This webinar is designed to help the attendee understand how Job Costing, Inventory Costing and Inventory Adjustments affect the G/L Ledger account for Inventory and what to look for when your Inventory Balance Report does not balance to the G/L.

Topics include:
- The procedure for month end reconciliation
- How to research, investigate and resolve balancing issues
- How to accurately record adjustments needed outside the normal processing cycle
- New Inventory Features in Version 12

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

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.
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.

**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.

**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- **Sub Account Inventory** - This option will post all inventory withdrawn by sub account code.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.

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.

**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 all files to print.
- **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.
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.)

**INVENTORY MONTH END BALANCING 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.

Summary- For the purposes of balancing, you may select to print in summary.

**INVENTORY BALANCE REPORT, LAST PAGE - SUMMARY.**

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

**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 $___________________

**Investigating Variances**

The following are the 11 ways inventory variances are user-created.

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 (If you are on version 10.0 or better this is not an option).
5. Adjusting 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.

1 - BEGINNING BALANCE COMPARISON

Confirm that these reports are your beginning balances for the next 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.

- **Inventory Detail** From the inventory file detail.
- **General Ledger Detail** From the General Ledger print detail

2 - TIMING OF BALANCING

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 - FAILURE TO DELETE ADJUSTMENT

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.
**NEW FEATURE IN VERSION 12**

Creating a New Inventory Record

As of Version 12.1 when a cost adjustment is made to a costed inventory record a new record is automatically created with the new cost. Any reserves stay with the original record and the cost on the line to remain the original cost. The old record with the old cost remains with a zero quantity.

When the cost is adjusted a series of questions will display before the new record is created.

The old record with the old cost remains, so that if any lines assigned to it that become unassigned they will be returned to inventory at the original cost. This ensures cleaner inventory balancing.

The new roll record keeps the same roll number with an A added to the end. If the original roll number is already 12 characters, a computer generated roll number will be created.

An adjustment record is also created.

It is basically the same with item inventory except the new record has a new item sequence number.
3.1 - FAILURE 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 – CORRECTIONS BY ACCOUNTS PAYABLE
User then recognizes the invoice total does not match the invoice from the supplier and adjusts the total, **AND** 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 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
Abandoning the payable portion while Costing Inventory is no longer available in Versions 11 and 12..
**Pre Version 10 Only** : Accounts Payable entry via Costing Inventory.
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 inventory by one number and has used a different number to increase 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.
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 Add AP indicator OR will have so G/L sub account number. These invoices can be opened and the distribution adjusted in a journal soft close.
7 - 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.

8 - 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.

9 - 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. 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.

10 - INVENTORY ADJUSTMENT

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

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

11 - HARDWARE MALFUNCTION

Hardware issues may cause inconsistencies throughout the system

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 and controlling inventory record access to change the gross cost and/or the quantity is vital to accurate inventory reconciliation. Limited access to inventory adjustments should also be considered with a high level security level to delete an adjustment.

**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.

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. This is especially important for use tax states as it allows the system to calculate the tax liability for loss of material automatically.

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
- 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)
- Transfer Inventory to another record- split items or separate quantity into smaller segment
- Physical count reconciliation

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.
**NEW FEATURE IN VERSION 12**

Two routines have been added to inventory utilities to eliminate two ways the beginning inventory routine was being used.

<table>
<thead>
<tr>
<th>Inventory</th>
<th>Help</th>
<th>Main</th>
<th>Navigator</th>
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<tbody>
<tr>
<td>Parameters</td>
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<tr>
<td>Re-Inventory</td>
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<td>Maintain Passwords</td>
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<td>Return/Found Inventory</td>
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<td>Accrued/Merged Inventory</td>
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<td>Reset Window Resizes</td>
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Return/Found Inventory

This routine allows inventory to be entered without posting a payable. Returns can ONLY be made into an open GL period. This routine will automatically post the correct amount into Cost of Goods Sold (credit) and Inventory (debit). This routine is recommended for inventory returned on orders that were not run through RFMS Customer orders or inventory found with an unknown origin.

The Invoice Number will be set to "RETURN/FOUND". Initially, this routine will have a Level 1 password set.

While this routine is a simple way to re-enter merchandise returned from customer orders, entering a negative line on the original customer order will return the material to inventory, adjust the balance of the customer order, and affect commissions and sales reporting. If the original order is job costed in a closed period, another order could be entered with the negative line. To keep the two orders together, they could be grouped into a billing group.
Acquired/Merged Inventory
This routine allows entering inventory that has been Acquired or Merged from another store. This routine will not post anything into the Journal. All Journal entries will need to be made manually. This way individual inventory records can be entered into the system while journal entries can be made for the totals. To use this routine, an unlock code each day it is used must be obtained from the help desk. The help desk will help ensure the correct journal entries are made.

The Invoice Number will be set to "MERGED".