

# SedonaOffice

The #1 Financial Software for Security Companies

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## **Inventory**

## ***Standard Costing***

### **Reference Guide**

*Includes New Features in SedonaOffice 5.1*

*Last Revised:*

**June 18, 2008**

## **About this Guide**

This Guide is for use by SedonaOffice customers only. This guide is not meant to serve as an operating or setup manual, its purpose is to overview the content contained within, and to be used as a reference guide only.

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**Table of Contents**

About this Guide ..... 2

What is Standard Costing..... 4

    Why Use Standard Costing..... 6

    Our Recommendation ..... 6

    Review this Guide First ..... 6

Purchase Price Variance (PPV) ..... 7

    Setup a Purchase Price Variance Account ..... 7

        Monthly Adjustments to the PPV Account ..... 7

    Purchase Price Auto Update ..... 7

Turning on Standard Costing ..... 8

    Part Setup ..... 8

        Activating Standard Costing ..... 8

    Standard Costing - Using Stock Tracking..... 9

    Standard Costing - Not Using Stock Tracking ..... 9

    Default Standard Cost for Warehouses ..... 9

Turning On Standard Costing ..... 10

    Initializing Standard Costing..... 10

        Standard Cost Initialization ..... 11

Inventory Receipts..... 12

    Part Received at its Standard Cost ..... 12

    Part Received at a Cost Greater than the Standard Cost..... 12

    Part Received at a Cost Less than the Standard Cost ..... 12

Adjustments on Bills from Receipts..... 13

Transfers between Warehouses ..... 14

Other Inventory Issues with Standard Costing ..... 15

    Physical Inventory Process..... 15

        Manual Stock Adjustment..... 15

    Issues and Returns..... 15

    Direct Expense P.O. and Receipts..... 15

    Return to Vendor..... 15

## **Inventory Enhancements in SedonaOffice 5.1**

This guide reviews enhancements to the Inventory application in SedonaOffice 5.1. We strongly recommend you review this guide in its entirety prior to upgrading the SedonaOffice 5.1. The changes to the Inventory module and its related functions in Accounts Payable, Job Management and Service will have an effect on your business.

## **Standard Costing**

This guide will primarily review the new Standard Costing features introduced in the SedonaOffice 5.1 release. Even if you do not plan on using Standard Costing, you should still review this guide as there have been changes to the inventory application that will affect you.

## Variations on Bills & Receipts

If you do not plan on using Standard Costing you still need to be aware of how variances between Bills & Receipts will be processed in SedonaOffice 5.1.

**NOTE: This is a change that will affect you. Be sure to review this section prior to upgrading to SedonaOffice 5.1.**

## Adjustments to Parts Costs on Bills from Receipts

Prior to SedonaOffice 5.1 if a variance (difference) in a Part's Cost was entered on a Bill from its received value, SedonaOffice would adjust the difference by either debiting or crediting the Inventory Asset account. In SedonaOffice 5.1 the adjustment will now be made in a Purchase Price Variance (PPV) account. (Please review the Purchase Price Variance account information in the section below.)

This change is being made to preserve the cost basis when calculating average costing when issuing Parts. Adjustment made to the Cost of a Part on a Bill after the Receipt was created, would affect the cost basis and in many cases creates an issue value that was not consistent with the true cost of the Part.

### Example

Here's an example of what will be posted to the General Ledger if the Cost on the Bill is different than the Receipts Cost.

- Part was received on a Receipt for \$50.00
  - *Debit* Inventory Asset \$50.00
  - *Credit* Purchase Receipt \$50.00
- When the Bill is created from the Receipt, the Part is changed to \$55.00
  - *Debit* Purchase Receipt \$50.00
  - *Debit* Purchase Price Variance \$5.00
  - *Credit* Accounts Payable \$55.00

**NOTE: Be sure to review the section in this guide "How to Manage the Purchase Price Variance Account" for tips on managing and adjusting Purchase Price variances.**

## Setup the Purchase Price Variance Account

After you upgrade to SedonaOffice 5.1 you should update the default PPV account in the GL Setup to a general ledger number consistent with your current GL schema. For more information on this review the Purchase Price Variance setup information below in this guide.

## **What is Standard Costing**

Standard Costing is a method for valuing stock (Parts) within an inventory application. With Standard Costing a part will always maintain an established cost. Standard Costing will alleviate the discrepancies with costing of parts that is common with Average Costing.

## **Why Use Standard Costing**

Standard Costing is a very powerful feature that allows for the standard usage of a cost basis on a Part to ensure all transaction for the Part are using a predetermined cost for all transactions throughout the inventory and usage processes. With the use of Standard Costing the Part's value in the Inventory system will always be its quantity multiplied by its Standard Cost, and all issues/returns of a Part will always be its Standard Cost. This will alleviate the discrepancies and anomalies that occur in the costing and valuation of inventory when using an average costing method.

## **Our Recommendation**

Based on our experience and understanding of inventory processing, we feel that the use of Standard Costing can be a tremendous benefit to the management and reporting of the inventory process in SedonaOffice.

## **Review this Guide First**

Prior to making a change to Standard Costing you should review this guide so you fully understand the pros and cons of using this costing method. You should also discuss this with your CPA as there may be tax consequences.

### **Purchase Price Variance (PPV)**

A key concept of using Standard Costing is the use of a Purchase Price Variance account. With Standard Costing all costs for a part will be maintained at a fixed rate. If there is a discrepancy in the actual purchase price of the part and the Standard Cost the application will automatically adjust this amount through the Purchase Price Variance account.

### **Setup a Purchase Price Variance Account**

Prior to using Standard Costing you will need to create a Purchase Price Variance general ledger account. The PPV account in SedonaOffice should be setup as a balance sheet account.

All variances and changes to the Standard Cost of a part will be offset through the PPV account.

### **Monthly Adjustments to the PPV Account**

Each month you would most likely journal the balance of this account to an appropriate cost of goods sold account(s).

### **Purchase Price Auto Update**

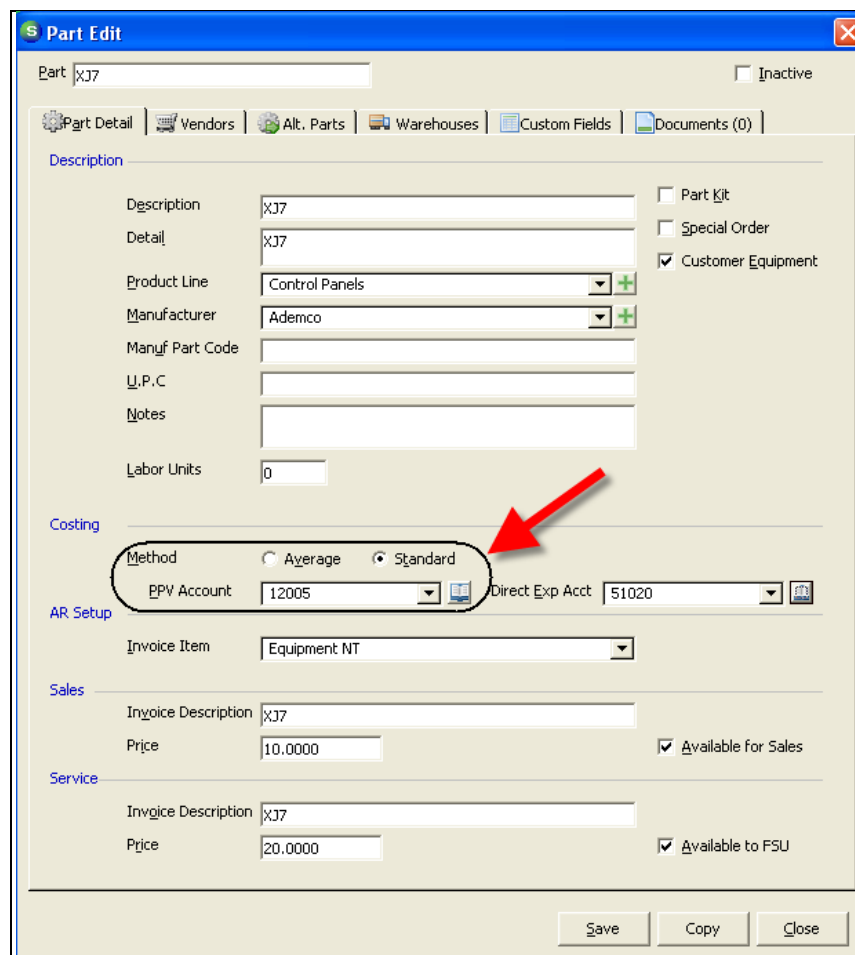
If you are using Standard Costing the automatic updating of the Vendor's purchase price (default cost) WILL NOT auto update. The only way to update the default purchase price for a Vendor is to manually change the purchase cost in the Part edit. This is by design when using Standard Costing.

## Turning on Standard Costing

Prior to activating Standard Costing you need to make sure the Standard Cost is properly setup in each of the Part records.

## Part Setup

On each Part you can decide if it should be used with Average or Standard Costing. Average Costing will be set until such time as you activate Standard Costing.



The screenshot shows the 'Part Edit' window for part 'XJ7'. The 'Costing' section is highlighted with a red circle and a red arrow pointing to the 'Standard' radio button. The 'Method' is set to 'Standard', 'PPV Account' is '12005', and 'Direct Exp Acct' is '51020'. Other sections include 'Description', 'AR Setup', 'Sales', and 'Service'.

## Activating Standard Costing

**Note: When you activate Standard Costing (see below) all the Parts will automatically be set to Standard Costing. You do not have to go into each Part and manually change it to Standard Costing. When you turn on Standard Costing in the Inventory Setup, all Parts will automatically be changed to use Standard Costing. Once activated any Part you do not desire to use Standard Costing will have to manually be set back to Average Costing (in most cases if using Standard Costing all Parts should be set to Standard Costing method).**



**Standard Costing - Using Stock Tracking**

If you are using Stock Tracking (Warehouse Management) then the Standard Cost is setup within each Warehouse. This allows you to maintain different Standard Costs for a Part at the Warehouse level.

The screenshot shows the 'Part Edit' window for 'Motion Sensor'. The 'Warehouses' tab is active, displaying a table with columns: Warehouse, Min ..., Max ..., Row, Shelf, Bin, and Stand Cost. A red box highlights the 'Stand Cost' column, and a red arrow points to the value 35.00 for the 'Main OH' warehouse.

Warehouse	Min ...	Max ...	Row	Shelf	Bin	Stand Cost
Main MI	5	10	12	3	8	35.00
Main OH	7	15	6	1	2	35.00

**Standard Costing - Not Using Stock Tracking**

If you are not using Stock Tracking (No Warehouse Management) then the Standard Cost will be the Purchase Cost of the Primary Vendor for the Part.

The screenshot shows the 'Part Edit' window for 'Motion Sensor'. The 'Vendors' tab is active, displaying a table with columns: Vendor, Vendor Part, Purchase Cost, Primary, and List Price. A red box highlights the 'Purchase Cost' and 'Primary' columns, and a red arrow points to the 'Y' in the 'Primary' column for the 'ADI' vendor.

Vendor	Vendor Part	Purchase Cost	Primary	List Price
Perennial Software	Motion Sensor	37.5000	N	75.0000
ADI	Motion Sensor	35.0000	Y	75.0000

**Default Standard Cost for Warehouses**

The Primary Vendors' current Purchase Cost will be the default Standard Cost when first turning on Standard Costing.

**NOTE: Prior to activating Standard Costing, be sure each Parts' Primary Vendor has a Purchase Cost associated with it.**

## Turning On Standard Costing

When you are ready to activate Standard Costing, select the Inventory Setup option under the SedonaSetup module.

Be sure to have created the PPV account prior to performing this step.

Check the box "Allow Standard Costing on Part Costs" to turn on Standard Costing, and enter the PPV account.

Inventory Setup

**Inventory Setup**

Warehouse: Main MI

Transfer Account: 24300  
*Transfers*

Physical Adjustment Account: 51020  
*COG-Other*

Negative Quantities:  
 Do Not Allow  
 Warning Message  
 Allow

**Inventory Processing**

Asset Account: 12000  
*Inventory*

Default COGS: 51020  
*COG-Other*

Invoice Item: Equipment TX

Purchase Price Variance Account: 12005

Use Material Handler for Warehouse Security:

**Standard Costing**

Allow Standard Costing on Part Costs:

Use Standard Cost on Direct Expense:

## Initializing Standard Costing

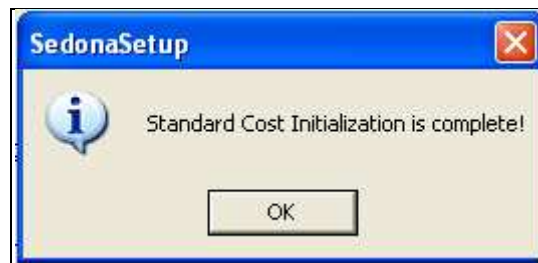
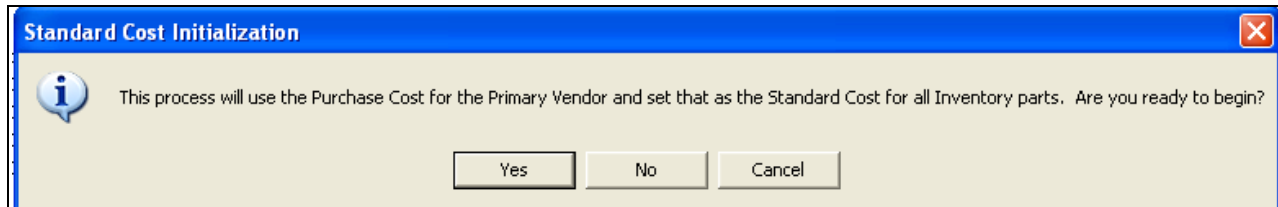
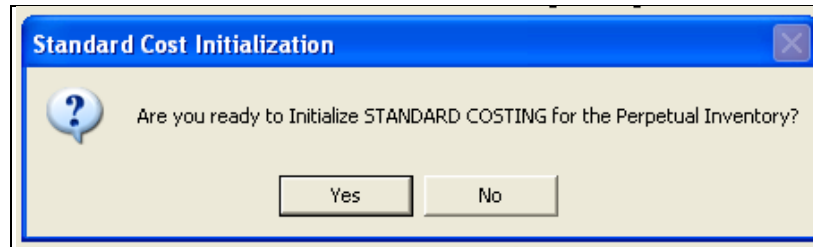
When you activate Standard Costing the application is going to automatically adjust each Part (at its Warehouse level) to its new value based on the Standard Cost.

For example, if the Standard Cost for a Part is \$50.00 and there is a quantity of 10 on hand, the application will set the new value to \$500.00. If the current value was \$475.00, then the application will make an adjustment of \$25.00 by debiting the Inventory Asset account and crediting the PPV account. If the value in the Warehouse was greater, the opposite entry would be created.

**NOTE: Activating Standard Costing will make journal entries to your Inventory and PPV accounts. Be sure to fully understand the effect on this prior to turning on Standard Costing.**

**Standard Cost Initialization**

After you setup Standard Costing on the Inventory Setup and press Apply, you will be asked twice to confirm you wish to proceed. After pressing “Yes” twice SedonaOffice will apply and adjust the Standard Costing to all the Part Values.



**NOTE: If you are not using Stock Tracking, when activating Standard Costing there will be no adjustment made to the inventory asset account, as there are no stock quantity values to adjust.**

## Inventory Receipts

When receiving Parts from a Purchase Order or a direct Receipt the Part will always enter the Warehouse (Inventory) at its Standard Cost. (In the three examples below the Standard Cost was \$35)

### Part Received at its Standard Cost

In this example the Part was received at its Standard Cost. Therefore the journal entry shows a Credit to Purchase Receipts and Debit to Inventory for the same dollar amount.

				General Ledger	
Account	Description	Debit		Credit	
▶ 20001	Purchase Receipts			35.00	
12000	Inventory	35.00			

### Part Received at a Cost Greater than the Standard Cost

In this example the PO was generated for a dollar amount greater than the Standard Cost. So when the Part was received, the PPV account was debited the difference between the Standard Cost and the Purchase Price.

				General Ledger	
Account	Description	Debit		Credit	
▶ 20001	Purchase Receipts			37.50	
12000	Inventory	35.00			
12005	Purchase Price Variance	2.50			

### Part Received at a Cost Less than the Standard Cost

In this example the PO was generated for a dollar amount less than the Standard Cost. So when the Part was received, the PPV account was credited the difference between the Standard Cost and the Purchase Price.

				General Ledger	
Account	Description	Debit		Credit	
▶ 20001	Purchase Receipts			33.00	
12000	Inventory	35.00			
12005	Purchase Price Variance			2.00	

**Note: In each of these examples the Inventory was debited the same amount (\$35) because that was the Standard Cost for the Part regardless of the received cost on the Parts Receipt.**

**Adjustments on Bills from Receipts**

When the purchase cost on the Bill is different than the received amount from the Receipt, the variance is adjusted through the PPV account (not the Inventory asset account).

In the example below the Bill was created with an amount greater than the Receipt so the PPV account was debited the difference between the Bill amount and the Purchase Receipts amount. Had the Bill been for less than the Receipt, the PPV would have been credited the difference.

				General Ledger	
Account	Description	Debit		Credit	
20000	Accounts Payable				112.50
20001	Purchase Receipts	105.00			
▶ 12005	Purchase Price Variance	7.50			

**Transfers between Warehouses**

If a Part is setup with different Standard Costs at its Warehouse level, when you transfer a Part from one Warehouse to another, the application will make a PPV account adjustment entry. This entry will always be in the Branch of the receiving Warehouse.

In the example below a transfer of a quantity of 2 was transferred from the Main MI to Main OH Warehouse. Since the difference in the Standard Cost is \$2.50, an adjustment of \$5.00 was made to the PPV account. In this case the Inventory value was increased (debited) and the PPV account was offset (credited).

Warehouse	Min Qty	Max Qty	Row	Shelf	Bin	Stand Cost
Main MI	5	10	12	3	B	35.00
Main OH	7	15	6	1		37.50

General Ledger					
Account	Description	Debit	Credit	Memo	
12000	Inventory	5.00		Standard Cost Adj	
12005	Purchase Price Variance		5.00	Motion Sensor	

## Other Inventory Issues with Standard Costing

Here are a few other topics and process and their affect with Standard Costing.

### Physical Inventory Process

The Physical Inventory process will always use the Parts Standard Cost when making an adjustment. For example if the Warehouse states 10 in stock but you count 8, the Physical Inventory will lower the quantity by 2, and lower the asset value by 2 times the Standard Cost. If the Standard Cost for the Part was \$50, the inventory asset account would be credited \$100 and the PPV account would be debited \$100.

### Manual Stock Adjustment

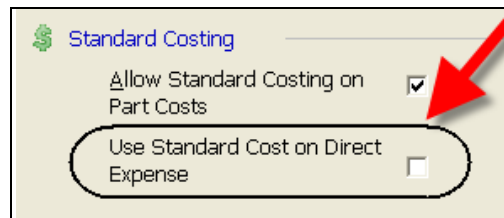
When processing a manual stock adjustment for a single Warehouse the same rules apply as with the Physical Inventory Process.

### Issues and Returns

When using Standard Costing, all Issues and Returns will use the Standard Cost for the Part. This includes Issues from Jobs, Service Tickets and Manual Issues.

### Direct Expense P.O. and Receipts

When direct expensing a Part, the Part will use the Cost based on the setting in the Inventory Setup for Standard Costing. If the value "Use Standard Cost on Direct Expense" is turned off, the Direct Expense Receipt (or Bill) will use the actual cost as entered on the Receipt (or Bill). If the flag is turned on, the expense to COGS will equal the default Warehouse's Standard Cost for that Part. If the Cost entered on the Receipt is different than the Standard Cost, the difference will be adjusted through the PPV account.



*In most cases it is recommended the "Use Standard Cost on Direct Expense" flag should be turned off and the actual cost of the Direct Expense should be used.*

### Return to Vendor

When using the Return to Vendor feature, the return will always use the Standard Cost for the Part. Any variations in the cost entered will be adjusted through the PPV account.

NOTES: