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Inventory 101

Presented by:
Melissa Robinson & Laurie Salim

PERENNIAL 20ᵀᴴ
SOFTWARE ANNIVERSARY
Makers of SedonaOffice and AlarmBiller®

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Inventory Part Costing Methods

SedonaOffice offers four methods of costing/valuing your inventory parts; Average Costing, Standard Costing, Serial Number and Lot Number Costing. Based on our experience and understanding of inventory processing, we feel the use of Standard Costing can be a tremendous benefit to the management and reporting of the inventory in SedonaOffice. If your company is currently utilizing the Average Costing method, we highly recommend switching to the Standard Costing method.

Notes

Average Costing

Average costing is a method of calculating part cost by warehouse based on the cumulative journal activity for a given part. All receipts, issues, physicals and adjustments are cumulated as of the date of the costing to determine the average cost of a given part.

How is the Average Cost Determined?

The unit cost of a Part is the average value of all receipts, issues, physicals, and adjustments of that part to inventory, on a per unit basis.   Issues from inventory use the current average cost as of the date of the issue to calculate the unit cost.

The inventory is valued at an average cost, weighted by quantity (inventory cost = average unit cost * quantity).   Each warehouse may have a different average cost based on the complete journal activity of the part in the warehouse.

Perpetual Recalculation of Unit Cost

For the transactions listed below, the transaction unit cost may be different from the current unit cost for a Part. In such cases, after the transaction has been processed, the part's unit average cost is automatically recalculated. As a result, at any time, inventory is valued at a current, up-to-date average unit cost.

- Purchase order receipt
- Return to vendor
- Transfer between warehouses

> Notes

Purchase Order Receipts

The receipt of parts on a Purchase Order affects the Average Cost when a part is ordered at a cost that is lower or higher than the current average cost in the warehouse. When the Purchase Order is received, the part unit cost is used to debit the inventory. If the part cost on the Purchase Order is lower or higher than the current average cost in the warehouse at the time of the receipt, the average cost will be recalculated and decreased or increased to a new average cost.

For example, a Purchase Order was created for a part with the amount of $.80/ea. At the time the Purchase Order was created, the current average cost of the part in the warehouse was $1.00. After the part on the Purchase Order was received, the new average cost of the part in the warehouse is calculated as $.90.

Issuing Parts to a Job

When parts are issued from a warehouse, the cost applied to the Job is the current average cost at the time of the transaction.

If parts for a Job are ordered on a Purchase Order, received in and issued immediately (option on the Parts Receipt), the cost applied to the Job is the Purchase Order receipt cost. If those same parts are received into a warehouse then issued as a separate transaction, the issue transaction will be calculated at the current average part cost in the warehouse.

Returning Parts to Stock

When parts are returned to stock from a Job, the original issue cost is used for the return transaction, provided the Job number is referenced on the return transaction. If parts are returned to stock not referencing a Job number, the current average cost in the warehouse is used for the transaction.

Returning Parts to a Vendor

Part returns may affect the average cost of the parts in a warehouse. If a part is returned to a Vendor at a lower or higher cost than the current average cost in the warehouse, your inventory could possibly have a positive or negative value with no quantity on hand.

For example, 1 part is on hand in the warehouse with a current average cost of $.90. The original purchase cost was $.80. The Vendor part return transaction was created for 1 @ $.80. The end result is 0 on hand with a value of $.10.

Part Transfers

Transferring parts from one warehouse to another may affect the average costing in the warehouse receiving the part transfer. When a part is transferred from one warehouse to another the cost from the originating warehouse will be transferred to the destination warehouse. A transfer could result in increasing or decreasing the average cost in the destination warehouse if the average cost in each warehouse is different.

For example, a transfer was made from a warehouse where the average cost was $.90/part. The average cost in the "transfer to" warehouse was $1.00/part prior to the transfer. After the transfer, the new average cost in the "transfer to" warehouse is $.95/part.

Correcting Inventory Balances

In situations where the part value in the warehouse is no longer realistic, you have two choices for making inventory valuation corrections. You may make a manual stock adjustment or wait until the next physical inventory where the adjustment will be made automatically when the inventory is released and variances are posted.

Notes

Standard Costing

Standard Costing allows for the standard usage of a cost basis on a Part level to ensure all transactions for the Part are using one cost for all transactions throughout the inventory and usage processes.   With the use of Standard Costing, the part value in the Inventory system will always be its quantity multiplied by its Standard Cost.

All issues/returns of a Part will always use the Standard Cost.   This will alleviate the discrepancies and anomalies that occur in the costing and valuing of inventory when using an average costing method.

Parts received on a Purchase Order that vary from the standard cost in the warehouse will be valued into the inventory at the standard cost. The variance will record to the PPV (purchase price variance) account.

If you have special projects where you are receiving pricing from a vendor that is much lower than your standard cost, you may direct expense these parts to the Job. This allows you to determine profitability based on the actual part costs associated with the Job.

Standard Cost Advantages

- All parts retain the same value throughout your inventory process until you decide to change them.
- Salespersons will have a standardized cost to reference when preparing quotes.
- Cost fluctuations record to the PPV account for favorable or unfavorable purchase variances to the standard part cost.
- You may direct expense parts on special projects

Standard Cost Maintenance

When using the standard costing method, periodically you will need to review your costs to determine when the standards should be changed. This typically occurs at the time of a physical inventory.

When your company makes a change to the standard cost of a part within a warehouse, a general ledger transaction is recorded to the PPV (Purchase Price Variance) account for the difference between the old cost and the new cost times the number of parts in the warehouse. If a part is located in multiple warehouse locations, and a part has the same value in all warehouses, make certain to update the cost in all warehouses.

Notes

Serial Number Costing

Serial Number costing allows your company to track an inventory part by serial number from the time it is received on a Purchase Order to the time it is issued to a Job or Service Ticket. Serialized parts are valued at the receipt cost from a Purchase Order or if manually added to a warehouse, the User sets the value of the serialized part. Serialized parts will hold the same inventory value as they are transferred from warehouse to warehouse. The value of a single serialized part may be manually adjusted by using the *Edit Serial Part* from the Part Explorer record.

When using Serialized Parts in SedonaOffice, some functions that are available to regular inventory parts are not available.   These functionality changes are listed below.

- The Warehouse Stock Adjustment option is not available

If serialized parts need to be added or removed from a warehouse, this is accomplished by using sub-menu options from the Serial Number tree option; Edit Serial Part and Remove Serial Part within the Parts Explorer.

- The Edit Serial Part option allows a User to modify a serial number, lot number or value of the part.

- The Remove Serial Part option allows the User to delete a serialized part from stock.

- Serialized Parts are not included in Physical Inventories

Your company should plan for periodic counting of Serialized Parts; any discrepancies found would be handled by using the *Remove Serial Part* or *Add Serial Part* options from the Parts Explorer to increase or decrease on hand quantities.

- Receiving a Direct Expense Purchase Order

If a Purchase Order contains a serialized part and the Direct Expense option is selected for the receipt, the Receipt must be linked to a Job or a Service Ticket number.

If your company currently has parts in stock that you want to begin tracking by serial number, you must first make a stock adjustment to remove all on-hand quantities from inventory, and then add the parts back into inventory (under a new part number) with unique serial numbers.

When performing these stock adjustments, the application requires a Cost of Goods Sold G/L account number for the debit side of the adjustment transaction. You may want to create a new G/L account number for this purpose; once all parts have been adjusted back into inventory with serial numbers, this account should have a balance of zero.

Notes

Lot Number Costing

The Lot Number Costing Method allows your company to track an inventory part by Lot Number from the time it is received on a Purchase Order to the time it is issued to a Job or Service Ticket. Lot Number parts are valued at the receipt cost from a Purchase Order. Parts setup with the Lot Number costing method will hold the same inventory value as they are transferred from warehouse to warehouse.

When using Lot Number Costing on Parts in SedonaOffice, one function available for regular inventory parts is no longer available; Warehouse Stock Adjustments. If parts need to be removed from a warehouse, this is accomplished by using the Inventory Issue/Returns selecting the *Other* issue type. If parts need to be added to a warehouse, this can only be done from a parts receipt of a Purchase Order. We recommend your company create an Internal Company Vendor for this purpose. A purchase order is created and received to increase the part count and value into a warehouse. Since your company will not be paying this internal company vendor for the parts receipt, the User will select the *Close No Bill Expected* option on the Part Receipt record.

Parts where any activity has been recorded to the Part Journal may not be changed to the Lot Costing method. A new part number will have to be created to use the Lot Costing method for that part.

Notes

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Inventory Setup

The Inventory Setup form within SedonaSetup contains default values and G/L control accounts which are used when processing various inventory transactions.

Key G/L Posting Accounts

Asset Account – The default G/L Account Number which will be used when setting up new Warehouse records; this is the Asset Account. If desired, each Warehouse may be assigned a different Inventory Asset G/L Account Number. If Stock Tracking is not activated, this G/L Account Number will be used as the Inventory Asset for all inventory transactions.

Default COGS – This COGS account is used when inventory parts are sold on a miscellaneous invoice.

Invoice Item – The Invoice Item code that will be used when invoicing parts on a miscellaneous invoice. The Invoice Item code determines the income account that will be used when recording a parts sale to the general ledger.

Purchase Price Variance Account – This account is used when there is a variance between the received cost of a part and the amount entered on the A/P bill when matching to a parts receipt. If your company is using the Standard Costing Method for valuing your Inventory, if Parts are received (from a Purchase Order) into a Warehouse where the purchase cost of the part is different than the current Standard Cost, the variance will post to the Purchase Price Variance Account and will not affect your inventory values.

Notes

Notes

Warehouse Setup

A Warehouse is typically setup for each office location and service technicians and installers. On-hand quantities and values are maintained for each individual warehouse.

Warehouses are linked to a particular branch and G/L Account number (asset). Warehouses for installers and service technicians are linked to a Technician record in SedonaSetup. When inventory parts are used on the Service Ticket, by default, will automatically be deducted from the warehouse linked to the Service Technician who performed the work.

The Warehouse address is used as a default for Purchase Orders. If the parts are being shipped to an Installer or Technician Warehouse, this address will auto-fill into the Ship To address on the Purchase Order.

Notes

Part Setup

The setup information for inventory parts contains information used for costing, default sales pricing, as well as other information used for warranty and tracking purposes.

Part Setup Forms

Three data entry forms are required when creating a new part:

- Part Detail

- Primary Vendor

- Primary Warehouse

Notes

Part Detail Form

Part Description Fields

- Description
- Detail
- Sales Invoice Description
- Service Invoice Description

The **Description** field is used as a default on Purchase Orders and on Miscellaneous type customer invoices. The defaulted description may be changed by the User on the purchase order or the customer invoice.

The **Detail** field is only used for Purchase Order printing; the User has the option of printing the Description only or the Description *and* the Detail (description).

The **Sales Invoice Description** in used for Job Invoices if parts are being sold and listed individually on the customer invoice.

The **Service Invoice Description** in used for Service/Inspection Invoices if parts are being sold on a Ticket.

Notes

Part Pricing Fields

- Sales Price – Used for Jobs and Miscellaneous Invoices
- Service Price 1 – Default Ticket price and used with Service Level Price Modifier
- Service Price 2 – Fixed Price associated with a specific Service Level
- Part Price Lists – Special Price Lists that may be assigned to individual customers

Notes

Vendors Form

The Vendors form is used to create a list of *Accounts Payable Vendors* from which the part may be purchased. You may have an unlimited number of Vendors on this list, however only one Vendor may be flagged as the Primary Vendor; the Vendor from which the part is most frequently purchased. Flagging a Vendor as the Primary is used in the Job Management module with the auto Purchase Order creation feature.

When this form is first accessed, the Vendor code field will default to the Default Vendor from SedonaSetup; the Vendor Part Number will automatically fill with the value entered in the Part Code field on the Part Detail form. The defaulted Vendor may be changed if the default Vendor is not correct for the part.

Notes

Warehouses Form

An unlimited number of *Warehouses* may be linked to a Part. The Warehouses feature only applies when the Stock Tracking feature has been activated in SedonaSetup. If Stock Tracking is not being used, one Main Warehouse is automatically created for processing inventory transactions. A Warehouse may be a main stocking location or vehicles for service technicians or installers.

Multiple Warehouses may be linked to the Part record. The company's default Warehouse will always be set by the software as the primary stocking location – this warehouse may not be deleted from the part warehouse list even if the part would never be present in this warehouse. Additional Warehouses may be manually linked to the Part.

Notes