

# A2000ERP ~ INVENTORY

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**I have a stock ledger that is looking wrong. There is zero balance and the stock ledger has a cost with it. How did this happen?**

PROD-001 CEYLONESE TEA LEAF										
Date	Trn No	Trn Party	Receive	Rate	Issue	Cost	Cost In/Out	Qty	Stock Value	
1-7-16	SN-101	Supplier Ltd	100	10.00	-	-	1,000.00	100	1,000.00	
13-7-16	SN-102	Supplier Ltd	100	12.00	-	-	1,200.00	200	2,200.00	
15-8-16	CR-505	Cafe Ltd	-	-	200	10.00	-2,000.00	0	-2,000.00	
Closing Balance =								0	200.00	

## 1. HOW DID THIS HAPPEN?

This situation arises because the following happened.

### Reason

#### 1: Allowing Negative Stock Reason

#### 2: Transaction Entry Wrong Sequence Reason

#### 3: User Perform Back-dated Edits

For example, user enters a Goods Received Note (SN-101), and then oversells the product in Credit Invoice (CR-505). The resultant stock ledger look like this:

PROD-001 CEYLONESE TEA LEAF										
Date	Trn No	Trn Party	Receive	Rate	Issue	Cost	Cost In/Out	Qty	Stock Value	
1-7-16	SN-101	Supplier Ltd	100	10.00	-	-	1,000.00	100	1,000.00	
15-8-16	CR-505	Cafe Ltd	-	-	200	10.00	-2,000.00	-100	-1,000.00	
Closing Balance =								-100	-1,000.00	

Subsequently SN-102 is entered. However the erroneous stock cost under CR-505 had already been captured. The resultant stock ledger now looks like this:

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PROD-001 CEYLONTESE TEA LEAF									
Date	Trn No	Trn Party	Receive	Rate	Issue	Cost	Cost In/Out	Qty	Stock Value
1-7-12	SN-101	Supplier Ltd	100	10.00	-	-	1,000.00	100	1,000.00
15-8-12	CR-505	Cafe Ltd	-	-	200	10.00	-2,000.00	-100	-1,000.00
13-7-12	SN-102	Supplier Ltd	100	12.00	-	-	1,200.00	0	200.00
Closing Balance =								0	200.00

This erroneous cost could be a **positive or negative value**. In example above, if SN-101 is at unit rate of \$12 instead of 10/- and SN-102 is at \$10/- instead of \$12/-, the result will be **Closing Balance = 0** and **Closing Value = -200**.

## 2. HOW TO SOLVE THIS PROBLEM?

**REMEDY:** Go to Inventory Module --> Recalculate Product Cost Select PROD-001, perform a recalculation and then repost transaction.

The system will arrange chronologically all the transactions of this stock, and refresh the correct cost for you. After recalculation & repost, it should disappear from the Stock Posting Diagnostic screen and the stock ledger should look like this:

PROD-001 CEYLONTESE TEA LEAF									
Date	Trn No	Trn Party	Receive	Rate	Issue	Cost	Cost In/Out	Qty	Stock Value
1-7-12	SN-101	Supplier Ltd	100	10.00	-	-	1,000.00	100	1,000.00
13-7-12	SN-102	Supplier Ltd	100	12.00	-	-	1,200.00	200	2,200.00
15-8-12	CR-505	Cafe Ltd	-	-	200	11.00	-2,200.00	0	0.00
Closing Balance =								0	0.00

## 3. HOW DOES BACK-DATED EDIT AFFECT COST?

Using the same example above, assuming it is recalculated and everything looks good:

PROD-001 CEYLONTESE TEA LEAF									
Date	Trn No	Trn Party	Receive	Rate	Issue	Cost	Cost In/Out	Qty	Stock Value
1-7-12	SN-101	Supplier Ltd	100	10.00	-	-	1,000.00	100	1,000.00
13-7-12	SN-102	Supplier Ltd	100	12.00	-	-	1,200.00	200	2,200.00
15-8-12	CR-505	Cafe Ltd	-	-	200	11.00	-2,200.00	0	0.00
Closing Balance =								0	0.00

Assuming user edits SN-102 from 100 pcs to 95 pcs. In an incoming transaction, the system does not check for negative stocks, and after the edit the stock ledger goes wrong like this:

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PROD-001 CEYLONTEA TEA LEAF									
Date	Trn No	Trn Party	Receive	Rate	Issue	Cost	Cost In/Out	Qty	Stock Value
1-7-12	SN-101	Supplier Ltd	100	10.00	-	-	1,000.00	100	1,000.00
13-7-12	SN-102	Supplier Ltd	95	12.00	-	-	1,140.00	195	2,140.00
15-8-12	CR-505	Cafe Ltd	-	-	200	11.00	-2,200.00	0	-60.00
Closing Balance =								0	-60.00

In this scenario, the Recalculation of Product Cost will NOT help if the negative position is not covered. The principle stands, that the business cannot sell what they do not have. User must cover the negative balance before they can recalculate the cost again.

## 4. HOW TO KNOW IF OTHER STOCKS HAVE SAME PROBLEM?

To isolate stock that have erroneous cost, you should perform a Recalculation of Product Cost and view the Stock Posting Diagnostic. If any stock transaction/ item appear in the diagnostic screen, then there is likely to be an erroneous cost.

Another important test is ensuring the Stock Valuation Amount is always tied to the GL Stock Control Account. If there are no stock diagnostic reports showing cost errors, these 2 reports should tie to one another (albeit there may be a few cents due to rounding differences).

## 5. WHAT IF I DO NOT FIX THIS PROBLEM?

You **SHOULD NOT** leave this problem open. All costing errors are detectable by A2000ERP diagnostics and you should correct them if errors are discovered. If it is left un-corrected, your stock ledger will be wrong and the cost of goods sold will be inaccurate.

Other impacts are:

a) **AUDIT IMPACT:** You will have a problem accounting for your inventory costing during an audit. This cost affects your Cost of Goods Sold and will hit the Profit & Loss; and eventually taxation. As such auditors usually are quite careful to ensure the stock ledger can stand up to their test and scrutiny.

b) **ACCOUNTS ACCURACY:** In case you use direct perpetual inventory costing feature, your Stock Valuation will not be tied to the GL Stock Control A/c. This is serious and can create audit queries and eventually qualifying statements from your auditors.

c) **ANALYSIS ACCURACY:** Stock cost affects your profitability calculations in the sales analysis. If these are not fixed, your perspective of business profitability given in our Analysis reports will be wrong.

## 6. WHAT ACTION TO FOLLOW UP TO PREVENT RECURRENCE?

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To prevent the system from giving you wrong outputs, you are strongly encouraged to: **a)** At SYSTEM SETTING - Check Negative Stock --> Set to Do Not Allow. If this is not possible operationally, remember to perform a Recalculate Product Cost for all items before the month is closed (or better still, daily or weekly).

**b)** In SYSTEM SETTING, also lock up the periods that are past

**c)** In User Maintenance, under Security tab-1, disable the rights of user from entering Back-dated Transactions.

**d)** If the above are not possible due to operational need, remember to Recalculate Product Cost regularly.

Notes: related topics Inventory stock ledger recalculation product cost and recalculation of product quantity.

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