

**Overview & Objective** – The purpose of this IM & U is to demonstrate the recording of inventory transactions and adjustments for *wholesale and distribution* businesses.

**Scope:** This IM & U covers manual inventory entries (adjustments) and other system transactions that effect purchases and discounts for *wholesale and distribution* companies. Other I M & Us consider system generated adjustments that post from the Purchase Order and Inventory Management modules. Regardless of manual or system generated –the resulting entries must be the same.

**System Transactions Effecting Purchases & Discounts**

- **Recording of Purchases** – Inventory purchases should always be recorded through the use of the A/P Module, except in instances of initial contributions (see below). For vendors who provide finished inventory or WIP their G/L account association should be “Purchases.”

**Sample Purchase Transaction (A/P Module)**

**Vendor:** Wild Duck, SRL

**Term:** Net 15 Day Terms

**G/L Account**

73000 – Purchases

(Purchase of hand bags from Wild Duck)

**Amount**

15,000

**Product Line**

HNB01 – Hand Bags

- **Recording of Purchase Discounts** – Intacct automatically calculates and records Purchase discounts. A G/L account must be specified in the A/P configuration settings of the Company Module (“GL Account for Discounts”), and a proper discount Term applied.

**Sample Purchase Discount Transaction (A/P Module)**

**Vendor:** Wild Duck, SRL

**Term:** 2/10, N/30

**G/L Account**

73000 – Purchases

(Purchase of hand bags from Wild Duck w/discounts)

**Amount**

15,000

**Product Line**

HNB01 – Hand Bags

**Manual Inventory Entries (Adjustments)**

- **Initial Inclusion of Inventory** – The initial inclusion/capitalization of inventory should always be posted using the Purchases account; this includes instances of contributed inventory. Later adjustments to these initial entries, as outlined below, provide for correct BS amounts.

**Sample Entry for Initial Inclusion of Inventory**

Account	Description	Dr	Cr
73000	Purchases	25,000	
62000	Member Contribution – C. Jones		25,000
(To record member contribution of inventory)			

- **Inventory Variation** – At the end of each accounting period inventory must be trued-up. The amount that inventory is adjusted is determined after valuing inventory by the LIFO, FIFO, Average Cost, etc. method. Once this amount has been determined (beyond the scope of this I M & U) the adjusting entry allows for the proper P & L effect and ending BS amounts. In the example below ending inventory for the prior period stood at \$50,000 and now stands at \$75,000. The entry is reversed when inventory is lower than the prior period.

**Sample Entry for Inventory Variation**

Account	Description	Dr	Cr
24000	Inventory – Hand Bags	25,000	
75900	Inventory Variation		25,000
(To record adjustment to month end inventory)			

- **Stock Loss Reserve** – In the instance that inventory is reduced as a result of spoilage, theft, loss, etc. an adjustment must be made to capture the change. Entries made in connection with stock loss directly write-off inventory and reduce BS amounts to their appropriate level. In the following example a \$5,000 inventory loss is recorded.

**Sample Entry for Stock Loss**

Account	Description	Dr	Cr
74500	Stock Loss Reserve	5,000	
24000	Inventory – Hand Bags (To record inventory stock-loss)		5,000

- **Inventory Adjustments** – Inventory adjustments are completed in association with write-downs or write-ups and generally reflect the non-salability/obsolescence of items or the abrupt increase in inventory value. In both cases, our entries directly affect the inventory account –rather than a reserve account— and should be booked as follows:

**Sample Entry for Inventory Adjustments**

Account	Description	Dr	Cr
74600	Inventory Adjustments	6,000	
24000	Inventory – Hand Bags (To record adjustments for obsolescent inventory)		6,000

**Reasons for Profit & Loss “Out of Balance” Between Various Statements**

- **General Results of P & L “Out of Balance”** – An “Out of Balance” state exists when the reported Profit and Loss differs between the Balance Sheet, P & L Statement, COGS Statement, etc. Generally, an Out of Balance error occurs for one of the following reasons:
  1. **Adjustments Made to Other than Inventory Variation Account** – Inventory adjustment are made to an account other than the Inventory Variation Account (G/L Account 75900). These entries are generally made to record an adjustment to month-end inventory (sooner if the perpetual inventory method used). Journal entries should be reviewed to ensure that inventory accounts are ONLY adjusted against the Inventory Variation account.
  2. **Adjustments for Inventory Transfer Out** – Inventory adjustments are made directly to a FG, WIP, or RM account without a corresponding change to the purchases account. Example: A direct transfer of raw materials to an R&D accounts (a writing-down of inventory for R&D use). Corrected:
    - **First**, post an adjustment to the purchase and R&D accounts,
    - **Second**, write-down the corresponding amount of inventory in the month-end entry.

**Financial Statement Results & Adding Accounts**

- **Application of IM & U** – If the above entries are misapplied or ignored the user will find that statements (COGS, P & L, Etc.) provide incorrect totals and/or inconsistency between the calculation of COGS.
- **Adding Accounts** – Adding accounts in the correct ranges is critical to keeping statements in balance. The following provides an outline of the account ranges that should be followed:

<b>Current Intacct Account Ranges – Pertaining to Inventory</b>		
Inventory – Finished Goods Accounts 24000 TO 24499	Inventory – Work in Process Accounts 24500 TO 24999	Purchases Accounts 73000 TO 73999
Purchase Return & Discount Accounts 74000 TO 74499	Reserves & Adjustments Accounts 74500 TO 74799	Freight & Other Direct Costs Accounts 74800 TO 75899
<b>Note: Inventory Variation</b> is currently one account-wide OR the account 75900 only.		

**Further Instruction & Use** – For further information regarding inventory adjustments contact your Account Executive or call The NDH Group, Ltd. at 312.461.0505.