You will not be answering Discussion Forum 3. However you will **READ Discussion Forum 3 ONLY**, *then*, reply to the two classmates' responses posted below.

**Discussion form 3 (Remember to Read this section only, you will *NOT* answer these questions)**

In each of the following situations, indicate whether you would expect the business to use a periodic inventory system or a perpetual inventory system. Explain the reasons for your answer.

* 1. The Frontier Shop is a small retail store that sells boots and Western clothing. The store is operated by the owner, who works full-time in the business, and by one part-time sales clerk. Sales transactions are recorded on an antique cash register. The business uses a manual accounting system, which is maintained by ACE Bookkeeping Service. At the end of each month, an employee of ACE visits the Frontier Shop to update its accounting records, prepare sales tax returns, and perform other necessary accounting services.
  2. Allister’s Corner is an art gallery in the Soho district of New York. All accounting records are maintained manually by the owner, who works in the store on a full-time basis. The store sells three or four paintings each week, at sales prices ranging from about $5,000 to $50,000 per painting.
  3. A publicly owned corporation publishes about 200 titles of college-level textbooks. The books are sold to college bookstores throughout the country. Books are distributed to these bookstores from four central warehouses located in California, Texas, Ohio, and Virginia.
  4. Toys-4-You operates a national chain of 86 retail toy stores. The company has a state-of-the-art computerized accounting system. All sales transactions are recorded on electronic point-of-sale terminals. These terminals are tied into a central computer system that provides the national headquarters with information about the profitability of each store on a weekly basis.
  5. Mr. Jingles is an independently owned and operated ice cream truck.
  6. TransComm is a small company that sells very large quantities of a single product. The product is a low-cost spindle of recordable compact disks (CDRs) manufactured by a large Japanese company. Sales are made only in large quantities, primarily to chains of computer stores and large discount stores. This year, the average sales transaction amounted to $14,206 of merchandise. All accounting records are maintained by a full-time employee using commercial accounting software and a personal computer.

**TWO Classmates answers to the questions above are in there post below (Here is where you will make a response )**

1. **Kelley’s post: read Kelley’s answers to each question and make a response**

a. A periodic inventory system would seem appropriate for the Frontier Shop. This is a small business where merchandise is sold at the sales site. Though a bookkeeping service is used to maintain the manual accounting system in use, the business appears to use the accounting of sales and inventory primarily for tax reporting and returns. There is no mention of any need for ongoing inventory accounting on a perpetual basis.

b. Though Allister’s Corner is a business with high unit cost and low volume of sales transactions which may lead one to this perpetual inventory may be ideal, the small business size and single owner with manual accounting records make it seem more appropriate for a periodic inventory system. In addition to the business size and owner status, periodic inventory systems are more appropriate when a business does not need frequent inventory information or sales information. The accounting information seems to be relevant primarily for tax returns and reporting.

c. There a few factors which lend support for this book publisher to use a perpetual inventory system. Perpetual inventory systems are appropriate for large businesses of this type with professional management and who sell goods from multiple locations, such as the four warehouses this company maintains. In businesses such as these, it is very likely that employees and managers would need information about the quantities of items in the inventory as well as sales data for various goods

d. With 86 retail stores operating with a computerized accounting system, Toys-4-You would be likely to use a perpetual inventory system. Another relevant factor is the sales data that is transmitted from the point-of-sale terminals for use each week at the company’s national headquarters. The data is being used for more than just end of year tax purposes. It seems likely that the store managers and employees would need access to inventory data for store level purchasing and inventorying decisions.

e. Since Mr. Jingles is an independent, owner-operated business, the most appropriate inventory system seems to be the periodic system. The single sales site for the sale of merchandise is one reason. Another is that the owner most likely only needs specific accounting of the inventory and sales for the purpose of tax returns or sales tax statements. Lastly, it is very likely that the owner-operator employs manual accounting methods which are more suitable for a periodic inventory system.

f. Though TransComm is described as a small company with one good for sale, they have high sales volume and as such a perpetual inventory system is probably more suitable than a periodic inventory system. Additionally, the use of a commercial accounting system is conducive to a perpetual inventory system. Also in order to accommodate the large quantity sales transactions, the employees and managers would probably need frequent access to inventory and sales data.

1. **Chelsea’s Post: Read and respond to Chelsea post**

A. The Frontier Shop should use a periodic accounting system, because it is a small business operated by the owner and only one part-time employee. The store uses an antique cash register, which speaks most likely for how the rest of the store operates. Also a bookkeeping service takes a monthly stop into the store and does basic accounting services.

B. Allister’s Corner should use a perpetual accounting system. This system would work best; although their volume of sales is low, the cost of each painting can become quite expensive which is why it would be important to use this type of system.

C. This corporation should use a perpetual accounting system. Because they have four locations, multiple employees, and multiple managers, having a completely up to date inventory is crucial.

D. Toys-4-You would use a perpetual accounting system, they run on a chain of 86 retail stores, similar to the corporation mentioned in example C, the up to date inventory would be extremely important to run business smoothly. With the technology this company has, they would be able to run a perpetual system easily. Headquarters receiving weekly inventory and sales updates is helpful for the company to know exactly how they are doing at any time.

E. Mr. Jingles would most likely use a periodic accounting system. Being that his inventory is all at low cost, and most likely cash transactions. Also, that he is the owner and operator he is probably familiar with what he has on hand inventory wise vs how much money he makes on average daily.

F. TransComm would benefit from a perpetual accounting system because of their high volume of sales. Also they have an employee specifically hired at full time to handle all accounting records.