



BALANCING INVENTORY TO GENERAL LEDGER

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This document is designed to help the user understand the relationship that exists between job costing, inventory costing and inventory adjustments.

At the present time, inventory reconciliation can be time sensitive. These procedures provide the best way of supporting accurate General Ledger inventory balances. Programming changes to the Accounting module now allow you to perform a preliminary journal close at any time and accordingly allow you to balance inventory at any time.

Topics include:

- The procedure for month end inventory balance reconciliation
- How to research, investigate, and resolve balancing issues
- How to accurately record adjustments needed outside the normal processing cycle

Pre-requisites:

- Using RFMS from start to finish, capturing all aspects of the inventory transactions within the software, including Generating Purchase Orders, Receiving materials, using Picking Tickets, Costing materials, and Job Costing.
- Performing the Monthly Journal Close every month.

STEP 1

The first step in the month end balancing process is performing the Preliminary Journal Close. As of version 10.4.125, the system no longer requires posting of all receipts to perform the close instead a "soft close" option is available to print a pre-close Trial Balance. This close also provides an inventory number to compare to the Inventory Balance Report in step two.

STEP 2

The second step is to run the Inventory Balance Report. The Inventory Balance Report alleviates the need to run the multiple reports previously suggested (prior to version 10.0)

STEP 3

The final step is to compare the two numbers and investigate discrepancies.

PRELIMINARY JOURNAL CLOSE

The Preliminary Journal Close gathers the inventory credit and cost of materials debit from the job cost records.

While you are able to continue transacting day-to-day operations while processing the Journal Close, no postings to the period being closed can occur during this process. Only one workstation at a time will be able to close the journal.

Note: If there are un-posted receipts, the system will give you the option of performing a Soft Close. The Soft Close may not balance to subsidiary reports if transactions are posted between the time the close is performed and any balancing reports are run.

Report Selections-

Sales Tax Liability- For purposes of this course, sales tax liability will not be discussed and can be left at \$0.00.

Sub Account Inventory - This option will post all inventory withdrawn by sub account code. Sub accounts for inventory are the same as the product codes. For example, sub account 01 will be carpet, 02 will be vinyl, etc.

Include Inventory Adjustments- This option should always be selected. There is no standard scenario where this should not be selected. Inventory Adjustments should be reviewed prior to the Journal Close to ensure they are correct. **(SHOW WHERE YOU CAN PRINT THE INVENTORY ADJUSTMENTS REPORT FOR REVIEW PRIOR AND SHOW WHERE TO SET FILTER FOR SPECIFIC DATE RANGE)**

PRINT JOURNAL INFORMATION

Once the Preliminary Journal function has been performed, it will be necessary to print the Journal information for the inventory account.

Select this option to generate the general ledger activity and corresponding balances from the journal.

Files To Print -Select Print Journal.

Stores- All stores can be selected.

Inventory Account- To minimize printing, select just the inventory account

Preview -Previewing the report is a quick way to check the status of the balance.

JOURNAL COMMENTS

MONTH END SUMMARY- Reflects the credit calculated from the job cost records during the Preliminary Journal Close.

COSTING- Costing reflects a transaction posted via the inventory costing routine.

ENDING BALANCE PER JOURNAL

This is the number needed to balance against the detail report. (INDICATE TO WRITE BALANCE DOWN, PRINT OR SAVE AS PDF)

If saving the Journal Close is an option, **do not do so during the balancing process**. Doing so closes out the normal working files for the month and no further entries will be posted to the journal from that source. Any adjustments must then be made through the journal entries. (It is not an option to save a preliminary journal close if all receipts for the month have not been posted.)

MONTH END INVENTORY BALANCE REPORT

The Month End Inventory Balance report is located within the Accounting module. Accounting>File>Month End>Inventory Balance Report

Inventory Balancing Report-

Stores- Confirm this matches the parameters from the Print Journal routine.

Date- Date the report is to be calculated.

Preview – To see the report on the screen prior to printing.

(SHOW HOW REPORT IS BROKEN DOWN BY ALL, UNCOSTED, AND CUT/DELIVERED; EXPLAIN THIS IS EQUATION FOR FIGURING BALANCE SHEET VALUE)

INVENTORY BALANCE REPORT, LAST PAGE - SUMMARY.

Inventory Balance Per Detail -This is the amount calculated from the individual inventory detail records

Adjusted Costed Inventory Value – This is the amount we are trying to balance against.

COMPARISON OF INVENTORY DETAIL TO GL BALANCE

Inventory Balance Report and Journal Ending balance should match. If they do not there are several possibilities to be investigated as outlined below

Detail Balance- Balance from Inventory.	\$ _____
Ledger Balance- Balance from General Ledger.	\$ _____
Difference	\$ _____

Important: Ownership should establish acceptable variances. The nature of taking non-linear fractions from a whole piece of inventory creates variances. Simple penny-rounding will cause very minor differences. Taking multiple deductions from a roll or item will create minor variances. RFMS algorithmically adjusts as much as possible; however, non-evenly divisible deductions can cause issues.

Investigating Variances

The following are 11 common ways inventory variances are user-created: **Mention each one before demonstrating**

1. Incorrect beginning balance in the General Ledger.
 2. Inventory being adjusted between the time of (soft) close and running the Inventory Balance Report. -
 3. Failing to delete an adjustment.
 4. Abandoning Accounts Payable portion of the Costing Inventory function (As of version 10.0 this is not an option).
 5. Changing Accounts Payable portion of the Costing Inventory function.
 6. Posting to Inventory Standard Account code through Accounts Payable
 7. Posting to Inventory Standard Account code through Journal Entry.
 8. Failing to correct costing error associated with warning messages generated in Costing Inventory function.
 9. Posting inventory adjustment with a future date.
 10. Updating inventory
 11. Hardware or system malfunction.
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1 – INCORRECT BEGINNING BALANCE

12. Confirm the ending balances from the previous month are the same as the beginning balances for the current month. There can be differences associated with transactions that occur after the balancing is complete. This difference can be minimized by performing a 2nd, post-closing balancing. **Show ending balance from previous month to beginning for current (November vs December 2014)(Mention that if out of balance, keep comparing previous months to isolate the period where is went out of balance)**

Inventory Detail From the inventory file detail.

General Ledger Detail From the General Ledger print detail

2 - TIMING OF BALANCING

Simply read the narrative below

Presently, inventory balancing is considered time sensitive. In a Soft Journal Close, users may continue to process transactions in the system. It will not let them use any date in the current month - orders entered into the system during this time will have the next month's date.

If there is a significant time difference or substantial user activity, the two reports may differ even though inventory may be in balance

3.0 - FAILURE TO DELETE ADJUSTMENT

Read the narrative below and then show an example of costing,

Failing to delete an inventory adjustment can be one of the most challenging sequences to correct.

Essentially, users have already attempted to circumvent the system by making changes that should not have happened. This process can be avoided by reinforcing with the accounts payable department that in order to cost inventory

successfully it is not necessary to make adjustments to the inventory portion of the distribution in the payable after the costing portion of the process has been done.

If they realize at the payable screen that the invoice has been calculated incorrectly, the total invoice can be adjusted and difference posted to a distribution line as a separate account code created for this purpose (inventory short & over) Then a cost adjustment can be done via the inventory module to correct the value. The adjustment will correctly flow through against cost of materials.

The other option is to correct the payable, fix the inventory record and delete the system generated adjustment for the difference.

Ex. Locate payable D93030 and add to A/P for short of \$200 and then locate ST09157-Change cost to \$2.00 from \$2.20 for a total \$200 less.

Copy BOL# to do search in item inventory for record to edit & make sure that adjustment date is the same as the period trying to balance

Mention that inventory adjustment will be allowed to post because of the booking to over/short account

Show the adjustment in the adjustment file (Inventory/File/Adjustments)

Ex #2-Show payable D1122. Adjust cost on Payable to \$490 and change inventory record for invoice #D1122 to \$490. Then go to Adjustments file, search by adjustment date and delete

Finally mention that the following listings for 3.1, 3.2, 3.3, 3.31 & 3.4 were just reviewed through the procedures just demonstrated. This is on page 5 of your hand out

3.1 - FAILS TO DETECT INCORRECT COST

During inventory costing process user does not detect incorrect amount from Purchase Order.

Gross Cost- Incorrect gross cost is posted on inventory record, user proceeds to cost inventory function by selecting the A/P function.

3.2 - CORRECTS PAYABLE & DISTRIBUTION

Corrects invoice total- User recognizes the invoice total does not match the invoice from the supplier and adjust the total, and.... **Corrects invoice distribution** - adjusts the distribution to the inventory account.

Special Note: This can be an acceptable procedure for adjusting insignificant amounts as long as the user distributes the insignificant amount to another account such as Inventory Short & Over.

In version 11 or greater of RFMS you can now filter payables only looking at payables "edited after costing" so that you can see which payables have been edited after the inventory was costed.

3.3 - ERROR DETECTED BY INVENTORY CONTROL

Errant cost is corrected

Inventory detail information. Inventory control personnel are notified or detect the incorrect cost and update the value of the inventory record (which creates an inventory adjustment)

3.31 - INFORMATIONAL WARNING

System indicates that the change has generated an adjustment in inventory.

3.4 - DELETE ADJUSTMENT

Deleting the adjustment keeps this entry from posting to the General Ledger.

Inventory Module - File/Adjustments/Delete- This will delete the highlighted adjustment

4 - ABANDONING PAYABLE PORTION

Pre Version 10 Only: Accounts Payable entry via Costing Inventory. **User can no longer do this**

What would happen:Canceling the payable at this point in the costing routine has increased the inventory detail but not increased the General Ledger.

5 - CHANGING ACCOUNTS PAYABLE DISTRIBUTION

Changing the accounts payable distribution has increased the physical inventory value by one number and has used a different number to increase (debit) the General Ledger. The distribution to the standard account code for inventory must not be changed without making the proper adjustments through inventory deleting the adjustment as necessary.

EX.Show binoculars to search for open payables by "costing" routine and for 12/01/15-12/31/15

Invoice # M9838920

Change invoice distribution total and top portion of ap to balance. "We have just created an out of balance situation" because no change was made to the inventory record

6 - CHARGING TO INVENTORY FROM ACCOUNTS PAYABLE

Charging the inventory account directly through accounts payable will cause balancing issues.

It is fairly common to see items such as supplies incorrectly coded to the inventory account without having completed the normal inventory cycle within the system.

These invoices will show up in the Journal without the COSTING indicator. These invoices can be opened and the distribution adjusted in a journal soft close.

Ex. Create payable for a random vendor and code the amount of inventory (but show a how to code to a correct account like "other costs"). Must have an inventory received into RFMS in order to code to inventory account code. Need to post to an expense or other account. If you see a comment on your journal that reads "Add Payable" then that means a payable was created and posted directly to inventory. Another way you can check to see if payables were posted directly to the inventory account code is by using the binoculars and search for any payables that were posted to the inventory account code by any other source than "costing"

7 - ADJUSTMENT MADE VIA JOURNAL ENTRY

Although most journal entries will be well researched, inadvertent posting to the Inventory account will cause variances. If you are maintaining accrued inventory or similar detail, it is suggested you use a separate account to post your transactions. Show where the journal entry is performed and create ½ entry showing how the inventory account is selected. Let them know that by doing this you are changing the balance sheet value for inventory without a physical record being in the system. Only do this as a final action to get your physical value to balance to your balance sheet value

8 - FAILURE TO CORRECT COSTING ERROR

This message will display when the inventory value has changed during the inventory costing routine and is different than the amount on a job that has been job costed. (Only applies when the System Option is enabled that allows job costing of uncosted inventory) Effectively the material has been taken from inventory at one cost and then attempting to place the final value of the inventory at another cost. The system will print all orders that have the associated material on it, giving you an audit trail to un-job cost and use the new cost. ST091560001-Cost the inventory, change cost and watch message appear. Then go to order #CG704047 and un-job cost, unassign line, re-job cost. Emphasize importance of waiting

9 - INVENTORY ADJUSTMENT WITH A FUTURE DATE

If the user dated an adjustment in the future, the journal close routine would not pick up the adjustment (credit to inventory) until that date but the inventory balance report will pick up the adjustment immediately.

Ex. Find a costed inventory record, double click and adjust cost. Always match the adjustment date to invoice date

Adjustment Date- Date the journal close will pick up this adjustment

10 – UPDATING INVENTORY

The Update Inventory option has been eliminated in the latest release of RFMS. This step was causing out of balance issues due to the timing of the update since the original date the materials were received may be backdated due to the updating process.

To work around this, the programmers have added in the Inventory Consolidation Tool which can be found under the Utilities menu of Inventory. **Ex. Bronze Pad record for consolidation. After showing make sure to state is can only be done with costed inventory and only for items and not rolls**

11 - HARDWARE MALFUNCTION

Hardware issues may cause inconsistencies throughout the system

Examples include:

1-Power surges during preliminary journal close

RECOMMENDATIONS-BEST PRACTICES

If variance cannot be reconciled it may be necessary to perform a physical count to validate the inventory detail both in quantity and value. A physical count ensures the value of the inventory has been confirmed and the general ledger can be adjusted to that amount. Many companies may not generate an offsetting entry for the variance all at one time and elect to distribute the amount over a period of time or create an offsetting entry to another balance sheet account.

Accurate inventory receiving, costing, as well as controlling inventory record access for changing the gross cost and/or the quantity is vital to accurate inventory reconciliation. Limited access to inventory adjustments should also be considered, along with a high level security password required for deleting adjustments.

INVENTORY ADJUSTMENTS

Typical inventory adjustments should be generated on an order in the system, usually each month, where users can record materials that are given away, lost, sampled or any other reason inventory would be adjusted. This prevents any confusion about if the adjustment is made for inventory that has not yet been costed and the consequences of that gain/loss to the general ledger. **(CG704048)**

The best practice for inventory adjustments for a gain/loss of material is to follow procedures for releasing goods from inventory including a picking ticket and explanation of what or why the material was given away, lost or sampled in the line notes of each record. These pick tickets can be gathered and the order job costed each month.

Direct inventory adjustments (to be made directly in the inventory module) for the following situations:

Carpet or Vinyl comes back from customer or jobsite and cut needs to be created as a second roll

Example: Roll # 456 and again, can only perform for cost

Excess material from customer or jobsite has been costed to the order and needs to be checked back into inventory at \$0.00 gross cost (a load can be added for these records to ensure material management and overhead costs are attached to the order when re-sold and job costed)

Return Found for CG704047. (ST09156-0001)

Transfer Inventory to another record- split items or separate quantity into smaller segment

Ex. Roll 456

Physical count reconciliation

Ex. Show how you can have your own adjustment types. Find another inventory record and use one of the custom types

Each of the above transactions would be generated by authorized personnel with appropriate documentation and understanding of the impact their actions will have on the general ledger including working closely with the accounting staff to ensure the inventory detail and journal stay in balance.

That will conclude our webinar. So, now I want open it up for questions either thru our chat panel or aloud by raising your hand on the GTM control panel.