



Inventory

Denver 2009



Introductions



CAN
versus
SHOULD

BALANCING Inventory

CAN

BE

DONE!!!



BALANCING Inventory

It takes TIME

It takes ATTENTION TO DETAIL

It takes EFFORT

It is ALL OR NOTHING

Even for... ECLIPSE users!



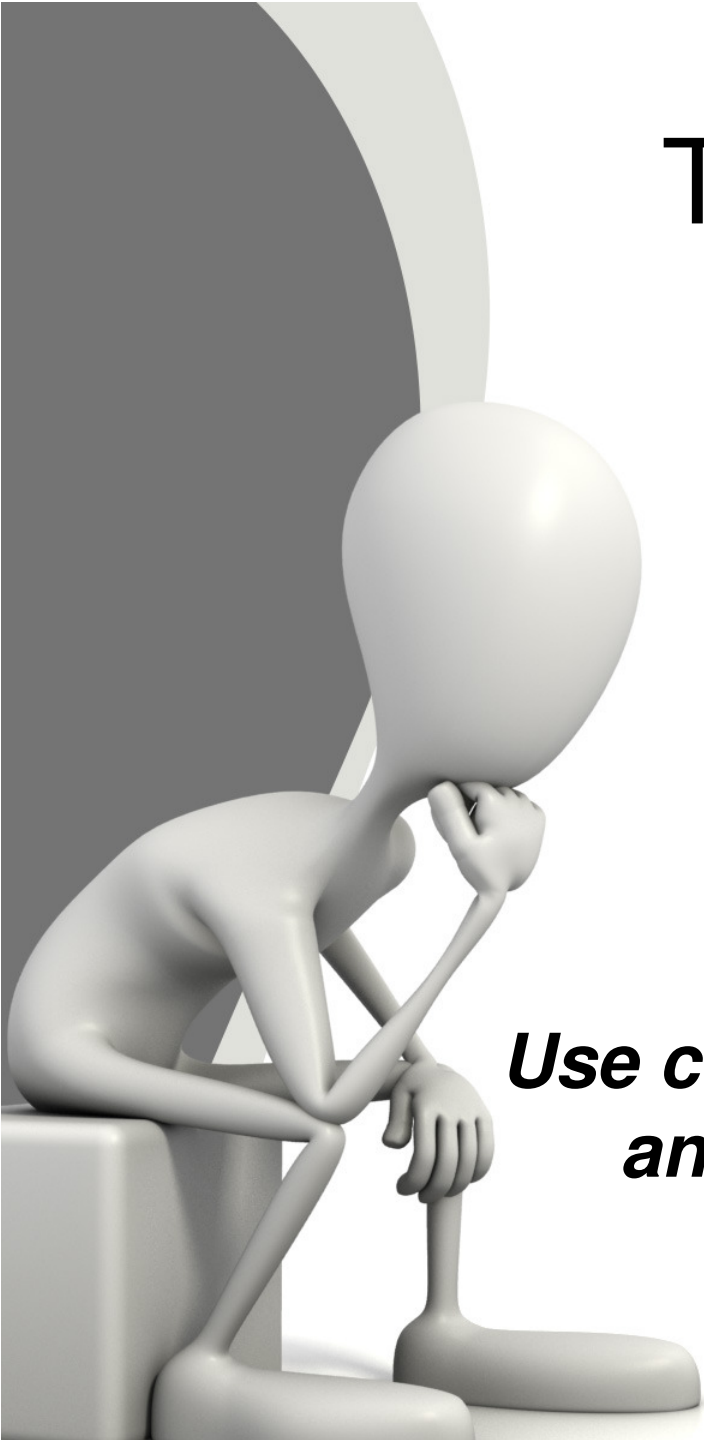


What is “balancing”

The GOAL

Make **Detail**
match
the **Summary**

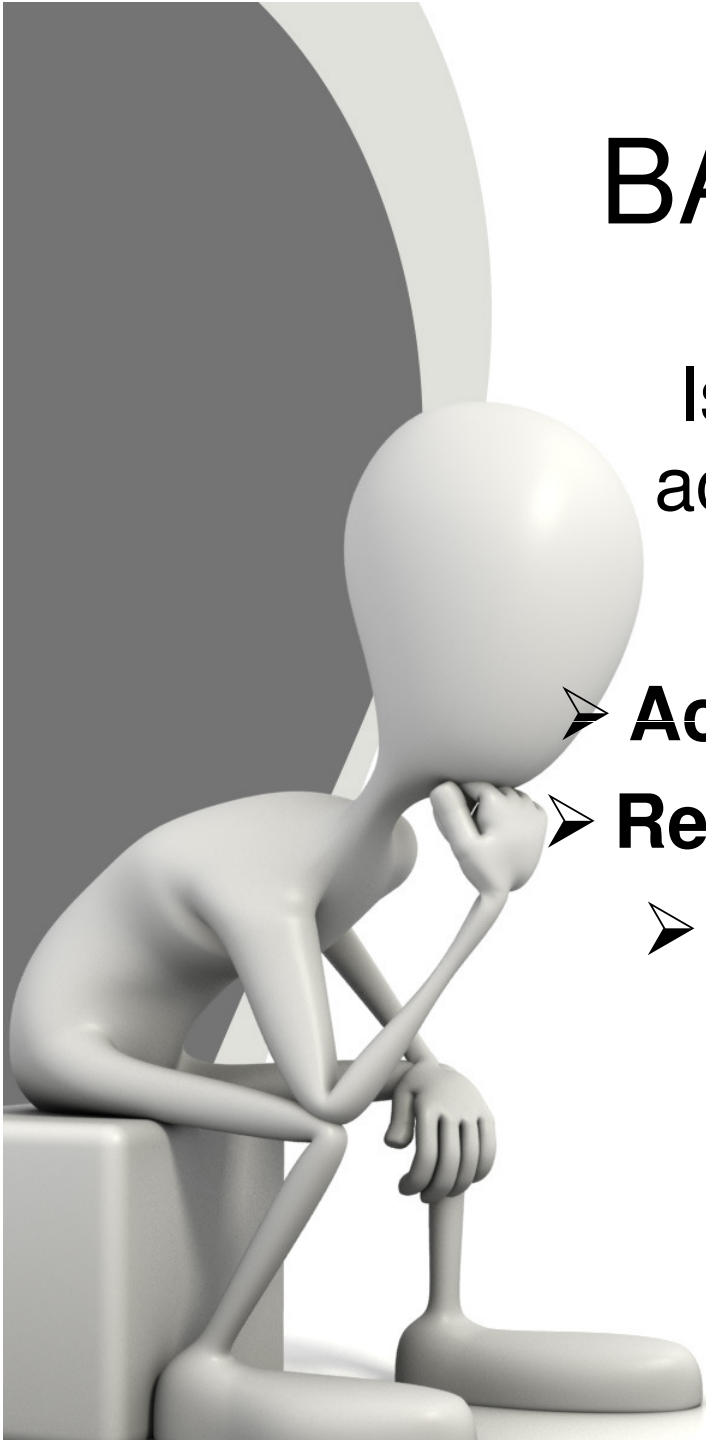
*Use correct Processes, Procedures
and Accounting Reconciliation.*



BALANCING Inventory

Isn't just about making sure the accountants are happy, it means...

- **Accurately measuring profitability**
- **Realistically monitoring Cash Flow**
 - **Properly planning for Growth**
 - **Correctly paying Taxes**
 - **What else....**

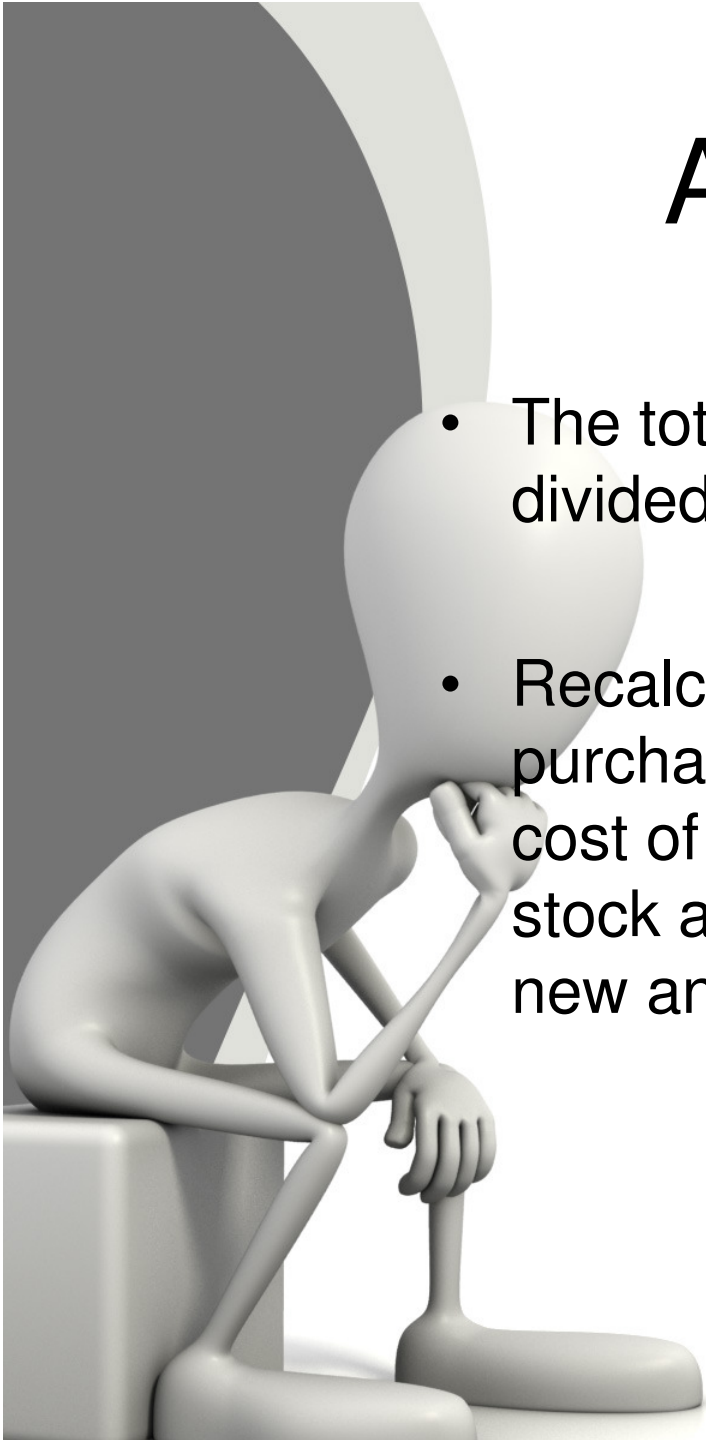


Average Cost



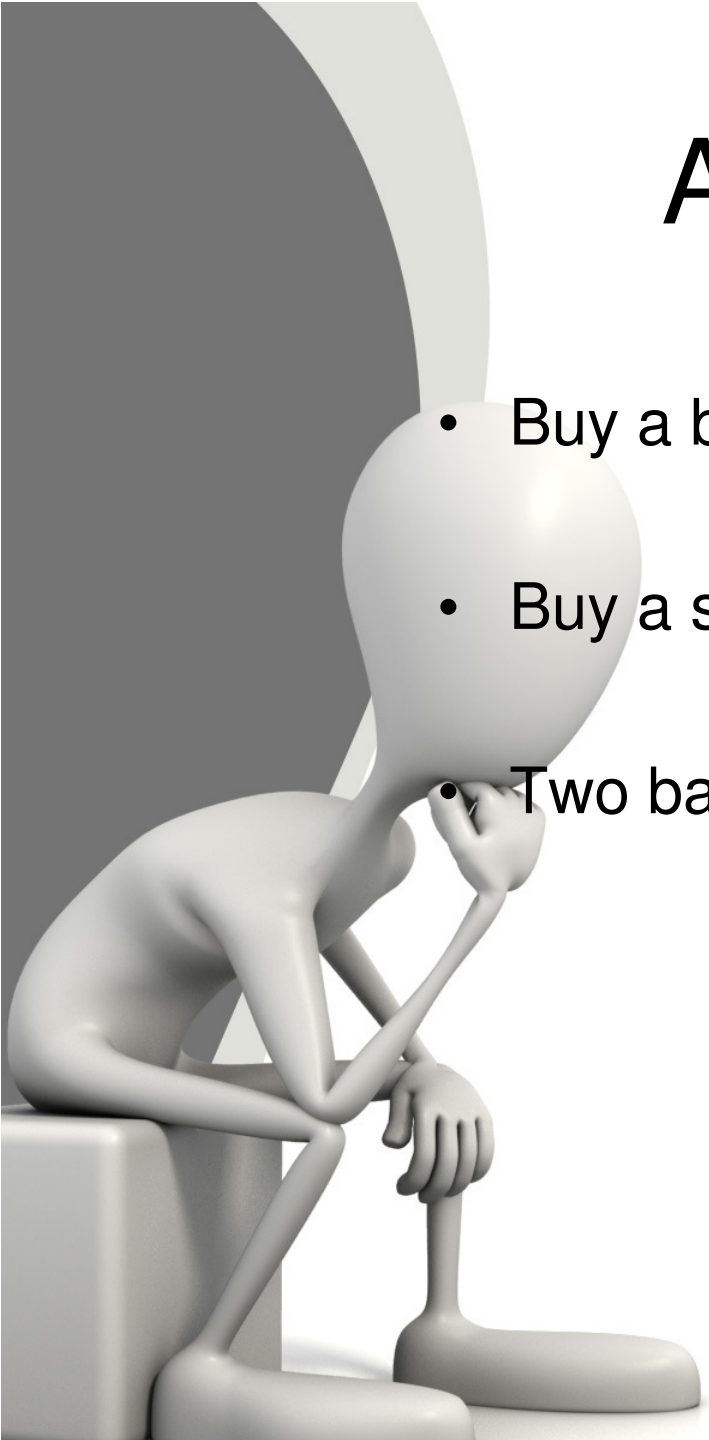
Average Cost is...

- The total **cost** of the items currently in stock divided by the number of **items** in stock.
- Recalculated **every** time you record the purchase of more units of the item. It adds the cost of the new items to the cost of the old stock and then divides by the total number of new and old items.



Average Cost is...

- Buy a battery for \$1
- Buy a second battery for \$2
- Two batteries on hand = average cost = \$1.50



Average Cost is more complicated...

- **Calculated 1000s of times per day**
- **Calculated on 1000s of SKUs**
- **Basis for EVERY transaction**



Average Cost is found... m12.3.2.3 (by warehouse)

PORT67 (1)

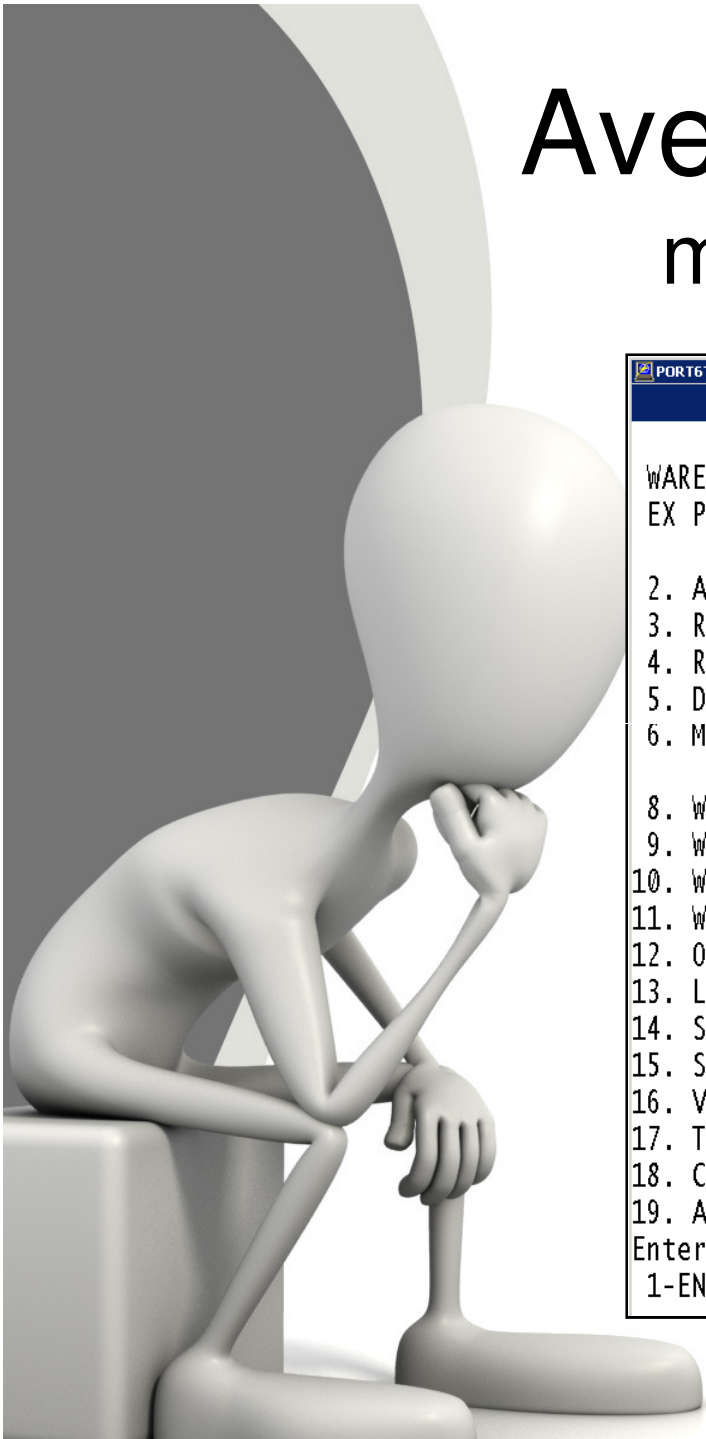
PRODUCT DETAIL MAINTENANCE

WAREHOUSE 001
 EX PROD # L40-701 TH6110D1021 PRG FOCUSPRO CAT PAGE:376
 LAST CYCLE COUNT DATE 03/25/09

2. AVG COST 40.621 -----FY SALES HISTORY-----
 3. ROP 23 2009 208 207
 4. REORDER QTY 4 JAN 20 12 42
 5. DAYS SUPPLY 20. DIR COST FEB 14 22 24
 6. MIN ROP 12 21. DIR QTY MAR 5 30
 ONHAND 44 APR 28 3
 VOQ 48* MAY 12 16
 CBO JUN 12 28
 INPICK JUL 11 15
 SEASON A AUG 17 10
 SEP 22 9
 OCT 8 2*
 NOV 21 7
 DEC 34 36
 TOT 39 199 222

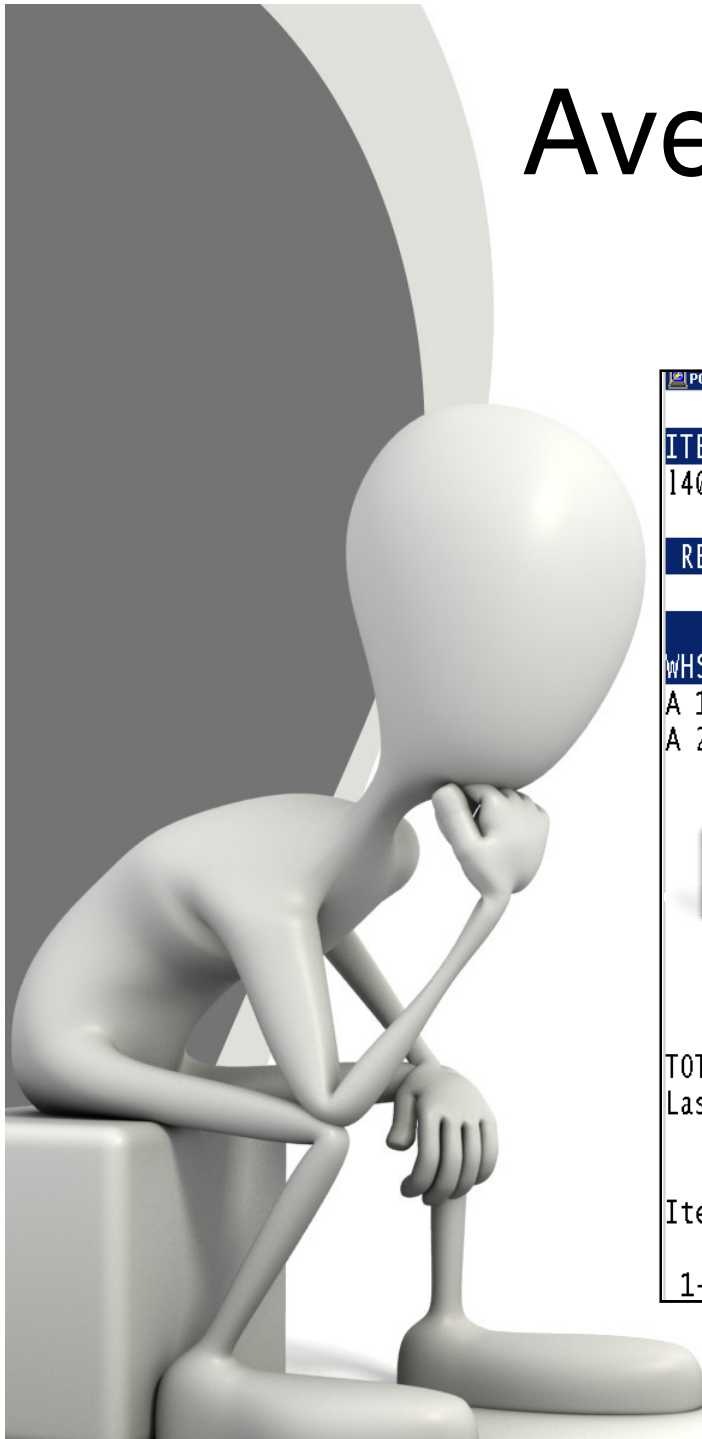
8. WAREHOUSE LOC 1 13C3
 9. WAREHOUSE LOC 2 13C9
 10. WAREHOUSE LOC 3
 11. WAREHOUSE LOC 4
 12. OH NEGATIVE IND Y
 13. LOT LOGIC IND
 14. SERIALIZED INV N
 15. STANDARD PACK 12
 16. VENDOR NUMBER 001 JOHNSTONE SUPPLY, INC.
 17. TAX FLAG N
 18. CREATE DATE 03/16/05
 19. ABC RANKING A

Enter Line#, Backout, DELETE, Edit, 0 to Accept
 1-END 4-INQ 5-CASHT 6-CASH 7-CODT 8-COD



Average Cost is found...

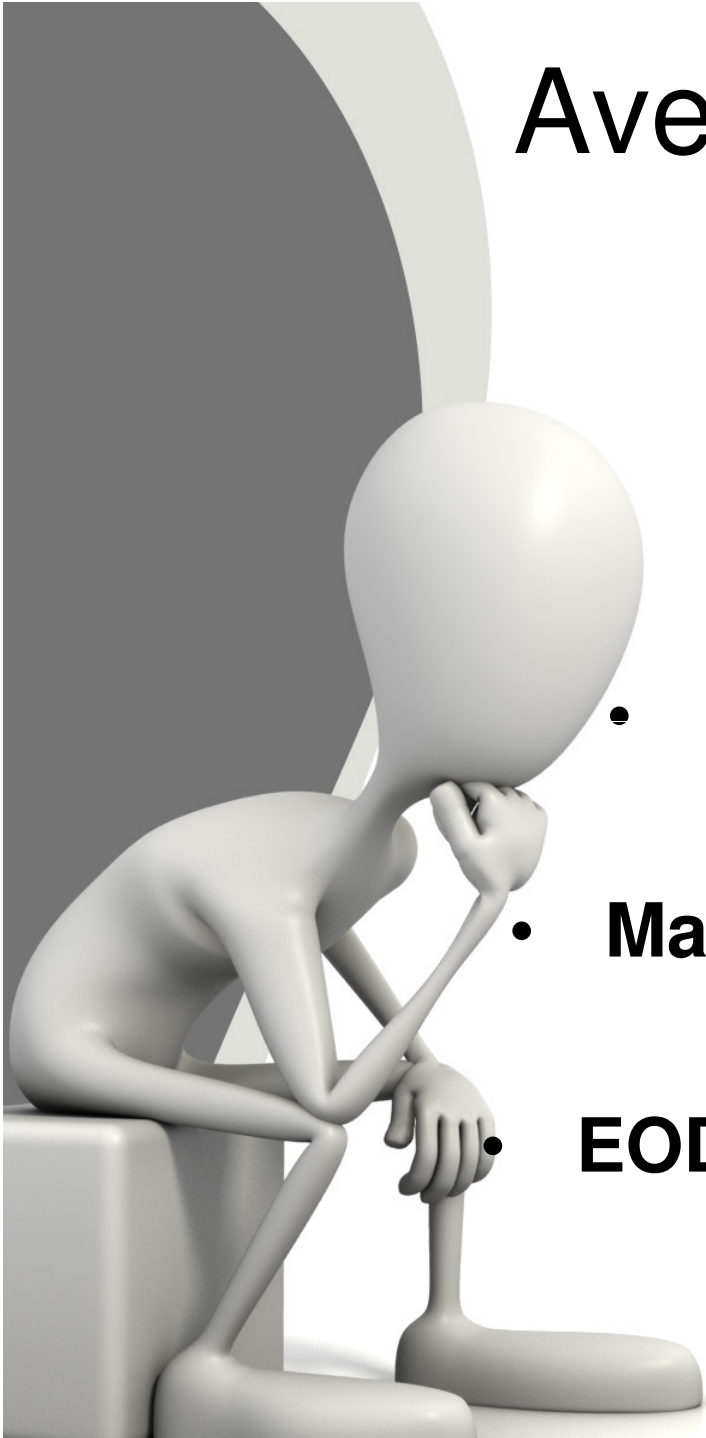
Stock Status



PORT67 (1)														
STOCK STATUS INQUIRY												04/22/09 10:07:29		
ITEM NO.	HAZ	U/M	ITEM DESCRIPTION					DISC	P/C	SUBSTITUTE ITEMS				
140-701			EA TH6110D1021 PRG FOCUSPRO N 300-03											
			A 1H/1C LRG DISP PROG TSTAT											
REGULAR PRC	CORE CHG		AVERAGE COST		BRANCH COST		DIR COST	VEND#	SP					
75.21			40.621		44.940		41.610	A630	12					
WHSE	ON	ON	SOLD	ON	IN	SALES QTY			QTY	OLDST				
WHS	LOC	HAND	ORDER	TODAY	B/O	PICK	AVAIL	MROP	ROP	MTD	YTD	LY	PO DD	
A 1	13C3	13C	44	48P	0		44	12	23	39	199	04/24		
A 2	12C8	G3	57	24	0		57	12	12	4	22	175	04/30	
<div style="border: 1px solid black; padding: 5px; text-align: center;"> <p>What does Average Cost tell you....</p> </div>														
TOTAL	101	72	0	0	0	101	24	35	4	61	374			
Last changes: PRICE 04/02/09 COST 11/08/08 DIRECT 11/08/08														
	1	12	24							0386	AVAIL			
	150.41	142.89	135.76							C376	44			
Item#, 'L'lookup, 'S'ales, 'D'irect, 'N'otes, '{qty}L'st, 'SUB': AAAAAAAAAAAAAAAAAA														
1-END				4-INQ			5-CASHT		6-CASH		7-CODT		8-COD	

Average Cost is updated when...

- **Product is received**
- **Bill is vouchered in 13.20.2**
- **Manual change to Product detail**
- **EOD System Calculation (custom)**



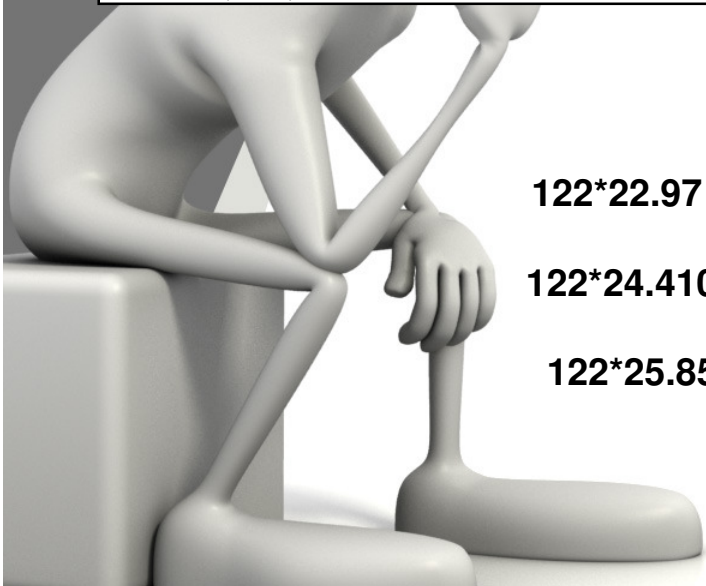
Do you think you can do it better, faster, smarter than the computer?

INV	02/28/05	01225669001		-1	26.578	35.76	23504	121
							MEIER REPAIR	
A/P	02/28/05	846792-00	01126853	0	23.690		001	122
							JOHNSTONE SUPPLY	
A/P	02/28/05	846792-00	01126853	0	24.417		001	122
							JOHNSTONE SUPPLY	
A/P	02/28/05	846792-00	01126853	0	24.417		001	122
							JOHNSTONE SUPPLY	
INV	02/23/05	01225054001		-1	22.970	35.76	6360	122

$$122*22.97 + (120*24.417 - 120*22.952) = 2802.34 + (2930.04-2754.24) = 2978.14/122 = 24.410 \text{ Avg Cost}$$

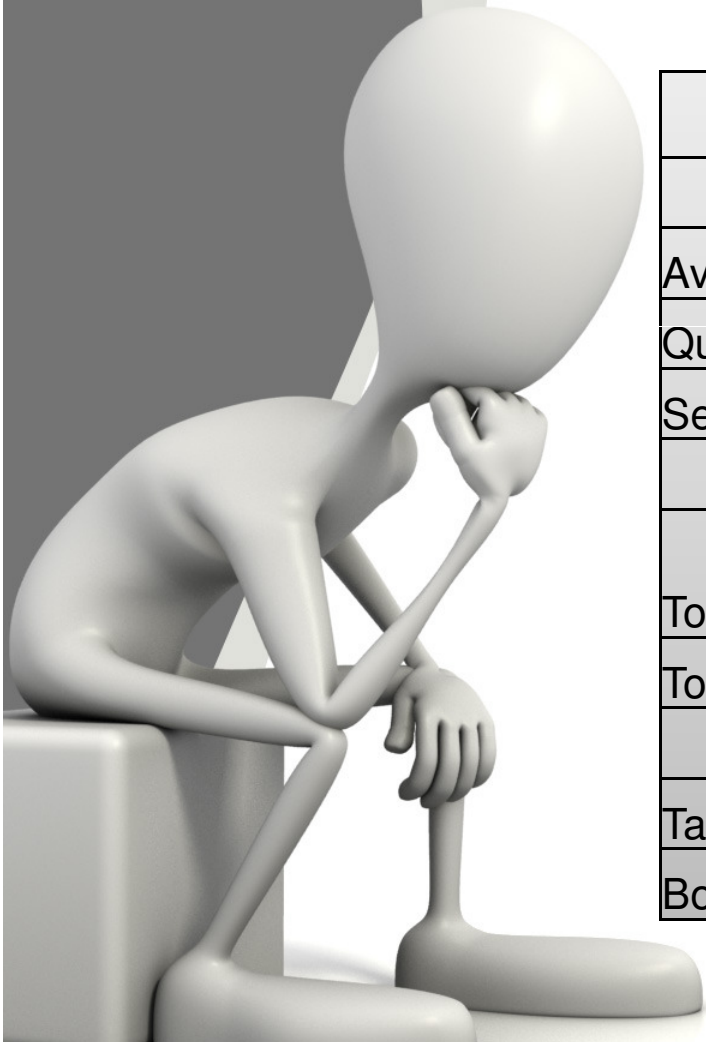
$$122*24.410 + (120*24.417 - 120*22.952) = 2978.02 + (2930.04-2754.24) = 3153.82/122 = 25.850$$

$$122*25.85 + (120*23.69 - 120*22.952) = 3153.70 + (2842.80-2754.24) = 3242.26/122 = 26.578$$



Average cost - too important to neglect

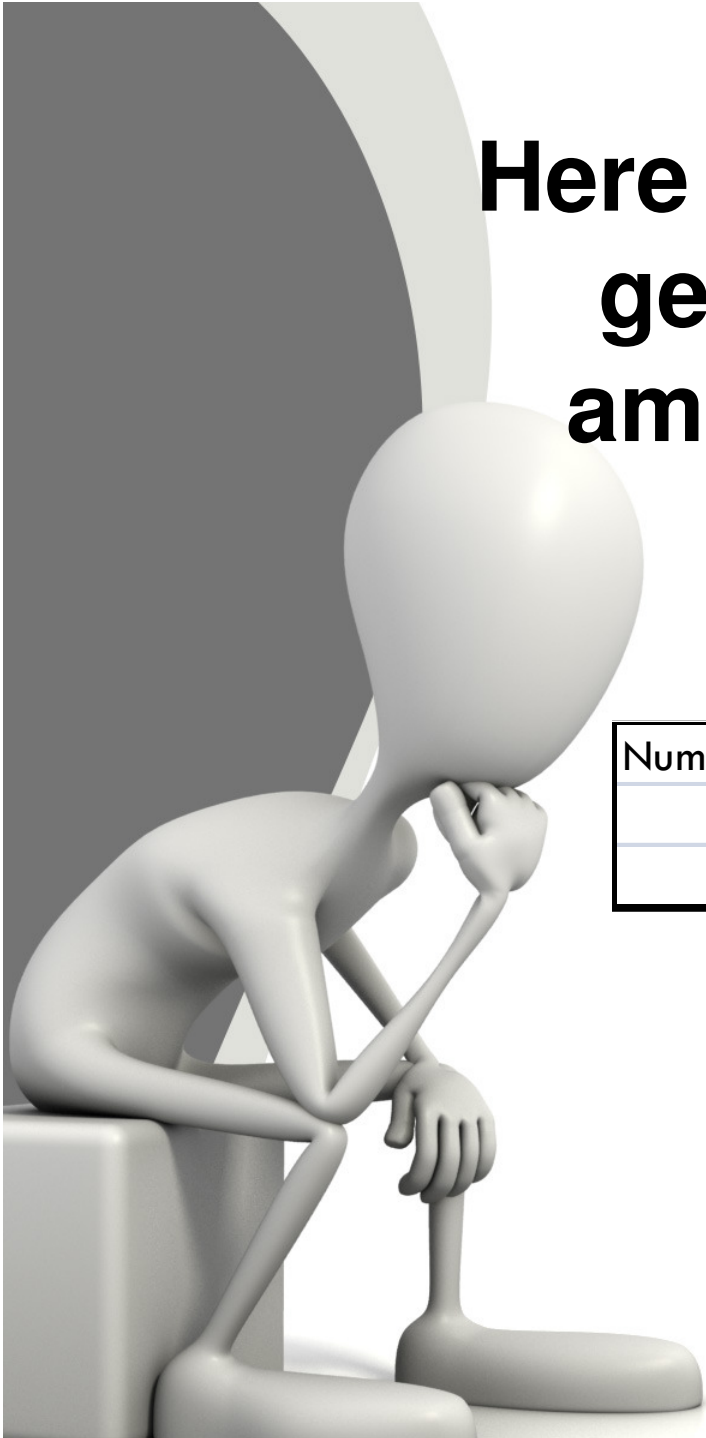
(show real-time changes and impact)



	ONE Part/ \$1 Variance		
Average Cost	\$5.00	\$6.00	
Quantity Sold	500	500	
Sell Price	\$10	\$10	
Total Sales	\$5,000.00	\$5,000.00	Difference
Total Profit	\$2,500.00	\$2,000.00	\$500.00
Tax Rate	\$825.00	\$660.00	\$165.00
Bonus 10%	\$250.00	\$200.00	\$50.00

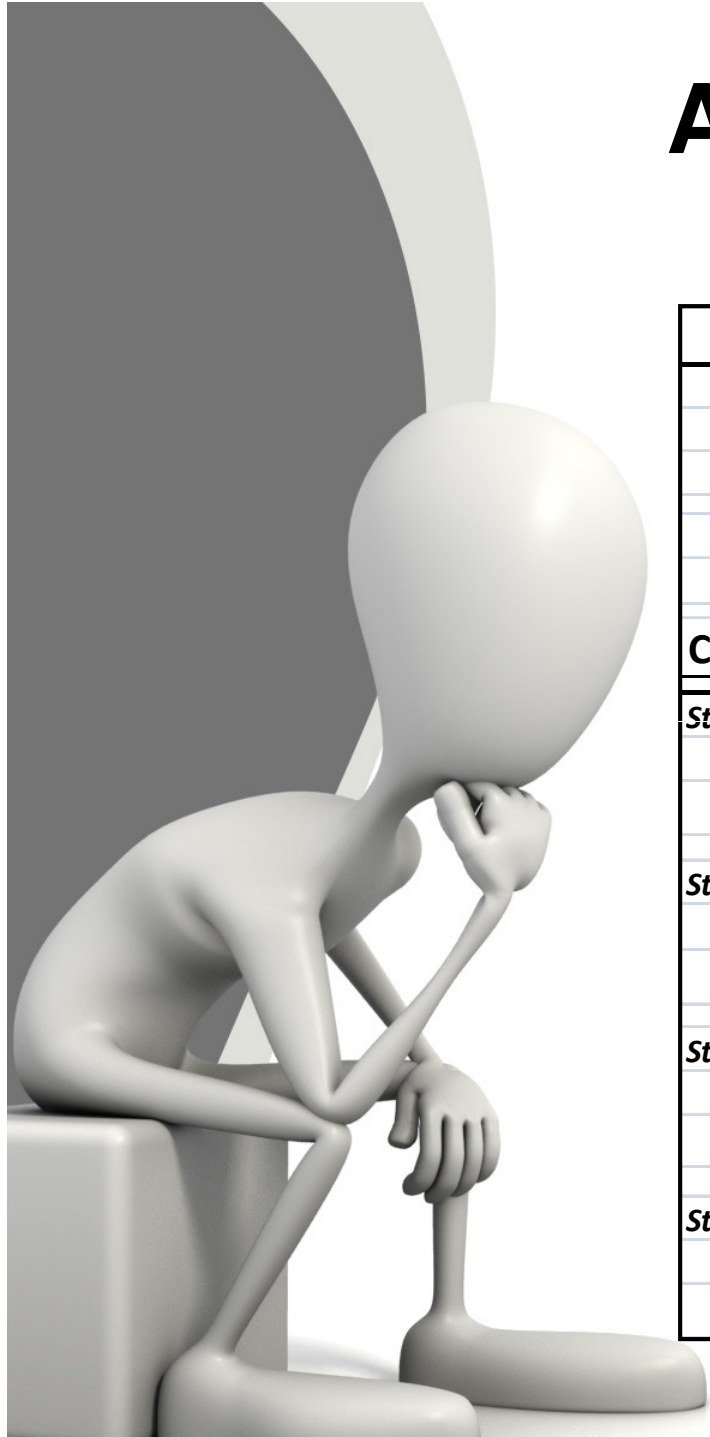
**Here is the SCARY example to
get you to agree with what I
am saying & do what I say...**

Number of SKUs an Avg Johnstone sells.....	20,000
IF 1/3 are wrong by.....	\$0.15
<i>Calculated Profit could be wrong by...</i>	\$ 500,000



Average Cost Calculation

**See handout*



Average Cost Calculation/Example				
Quantity on Hand				10
Current Average Cost (ea)				\$ 42.00
Purchased Quantity				5
PO Cost (ea)				\$ 30.00
Calculation				
Step ONE				
Quantity On Hand	*	Average Cost	=	Value at Average Cost
10		\$ 42.00		\$ 420.00
Step TWO				
PO Qty	*	PO Cost	=	Value of PO
5		\$ 30.00		\$ 150.00
Step THREE				
Value at Average Cost	+	Value of PO	=	Inventory Value
\$ 420.00		\$ 150.00		\$ 570.00
Step FOUR				
Inventory Value	/	Total Quantity	=	New Average Cost
\$ 570.00		15		\$ 38.00

Average Cost Example

PO Qty	3		
Po Cost each	\$ 1.00	\$ 3.00	
Sell GP %	30%		
Sell Price	\$ 1.43		
Qty on Hand (vouchering)	3		
Vendor Bill	\$ 2.00	\$ 6.00	
IF Ignore Avg Cost		IF use 13.20.2	
Stock Status Avg Cost	\$ 3.00	CORRECT Avg Cost	\$ 6.00
Sell @ 1.43	\$ 4.29	Sell @ 1.43	\$ 4.29
Profit	\$ 1.29	Profit	\$ (1.71)
	<u>30%</u>		<u>-40%</u>
Avg Johnstone	2.2 lines per ticket		

Average Cost Example

PO Qty	3
Po Cost	\$ 1.00
Sell GP %	30%
Sell Price	\$ 1.43
Qty on Hand (vouchering)	1
Vendor Bill	\$ 2.00

IF Ignore Avg Cost

Stock Status Avg Cost	\$ 1.00
Sell @ 1.43	\$ 1.43
Profit	\$ 0.43

30%

IF use 13.20.2

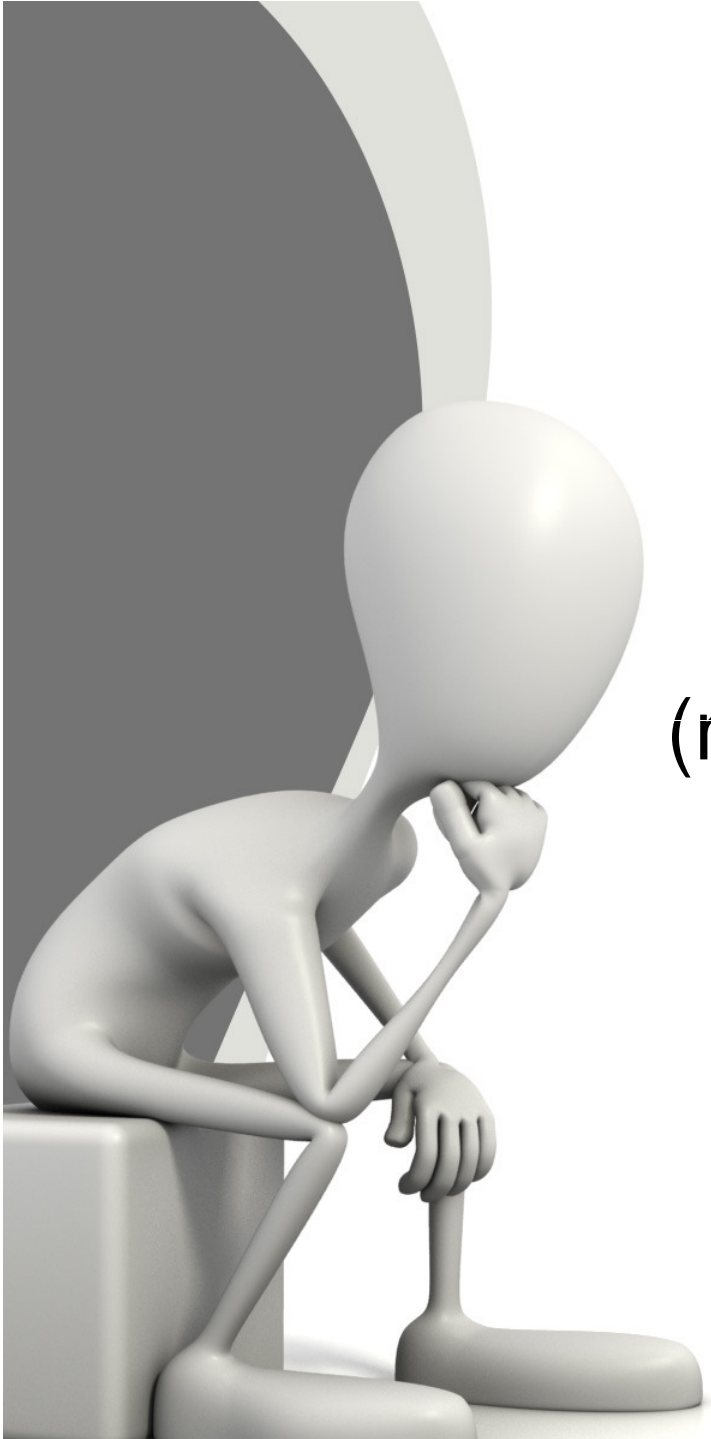
CORRECT Avg Cost	\$ 4.00
Sell @ 1.43	\$ 1.43
Profit	\$ (2.57)

-180%

Avg Johnstone

2.2 lines per ticket

Two @ \$1.43 "GP"	\$	0.86
Less Corrected GP	\$	(2.57)



Inventory Problems

(not meant to be all inclusive)

Potential Problem #1: Unreceived

**See handout*

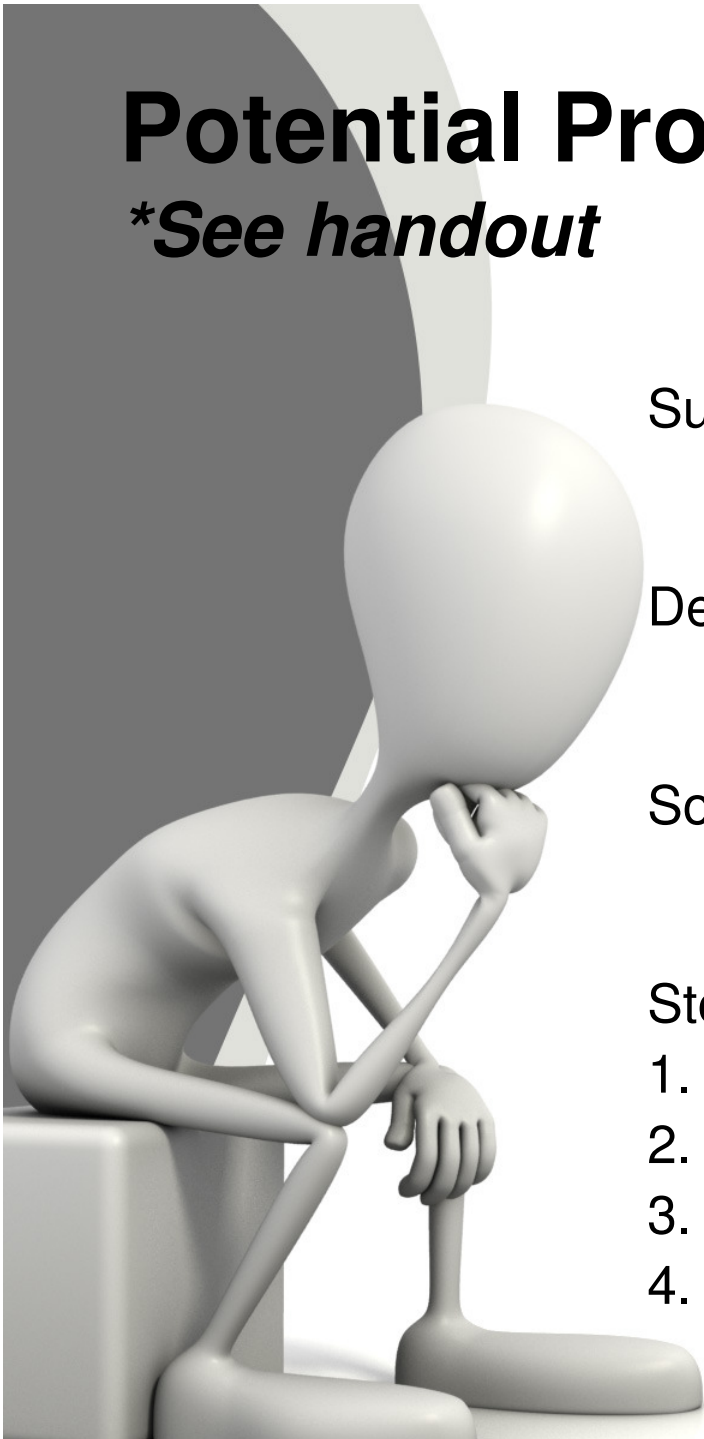
Summary: Inventory hits general ledger at the time of vouchering.

Detail: Inventory hits the system when it is received.

Solution: Monthly Journal Entry to account for what has been received but not vouchered.

Steps

1. Use 13.20.2 for vouchering
2. Close AP on the 1st
3. Run 13.20.7 on the 1st
4. Monthly Journal Entry
(Debit Inventory, Credit AP Accrual)



Inventory Journal Entry #1

Run Menu 13.20.7 at month end for
reversing Journal Entry

Inventory *XXXXXX*

Inv. Accr

XXXXXX



Potential Problem #2: Stock Adjusts

**See handout*

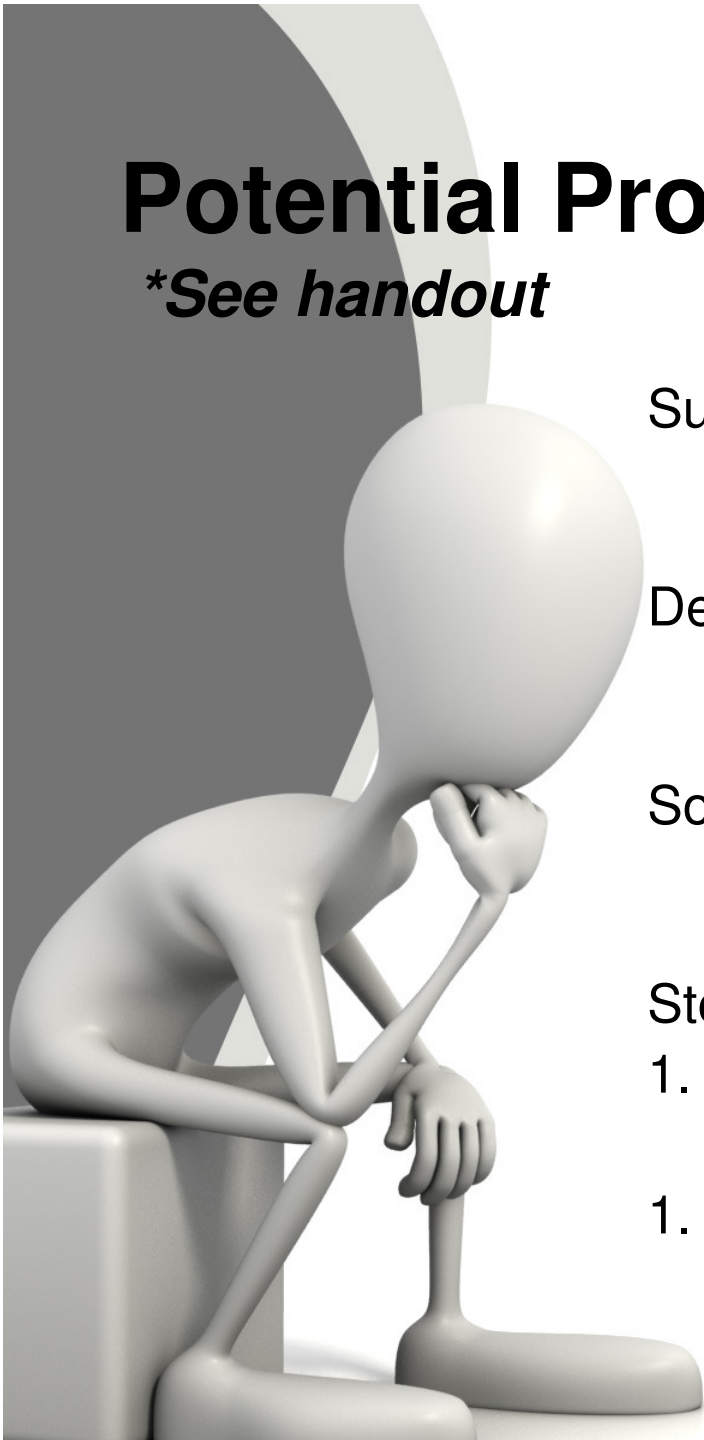
Summary: Stock adjustments hits general ledger with a journal entry

Detail: Stock adjustments hits the system when they are made

Solution: Monthly Journal Entry to force the general ledger to reflect stock adjustments

Steps

1. Monthly Journal Entry – can be automated
Menu 35.7 #5
1. Monthly Journal Entry – using EOM report or 8.4a entry summarizing stock adjustments
(*Debit/Credit Inventory, Debit/Credit Expense Account*)



Inventory Journal Entry #2

Stock Adjustments

Spooled D3 Report - Notepad

File Edit Format View Help eSend

Spooled D3 Report
001 Apr 2006 MONTHLY INVENTORY ADJUSTMENT REGISTER PAGE 1

WHSE	REASON.....	DATE....	A.PROD.NO...	PROD.DESC.....	BAL.BEF.	QTY...	BAL.AFT.	COST..	VALUE...	OPER.NAME...
001	UNKNOWN LOSS	03/16/06	B13-261	US5-66-PK SWEAT ADAP	13	-3	10	1.269	-3.807	Kathleen G
001	UNKNOWN LOSS	03/16/06	B13-262	US5-88-PK SWEAT ADAP	5	-1	4	1.590	-1.590	Kathleen G
001	UNKNOWN LOSS	03/16/06	B13-263	US5-1010-PK SWEAT AD	2	-1	1	2.100	-2.100	Kathleen G
001	UNKNOWN LOSS	03/20/06	G31-807	SPEC4 SET SCREW KIT	2	-1	1	13.050	-13.050	Kathleen G
001	UNKNOWN LOSS	03/20/06	L38-808	43101972100 CONTROL	1	-1	0	50.430	-50.430	Kathleen G
001	UNKNOWN LOSS	03/22/06	L40-709	TH4110B1017 SUBL4083	1	-1	0	25.382	-25.382	Kathleen G
001	UNKNOWN LOSS	03/22/06	L96-479	F312-12X30XL AIR FIL	24	-2	22	0.831	-1.662	Kathleen G
001	UNKNOWN LOSS	03/22/06	R94-120	51010F114 16"X25'R4.	2	-2	0	34.670	-69.340	Kathleen G
	***					-12		129.322	-167.361	
001	UNKNOWN ADDI TION	03/30/06	186-503	LH680005 PILOT	3	+1	4	40.582	40.582	Kathleen G
001	UNKNOWN ADDI TION	03/16/06	G95-012	23010 F34CW/RS/WM/EC	-2	+2	0	1.371	2.742	Kathleen G
001	UNKNOWN ADDI TION	03/20/06	L37-815	41-408 IGNITOR	19	+1	20	12.275	12.275	Kathleen G
001	UNKNOWN ADDI TION	03/22/06	L86-058	Y8610U3003 IGNITION	1	+2		3127.170	254.340	Kathleen G
001	UNKNOWN ADDI TION	03/28/06	P53-032	A32/4L340 UNIMATCH V	8	+3	11	1.410	4.230	Kathleen G
	***					9		182.808	314.169	

Potential Problem #3: Discrepancies

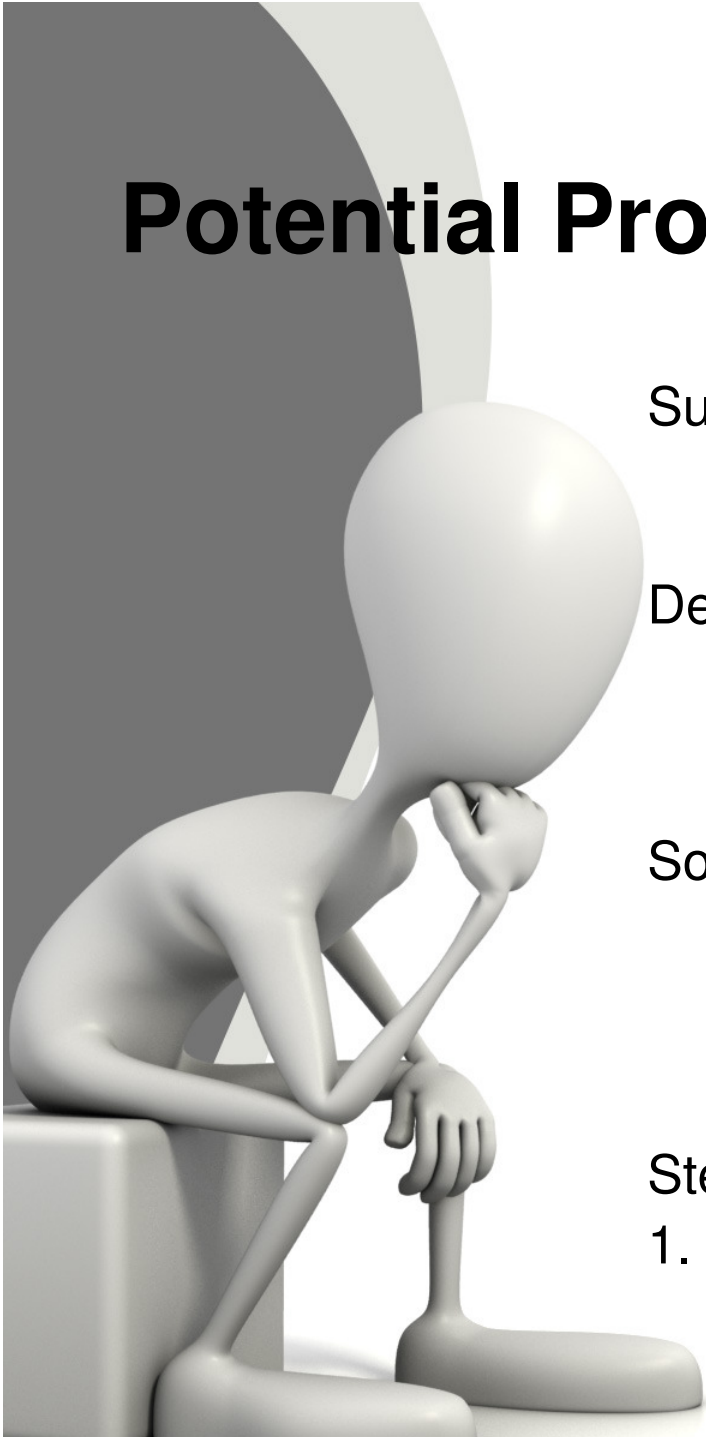
Summary: What the vendor bills the store at is what updates the general ledger

Detail: Product is received at what the Purchase order shows and updates average cost (which might be wrong....)

Solution: Record differences between the PO cost and the vendor invoice cost BUT get the PO right the first time! (Use Corp & Vendor Acknowledgements)

Steps

1. Use 13.20.2 to voucher your Vendor Bills



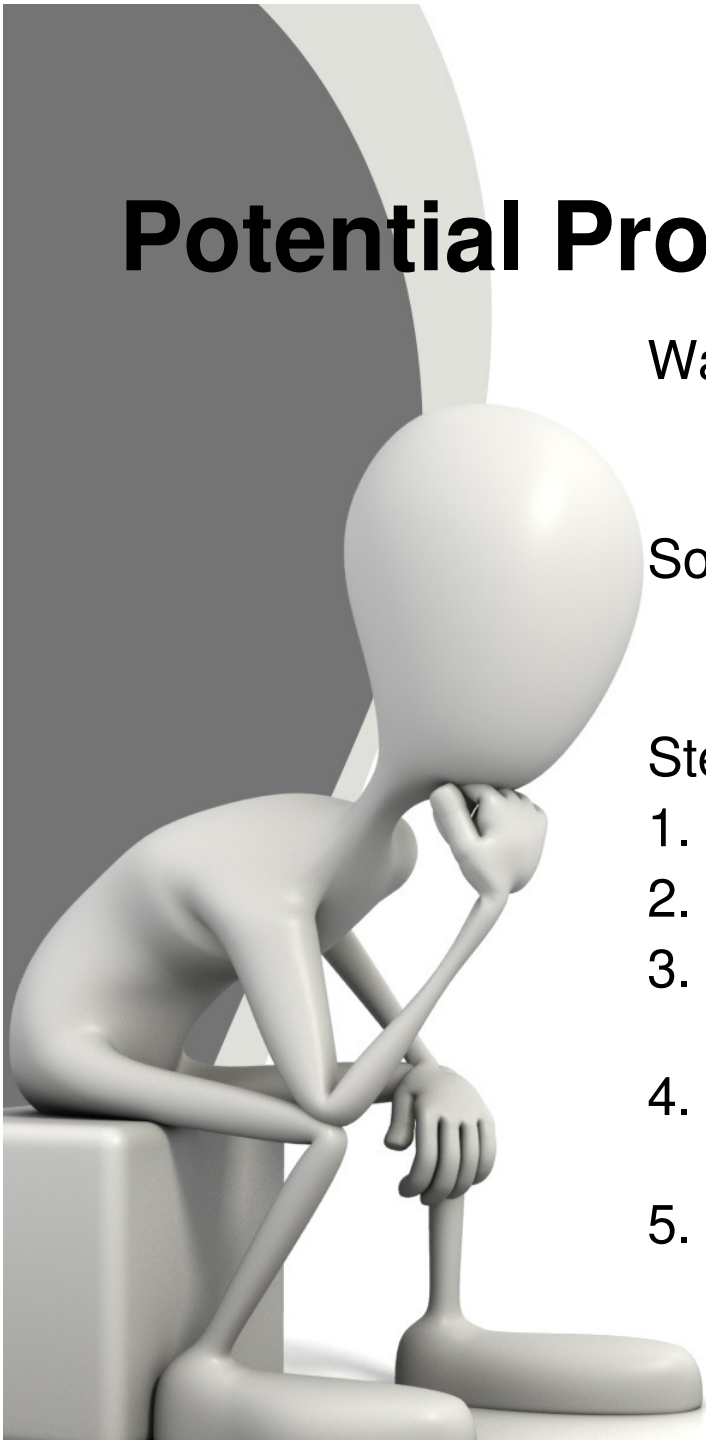
Potential Problem #4: Warranty/SRs

Warranty system/Vendor Returns menu have to be used correctly

Solution: Follow the directions 😊 because the offsetting entry is INVENTORY

Steps

1. Process HAS to start with Order Entry credit
2. Don't use 15.9 for anything other than viewing
3. Close Claims & Voucher Vendor Credit Memos in same GL period.
4. When closing claims in 15.11 make sure the Warranty AR Account is being used (12.1.7)
5. When vouchering Vendor Credit Memo use 13.20.1 and voucher the credit amount NOT the claim amount



Warranty

Widget

Avg. cost = \$10

Sale Price = \$12

Credit from Vendor = \$25

	Inven	Sales	A/R	COGS	Warr Pend	Warr A/R	Warr Discrep	A/P
1 Credit Memo (m1.2)	10	12	12	10				
2 Warranty Update (ME)	10				10			
3 Create Claim (m15.3)					10	10		
<i>CREDIT REC'D</i>								
Post Credit-Claim								
4 (m15.10)						15	15	
Voucher Credit								
5 (m13.20.1)						25		25
<i>RECEIVING</i>								
4 Replacement (m15.11)	10					10		

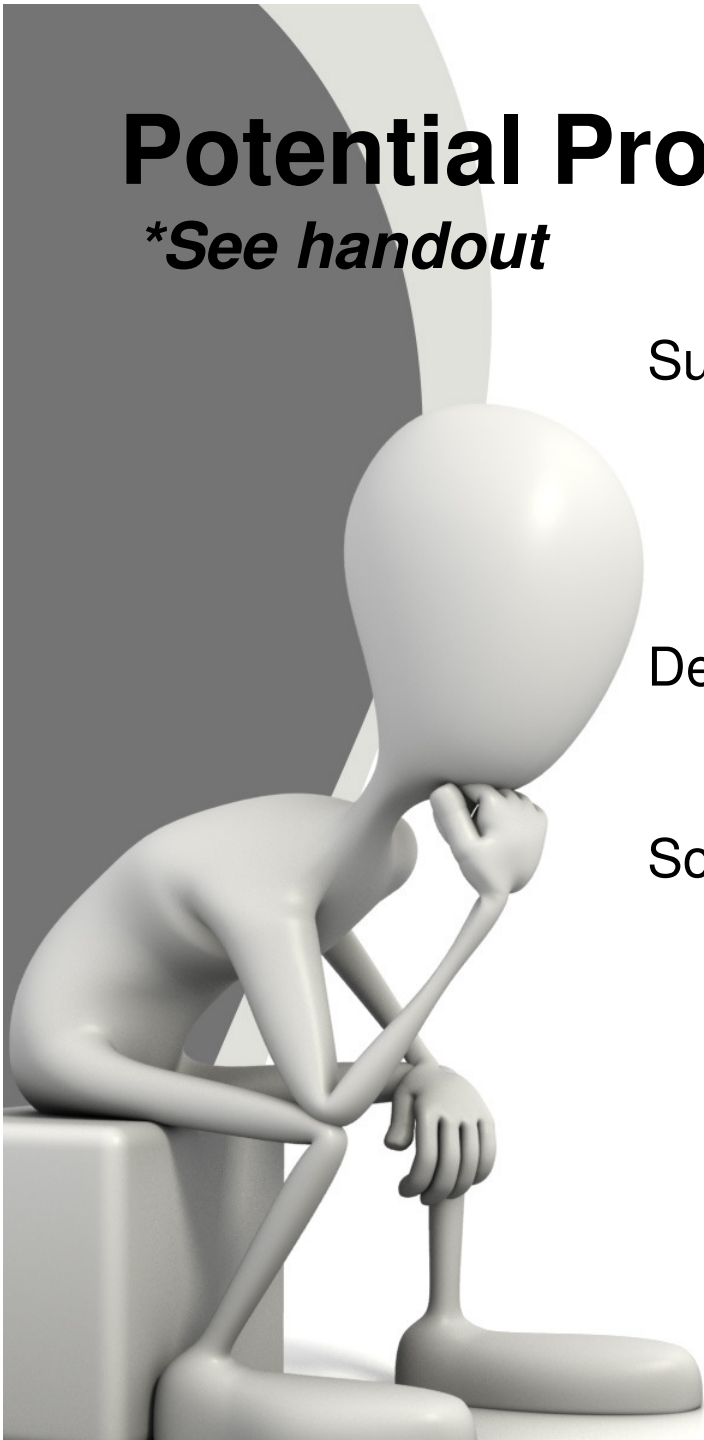
Potential Problem #5: Buyback

**See handout*

Summary: General Ledger isn't updated with invoices on the Buyback accounts: Sales, Cost of Goods, Accounts Receivable or Inventory aren't impacted.

Detail: The Buybacks (rotational or 90-day) reduce on-hand counts (and inventory value).

Solution: Need to make a journal entry to reflect a change in inventory value for what was returned. DO NOT want to change the customer – don't want to update Sales (1%), REORDER product (exceptional sales), create an AR INVOICE, or impact GROSS PROFIT

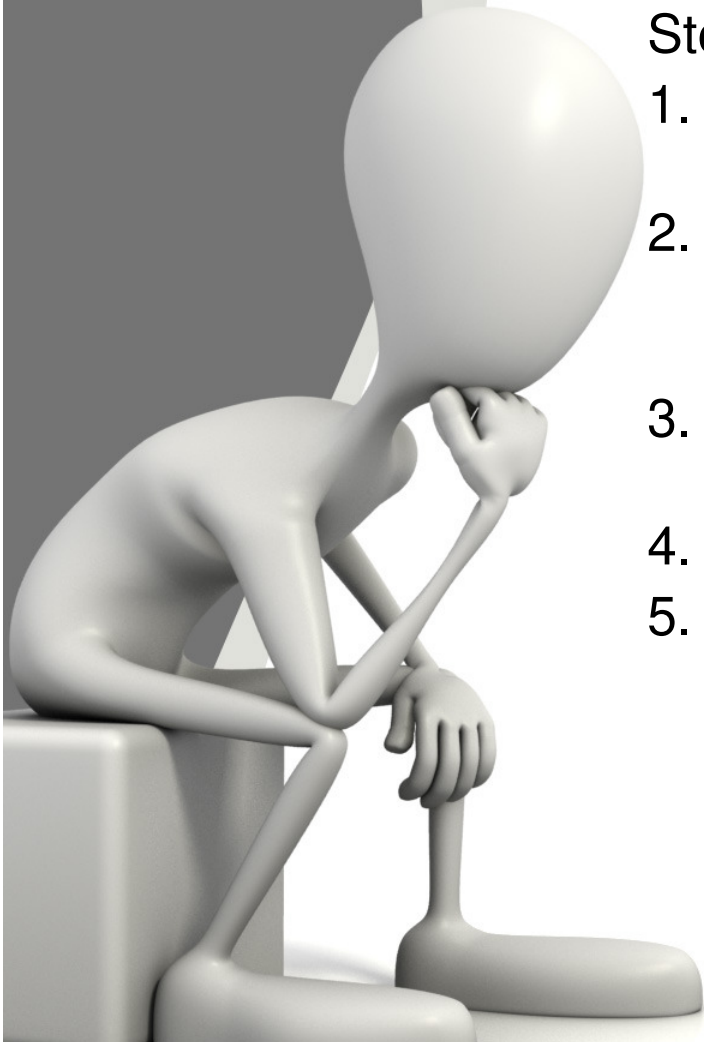


Potential Problem #5 cont'd

**See handout*

Steps

1. Corp needs to be set up as a customer... correctly
2. Use EOD/EOM report to create Journal Entry, at cost for each buyback invoice
Debit Buyback Expense/Credit Inventory
3. Cost of Freight to send product back can be coded to Buyback Expense
4. Credit from Corp is posted to Buyback Expense
5. Resulting expense in Buyback Expense Account is COST of Buyback ("restock" & freight)



Potential Problem #5 cont'd

**See handout*

COMPANY : 01 JOHNSTONE SUPPLY SA MONTHLY TRANSFER REGISTER FOR PERIOD 0809 PAGE 1

INV#	INV.DATE	CUST NBR	CUSTOMER NAME	INV.AMT	COST\$	FRT.AMT	CORE.CHG	GP.AMT	G.P%	RELEASE#	CORE.CST
117895	09/15/08	00000	BUYBACK - CORP	5,387.93	4,407.18	0.00	0.00	980.75	18.2	116233001	0.00
117896	09/15/08	00000	BUYBACK - CORP	22,624.77	17,670.54	0.00	0.00	4,954.23	21.8	116067001	0.00
117907	09/15/08	00000	BUYBACK - CORP	22,359.79	18,497.06	0.00	0.00	3,862.73	17.2	116068001	0.00
		***		50,372.49	40,574.78	0.00	0.00	9,797.71-314.1			0.00

Potential Problem #6: Physical Inv

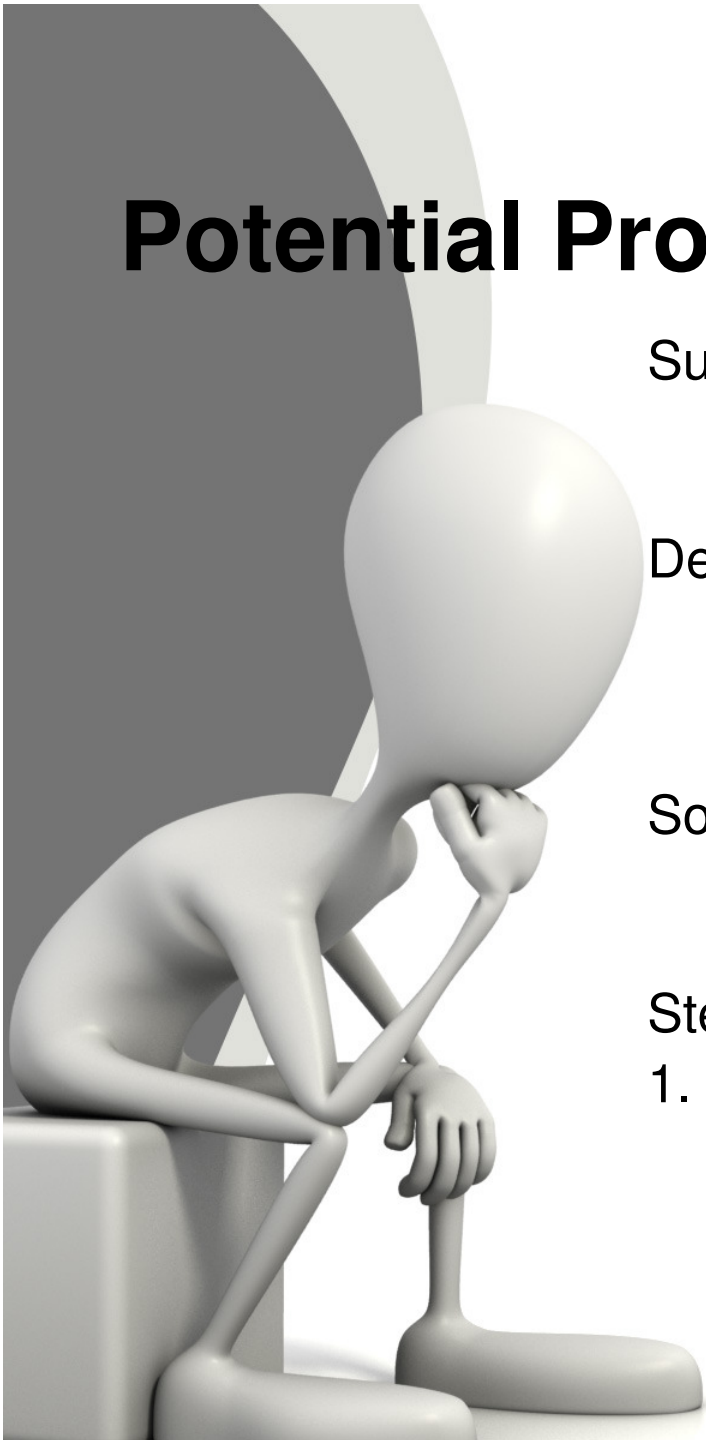
Summary: Updating the Physical Inventory counts does not update the general ledger.

Detail: The Physical Inventory process updates on-hand (and subsequently inventory value) at the time the inventory is updated.

Solution: It is necessary to make a journal entry to record the variance from the Physical Inventory

Steps

1. Using the Final Variance Report, create a journal entry to reduce/increase inventory value



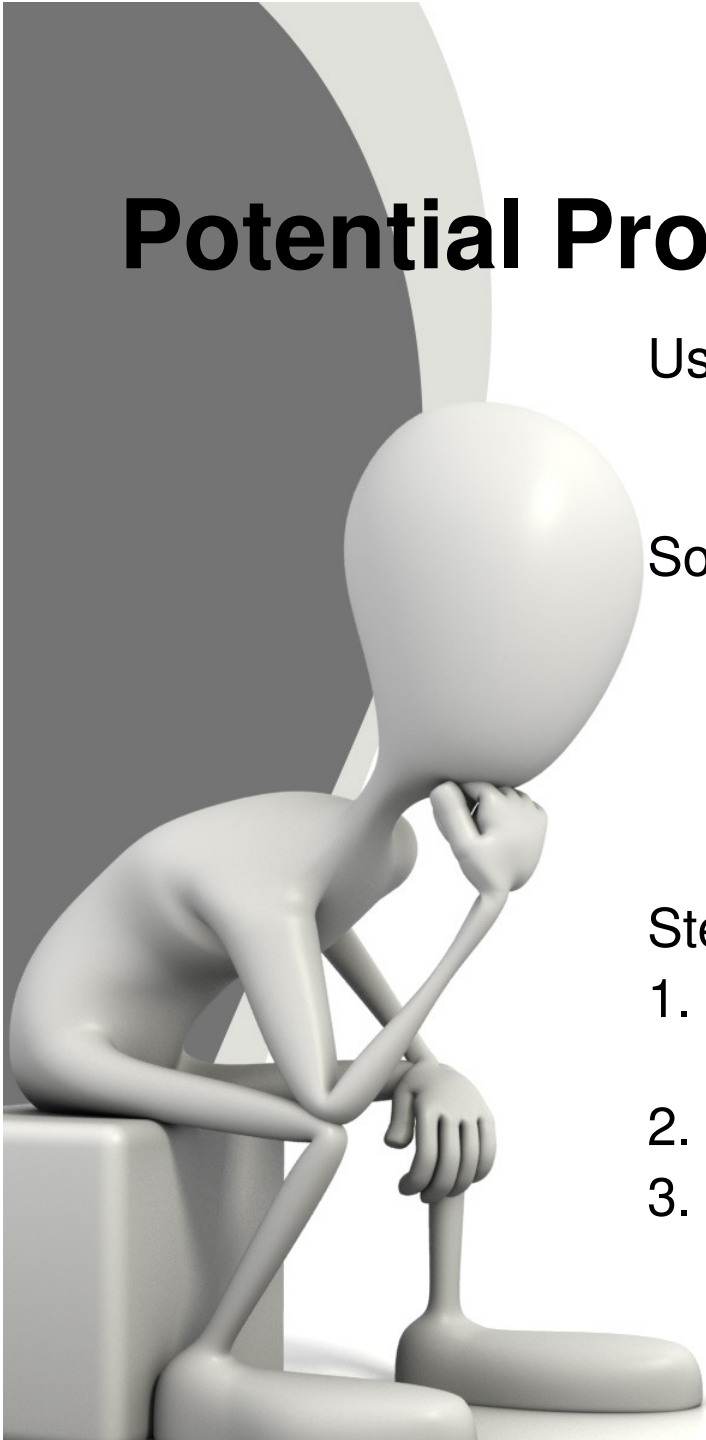
Potential Problem #7: Part Numbers

Using the system to track items not carried as inventory: Office Supplies, Payroll hours, etc

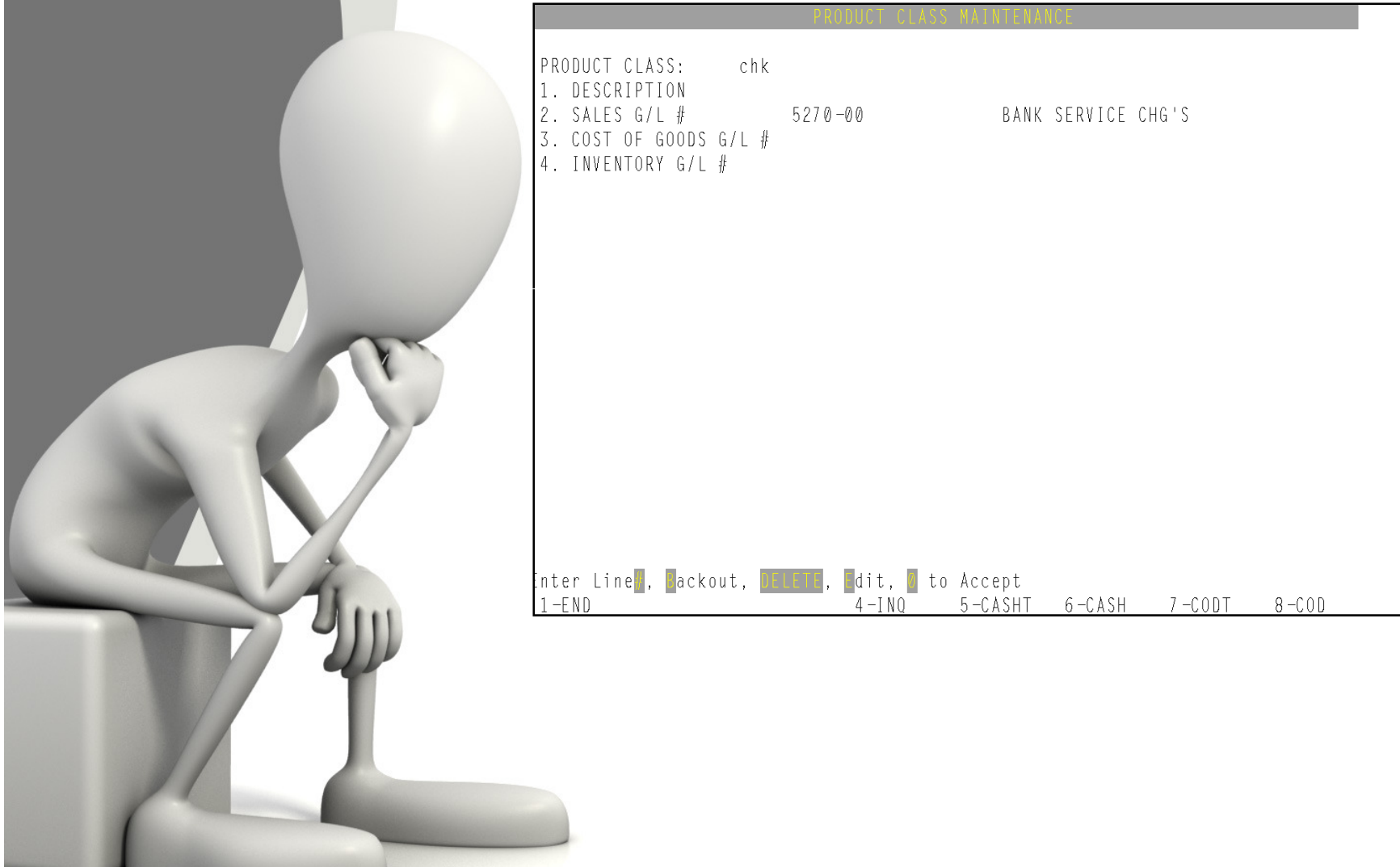
Solution: IF you are going to carry an on-hand count, then you must treat it as a product – receive, bill, handle average cost AND/OR make sure the Inventory Bypass flags are set correctly

Steps

1. Do stock adjustments to bring on-hand count to zero.
2. Set Average Cost to \$0.
3. Product Master, Screen#1, Fields 25 (Y) and 26 (N)



Product/GL Control



Product/GL Control

Only works with Product CLASS in Product MASTER



```
PRODUCT MASTER MAINTENANCE
EX PROD #: RTND CHECK INT PROD #:156511
1.DESC. 1 RETURNED CHECK FEE 20.DISCOUNTABLE Y
2.DESC. 2 21.Menu-5.33
3.CVEND# S128 COD VENDORS 22.DISCONTINUED N
4.VEND DESC RETURNED CHECK 23.ACCEPT D/O Y
5.A/S/W CODE 24.PART SHIP Y
6.BOX QTY 1 25.INV BYPASS Y
7.STOCK UM EA QTY 1 26.STK STAT IND Y
8.PRC/CST UM EA QTY 1 27 TEMP ITEM
9.STD SEL UM EA QTY 1 28.PROD CLASS CHK
10.PURCH UM EA QTY 1 29.PROD TYPE 999 MISC GOODS
11.COR CHG 30.WEIGHT
12.COR CST 31.BYPASS EXCH
13.CNTRCT CST 32.ADD-ONS
14.EACH PRICE 25.00 33.CAT PAGE
15.RETAIL 34.LEAD TIME
16.BR CRP CST 25.000 35.SUB IND
17.PRC HLD EX 36.SUB PROD#
18.DIR CST 25.000 37.SUB PROD#
19.DIR QTY 38.SUB PRC IND N

Enter Line#, Backout, DELETE, Edit, 0 to Accept
1-END 4-INQ 5-CASHT 6-CASH 7-CODT 8-COD
```


Potential Problem #7 cont'd:

C99 items are EVIL!

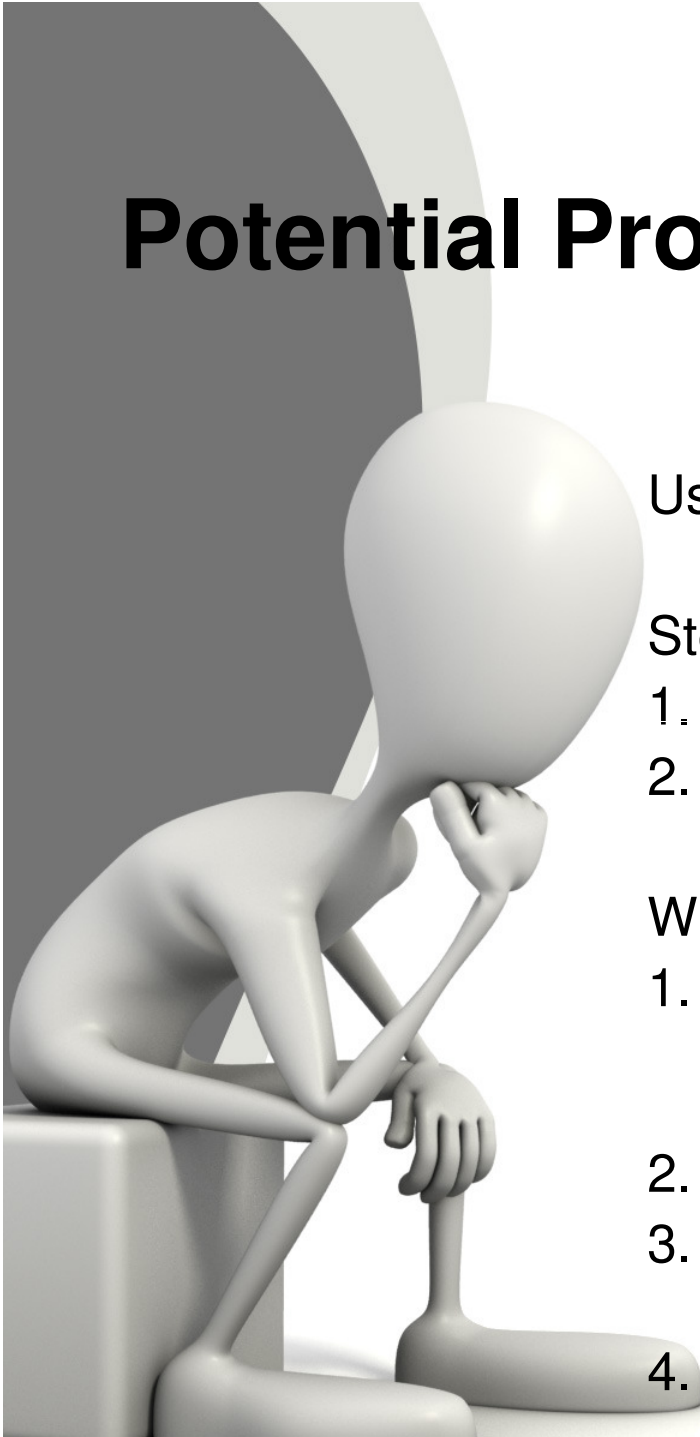
Use sparingly IF ever.

Steps

1. Average Cost should be set to \$0
2. Never end the month with Quantity on Hand

Why

1. Too many transactions skews the cost/sell and the EOD calculation then skews gross profit data
2. Can't track customer's true purchases
3. Ignoring history that could suggest you stock an item
4. What else.....



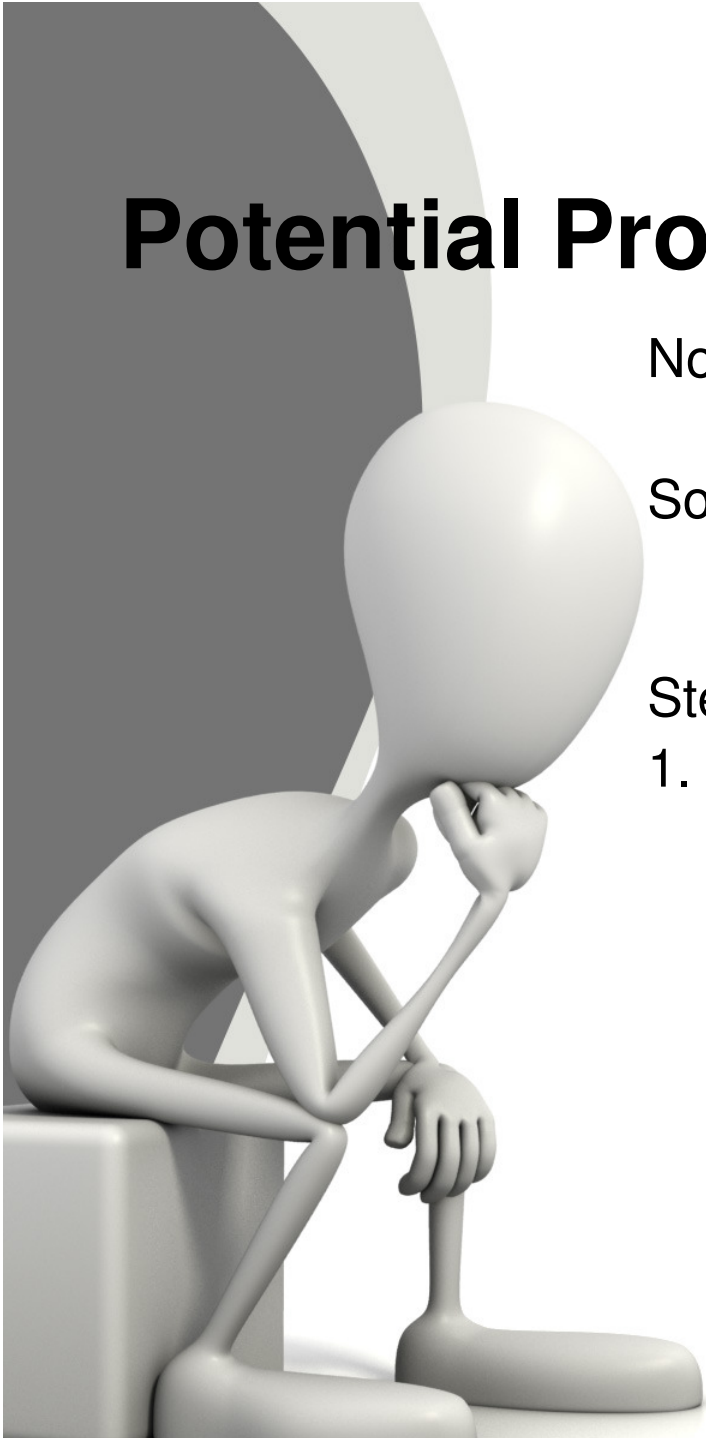
Potential Problem #8: Vouchering

Not using 13.20.2 to post merchandise invoices

Solution: Use 13.20.2 to post merchandise invoices

Steps

1. Use 13.20.2 to post merchandise invoices.

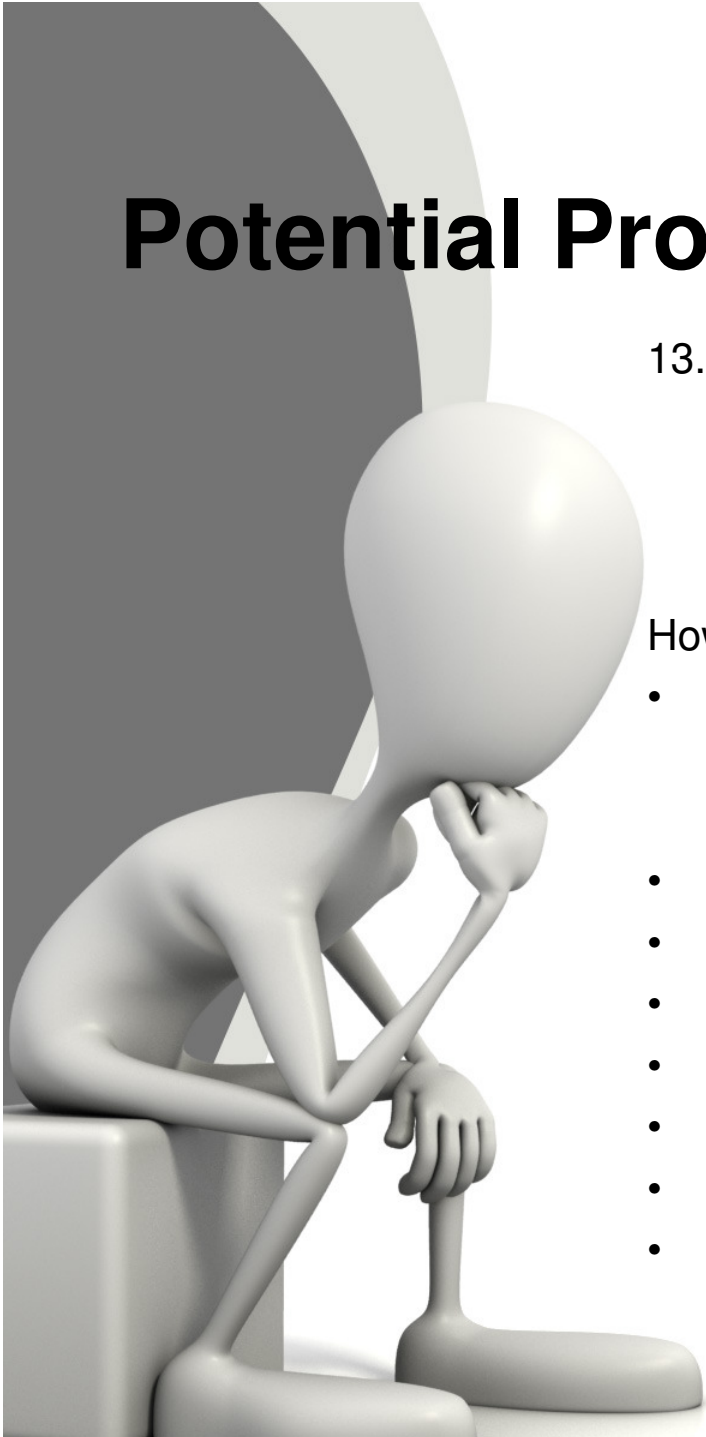


Potential Problem #8:

13.20.2 is the ONLY process by which stores can be certain that any discrepancies between the PO and the Bill are addressed correctly for both the summary and the detail values.

How

- IF there is a discrepancy between the Bill and the PO:
 - W/ Quantity on hand – Average Cost is updated (D)
 - W/ NO Stock – Variance is posted to Cost of Goods (S)
- Profit AND Average Cost are addressed
- Allows for tracking of variances
- Can Update costs for future POs
- Won't pay for product that you didn't receive
- Won't pay for product twice that you only received once
- Create an accurate listing in 13.20.7 for Journal Entry
- What else...



Vouchering/GL

PO Qty	3
Po Cost	\$1.00
Vendor Bill	\$2.00

	Inventory Detail		Inventory Summary
Quantity ON HAND	Average Cost Updated	\$6.00	Voucher to Inventory GL \$6.00
NO Quantity ON HAND	NO Average Cost Update	\$3.00	Voucher to Inventory GL \$3.00
			<i>Variance to COGS & update to income statement to correctly impact profit</i>
			\$3.00
			\$6.00

Potential Problem #9: ReOpening PO

Reopening a PO is BAD

Solution: Don't REOPEN a PO.

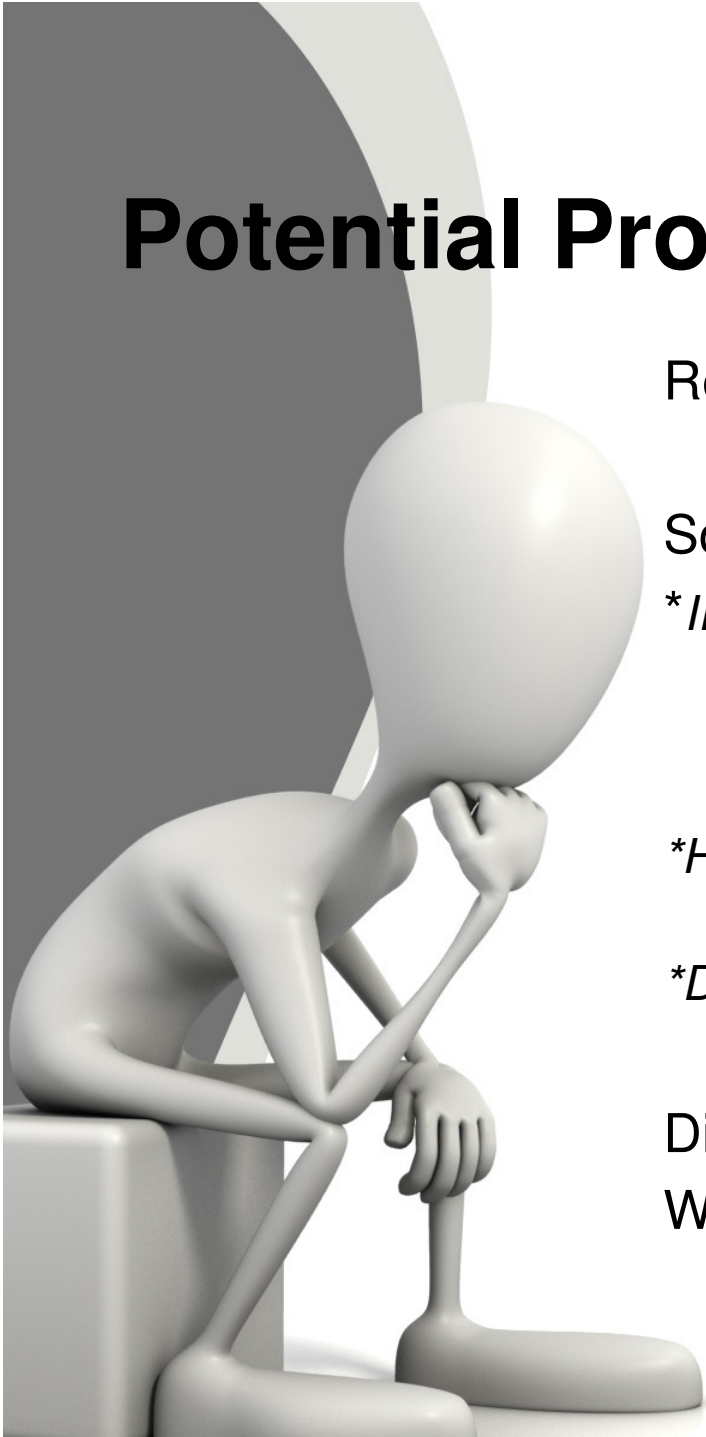
**IF a PO is received, reopened and then re-received the average cost calculation was just done THREE times, instead of one for EVERY item on the PO.*

**Hiccups in System if those parts are on pick tickets when PO is reopened*

**Doesn't work with Dropships.*

Discuss

Why people reopen POs and alternatives



Potential Problem #9 cont'd:

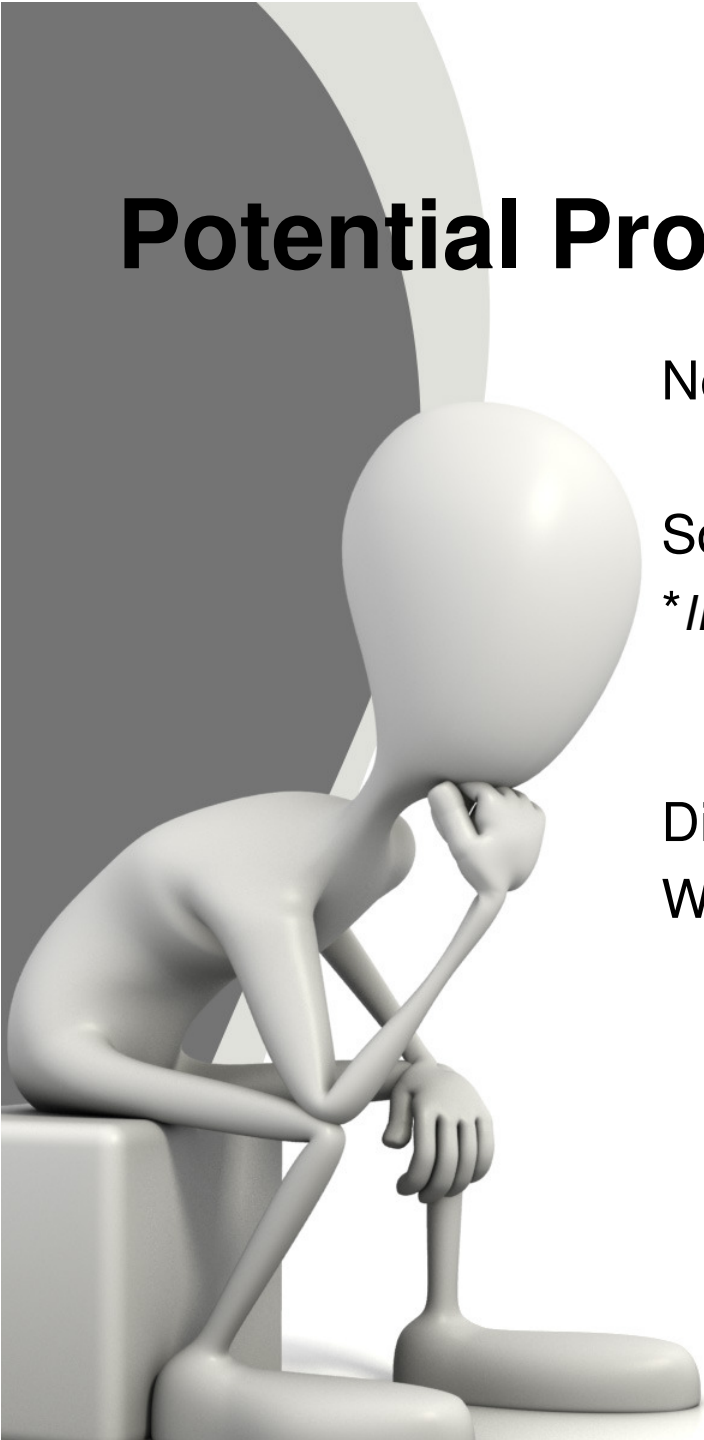
Negative POs are BAD

Solution: Don't Use Negative POs.

**IF a PO is received the average cost calculation is done (ignores the negative)*

Discuss

Why people reopen POs and alternatives



Potential Problem #10: Math Errors

Manually calculating average cost AND doing it incorrectly (or keying incorrectly in 13.20.2)

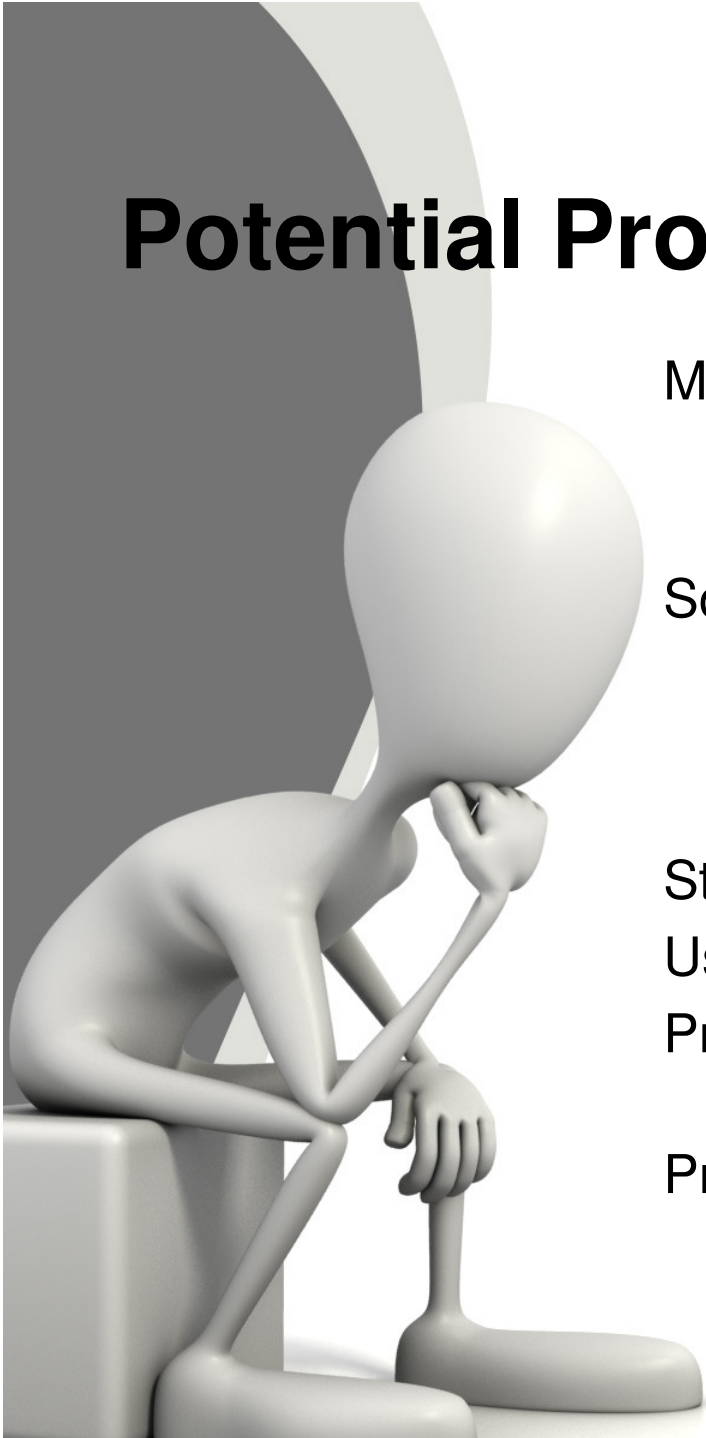
Solution: The calculation is complex. Only a select few should have access to product detail to change average cost

Steps

Use a calculator

Proceed with caution when updating average cost in product detail

Proceed with caution when updating costs in 13.20.2 – attention to detail before ‘U’pdating



Potential Problem #11: Transfers

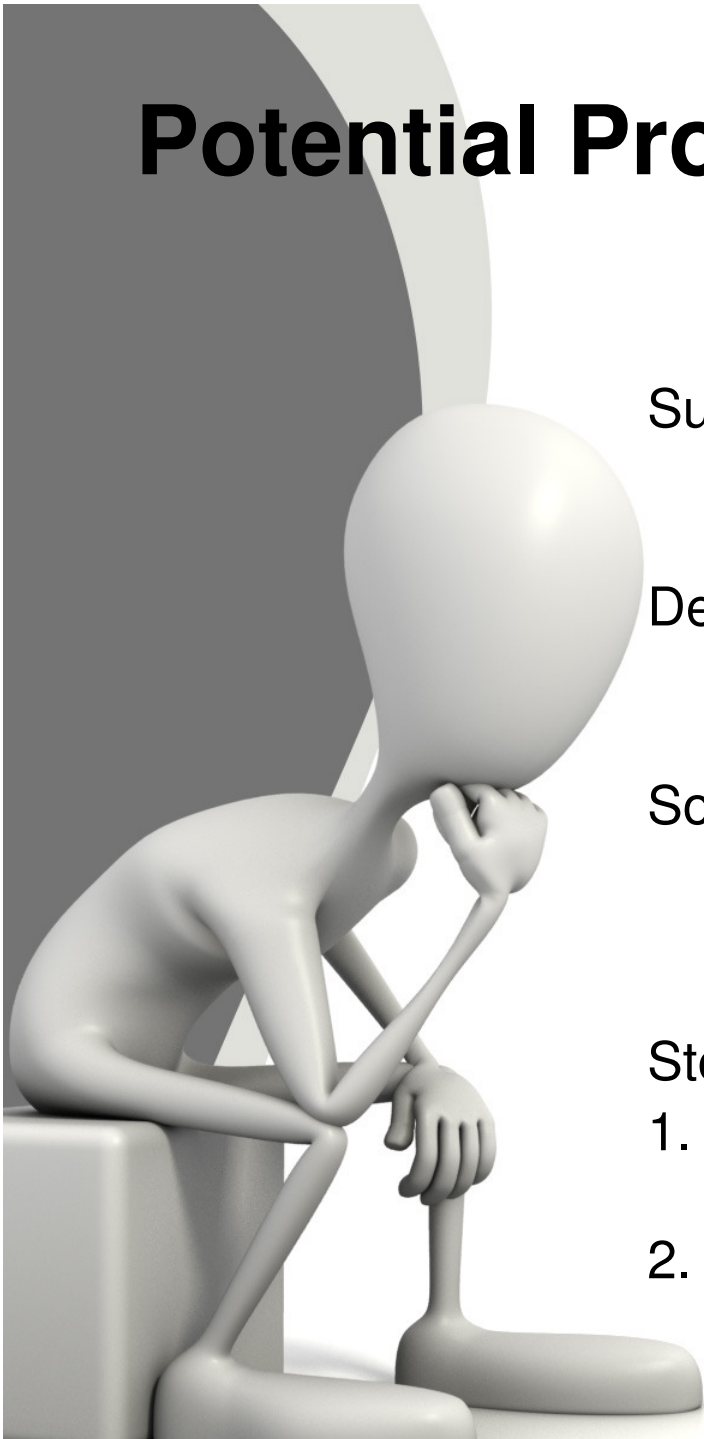
Summary: Store transfers, like Buyback, has no General Ledger impact on our S01/S02 system

Detail: Inventory is updated at the time of invoicing and receiving

Solution: Monthly Journal Entry to account for product that is moved between stores – Use EOM report to prepare entry

Steps

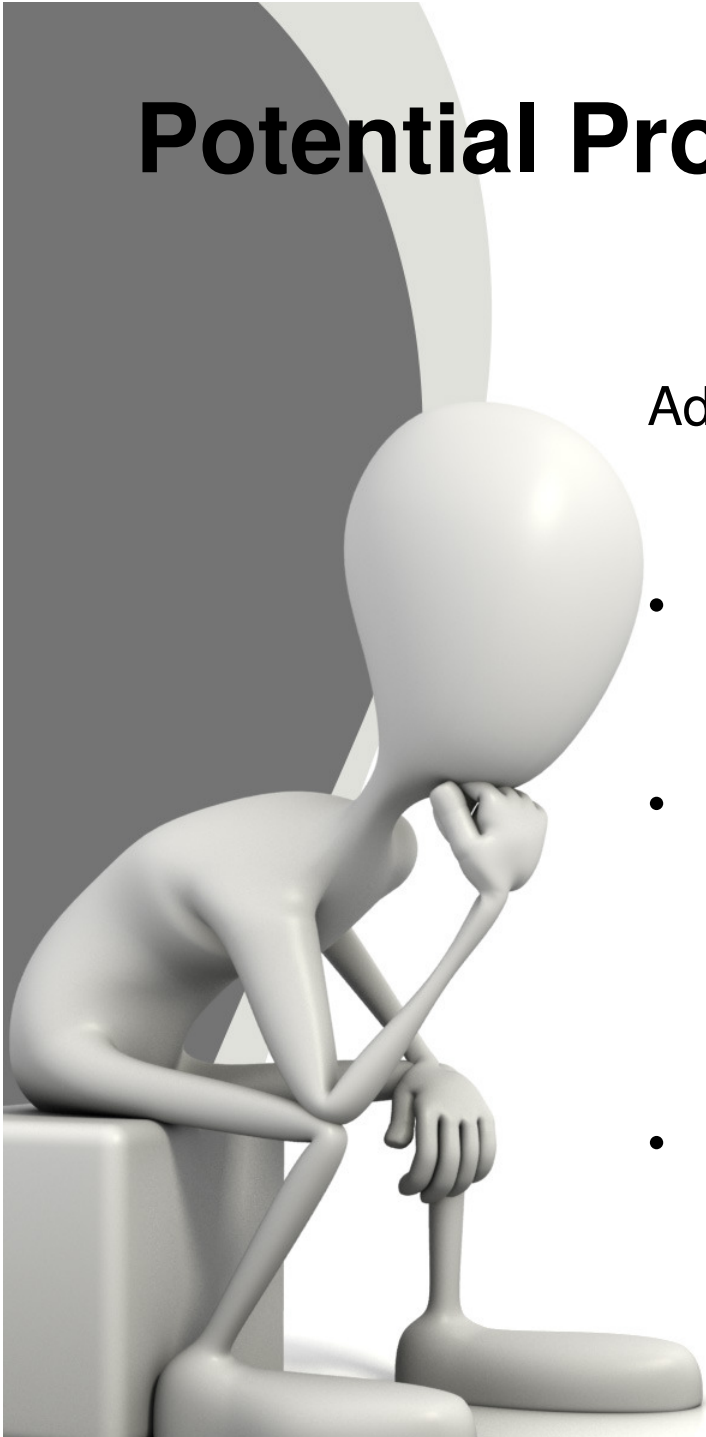
1. Monthly Journal Entry to Debit/Credit Inventory Accounts
2. Can be automated IF one corporation (m35.7, field #1)



Potential Problem #11:

Additional items to note about store transfers
(S01/S02)

- Product by default, will move between stores at average cost (RECENT BUG FIX)
- If stores want to markup between stores, using S01/S02 it has to be:
branch cost + X% OR direct cost + X%
PO/Order has to be rolled IMMEDIATELY
- Customer Detail = Vendor Detail



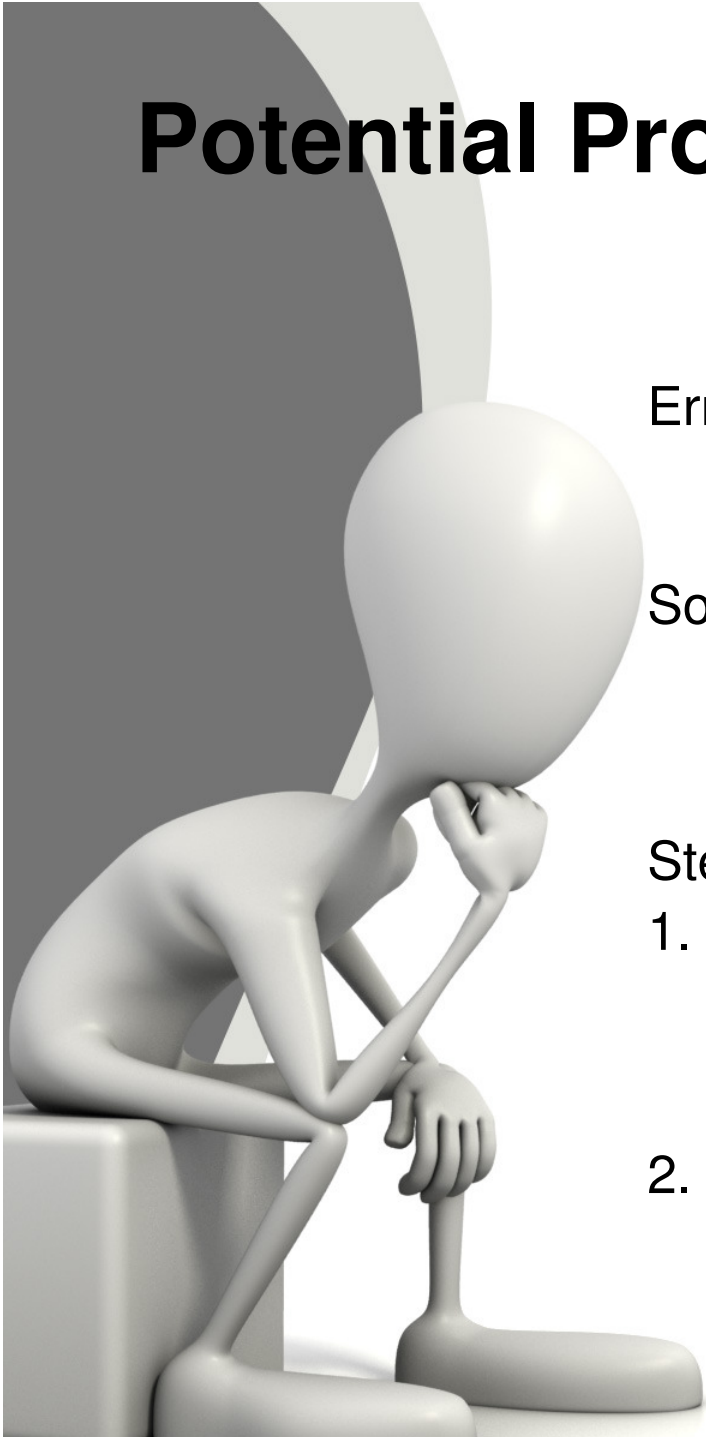
Potential Problem #12: JE Posting

Erroneous postings to the Inventory Account, such as freight, vendor rebates, warranty credits, etc

Solution: Only run product received on PURCHASE orders through the inventory account.

Steps

1. Transactions through the inventory account should be limited to Sales Journal, Warranty Journals, Purchases Journal and the 3 Journal Entries previously discussed
2. If it isn't received on a PO, then find another account to run it thru.



Potential Problem #13: Dropships

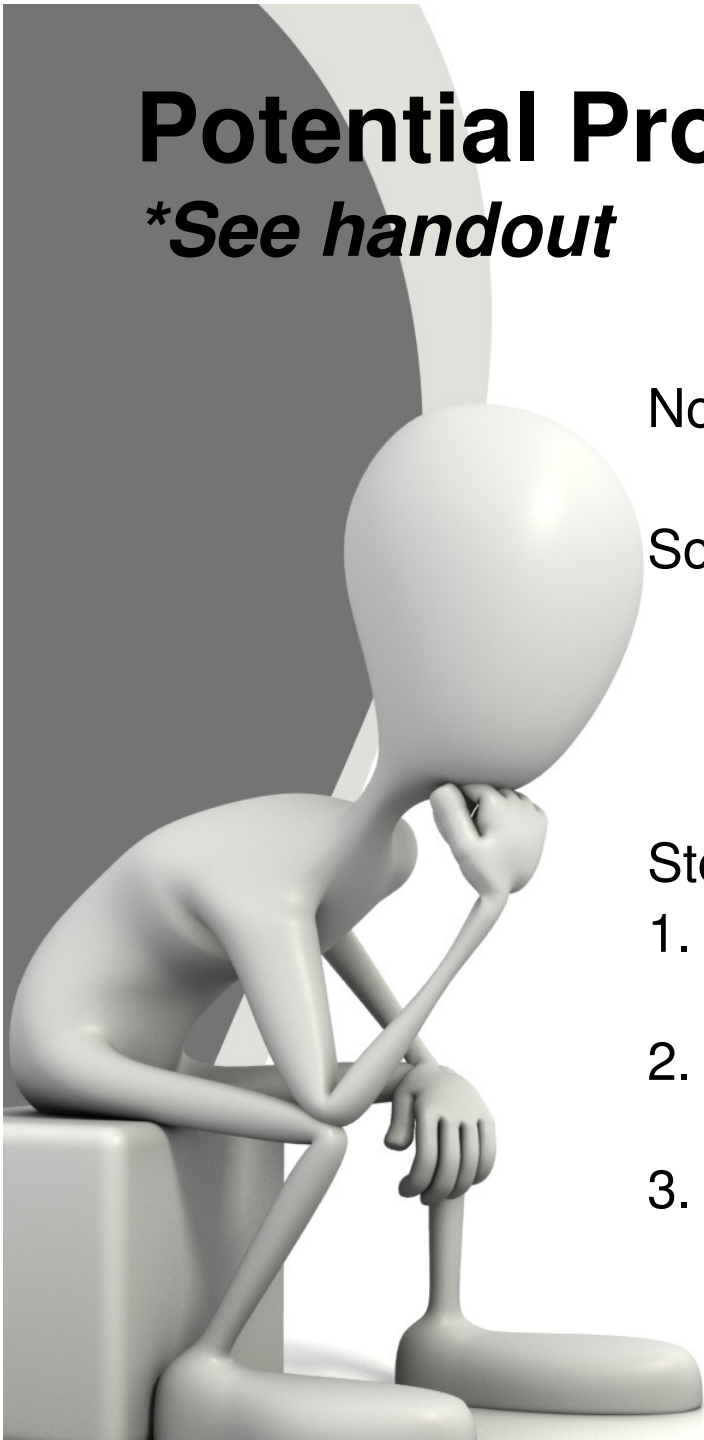
**See handout*

Not using Dropship Invoices and POs correctly

Solution: Make sure every DIN transaction is accompanied by a DPO. Possible that inventory count is increased, but not relieved OR relieved, but not increased.

Steps

1. Best Practices dictate that one person receives and bills dropships
2. Verify in 19.7b that every DIN has a DPO and vice-versa
3. Use TWO EOD reports (01-160 and 01-161) to regularly monitor and cross reference dropship invoices and POs.



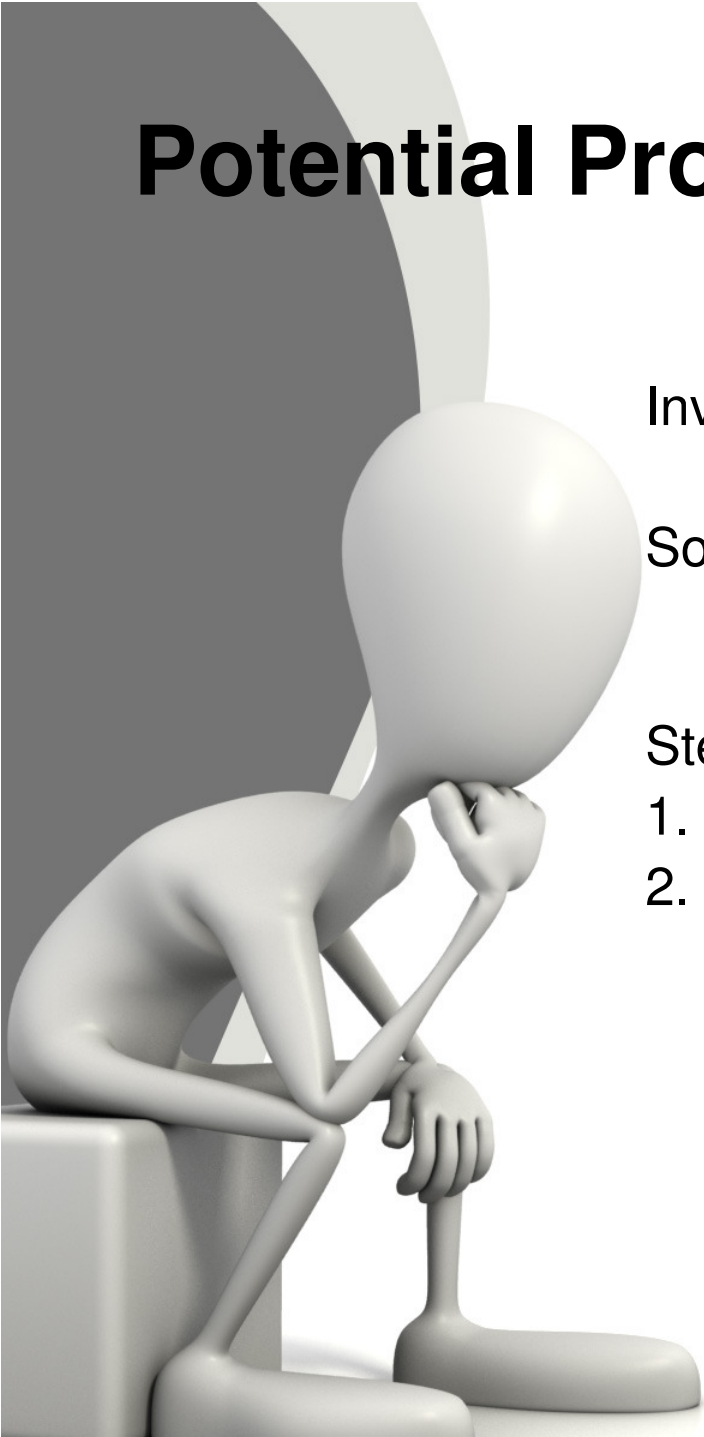
Potential Problem #14: Receiving

Invoicing Product before it is received.

Solution: Product **MUST** be received before it is invoiced, not just in the same day.

Steps

1. Receive
2. Bill



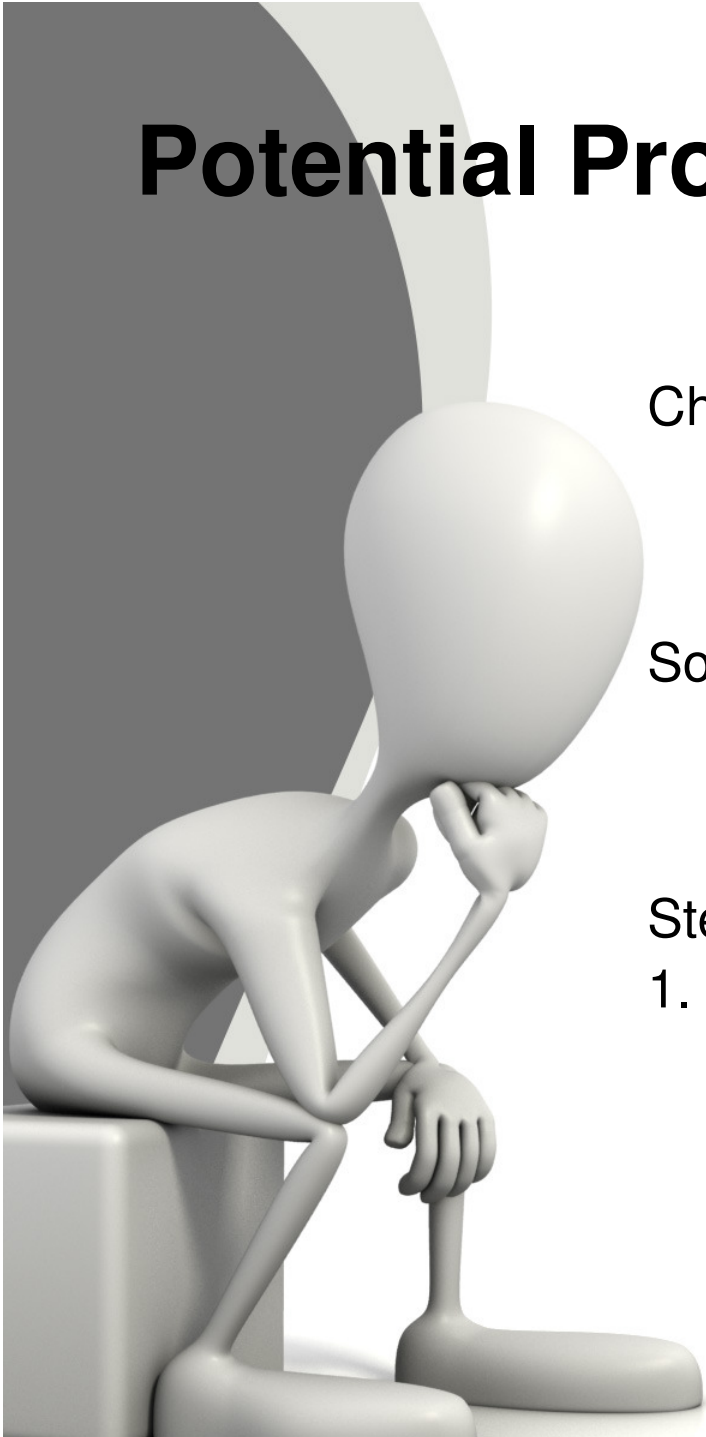
Potential Problem #15: OE Errors

Changing the cost on the line item detail in Order Entry. System relieves inventory at that cost and NOT average cost

Solution: Cost in the line item detail in Order Entry is password protected for a reason and should not be changed.

Steps

1. Don't change cost in invoice



Questions





Class Evaluations



Thank YOU!