

Inventory Posting and the Income Statement

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To understand Summarized Inventory (non-transactional) Posting's effect on the Income Statement, it is important to know how functions within Agvance affect the cost of sales accounts. The sales total on the Sales Register report should directly correspond to the income/sales accounts, but cost of sales is not quite as straightforward. Several transactions affect the cost of sales both directly and indirectly.

Purchase Invoicing

A Purchase Invoice has a direct effect to the cost of sales account. Purchase invoicing updates average and last cost. Purchase Invoice G/L posting is shown below:

Vendor Journal Entry	Debit	Credit
Total amount owed vendor		Location Accounts Payable Acct
Total amount of each department's purchase	Cost of Goods Sold/Purchase Account	
Discount	Total disc to location's A/P disc account	Department's discount account
Estimated/Actual Freight	Department's Freight Account	Estimated Freight Liability (estimated) - Actual freight is included in the AP vendor total

Inventory Amount on Hand

Other transactions have an indirect effect on cost of sales because they change the product's amount on hand (i.e., invoicing, Purchase Receipts, Delivery Tickets, Blend Tickets, Inventory Adjustments, and Manufacture Inventory). Invoice G/L posting is shown below:

Customer Journal Entry	Debit	Credit
Invoice Total	Location's Accounts Receivable Acct	
Total Sale for Each Line Item		Department's Sales/Income Account
Sales Tax (if used)		Location's Sales Tax Liability Account

Customer Journal Entry	Debit	Credit
Manufacture Inventory		

All inventory manufactures affect the cost of sales for both the finished good and all raw ingredients, either at billing or at the time of the inventory manufacture, depending on the manufacture formula setting. The journal entry created by an inventory manufacture is shown below:

General Journal Entry	Debit	Credit
Total cost of all raw ingredients	Department's Cost of Goods Sold for the Finished Product (manufactured product)	
Cost of each raw ingredient		Each Department's Cost of Goods Sold for the Raw ingredients

Inventory Adjustments

Inventory Adjustments do not directly affect the general ledger if not transactional posting. However, any changes to amount on hand will influence the value of inventory which determines the journal entry created by Post Inventory to G/L. Bear this in mind when doing a large adjustment or an adjustment to a high-cost product. To keep income statements accurate for each month, adjust inventory to physical every month before posting inventory to G/L. If this is not possible, year-to-date figures on the Income Statement will be correct but monthly figures may be skewed.

Average and Last Cost

Cost of sales is also affected indirectly by changes to average or last cost. This can happen at purchase invoicing, manufacture inventory, and direct edits at the *Product Pricing* tab. All these changes are registered in the Cost Audit, found on the *Product Pricing* tab.

Company Owned Value of Inventory

It is important to always run the Company Owned Inventory Statement before posting inventory to G/L. This report is found at *Accounting Reports / Inventory / Inventory Status / Statements / Company Owned*. Agvance uses this formula to determine the value of the inventory actually owned by the company:

*(amount on hand + unprocessed delivery/blend tickets - unprocessed purchase receipts) * cost*

This value is used when the Post Inventory to GL function is run to adjust the value of unsold inventory into the inventory asset accounts. Incorrect costs or amounts on hand can cause this value to be incorrect.

Post Inventory to GL

This function moves the value of unsold inventory to the appropriate inventory asset accounts, updates the purchase or cost of goods accounts to the actual cost of total sales, and adjusts for any amount on hand or cost changes. This is done prior to ending each fiscal month, and can be done throughout the month as well. Post Inventory to GL posting is shown below:

General Journal Entry	Debit	Credit
<i>Previous column - Current inventory asset account balance</i>		Inventory asset accounts
<i>Previous column - Current inventory asset account balance</i>	Cost of Goods	
<i>Current Value column - Current value of company owned inventory</i>	Inventory asset accounts	
<i>Current Value column - Current value of company owned inventory</i>		Cost of Goods

The old value of the inventory asset accounts is removed and replaced by the current company owned inventory value for each inventoried department. Each cost of goods account is increased by the old inventory asset account value and decreased by the new company owned inventory value.

Troubleshooting

If you believe your cost of sales account has an incorrect value, it may be necessary to involve SSI support to find the source of the problem. Following is a list of items to check:

- Run the Income Statement month by month to find the first fiscal month appearing incorrect. It is important to know when the problem started.
- Run the Account Detail report for the department's inventory asset account. This report is found at *Accounting Reports / G/L / G/L Reports / Account Detail*. Any journal entries made to this account outside of the Post Inventory to GL journal entries will directly affect the Cost of Sales/Income Statement.
- Run the Sales Register with the *Totals Page Only* and *Gross Margin Calculation* options checked. This report is found at *Accounting Reports / Sales / Sales Register*. Compare this report to the Income Statement.
- Substantial inventory adjustments will impact the Income Statement for the fiscal month. To find the cost of inventory adjustments, run a report found at *Accounting Reports / Inventory / Inventory Status / Inventory Adjustments*. Be sure to check the *Product Recap* option to get the total cost value for each product.
- Make sure the same cost (average or last) is being used to run the Company Owned Inventory Statement when the Post Inventory to G/L function is used.
- Look at the current and archived Company Owned Inventory Statements. Find any costs or inventory values

that look incorrect for the department that posts to that cost of sales account.

- If costs are correct, have they changed much over time? A consistent increase or decrease can have an especially big impact if posting using Last Cost instead of Average Cost.
- If a specific product had (or has) a cost problem, run a Cost Audit report for that product. To run this report, go to *Accounting / File / Open / Product* and, on the *Pricing* tab, choose **Audit Costs**. This report can also be run at *Accounting Reports / Inventory / Inventory Status / Product Cost Audit*.