

# Taking the mystery out of Inventory

You might ask yourself, should I care if my inventory is correct?

Here are the top three reasons you should care:

#1

If your actual items count on hand and cost or the inventory actual value are not correct, typically the net profit or loss on your Profit and Loss statement is not correct either. Sometimes that is good news but most often it is not good news.

#2

If your inventory costing method is not correct because your software is not strong enough to allow you to manage your inventory or the actual costing method, then you may not know the actual profitability by customer or even by each sales invoice or by item. So how can you then tell who your most profitable customers are? It's not just how much stuff they buy, but what your overall profit margin on them is.

#3

If (A and B) are not correct then you may be sitting with too much of one item costing you money to have stuff just sitting on the shelf. You may also be losing sales because you don't or can't get enough in time of another item and the customer may go somewhere else to buy because everyone wants their stuff now.

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If all 3 reasons apply to your business you have inventory that is out of control. There really is no reason to lose sleep over inventory which brings me to the next set of helpful hints.

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So, how do you know if you have a problem?

Let's review how easy it is to check without having your consultant or other advisors do this for you.



Check the inventory costing method stated on your company income tax return. Make sure that is the costing method that is established for your system default and is associated or defined on each stock inventory item you buy and sell. This can make a big difference in getting real information on the profitability of your items sold.



Print an inventory valuation report and compare the grand total inventory valuation dollars stated to the amount stated in your inventory general ledger account on your balance sheet as of the same point in time. Hint "These amounts should be the same"



Review the inventory valuation report for items that have a negative quantity on hand or a negative value. This means someone is selling inventory that is not on the shelf and in a lot of systems since there is no quantity on hand, there may be a zero cost basis on the item being sold.

See that was not so hard. If any of these apply to your business, you should have concerns about your inventory or how your employees are recording your inventory movement.

OK, so we have talked about why we should be concerned and about how to look and see if we should be concerned.

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## Now what do I do?

First, I know you don't want to hear this but if your current accounting system is not strong enough to help your business easily manage your inventory in the proper way, change it. You are probably spending more time trying to figure out what the correct information is or redoing all this in excel that you have paid for a new system several times over. You may have lost enough sales to pay for the new accounting software. If your current system meets all your business objectives, then try this.



Start by fixing all the items that have a negative quantity on hand or that have a negative cost associated with the item.



Do a physical count so you know what is on the shelf. Adjust the current quantity on hand and costs to determine what the real value of your inventory is. Once you think the corrections are done, print an inventory valuation report and check it again. This is typically done at the end of an accounting period.



Book a journal entry to bring the actual inventory valuation after the physical count in balance with the stated inventory valuation report. Typically, the offsetting entry for this goes to the cost of goods sold or inventory variance general ledger account. You may want to work with you CPA during this step so they can help you understand the impact.



Then take a close look at your year to date profit or loss statement. You won't know until you book this journal entry how big the effect is on your current year profit or loss.

Begin to monitor your progress on a daily basis to confirm you are staying in balance or if new out of balance conditions are created. This is done by taking a look at your inventory valuation at the end of the day once all your system transactions have been posted all the way thru to your general ledger. Then compare the grand total from the inventory valuation report to the balance stated on your balance sheet for inventory. Out of balance conditions typically occur when the software or inventory item has not been set up properly or the user is entering transactions improperly into your accounting system. (*FYI – all accounting systems are balanced in this manner regardless of the manufacturer.*)

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## Taking the mystery out of inventory is really not that hard to do!

After 25 years of teaching hundreds of users how to do this, I can honestly say it is just a matter of having someone take the time to teach you, the user, what to look for and then what to do once you discover issues. It also means you, the user, have to take 10 minutes and have to take the responsibility to be proactive and look for problems on a frequent basis. It is much easier to correct problems as we progress thru the year than wait and spend a lot of time and money at the end of the year cleaning up a lot of little problems that have turned into a large problem.

If you do want to manage your inventory and your current product is coming up short on ability I would recommend the following:

**Peachtree Premium** and **Peachtree Quantum** which are designed for businesses with simple inventory needs and has a lot of options on inventory costing methods, does a great job with backorders, easy to e-mail documents to clients and vendors and it is easy to fix problems. There are a lot of nice build in inventory reports so you can easily identify your most profitable customers and the items you sell the most of and which items are the most profitable. It is truly windows based and it is one of the most forgiving software applications on the market.

**Sage MAS 90** and **Sage MAS 200** are a lot more powerful and packed with inventory features; can be easily customized and interfaces seamlessly to a shopping cart called E-Business Manager. This can handle customer level pricing, has multi warehouse capabilities, alternate items and alias part numbers. You can store year's worth of transactional history, the bill of materials and work order modules are very powerful. It is worth looking at if you need to compare what you are paying for your products across multiple vendors. Additionally, there is also a state of the art barcode system add on that is one of the best and easiest I have ever seen. That's the good news. This product is only for companies that are serious about managing your inventory.

If you are serious about taking the mystery out of managing your inventory and want to look at either of these two software packages, there is a company headquartered in Chicago with offices in several other states that specializes in inventory management [www.jcscomputer.com](http://www.jcscomputer.com) 800/475-1047. They give free demos, migration discounts and are Certified Consultants that can help your business setup and learn these applications.

Let me close with one last statement. *"No one, and I mean no one, will be as concerned about having correct information for your business the way you will."*

Shirley Coop [info@accountingsoftwarereview.com](mailto:info@accountingsoftwarereview.com)

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