that the supplier’s price is for the goods at the buyer’s location, therefore the supplier will thus be required to pay the freight / shipping costs. The supplier must arrange and pay for shipping the merchandise to whatever location is desired by the buyer. The shipping costs may be included in the price of the merchandise or may be shown separately on the supplier’s invoice. Either way, the buyer records the total amount to the Purchases account.