**APPLICATION EXERCISE 7 – SUGGESTED SOLUTION**

1. **Using product costing, record Invoice 2461 into the General Journal.**

**A narration is not required.**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| 29/06 | Inventory | 2 930 |  |
|  | Cartage Inwards | 70 |  |
|  | GST Clearing | 300 |  |
|  | Accounts Payable |  | 3 300 |

1. **Explain the effect on the Balance Sheet if Padma’s Pots uses period costing instead of product costing.**

Period costing will recognise the expense as incurred regardless of the number of items sold, thereby Cost of Goods Sold would be higher or overstated compared to using product costing so profit and Owner’s Equity would be lower or understated.

Therefore, Assets and Inventory will also be lower or understated using period costing as those additional costs are reported as an expense in the Income Statement as opposed to being included in the balance of Inventory on the Balance Sheet as they would using product costing.