JOHNSTONE ®

Reconciling Inventory to the General Ledger

INVENTORY DETAIL VERSUS INVENTORY SUMMARY

The following document briefly outlines some key areas many users overlook when attempting to balance Inventory Value (On-hand * Average Cost) with the General Ledger Inventory (updated through the A/P system). This list is not meant to be all inclusive, but details the most common causes of discrepancies.

Menu 13.20.2 is the only supported process by which stores, whose desire is to balance Inventory Value to General Inventory, can ensure that what is being entered into the inventory system via PO receipts posting matches that which is entered into the A/P system and subsequently the General Ledger. Care must be taken to match all PO receipts to vendor invoices, with reconciliation and cost discrepancies entered through the Purchase Order Receipts Update to A/P process (13.20.2).

POTENTIAL PROBLEMS:

1) Product has been received but not yet vouchered into the Accounts Payable system - Inventory value is updated at receiving time (i.e. as soon as the on-hand increases due to a PO receipt). However, the G/L Inventory is not updated until the vendor invoice has been vouchered and the Inventory G/L account debited for the amount of the merchandise received.

2) Inventory adjustments have not been properly entered into the General Ledger via a Journal Entry - The Daily Inventory Transaction Audit Report that runs with each Day End lists all inventory adjustments that have been made for the day. These adjustments directly affect the product on-hand quantity and consequently the inventory value. A journal entry must be made to the Inventory G/L account for all inventory adjustments made throughout the month to properly reflect these changes in the General Ledger inventory value.

3) The difference between the PO receipt cost and the vendor-invoiced cost does not agree - It is necessary to properly record any differences between the product cost at PO receiving time and the actual cost invoiced from the vendor.

4) Incorrect use of the Warranty System…vendor credits do not match credits issued through the warranty claim - When closing warranty claims, vouchers should be expensed only to the Warranty A/R account. Also, when issuing vendor credits, the actual credit amount from the vendor should be used.

5) Incorrect or non-posting of the Inventory Buyback - The Inventory Buyback process reduces on-hand (and subsequently inventory value). It is therefore necessary to make a journal entry to reflect this change in the G/L inventory value.

6) Incorrect or non-posting of the Physical Inventory variance - The Physical Inventory process updates on-hand (and subsequently inventory value) at the time the inventory is updated. It is therefore necessary to make a journal entry to reflect this change in the G/L inventory value.

7) PO Receipts posting of items not carried as inventory - Products such as C99 and Z95 items should have then Inventory Bypass flag set to 'Y'es to avoid updating their on-hand (and subsequently inventory) values. Also, these items should not be received, as their on-hand value should always remain at zero.

8) Failure to utilize 13.20.2 Purchase Order Receipts Update to A/P to record vendor invoices and cost changes - 13.20.2 is the only supported process by which stores, whose desire is to balance Inventory Value to General Inventory, can ensure that what is being entered into the inventory system via PO receipts posting matches that which is entered into the A/P system and subsequently the General Ledger. Care must be taken to match all PO receipts to vendor invoices, with reconciliation and cost discrepancies entered through the Purchase Order Receipts Update to A/P process (13.20.2).