SedonaOffice
The #1 Financial Software for Security Companies

Inventory Reference Guide

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About this Guide

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Standard Costing vs. Average Costing

Until the release of SedonaOffice version 5.1, the only inventory costing method available was Average Costing. Version 5.1 introduced Standard Costing as a new option of calculating and maintaining your inventory part values.

Historically, our customers have experienced issues with the average costing method; when significant cost changes occurred; it took a great deal of time for the average user to understand the transactions and how the average cost value occurred. Additionally, the users spent a great deal of time performing stock adjustments to reset their inventory values to realistic value.

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. If your company is currently utilizing the Average Costing method, we highly recommend you switch to the Standard Costing method.

Whether your company chooses to use the Standard or Average costing method, it is important to understand how the SedonaOffice application calculates and maintains inventory part costs.

Average Costing

Average costing is a method of calculating part cost by warehouse based on the cumulative receipt transactions (negative and positive) for a given part.

Average Costing allows you to:

- value inventory at a moving average cost

- track inventory costs without the requirement of having predefined standards

- Track historical part costs

How is the Average Cost Determined?

The unit cost of an item is the average value of all receipts of that item to inventory, on a per unit basis. Issues from inventory use the current average cost as 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 receipt transactions in/out of 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 an item. In such cases, after the transaction has been processed, the item'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.
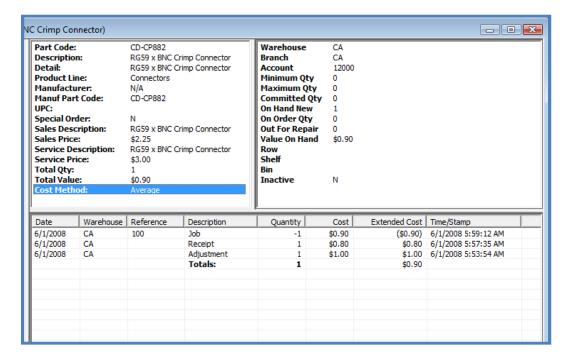
- Purchase order receipt
- Return to vendor
- Transfer between warehouses

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 lowered or increased to a new average cost.

Purchase Order Receipt Transaction

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 or Service Ticket

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

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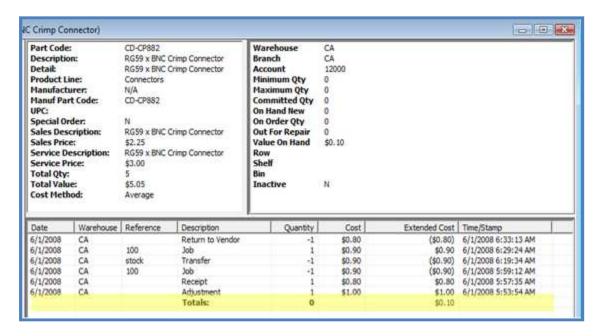
Returning Parts to Stock

When parts are returned to stock from a Job or a Service Ticket, the original issue cost is used for the return transaction, provided the Job or Service Ticket number is referenced on the return transaction. If parts are returned to stock not referencing a Job or Service Ticket 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 what is 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 raising or lowering 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 on 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 were the adjustment will be made automatically when the inventory is released and variances are posted.

Dealing with High Fluctuation in Part Costs – Direct Expensing

If parts are being ordered at a much lower cost than your current average cost, you may use the direct expense option on the Purchase Order. This way the warehouse average cost will not be affected by the favorable pricing from the vendor. The direct expense option is typically used when parts are being ordered for a particular Job when your company is receiving special pricing from the vendor. If parts are ordered for stock and the vendor is offering a special sale price of which you want to take advantage, you may direct expense the parts then perform a stock adjustment to put the parts into stock.

If excess parts are returned to stock from a job where the parts were direct expensed, the cost of the part from the original Purchase Order receipt will be used for the transaction, which will lower your average cost in the warehouse.

Standard Costing

Standard Costing allows for the standard usage of a cost basis on a Part level to ensure all transaction 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 value 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 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.
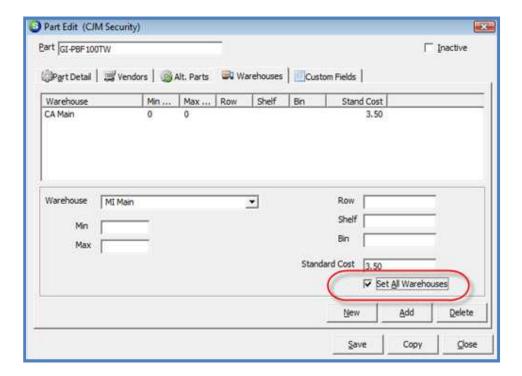
Standard Cost Advantages

- 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 quoting jobs.
- Cost fluctuations record to the PPV account for both favorable and 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 a standard cost of a part, 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, make certain to update the cost in all warehouses.
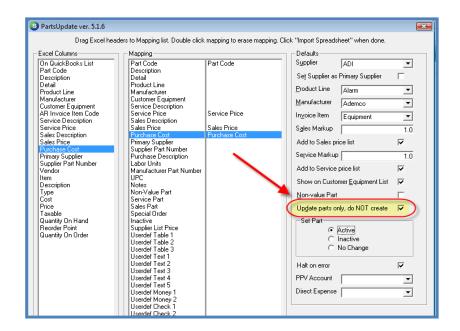
Updating Part Costs

Regardless of which costing method your company is utilizing, you have the ability to change part costs by using the SedonaOffice Parts Update utility. This utility allows you to update the cost of a part based on information contained in an Excel spreadsheet. Many parts suppliers will provide you an electronic file with your updated purchase costs that may be used as a basis to import cost changes into SedonaOffice.

You may download the SedonaOffice Parts Update utility from our company website. http://www.sedonaoffice.com/Downloads.html select the latest version from the list of downloads.

Sample Excel spreadsheet:

Part Code	Description	Service Price	Sales Price	Purchase Cost	Primary Supplier
273	273 Inticating 1-Gang Panic Puch Button	14.67	11.0025	4.89	ADI
467	467 12V Battery	22.02	16.515	7.34	ADI
506	506 Flat Panel Key	4.65	3.4875	1.55	ADI
620	RJ31X Telecom Jack	10.8	8.1	3.60	ADI
621	RJ31X Telephone Jack	9.3	6.975	3.10	ADI
995	995 Recessed Motion Detector	106.35	79.7625	35.45	ADI
1321	1321 Transformer 16V Plug-In	120	90	40.00	ADI

SedonaOffice Parts Update Utility:

Managing the PPV Account

All part receipt or return to vendor transactions that record to the general ledger at a cost that differs from the current standard cost will record an entry into the PPV account. The PPV account is a balance sheet account. Part of your month-end close should include a Journal Entry to move the PPV for the month into a Cost of Goods Sold account.

If you see large debit entries into the PPV account, this should be brought to the attention of the person who is in charge of setting standard costs. This may indicate it is time to update the standard cost of a part.

The Journal Entry may be split between branches. The PPV transactions may be viewed from the G/L account register. Here you may view the PPV entries and decide how to record your month-end journal entry.

Physical Inventory – Best Practices

Taking a physical inventory is a huge event in most companies. It requires precise planning and execution to obtain and record an accurate count of your inventory parts. The physical inventory process in SedonaOffice locks a warehouse on a particular date in time. During the time the warehouse is locked, no transactions may be performed to move inventory in or out of the warehouse. It is crucial that count and variance reconciliation is completed in a reasonably short period of time to have the least impact on your normal business operations. Below is a checklist of things to consider when preparing for a physical inventory.

• Plan carefully in advance.

• Establish cut-off dates/times for all pre-inventory transactions to be completed.

• Make certain all staff members understand the impact of an accurate count.

• Make certain truck stock is ready to be counted.

• Process all open Service Tickets that used parts.

• Process all job part issues and returns to stock.

• For parts out for repair, make certain you have a list of those items to include in your counts.

• Process all Vendor part returns.

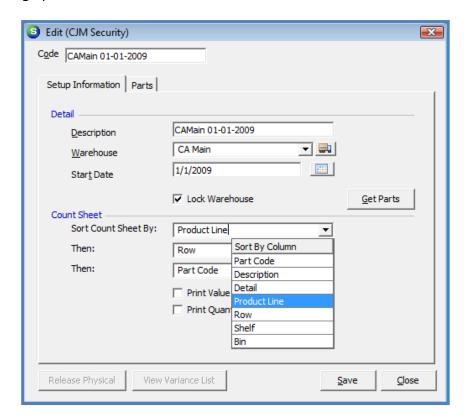• Perform issue transactions for parts being scrapped.

Early Counting

If your company has a very large inventory with many parts where you expect no movement in our out of the warehouse, you may print a Stock Status report a few days before the actual count. You may record counts on the report then later use this for data entry when entering the rest of your counts from the count sheets. This will allow you time to pre-count parts and save time on the actual day of the physical count.

Count Day

On the day of the count, you will create the Physical Inventory record for each warehouse being counted. The date you select on the Physical record will be the date the warehouse becomes locked. No transactions may be processed until the Physical is released.

When creating the Physical Inventory record, make certain to select the desired sorting options. This is the order in which the parts will print on the count sheets. There are three sorting option levels from which to select.
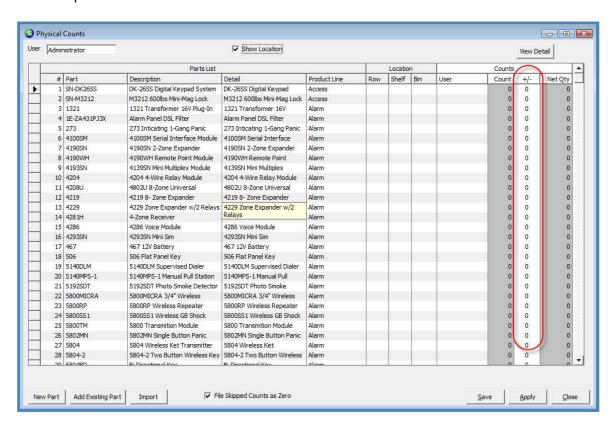

Print Count Sheets

Once the Physical has been created, print your counts sheets. Open the Physical Inventory record and press the print preview button to launch the count sheet report.
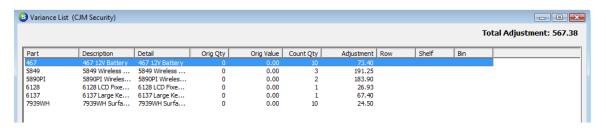
Enter Part Counts

Once all counts have been completed, enter the counts into the count sheet grid. Counts are entered in the +/- column. At the bottom of the count sheet is an option *File Skipped Counts as Zero*. If you do not have a count for a part you do not have to enter 0 on these part lines.

Review Variances

Once all counts have been entered, you may review the variance report. If recounts are necessary and you do find a different quantity than the original count recorded, if the number of parts is larger than the original count, enter the additional parts found in the count sheet. If fewer parts were found than the original count, enter a negative sign in front of the quantity by which you are reducing the count.

Releasing the Physical

Once all variances have been investigated you will release the Physical and record the variances. The inventory program will record any variances to the general ledger account that is selected in the Physical Release form.

⚠️ **Make certain to use the same Variance Date as the Start Date when releasing your Physical Inventory.**