

Description of Enquiry

This article explains how to properly record expenses (losses) or incomes (profits) incurred as a result of fluctuating stock valuations when different value RTS' (as related to the Inventory Item's current Average Cost) are processed.

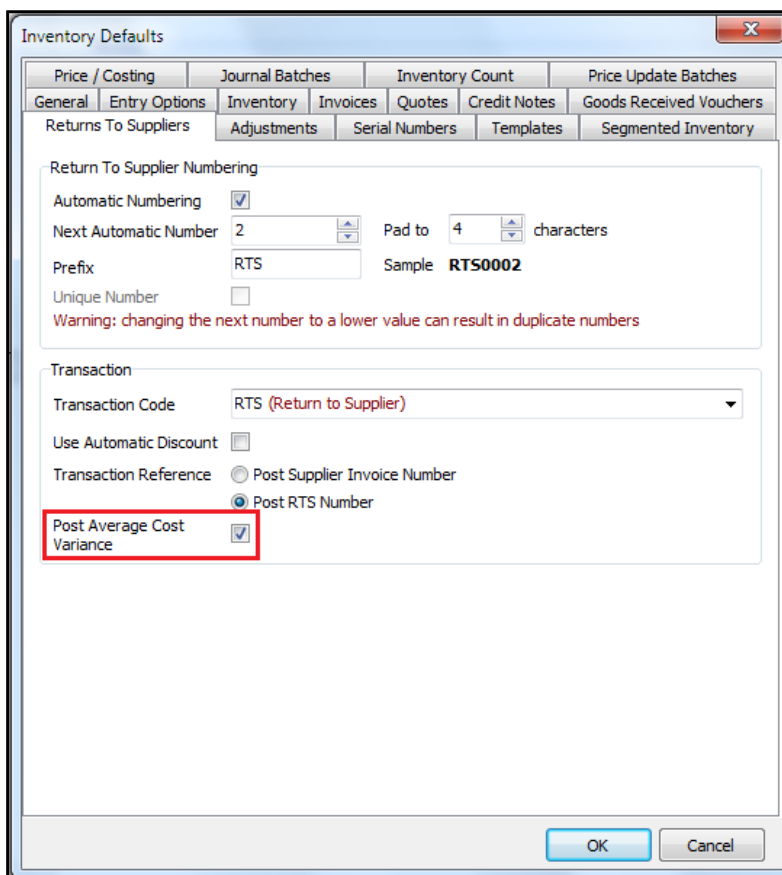
Knowing how to account for such profits or losses becomes quite critical, especially when differences in stock valuation are encountered due to RTS transactions and such movements need to be recorded on financial statements.

For example, the total valuation of item X is currently R10 000 for 10 units but the cost valuation as processed on a RTS is R7500 for the 10 units.

This difference therefore actually represents a loss (expense) for the company and should be recorded as such. Conversely, if the RTS line total cost is higher than the current valuation of the same item, the transaction should generate a profit (income) for the company.

Solution / Details

In order to achieve the above, make use of the option called **Post Average Cost Variance** on the **Inventory Defaults | Returns to Supplier** tab.



The screenshot shows the 'Inventory Defaults' window with the 'Returns To Suppliers' tab selected. The 'Return To Supplier Numbering' section has 'Automatic Numbering' checked, 'Next Automatic Number' set to 2, 'Pad to' set to 4, and 'Prefix' set to RTS. The 'Transaction' section has 'Transaction Code' set to 'RTS (Return to Supplier)', 'Use Automatic Discount' unchecked, 'Transaction Reference' set to 'Post RTS Number', and 'Post Average Cost Variance' checked. The 'Post Average Cost Variance' checkbox is highlighted with a red box. The 'OK' and 'Cancel' buttons are at the bottom right.

To explain how this option affects Evolution, consider the following scenario:

1. Ensure the above option is selected.
2. Create a new item ZZZ.
3. Process a GRV x 10 units at a unit cost of R100.

The screenshot shows the 'New Goods Received Voucher (GRV0003*)' form. The 'Quantity' field is highlighted with a red box and contains the value '10.00'. The 'Price (excl)' field is also highlighted with a red box and contains the value 'R100.00'. The 'Tax Type' is set to '1' and the 'Tax Rate' is '14.00'.

4. Compare the Inventory Valuation report,

| Inventory Valuation | | | | | | Page 1 of 1 |
|---------------------|------------------|------|-------|-----------|-------------|-------------------|
| Item Code | Item Description | Whse | Group | Unit Cost | Qty On Hand | Value |
| AAA | AAA | | | 500.00 | | 0.00 |
| BBB | BBB | | | 371.25 | 80.00 | 29,700.00 |
| X | X | | | 182.55 | 1,093.00 | 199,525.00 |
| ZZZ | ZZZ | | | 100.00 | 10.00 | 1,000.00 |
| Totals | | | | | | 230,225.00 |

with the Stock account to ensure they balance.

The screenshot shows the 'Stock (Stock)' account ledger. The 'Running Balance' column shows a value of 230,225.00, which is highlighted with a red box. The 'Date' is 19/02/2016.

| Date | Code | Debit | Credit | Description | Running Balance | Date Stamp | Refer | Reference |
|------------|------|-------------|------------|----------------------|-----------------|------------------------|--------|-----------|
| 12/02/2016 | ADJ | | | Adjustments | 0.00 | 12/02/2016 9:28:55 AM | | |
| 12/02/2016 | INV | | | Sales Order | 0.00 | 12/02/2016 9:29:26 AM | INV001 | |
| 12/02/2016 | INV | | | Invoice | 0.00 | 12/02/2016 9:45:32 AM | INV001 | |
| 15/02/2016 | ADJ | R99,800.00 | | Adjustments | 99,800.00 | 15/02/2016 10:05:52 AM | | |
| 15/02/2016 | GRV | R20,000.00 | | Goods Received Vouch | 119,800.00 | 15/02/2016 10:07:17 AM | GRV001 | |
| 15/02/2016 | GRV | R30,000.00 | | Goods Received Vouch | 149,800.00 | 15/02/2016 10:07:17 AM | GRV001 | |
| 15/02/2016 | GRV | R100,000.00 | | Goods Received Vouch | 249,800.00 | 15/02/2016 10:07:17 AM | GRV001 | |
| 15/02/2016 | RTS | | R775.00 | Return to Supplier | 249,025.00 | 15/02/2016 10:17:43 AM | RTS001 | |
| 15/02/2016 | ADJ | | R19,800.00 | Adjustments | 229,225.00 | 15/02/2016 10:21:54 AM | | |
| 19/02/2016 | GRV | R500.00 | | Goods Received Vouch | 229,725.00 | 19/02/2016 10:11:43 AM | GRV001 | |
| 19/02/2016 | RTS | | R50.00 | Return to Supplier | 229,675.00 | 19/02/2016 10:13:58 AM | RTS001 | |
| 19/02/2016 | RTS | | R450.00 | Return to Supplier | 229,225.00 | 19/02/2016 10:13:58 AM | RTS001 | |
| 19/02/2016 | GRV | R1,000.00 | | Goods Received Vouch | 230,225.00 | 19/02/2016 10:30:13 AM | GRV001 | |

5. Process a RTS at a reduced cost than the current valuation, as below.

The screenshot shows the 'New Return to Supplier (RTS0003*)' form. The 'Price (excl)' field is highlighted with a red box and contains the value 'R10.00'. The 'Tax Type' is set to '1' and the 'Tax Rate' is '14.00'.

6. Again compare the Inventory Valuation report

| Inventory Valuation | | | | | | |
|---------------------|------------------|------|-------|-------------|-------------|-------------------|
| SALVATION-710 | | | | | | |
| Inventory Valuation | | | | Page 1 of 1 | | |
| Item Code | Item Description | Whse | Group | Unit Cost | Qty On Hand | Value |
| AAA | AAA | | | 500.00 | | 0.00 |
| BBB | BBB | | | 371.25 | 80.00 | 29,700.00 |
| X | X | | | 182.55 | 1,093.00 | 199,525.00 |
| ZZZ | ZZZ | | | 100.00 | 8.00 | 800.00 |
| Totals | | | | | | 230,025.00 |

with the Stock account and note that they still balance.

| Account Stock (Stock) | | | | | | | | | |
|---------------------------------------------------|------|-------------|------------|----------------------|-----------------|------------------------|-----------|--|--|
| From 19/02/2016 To | | | | | | | | | |
| Transactions Ledger Balances | | | | | | | | | |
| Drag a column header here to group by that column | | | | | | | | | |
| Date | Code | Debit | Credit | Description | Running Balance | Date Stamp | Reference | | |
| 12/02/2016 | ADJ | | | Adjustments | 0.00 | 12/02/2016 9:28:55 AM | | | |
| 12/02/2016 | INV | | | Sales Order | 0.00 | 12/02/2016 9:29:26 AM | INV0001 | | |
| 12/02/2016 | INV | | | Invoice | 0.00 | 12/02/2016 9:45:32 AM | INV0002 | | |
| 15/02/2016 | ADJ | R99,800.00 | | Adjustments | 99,800.00 | 15/02/2016 10:05:52 AM | | | |
| 15/02/2016 | GRV | R20,000.00 | | Goods Received Vouch | 119,800.00 | 15/02/2016 10:07:17 AM | GRV0001 | | |
| 15/02/2016 | GRV | R30,000.00 | | Goods Received Vouch | 149,800.00 | 15/02/2016 10:07:17 AM | GRV0001 | | |
| 15/02/2016 | GRV | R100,000.00 | | Goods Received Vouch | 249,800.00 | 15/02/2016 10:07:17 AM | GRV0001 | | |
| 15/02/2016 | RTS | | R775.00 | Return to Supplier | 249,025.00 | 15/02/2016 10:17:43 AM | RTS0001 | | |
| 15/02/2016 | ADJ | | R19,800.00 | Adjustments | 229,225.00 | 15/02/2016 10:21:54 AM | | | |
| 19/02/2016 | GRV | R500.00 | | Goods Received Vouch | 229,725.00 | 19/02/2016 10:11:43 AM | GRV0002 | | |
| 19/02/2016 | RTS | | R50.00 | Return to Supplier | 229,675.00 | 19/02/2016 10:13:58 AM | RTS0002 | | |
| 19/02/2016 | RTS | | R450.00 | Return to Supplier | 229,225.00 | 19/02/2016 10:13:58 AM | RTS0002 | | |
| 19/02/2016 | GRV | R1,000.00 | | Goods Received Vouch | 230,225.00 | 19/02/2016 10:30:13 AM | GRV0003 | | |
| 19/02/2016 | RTS | | R20.00 | Return to Supplier | 230,205.00 | 19/02/2016 10:32:52 AM | RTS0003 | | |
| 19/02/2016 | RTS | | R180.00 | Return to Supplier | 230,025.00 | 19/02/2016 10:32:52 AM | RTS0003 | | |

7. Notice however that another account, namely the **Stock Cost Variance**, or the one selected on the **Inventory Defaults | Price / Costing** tab,

Inventory Defaults

General

Entry Options

Inventory

Invoices

Quotes

Credit Notes

Goods Received Vouchers

Returns To Suppliers

Adjustments

Serial Numbers

Templates

Segmented Inventory

Price / Costing

Journal Batches

Inventory Count

Price Update Batches

Price Lists

Price List 1 Price List 1 (Price List 1)

Price List 2 Price List 2 (Price List 2)

Price List 3 Price List 3 (Price List 3)

The Price Lists set up here will be the Prices that will be Available in Reports

Gross Profit

Minimum GP %

Cost Variance

Inventory Cost Variance Stock Cost Variance (Stock Cost Variance)

Default Costing Method

Weighted Average Latest Cost Manual Cost

Inventory Item Costing

Cost Per Inventory Item Cost Per Warehouse

Cost Price Masking

Encoding Key ABCDFGHJKL 1254.50 = BCGF.GA

OK Cancel

8. has been debited as can be seen below. Remember that posting to this account will be overridden by the one selected on the relevant Inventory Group (Inventory Cost Variance field).

| Date | Code | Debit | Credit | Description | Running Balance | Date Stamp | Reference |
|------------|------|-------------|------------|----------------------|-----------------|------------------------|-----------|
| 12/02/2016 | ADJ | | | Adjustments | 0.00 | 12/02/2016 9:28:55 AM | |
| 12/02/2016 | INV | | | Sales Order | 0.00 | 12/02/2016 9:29:26 AM | INV0001 |
| 12/02/2016 | INV | | | Invoice | 0.00 | 12/02/2016 9:45:32 AM | INV0002 |
| 15/02/2016 | ADJ | R99,800.00 | | Adjustments | 99,800.00 | 15/02/2016 10:05:52 AM | |
| 15/02/2016 | GRV | R20,000.00 | | Goods Received Vouch | 119,800.00 | 15/02/2016 10:07:17 AM | GRV0001 |
| 15/02/2016 | GRV | R30,000.00 | | Goods Received Vouch | 149,800.00 | 15/02/2016 10:07:17 AM | GRV0001 |
| 15/02/2016 | GRV | R100,000.00 | | Goods Received Vouch | 249,800.00 | 15/02/2016 10:07:17 AM | GRV0001 |
| 15/02/2016 | RTS | | R775.00 | Return to Supplier | 249,025.00 | 15/02/2016 10:17:43 AM | RTS0001 |
| 15/02/2016 | ADJ | | R19,800.00 | Adjustments | 229,225.00 | 15/02/2016 10:21:54 AM | |
| 19/02/2016 | GRV | R500.00 | | Goods Received Vouch | 229,725.00 | 19/02/2016 10:11:43 AM | GRV0002 |
| 19/02/2016 | RTS | | R50.00 | Return to Supplier | 229,675.00 | 19/02/2016 10:13:58 AM | RTS0002 |
| 19/02/2016 | RTS | | R450.00 | Return to Supplier | 229,225.00 | 19/02/2016 10:13:58 AM | RTS0002 |
| 19/02/2016 | GRV | R1,000.00 | | Goods Received Vouch | 230,225.00 | 19/02/2016 10:30:13 AM | GRV0003 |
| 19/02/2016 | RTS | | R20.00 | Return to Supplier | 230,205.00 | 19/02/2016 10:32:52 AM | RTS0003 |
| 19/02/2016 | RTS | | R180.00 | Return to Supplier | 230,025.00 | 19/02/2016 10:32:52 AM | RTS0003 |

9. This account should be setup as an Income Statement type of account, preferably some kind of Expense.
10. Finally, also notice that the R180 debit above is the contra posting for one of the two credits on the Stock account, specifically for the R180 credit leg (on the Stock account) as can be seen in step 6 above.
11. This R180 represents the actual loss the company has made due to the RTS transaction and should therefore reflect as such on the company's Income Statement.

IN CONCLUSION

- If the **Post Average Cost Variance** option has been selected, the **Stock Cost Variance** account (or alternative as discussed above) gets affected during RTS transactions, when the RTS cost is different than the current item's valuation.

| Date | Code | Debit | Credit | Description | Running Balance | Date Stamp | Reference |
|------------|------|-------------|------------|----------------------|-----------------|------------------------|-----------|
| 12/02/2016 | ADJ | | | Adjustments | 0.00 | 12/02/2016 9:28:55 AM | |
| 12/02/2016 | INV | | | Sales Order | 0.00 | 12/02/2016 9:29:26 AM | INV0001 |
| 12/02/2016 | INV | | | Invoice | 0.00 | 12/02/2016 9:45:32 AM | INV0002 |
| 15/02/2016 | ADJ | R99,800.00 | | Adjustments | 99,800.00 | 15/02/2016 10:05:52 AM | |
| 15/02/2016 | GRV | R20,000.00 | | Goods Received Vouch | 119,800.00 | 15/02/2016 10:07:17 AM | GRV0001 |
| 15/02/2016 | GRV | R30,000.00 | | Goods Received Vouch | 149,800.00 | 15/02/2016 10:07:17 AM | GRV0001 |
| 15/02/2016 | GRV | R100,000.00 | | Goods Received Vouch | 249,800.00 | 15/02/2016 10:07:17 AM | GRV0001 |
| 15/02/2016 | RTS | | R775.00 | Return to Supplier | 249,025.00 | 15/02/2016 10:17:43 AM | RTS0001 |
| 15/02/2016 | ADJ | | R19,800.00 | Adjustments | 229,225.00 | 15/02/2016 10:21:54 AM | |
| 19/02/2016 | GRV | R500.00 | | Goods Received Vouch | 229,725.00 | 19/02/2016 10:11:43 AM | GRV0002 |

- If the above option is **not selected** a single entry gets posted to the Stock account, as opposed to (when the option is selected) having two legs posted to the Stock account.

- With the option selected, the difference in valuation e.g. R180 in this case, gets posted to the **Stock Cost Variance** (or alternative account).

| Date | Code | Debit | Credit | Description | Running Balance | Date Stamp | Reference |
|------------|------|---------|--------|--------------------|-----------------|------------------------|-----------|
| 19/02/2016 | RTS | R450.00 | | Return to Supplier | 450.00 | 19/02/2016 10:13:58 AM | RTS0002 |
| 19/02/2016 | RTS | R180.00 | | Return to Supplier | 630.00 | 19/02/2016 10:32:52 AM | RTS0003 |

- Regardless if the **Post Average Cost Variance** option is selected or not, the Stock (Control) account should always balance with the **Valuation Report** (as long as Negative Quantities are not allowed).
- Remember that the sum of the two legs (if the option is selected) as posted on the Stock account, equals the same amount as changing on the Valuation report resulting in them to still agree with each other.