

# How to Have a Successful Physical Inventory

**Product:** Inventory Management for Sage MAS 90 and 200

## Description

Preparation is the key to a successful Physical Inventory. Discover which Sage MAS 90 and 200 reports to run before starting the Physical Inventory, what to watch for on the reports and how to deal with the typical problems they expose. Then, walk through the Physical Inventory processing and learn the tips and tricks for a successful completion.

## Learning Objectives

At the end of today's session, you will be able to:

- Successfully freeze the perpetual inventory, enter the inventory count, and update your physical inventory count.

## Why taking an accurate Physical Inventory Count is important

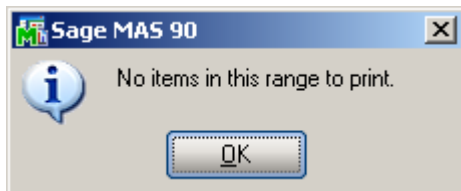
- Improved customer service. An inaccurate perpetual inventory may delay sales if Sage MAS 90 and 200 shows an on-hand quantity available, but the item is not physically available to ship.
- An accurate inventory assists the Purchasing department in making good inventory ordering decisions and minimizes stock-out situations.
- To reflect the actual value of on-hand inventory for financial reporting and auditing purposes.
- Theft and fraud. Auditing the over and short variances after the physical inventory count could help detect internal theft and fraud

## Preparation

- Physical Inventory Counts are usually taken at the end of a fiscal or calendar month during period end. This makes the process easier due to cutoff schedules for processing transactions. However, Physical Inventory Counts do not have to be done at period end. You can process a physical count at any time. Physical Inventory Counts can be done annually, semi-annually, quarterly, monthly, weekly, or daily.
- Complete **all** inventory related transactions prior to the freeze of the inventory. This includes all transactions for the Sales Order, Purchase Order, Return Merchandise Authorization, Work Order, and Bill of Material modules. Verify that all receipts and invoices have been entered into the system and that the registers have been updated.
- Run the Negative Tier Report for LIFO and/or FIFO valuation methods and address any negative balances.

**Note:** To control the offsetting tier cost, use an 'Adjustments' type Transaction Entry.

- Ideally, during the Physical Count, inventory items would not be moved from one location to another. All physical movement of items, receipts and shipments should cease until the physical count is completed. If incoming shipments are received at the time of the count, they should be put into a segregated location and marked DNI (Do Not Inventory) or similar. The Receipt of Goods / Invoice can be entered after the inventory has been frozen.
- In situations where shipments and receipts must occur during the count, it is very important to keep track of all movement that happens after the inventory has been frozen. Your physical inventory counts will need to be adjusted accordingly.
- Prior to freezing the inventory, preview the Physical Count Variance Report to verify that there are no unresolved frozen items from prior counts. You should get the following message:



- **Suggestion:** Make a complete backup of your data set after the inventory has been frozen, the physical count has been entered, and prior to updating the Physical Count Variance Register. If the Physical Count Variance Register has been updated in error (i.e. with variances that were not corrected) or if the update is interrupted, you may need to restore from backup. There is no 'UNDO' button.
- **Note:** You cannot enter a cost at the time of the Physical Count process.

## **Physical Inventory Count in Sage MAS 90 and 200 as easy as 1, 2, 3... almost.**

- 1. Physical Count Worksheet** – Print the Physical Count Worksheet and ‘freeze’ the inventory.
- 2. Physical Count Entry** – Count your inventory and enter the count in Sage MAS 90 or 200.
- 3. Physical Count Variance Register** – Review the register for accuracy and update it so Sage MAS 90 and 200 accurately reflects your actual on-hand inventory.

### **Physical Count Worksheet**

Use Physical Count Worksheet to freeze items to count, and to print worksheets for the selected items. The worksheets include information such as the item number and description, bin location, and inventory cycle, and have space for writing the physical count quantities. You can print the Physical Count Worksheets in order by bin location or item number for one or all product lines or by warehouse.

The perpetual inventory must be frozen prior to the actual physical count. When the actual physical count is completed, normal operations can still be performed while the physical count is entered. After the physical count is entered and updated, any shipping and receiving that occurred between the completion of the actual physical count and the Physical Count Variance Register update is considered as the perpetual inventory is adjusted.

### **Physical Count Entry**

When the actual physical count is complete, you can bring the perpetual inventory up to date by entering the physical count data into the system. You can facilitate the data entry process by setting up the Physical Count Entry window to match the Physical Count Worksheet.

Items within the bin location range, item number range, and product line entered are displayed on the Lines tab if they were frozen in Physical Count Worksheet or previously entered during Physical Count Entry. Any item that was not frozen in Physical Count Worksheet or entered in Physical Count Entry is not displayed, even if it is within the bin location range, item number range, and product line entered.

You can print the Physical Count Variance Register window from the Physical Count Entry window. You can also add items to physical inventory and add new lot or serial numbers.

## Physical Count Variance Register

Use Physical Count Variance Register to show the difference between your perpetual inventory balance at the time it was frozen and your posted physical count. Printing and updating this register is the final step in the Physical Count process.

This register compares the perpetual inventory data that was frozen at the beginning of the Physical Count process with the count data entered in Physical Count Entry. You can print the frozen on-hand quantities, the actual physical count entered in Physical Count Entry, and the difference between the two. A variance amount, based on the quantity over or short and the item's costing method, is extended for each item and is used to adjust the perpetual inventory during the update.

**Note:** Only frozen items with the ranges entered are printed and updated. Frozen items not included within the ranges are not updated and remain in the Physical Count file.

Review the Physical Count Variance Register for accuracy. If there are errors, return to Physical Count Entry, make the necessary changes, print the Physical Count Variance, and proceed with the update.

**Warning: Do NOT, under any circumstance, interrupt the update process!**

During the update process, the following occurs:

- The quantity-on-hand fields in the Inventory Item Warehouse Detail file (IM2) are updated to the physical count quantities.
- The average cost is recorded in inventory, and the Item Costing records (IM3) for lot/serial and LIFO/FIFO items are updated.
- The physical count detail is recorded in the Inventory Transaction file (IM5).
- Postings are made to the General Ledger Transaction file for future printing and updating.

Print the Daily Transaction Register and update the General Ledger entries posted from the Physical Count Variance Register.

## Physical Count Posting

The cost amounts associated with adjustments made to the quantity on hand during the Physical Count process are posted to the General Ledger. If a positive adjustment is made (the quantity on hand is increased), the Inventory account is debited and the Adjustment account is credited with the associated cost amount.

The following General Ledger postings are made for an item with a unit cost of \$100.00. This example assumes the quantity on hand is increased by one.

<b>Physical Count:</b>	<b>G/L Account</b>	<b>Debit</b>	<b>Credit</b>
	Inventory	100.00	
	Adjustment		100.00

The item's valuation method and whether the adjustment is positive or negative determine the cost amount of the adjustment.

For standard cost and average cost items, the adjustment amount is calculated as the standard cost or average cost, multiplied by the quantity adjusted.

For LIFO/FIFO items with a positive quantity adjustment, the cost associated with the first cost tier (receipt) is used.

For LIFO/FIFO items with a negative quantity adjustment, the cost associated with actual tiers against which the adjustment was applied is used. The cost is calculated in the same manner as an issue for the same amount.

For lot/serial items, the cost associated with the lot or serial number adjusted is used. If a new lot or serial number is added, the last cost for the item is used.

## Cycle Counting

Another option for maintaining an accurate on-hand inventory is Cycle Counting. Cycle counting is a procedure of managing inventory by counting a small subset of items on a daily or weekly basis. A complete physical inventory count usually stops operations at a facility while the count is being conducted. Cycle counting is beneficial because it is less disruptive to daily operations while providing an ongoing measure of inventory accuracy. Cycle counting can be used to focus on items with a high dollar value or higher movement.

At first glance, it does not appear that cycle counting is available in Sage MAS 90 and 200. However, the ability to cycle count is available by utilizing the Inventory Cycle field on the Main tab in Inventory Maintenance.

The screenshot shows the 'Inventory Maintenance' window for item '1001-HON-H252'. The 'Inventory Cycle' field is set to 'B'. The 'Last Costs' section shows a total of 34.250. The 'Retail Price' and 'Std Price' are both 84.000, and the 'Std Cost' is 32.750. The 'Avg Cost' is 34.250. The 'Enter the inventory cycle for this item' field at the bottom contains '420 ABC 5/30/2008'.

*From the Sage MAS 90 and 200 Help files - **Inventory Cycle**: “Type a code representing the cycle associated with this item. Inventory cycles can be used to group items for reporting and for physical inventory processing.” This field is commonly used for ABC Analysis. Numbers or letters can be entered here to denote a sub-group within a product line.*

At this point after designating an Inventory Cycle for the items in Inventory Maintenance, you could print worksheets and freeze the inventory for a specific Inventory Cycle and use various ranges of Item Numbers, Bin Locations, Warehouses, etc. for cycle counting.

**Physical Count Worksheet**

Sort Options:

Item Description:  All  Starting  Ending

Report Options:

Procurement Type:  Double Space:

Selection:  All  Starting  Ending

Item Number:

Bin Location:

Warehouse:

Inventory Cycle:

Product Line:

Enter Item Number: 420 ABC 6/2/2008

# How to Have a Successful Physical Inventory

Physical Count Worksheet Best Software

PHYSICAL COUNT WORKSHEET

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WAREHOUSE: 000 CENTRAL WAREHOUSE      INV CYCLE: B      PROD LN: ALL

BIN LOC	ITEM NUMBER	DESCRIPTION	U/M	PHYSICAL COUNT
E-300-10	1001-HON-H252	HON 2 DRAWER LETTER FLE W/O LK	EACH	_____
E-300-20	1001-HON-H252LK	HON 2 DRAWER LETTER FLE W/ LCK	EACH	_____
E-300-30	1001-HON-H254	HON 4 DRAWER LETTER FLE W/O LK	EACH	_____
E-300-40	1001-HON-H254LK	HON 4 DRAWER LETTER FLE W/ LCK	EACH	_____

Page: 1

<b>Physical Inventory Count Worksheet</b>	
	<b>1.</b> After ALL inventory related transactions have been updated, select Inventory Management Period End menu > Inventory Negative Tier Report to review over-distributed tiers for LIFO/FIFO items.
	<b>2.</b> Clear or correct negative physical count tiers.
	<b>3.</b> Set the Inventory Management accounting date to use for posting to the General Ledger. The physical count process should normally be performed as of a period-ending date.
	<b>4.</b> Select and "freeze" the on-hand quantities of the range of items, product lines, and warehouses for which you will perform a physical count. You can also print a worksheet to record the actual count data. This would be a good time to make a complete backup of your data set.
	<b>5.</b> Count the actual quantities in stock and record the information on the worksheets.
	<b>6.</b> Enter the actual count from the worksheet using Physical Count Entry.
	<b>7.</b> Print the Physical Count Variance Register and review the variances for accuracy. Make any necessary changes in Physical Count Entry, print and review the variance register again and perform the update.
	<b>8.</b> Print the Daily Transaction Register and update the physical count data to the General Ledger.
	<b>9.</b> Back up the Inventory Management data files.

## **How to clear frozen item records from the Physical Inventory file**

**Entry Type:** Informational

**Product:** Sage MAS 90 ERP, Sage MAS 200 ERP, Sage MAS 200 ERP - SQL Server Edition

**Application:** Inventory Management

**Version Reported:** All Versions

**Subject:**

How to clear frozen item records from the Physical Inventory file

**Possible Resolution:**

Records are cleared from the Inventory Management Physical Inventory file (IME) when either:

1. Clear Frozen Items is selected as the Report Option for Physical Count Worksheet and Print/Preview is selected.

*or*

2. The Physical Count Variance Register is printed/previewed and updated.

**Note:** If frozen records are not cleared before, new records will be appended to the Physical Inventory File.

## **How to determine if the Physical Count Variance Register has been updated**

**Entry Type:** Informational

**Product:** Sage MAS 90 and Sage MAS 200 ERP

**Application:** Inventory Management

**Version Reported:** 4.05

**Subject:**

**Possible Resolution:**

1. Verify that items are cleared from the Physical Count Variance Register.
  - Open Inventory Management / Physical / Physical Count Variance Register. Run the register. The following message should display: "No items in this range to print"
2. Verify that transactions exist in history.
  - Open Inventory Management / Reports / Detail Transaction Report. Enter the transaction date used for the update, and run the report.  
**Note:** The transaction type for physical count is "IP".
3. Verify that the register updated to General Ledger.

Open General Ledger / Reports / General Ledger Detail by Source Report. Enter the source journal, journal/register number, and posting date used, and run the report.

## How to use the Negative Tier Report in Inventory Management

**Entry Type:** Informational

**Product:** Sage MAS 90 ERP, Sage MAS 200 ERP, Sage MAS 200 ERP - SQL Server Edition

**Application:** Inventory Management

**Version Reported:** 3.71

**Subject:**

How to use the Negative Tier Report in Inventory Management.

**Possible Resolution:**

Negative Tier Report identifies over distribution tiers that need to be resolved for items valued at LIFO, FIFO, Lot or Serial. Over distribution tiers are the result of processing sales or issues prior to processing receipts. These tiers should be reconciled prior to Period End Processing as their existence can cause unexpected results in Period End reporting. The existence of over distribution tiers can also result in incorrect costs being assigned to sales or issue transactions.

1. Open Inventory Management / Period End and select the Inventory Negative Tier Report.
2. Click the appropriate boxes to print the report for LIFO and FIFO tiers and/or Lot and Serial tiers.
3. Select the desired warehouse code or click the box to select all warehouses.
4. Print the Negative Tier Report
5. Open Inventory Management / Reports and select the Inventory Valuation Report.
6. Compare the two reports. For any items reporting a negative tier, determine whether an offsetting positive tier exists in the same warehouse.
7. Open Inventory Management / Main / Inventory Transaction Entry and enter the necessary transactions to transfer or adjust the quantity in the warehouse to create a positive tier if needed.
8. Open Inventory Management / Period End and run the Inventory Negative Tier Adjustment task to clear the negative tiers.
9. Run the Inventory Negative Tier Report again to verify that no negative tiers remain.

## What is a negative or over-distributed (Overdist) cost tier?

**Entry Type:** Informational

**Product:** Sage MAS 90 ERP, Sage MAS 200 ERP, Sage MAS 200 ERP - SQL Server Edition

**Application:** Inventory Management

**Version Reported:** All Versions

### Subject:

If you use the LIFO or FIFO valuation method for any inventory items, it is possible to over-distribute a cost tier so that the quantity on hand becomes a negative number.

Any time more units are sold than are currently in stock (you accept a quantity entered during Sales Order processing or Transaction Entry that is larger than the quantity on hand), a special cost tier with a reference of Overdist is created for the negative quantity amount. The last cost for the item is used as the unit cost. This condition is usually encountered when a sale is processed before a receipt is recorded. After a receipt for additional units of the item is recorded, you can "balance" the Overdist tier by using the Inventory Negative Tier Adjustment.

### Possible Resolution:

The Inventory Negative Tier Report alerts you to any LIFO/ FIFO inventory items that have a negative quantity in a cost tier. Negative cost tiers are created when a LIFO/ FIFO item is over-distributed (the quantity on hand for the item is a negative number). To ensure that proper costing values are used for the item, it is necessary to adjust the negative quantities against other cost tiers that contain a positive quantity. In other words, the Overdist tiers can be corrected by balancing against a tier with a positive quantity.

If a tier with a positive quantity does not exist, you can use the information on this report to enter Adjustment transaction in Transaction Entry to create cost tiers. Use Inventory Negative Tier Adjustment to automatically adjust LIFO or FIFO items with Overdist tiers to positive tiers.

Inventory Negative Tier Adjustment posts an adjustment to the Inventory and the Adjustment accounts for the cost difference between the negative and positive cost tiers.

If a FIFO item has a negative cost tier of 10 units costed at \$10.00 each, and a positive cost tier with 20 units costed at \$9.50 each, the difference in cost is \$5.00 which is equal to  $(\$10.00 \times 10) - (\$9.50 \times 10)$ . The following general ledger postings are made.

<b>Negative Tier Adjustment</b>	<b>G/L Account</b>	<b>Debit</b>	<b>Credit</b>
	Inventory	5.00	
	I/M Adjustment		5.00