



AccountMate Year-End Preparations

Article # 1263

Technical Note: Reconciling Inventory Balances with Physical Count Results

Difficulty Level: Intermediate Level AccountMate User

Version(s) Affected: AccountMate 8 for SQL and Express
AccountMate 7 for SQL, Express and LAN
AccountMate 6.5 for LAN

Module(s) Affected: IC, LC and KT

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DESCRIPTION

Companies must take a complete physical inventory count at least once a year. This procedure is used to facilitate adjustments to the perpetual inventory records for data entry errors, unrecorded shrinkage, losses due to theft, spoilage or breakage. Once the actual inventory on-hand quantity has been determined by a physical count, the per-unit costs in the inventory ledger accounts are used to determine the total costs of the on-hand inventory. The inventory GL Account ID and the individual inventory item records are then reconciled with the physical count results.

The **Physical Inventory Count** and **Inventory Adjustment** functions in the Inventory Control (IC) module allow you to reconcile the inventory balances (quantity and cost) recorded in AccountMate with your physical count. This document discusses how to adjust your inventory balances to match your physical count results.

SOLUTION

AccountMate's **Physical Inventory Count** process is made up of four functions, namely: **Freeze Inventory**, **Input Physical Count**, **Update Physical Count** and **Clear Frozen Inventory**. These four functions, when used with the **Inventory Adjustment** function, facilitate the recording of your physical count results and the reconciliation of inventory balances.

To reconcile inventory balances, perform the following:

1. Access the **Physical Inventory Count** function in the **Transactions** menu of the IC module.
2. Select the **Freeze Inventory** option to freeze your inventory items. Freezing inventory items is required to establish a cut-off for the item's on-hand quantity. This quantity will be compared against the actual counted items.

In the **Freeze Inventory** function window, select the appropriate criteria for the inventory items that you want to freeze. Verify that the criteria you defined will cover all inventory items in all warehouse locations included in your physical count.

***Note:** Even if inventory items are frozen, AccountMate will still allow transactions to be recorded for these items and will continue to update the affected inventory records' on-hand quantities. In contrast, the on-hand quantities reflected in the **Input Physical Count** window will be the quantities at the time the inventory items were frozen excluding the effect of transactions recorded after the freeze.*

After freezing the inventory items, print the **Physical Count Worksheet** and, if you have serialized items, the **Physical Count Serial # Report**. These two reports serve as your working papers for your physical inventory count.

The **Physical Count Worksheet** provides information about the frozen inventory items such as the bin locations in each warehouse and each inventory item's on-hand quantity that is stored in each bin as recorded in AccountMate. The worksheet also helps confirm units-of-measurement and other similar information that are useful during the physical inventory count. Use the space provided in the worksheet to write the actual inventory quantity that was counted.

The **Physical Count Serial # Report** shows the serial numbers assigned to the serialized inventory items that were frozen for the physical inventory count. Use this report to compare the serial numbers recorded as on-hand in AccountMate with those assigned to the units that are actually on hand.

3. After conducting the actual count, access the **Input Physical Count** function. Define the range of items for which you are going to input the physical count results. You can select the same criteria you used when you froze the inventory if you are ready to input the physical count results for all items that were frozen.

At this point you will be asked if you want the on-hand quantity information that was captured during the freeze to be shown as the default counted quantity. Click **Yes** if you want the system's on-hand quantity to become the default counted quantity; otherwise, click **No**.

4. Enter the actual counted quantities in the **Counted** field of the second **Input Physical Count** window. Depending on your response to the message that was shown, the Counted field may have non-zero values or it may show zero for all items you selected. Refer to the information that was written in the Physical Count Worksheet for the values you must enter in the Counted field.
5. If the items counted are serialized, lot-controlled or kits, double-click the **Special...** field to display the **Input Physical Count for [xxx]** window where you can view and match the serial #, lot # and/or kit # that are in AccountMate with the serial #, lot # and/or kit # of the items that were actually counted. For your input to be valid, the quantity counted must match the number of serial/lot/kit # records that you matched.

If the counted quantity is more than the total number of serial/lot # that are in

AccountMate or if there are serial/lot numbers counted that are not in AccountMate, you must add the requisite number of records. You can do this by clicking the **Add** button in the **Input Physical Count for [xxx]** window. The serial/lot numbers that are actually on hand but are not recorded in AccountMate can be assigned to the corresponding items after completing the Physical Inventory Count process.

***Note:** For kit items, the quantity counted cannot be more than the on-hand quantity. If you have verified that there really are more kit units on hand than what is in AccountMate, you can build the kit items in the software after completing the Physical Inventory Count process.*

If the counted quantity is less than the total number of serial/lot/kit # that are in AccountMate or if there are serial/lot/kit # that appear in AccountMate that were not actually counted, you must update the quantity in the **Input Physical Count for [xxx]** window by unmarking the checkbox that corresponds to the missing serial or kit # and enter only the actual counted quantity in the **Counted** field for the corresponding lot #.

6. Print the **Physical Count Variance Report**. This report shows the difference between the on-hand quantities that were recorded in AccountMate when you froze the inventory records and the actual quantities that you entered after performing the physical count. You can compare this report against your physical count working papers to verify that you entered the correct values.
7. To commit these changes in AccountMate, access the **Update Physical Count** function.
 - a. In the **Remark** field, enter a brief but relevant description for the transaction.
 - b. Verify the value in the **Date** field. AccountMate will use this as the post date for any accounting entries that will be generated to adjust the GL module's inventory account balances to match the physical count results.
 - c. Starting in AccountMate 7 for SQL, Express and LAN, users will see an **Adjustments** field beneath the **Date** field. Verify the value in the **Adjustments** field as this will be the GL Account ID used in the accounting entries that will be generated to record any physical count variances.
8. Click the **Update** button. AccountMate will compare the Counted quantities that you entered using the **Input Physical Count** function with the On-hand Qty taken during the freeze. Any variances will be posted as inventory adjustments. To view the posted adjustments, generate the **Inventory Adjustment Report**. You can use the Remark you entered in the Update Physical Count screen to identify the adjustments created by the physical count process. You can also see these adjustments in the **Inventory Transaction Log**. They are denoted by the transaction type code "PCNT".
9. AccountMate automatically unfreezes any inventory item that is included in the Update Physical Count thereby releasing the newly updated record. For frozen

items that are not included in the Update Physical Count, you can either run the Update Physical Count function again for them or run the **Clear Frozen Inventory** function.

If you choose the latter option, a message will be displayed asking you to confirm whether you want to clear the frozen inventory items. Click **Yes** to lift the freeze on these items.

10. If the physical count reveals both a quantity and cost variance between the inventory items that are physically on-hand and the information recorded in AccountMate, it may not be enough to use just the **Physical Inventory Count** function to make the inventory balances match the actual count results. In certain cases, it may also be necessary to adjust the unit cost of the on-hand items to bring the total item costs in AccountMate to their correct balances. In cases such as these, it is necessary to perform an **Inventory Adjustment** to bring the inventory item's per-unit and total costs to their correct values.

If users are allowed to continue recording transactions in AccountMate for any inventory items that are frozen during a Physical Inventory Count, special care must be taken to ensure that the units shipped or received are correctly handled during the count. Strict policies must be enforced to ensure that an inventory item is still counted as on-hand even though it is shipped or recorded as part of an AR invoice while the inventory items are frozen. Meanwhile, any units that are received while the inventory items are frozen must be excluded from the count. The example below illustrates the rationale behind this.

An inventory item has 2,000 units on hand at the time it is frozen. During the count, an AR invoice was posted for 5 units of the item. Ordinarily, these 5 units will be deducted from the 2,000 on-hand quantity to arrive at the balance of 1,995 units that are counted. While this is the on-hand quantity that will be shown for the inventory item while the Physical Inventory Count is taking place in AccountMate, the actual on-hand quantity after the count is completed may not be the same depending on what you enter as the counted quantity.

If the user was to input a count value of 1,995 units, the 5 units from this invoice will be deducted twice and the resulting on-hand quantity will be understated. The table below shows why:

| Transaction | Transaction Qty | On-hand Qty |
|--|-----------------|-------------|
| Freeze Inventory | n/a | 2,000 |
| Create AR invoice | -5 | 1,995 |
| Update Physical Count (Counted Qty of 1,995 – Freeze Qty of 2,000) | -5 | 1,990 |

To avoid this situation, you must add back the 5 units invoiced while the physical count was taking place to the Counted quantity that you enter during Input Physical Count. To ensure accuracy, measures must be put in place that will allow you to identify which transactions occurred after the inventory records were frozen so that the corresponding units sold can be added back to the count and the corresponding units received can be deducted from the count. If this is not possible, you may have no choice but to stop all users from recording any transactions that will affect the

frozen inventory items while the physical count is taking place.

The **Physical Inventory Count** function in AccountMate helps users to properly account for the actual on-hand inventory. This function, together with the **Inventory Adjustment** function, is very useful in reconciling the quantities and inventory balances recorded in AccountMate with the quantities counted and total costs noted during the actual physical count.

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