

Establishing Real Time Inventory Valuation

IMPLEMENT



INFINITE
POSSIBILITIES

Real-Time Inventory Valuation

Definition:

The ability to have your General Ledger Inventory Value be synchronized **daily** with your Physical Inventory Valuation tool (the RIV, or Inventory Valuation Report).



Real-Time Inventory Valuation

Benefit:

When you have a true Inventory Value, you have the assurance that the Gross Profit amount that shows on your Daily Inventory Update (The RDI) and ultimately in your end of month financial reports is ACCURATE.



Real-Time Inventory Valuation

Real Life –

Time and again, stories are told of how the Epicor© Eagle© produces a figure for the gross profit percentage and the inventory value, and how the accountant makes a change to both, based on a physical inventory and a review of purchases.

The usual consequence is a substantial adjustment to the inventory value, bring about in a major modification to gross margin. The result is there's no credibility in the gross margin the system says you're getting.



Real-Time Inventory Valuation

What's required –

- Epicor Accounts Payables
- Epicor General Ledger
- Full Inventory Purchasing and Receiving, and all Purchasing and Receiving must be done through the system, including Special Orders.
- Enable Departmental Pass-off at average cost.
- Inventory Quantity on Hand should be ACCURATE – Review RIS < Zero report DAILY.



Real-Time Inventory Valuation

What's required – continued:

- Now procedures are required. THE BEST procedure with Special Orders is to require that:
 - ALL SPECIAL ORDERS ARE INVOICED WHEN YOU RECEIVE THEM!
- If not, then you have to try to account for the value of Special Orders that you “own” (have received, but not yet billed). THIS CAN BE DONE, BUT IT IS MUCH MORE DIFFICULT, AND REQUIRES EITHER AN ADDITIONAL PROCEDURE (transaction coding), OR RQ/ODBC/COMPASS.



Real-Time Inventory Valuation

- What's required – continued -
- Now it's time to consider how you handle FREIGHT, RESTOCKING CHARGES, MISCELLANEOUS CHARGES FROM YOUR SUPPLIER (co-ops and some distributors, in particular), MINIMUM CHARGES, and various other charges, like “handling charges” and so forth.
- One consideration is the size of the business. Freight should be ‘capitalized’ if the business has sales greater than 10mm, but since the freight goes ‘in’ and subsequently goes ‘out’, it's less of an issue.



Real-Time Inventory Valuation

What's required – continued -

- You should consider cycle counting for your inventory – 2x/year seems optimal – it is easiest to track completion by location. Insure that your locations follow a logical sequence that moves through the operation smoothly.
- As PIP is used, set up a Queue to finalize all entries BY STOCKING DEPARTMENT every night.
- Unless you have advanced receiving you will enter the changes to inventory to the G/L every day.



Real-Time Inventory Valuation

What's required – continued –

- The ability of the system to pass-off temporary vouchers from purchasing to the Accounts Payable (APP) is enabled. This in particular is the feature that brings the inventory into real-time!
- There is a major benefit to enabling this feature – the job of the Accounts Payable person is GREATLY simplified, and you have the assurance that all financial activity related to the inventory is happening through your system.



Real-Time Inventory Valuation

Basic Set-up

- Create Departments for Non-Stock and Special Order for either EACH DEPARTMENT, or for just the categories you'd like to track for non-stock item sales and special order sales
- The key is that NO SKU IN THE “STOCKING” DEPARTMENTS IS A “GENERIC” SKU (NON-STOCK SKU) OR A SPECIAL ORDER SKU.



Real-Time Inventory Valuation

Department / SKU Example

- Department 8 – Stock Plumbing
 - Only SKU'd items from Vendors – no “generics”
- Department 8N – Non Stock Plumbing
 - A single (or possibly multiple) SKU's to “alert” you that something has been sold that wasn't SKU'd!
Desired GP less than expected (20-30%) – SKU 8N
- Department 8S – Special Order Plumbing
 - Single or multiple SKU's – Desired GP set to .01% -
if no cost is entered, then GM% will be ZERO!



Real-Time Inventory Valuation

Why so many Departments and SKU's?

- Isolating the stock SKU's from the "generic" SKU's is critical. THE USE OF GENERIC / SPECIAL ORDER SKUS MUST BE MONITORED CLOSELY – AND THAT MEANS DAILY! Generic SKU's should also have desired gross margin percentages that are very low, hence they jump out either on a custom report, or in the RDI. Also, then the purchases and CGS for STOCK versus SPECIAL ORDER versus NON-STOCK (bulk nuts, bolts & screws – Hillman / Midwest) are clearly isolated.



Real-Time Inventory Valuation

Rethinking the Chart of Accounts in the General Ledger

- Rather than a single account for Inventory on the balance sheet, and a single account for Cost of Goods Sold on the P&L, create the following for EACH DEPARTMENT:

Balance Sheet

Beginning Inventory	1200-xxx
+ Purchases	1210-xxx
+ Accrued Purchases	1220-xxx
- Cost of Goods Sold	1230-xxx
<u>+/- Inventory Adjustments</u>	<u>1240-xxx</u>

Equals Ending Inventory (in the period)



Real-Time Inventory Valuation

P&L

Direct Cost of Goods Sold (RDI #)	4500-xxx
Purchases Discounts	4510-xxx
Inventory Adjustments	4520-xxx
Inbound Freight	4530-xxx
Provisional Rebate (Orgill?)	4540-xxx
Direct Ship Adders	4550-xxx
Outside Repairs & Sharpening	4560-xxx
Restocking Fees	4570-xxx
Miscellaneous CO-OP/Vendor Fees	4580-xxx

TOTAL COST OF GOODS SOLD

