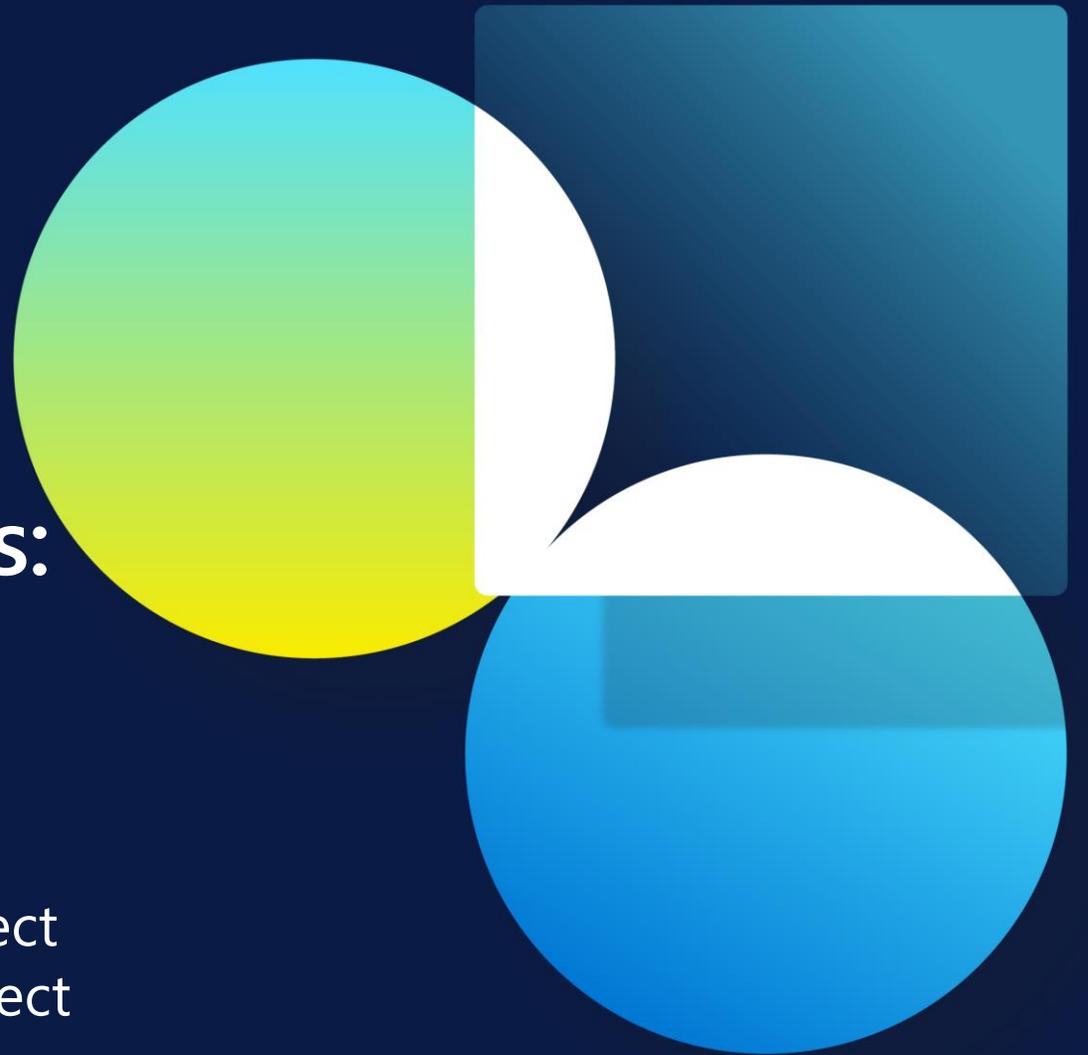


Inventory Costing for Dynamics 365 Supply Chain Management TechTalk Series: Part 1 – Inventory Accounting Setup

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TechTalk Series

- Inventory Accounting Setup ←
- Inventory Accounting Models
- Standard Costing & Costing Sheet
- Manufacturing Accounting
- Inventory Closing
- Global Inventory Accounting Add-in

Riddle of the day

What kind of bedding does an accountant have?

Put your answers in the Q&A panel, and we will reveal the answer at the end!



Agenda

- Discuss inventory costing concepts.
- Review item model groups.
- Describe how dimension groups affect costing.
- Review DO's and DON'Ts for inventory costing.

Introduction to costing concepts

Anne Krupke

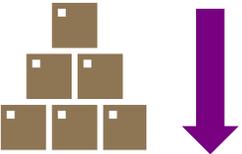
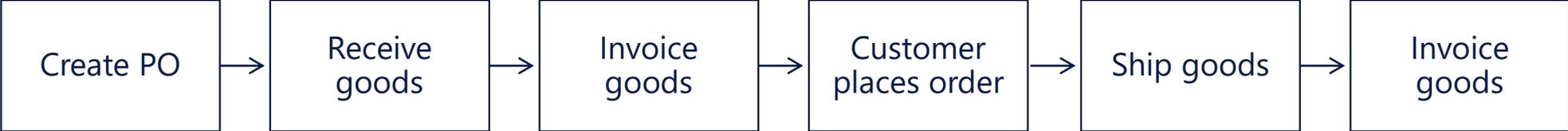


Why is costing important?



Cost of sales is generally derived from cost of purchase or production

Basic inventory flow



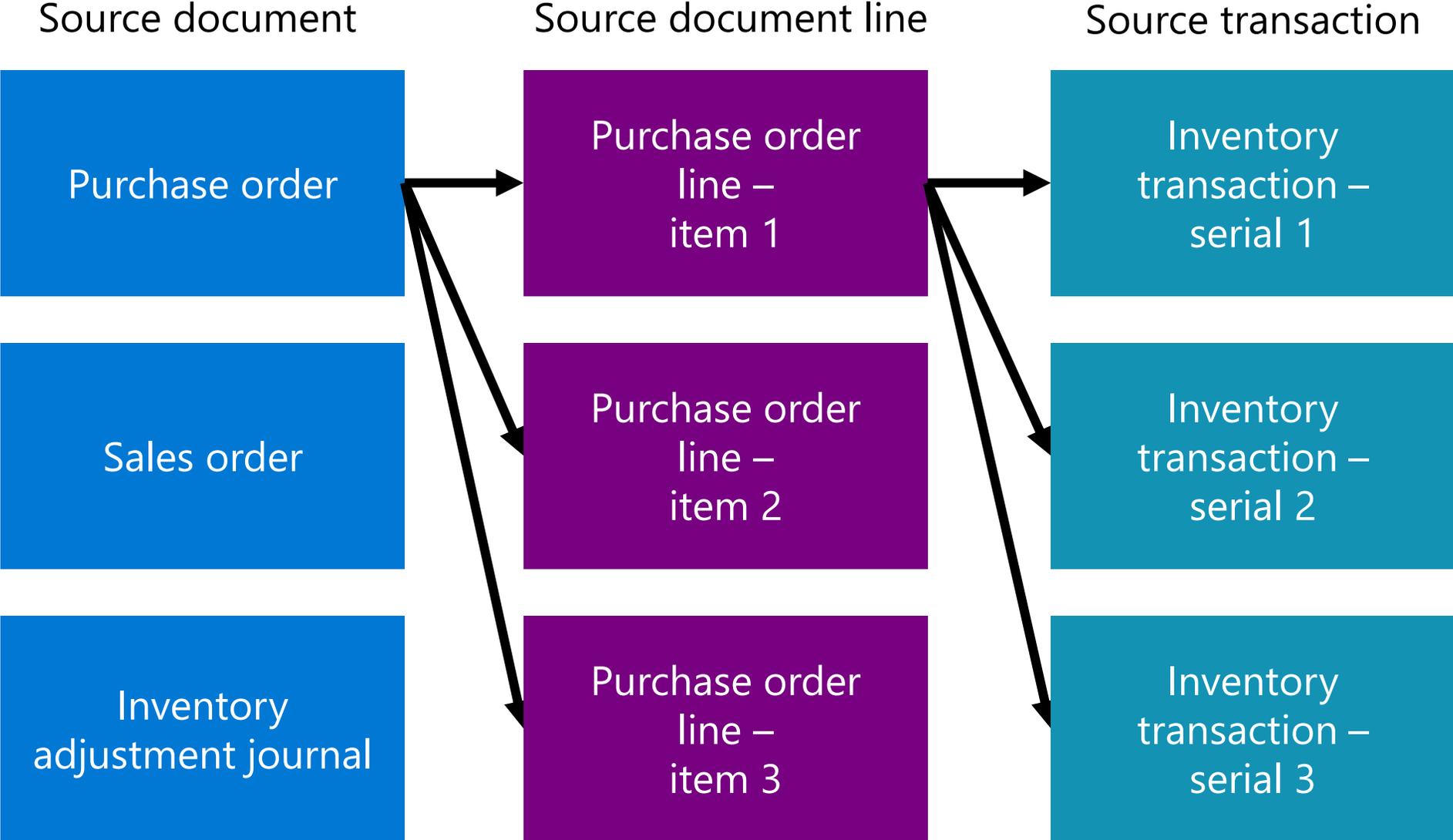
Received
not
invoiced

Cost of
goods
purchased

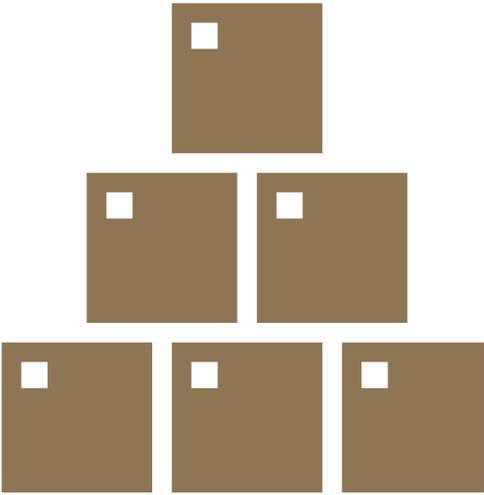
Shipped
not
invoiced

Cost of
goods sold

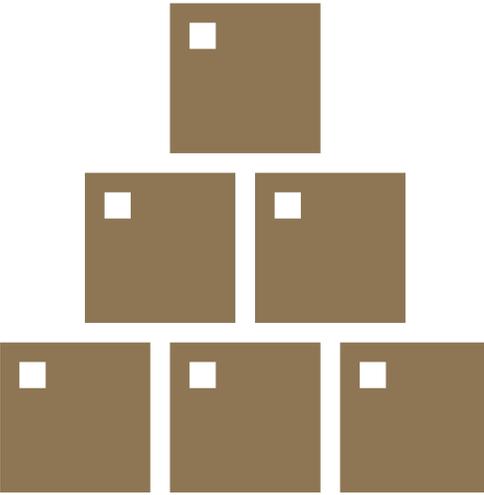
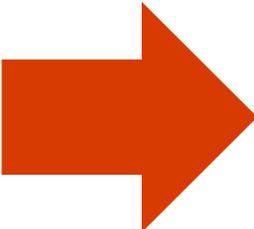
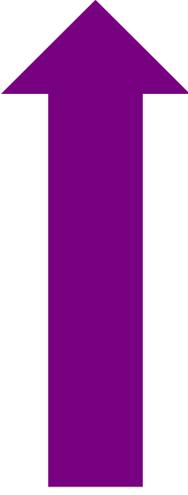
Source transactions



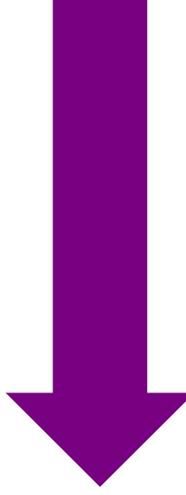
Issues and receipts



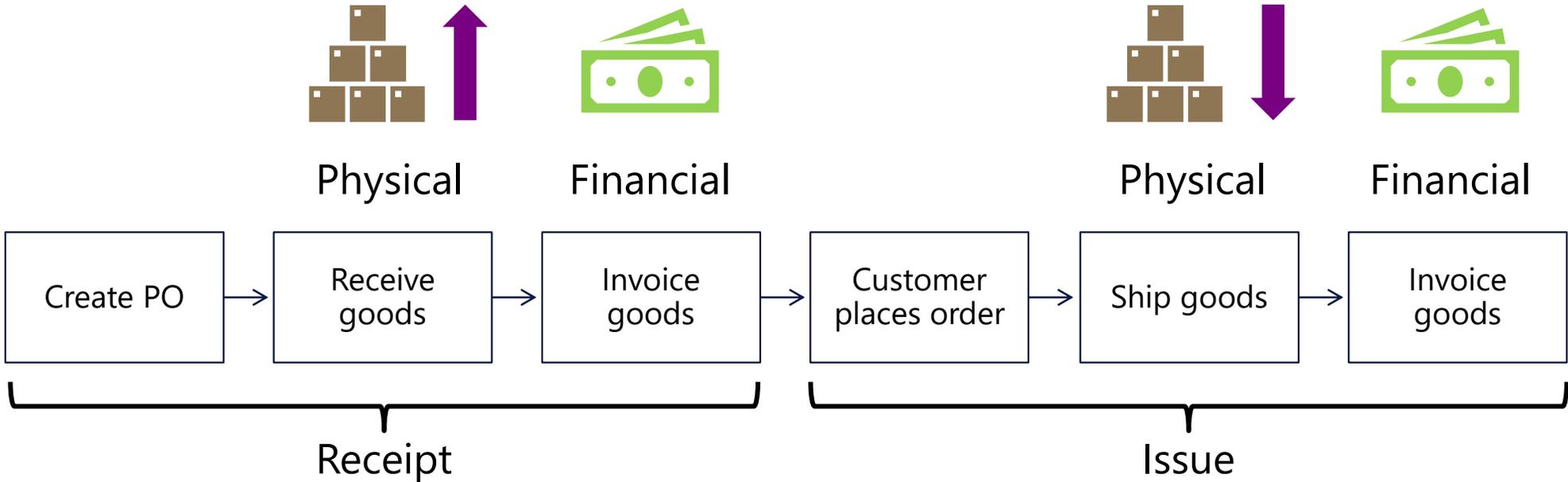
Receipts



Issues



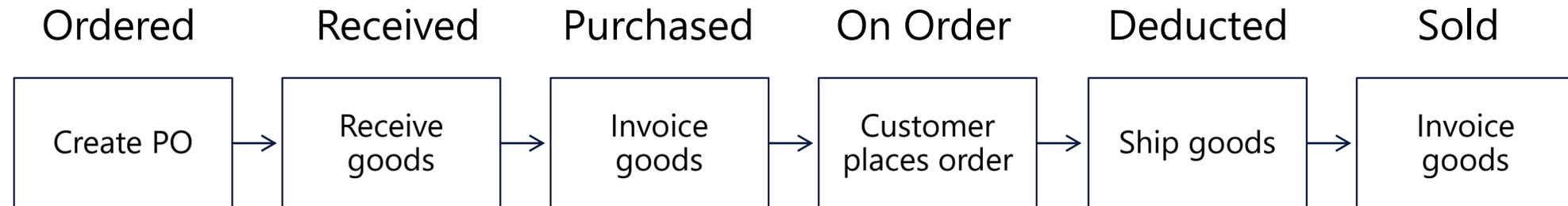
Physical and financial updates



Inventory statuses

Receipt status
Ordered
Registered
Received *Physical Update*
Purchased **Financial Update**

Issue status
On Order
Reserve ordered
Reserved physical
Picked
Deducted *Physical Update*
Sold **Financial Update**



Transaction update cheat sheet

Transaction Update	Source Document	Issue vs. Receipt	Physical vs. Financial
Product Receipt	Purchase order	Receipt	Physical
PO Invoice	Purchase order	Receipt	Financial
Packing Slip	Sales order	Issue	Physical
SO Invoice	Sales order	Issue	Financial
Report as Finished Journal	Production order	Receipt	Physical
Picking List	Production order	Issue	Physical
Ending	Production order	Both	Financial
Return to Vendor Pack Slip	Return to vendor	Issue	Physical
Vendor Credit	Return to vendor	Issue	Financial
RMA Receipt	Customer return order	Receipt	Physical
RMA Credit	Customer return order	Receipt	Financial
Shipment	Transfer order	Issue	Both
Receipt	Transfer order	Receipt	Both

Journal transactions cheat sheet

Transaction	Issue vs. Receipt	Physical vs. Financial
Transfer Journal	Both	Both
Movement Journal	Both	Both
Counting Journal	Both	Both
Inventory Adjustment Journal	Both	Both
BOM Journal	Both	Both
Project Item Consumption Journal	Both	Both
Inventory to Fixed Asset Journal	Both	Both

Item model groups

Rachel Profitt



Item model groups overview

Item model groups

Item model group Name

FIFO

First In-First Out

Costing method & cost recognition

INVENTORY POLICY

Stocked product

INVENTORY MODEL

Inventory model

FIFO

COST PRICE

Include physical value

Fixed receipt price

LEDGER INTEGRATION

Post physical inventory

Post financial inventory

RECOGNITION OF COST

Post to Deferred Revenue Account on Sales Delivery

Accrue liability on product receipt

Inventory policies

NEGATIVE INVENTORY

Physical negative inventory

Financial negative inventory

Picking requirements

Deduction requirements

RESERVATION

FIFO date-controlled

Backward from ship date

Item sales reservation

Default

Same batch selection

Consolidate requirement

FEFO date-controlled

Pick criteria

Expiration date

Validate batch expiration on

Production scheduled end date

BATCH DISPOSITION CODE

Batch disposition code

VENDOR BATCH

Purchase registration

APPROVED VENDOR LIST

Approved vendor check method

No check

OVERRIDE ITEM PRODUCTION RESERVATION

Reservation

Manual

WAREHOUSE MANAGEMENT

Quarantine management

PHYSICAL UPDATE

Registration requirements

Receiving requirements

Inventory models



Periodic

- First in first out (FIFO)
- Last in first out (LIFO)
- LIFO date
- Weighted average
- Weighted average date



Perpetual

- Moving average
- Standard cost

Considerations for selecting or changing inventory models

Selecting

- Select before transactions created
- Consult accountant if changing
- Historical data impact

Changing

- Anything to standard – yes
- Standard to moving average - yes
- Periodic type to a different periodic type – no*
- Moving average to periodic – no
- Standard to periodic – no

Change inventory model after transactions exist

- 1 Count inventory down to zero
- 2 Perform an Inventory close
- 3 Set session date to after the closing date
- 4 Change the item model group

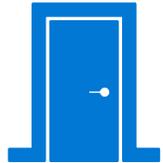
Periodic inventory models



Issues use the running average cost of on hand inventory



Run recalculations to adjust posted transactions to reflect the cost model

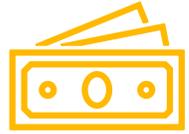


Inventory closing finalizes adjustments

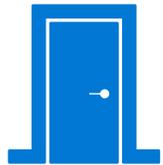


Marking overrides the costing model and applies an "actual" cost

Perpetual inventory models



Transactions post at a cost based on the cost model and do not get adjusted



Inventory close does not make adjustments, but we always recommend running the close



Discrepancies in posted costs and actuals are posted to a designated account



Marking does not affect the cost of any transaction

Include physical value considerations

Am I using a periodic cost model?

Is this allowed according to local regulations/GAAP?

Do you want to include un-invoiced receipts in running cost calculations?

Does price often or significantly change between receipt and invoice?

Fixed receipt price

- Called Standard cost in AX 2009 and earlier versions
- Renamed in AX 2012 with introduction of new Standard costing
- Can only be used with perpetual inventory models
- Receipt price is used as the standard cost for the receipt
- Variances between receipt and invoice are recognized
- Typically used when prices do not vary significantly
- Inventory close and adjustment updates the issues

Stocked versus Not Stocked

- In inventory
- Inventory transactions
- Included in cost calculations
- On hand inventory maintained
- General ledger postings

Stocked

✓
✓
✓
✓
BS

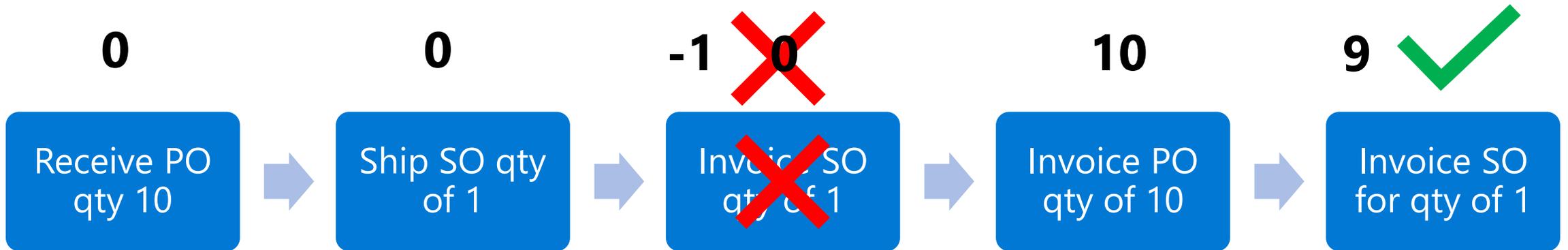
Not Stocked

✗
✗
✗
✗
P&L

Physical negative inventory example



Negative financial inventory example



Dimension groups

Anne Krupke



Storage and tracking dimension groups

Standard view ▾

Storage dimension groups

Name Description
SiteWHLoc Site, Warehouse, Location

Storage dimensions

Name	Active	Blank receipt allowed	Blank issue allowed	Physical inventory	Financial inventory	Coverage plan by dimension	For purchase prices	For sales prices
Site	✓			✓	✓	✓	✓	✓
Warehouse	✓			✓		✓	✓	✓
Location	✓			✓				
Inventory st...								
License plate								

Standard view ▾

Tracking dimension groups

Name Description
BatchSeria Batch, Serial

Tracking dimensions

Name	Active	Active in sales process	Primary stocking	Blank receipt allowed	Blank issue allowed	Physical inventory	Financial inventory	Coverage plan by dimension	For purchase prices	For sales prices	Transfer
Batch number	✓					✓					
Serial number	✓					✓					
Owner						✓					✓

Product dimensions

Standard view ▾

Product dimension groups

Name: SizeColCon Description: Size, Color and Configuration Use number nomenclature: No Product variant number nomenclature:

Product dimensions

Name	Active	For purchase prices	For sales prices	Display order ↑
Style	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	0.00
Version	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	0.00
Configuration	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	1.00
Size	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	2.00
Color	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	3.00

Released product details | Standard view ▾

COST55 : Pillow STD Cost

Engineer

Plan

Manage costs

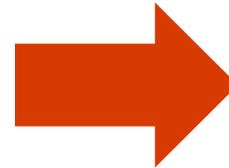
POSTING	PRICE UPDATE	PRICES	CHARGES
Item group <u>audio</u>	Latest cost price <input type="checkbox"/> No	Unit <u>ea</u>	Price charges <u>0.00</u>
	Date of price _____	Price <u>0.00</u>	Charges quantity <u>0.00</u>
COSTING		Price quantity <u>1.00</u>	Incl. in unit price <input type="checkbox"/> No
Cost group <u>M9</u>			

Use cost price by variant
 No

Scenario: financial inventory by site only

Receipts

Qty	WH	Unit cost	Total cost
10	1	10	100.00
6	2	12	72.00
6	1	8	48.00
10	2	15	150.00
10	3	12	120.00
5	1	11	55.00
5	3	17	85.00
7	2	14	98.00



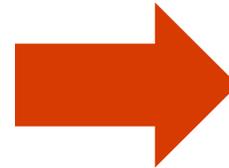
Issues

Qty	WH	Average cost
-5	2	12.34
-1	1	12.34
-3	2	12.34
-2	1	12.34
-1	3	12.34
-2	3	12.34
-2	1	12.34
-2	2	12.34

Scenario: financial inventory by site and warehouse

Receipts

Qty	WH	Unit cost	Total cost
10	1	10	100.00
6	2	12	72.00
6	1	8	48.00
10	2	15	150.00
10	3	12	120.00
5	1	11	55.00
5	3	17	85.00
7	2	14	98.00



Issues

Qty	WH	Average cost
-5	2	13.91
-1	1	9.67
-3	2	13.91
-2	1	9.67
-1	3	12.06
-2	3	12.06
-2	1	9.67
-2	2	13.91

Scenario: retail stores



Retail companies often use average costing



Stores modeled as warehouses in a site

Decision Factors



Multi-country model



Different costs for different countries?
Multiple legal entities or single?

Franchisee model



Do franchisees manage own supply?
Is a managed distribution model used?

Scenario: manufacturer



Some manufacturers prefer actual costing



Traceability is critical in process manufacturing

Decision factors



Batch tracking



Do we need batch visibility?
Do we follow FIFO/LIFO policies?

Specific costing



Do batches/serials have their own costs?
Can we support full traceability?

Recommendations and resources

Rachel Profitt



DO's...

DO's

- ⊙ Run the inventory close and adjustment at least once per period.
- ⊙ Consider your costing method prior to go-live and creating transactions.
- ⊙ Talk with your accountant if you plan to change your inventory costing model (there can be tax implications).
- ⊙ Reconcile your inventory subledger to the ledger once per period.
- ⊙ Only use financial value on batch/serial dimensions if actuals are needed.
- ⊙ Allow financial negative inventory*

...and DON'Ts

DON'Ts

- ⊗ Make changes to item groups after transactions exist.
- ⊗ Make changes to item model groups after transactions exist.
- ⊗ Make changes to dimension groups after transactions exist.
- ⊗ Use fixed receipt price as a replacement for standard costing.
- ⊗ Use include physical value if there is often variance between receipt and invoice price.
- ⊗ Enable financial inventory on unnecessary dimensions
- ⊗ Allow negative physical inventory*

Additional documentation

- [Cost management home page - Supply Chain Management | Dynamics 365 | Microsoft Docs](#)
- [Yammer : Finance and Operations Insider Program : Cost Accounting & Cost management : All Conversations](#)
- [Ideas List \(dynamics.com\)](#)

Looking for more?

Vote on additional sessions at aka.ms/D365CostingTechTalks :

- Cost accounting module
- Commodity costing
- Consignment accounting
- Attribute based costing
- Indirect costing
- Lean manufacturing accounting
- Profit-based sales pricing
- Your suggestions

What kind of bedding does an accountant have?

Balance Sheets! HAHAHA

Personal Transport Car 2	7,000		9,000
Personal Transport Car 3	15,000		0
Itemised (audio visual, appliances)	2,400		2,700
Itemised Luxuries	7,800		7,400
Boat	21,000	2a	0
		446,200	425,100
INVESTMENT ASSETS (LONG TERM)			
Bonds:			
Smiths Insurance Bond	92,000		81,000
Mercury Endw Policy	0	3	8,000
Neptune Endw Policy	0	4	19,000
Uranus Bonds	500	5	0
Premium Bonds	20,000		20,000
	112,500		128,000
Shares:			
P&Q	600		600
		113,100	128,600
CURRENT ASSETS			
Banks:			
AC Bank	9,156		8,267
AC Savings1	16,944		7,709
AC Savings2	12,200		8,454
AC Bld Soc	39,700		11,570
Total Banks		78,000	36,000
TOTAL ASSETS		637,300	589,700
LIABILITIES:			
CURRENT LIABILITIES			
Credit Cards		(3,100)	(1,400)
TOTAL ASSETS, LESS CURRENT LIABILITIES		634,200	588,300
LONG TERM LIABILITIES			
mortgage	(100,000)		(100,000)
boat loan	(20,000)	2b	0
	(120,000)		(100,000)
TOTAL DOMESTIC LIABILITIES		(123,100)	(101,400)
TOTAL ASSETS, LESS TOTAL LIABILITIES		514,200	488,300
plus Total Domestic Change (TDC) domplus			25,900
is New Domestic Wealth (Closing Balance)		514,200	514,200



QUESTIONS

Dankie Faleminderit **Shukran** Chnorakaloutioun Hvala Blagodaria
Děkuji **Tak** Dank u Tānan Kiitos **Merci** Danke Ευχαριστώ A dank
Mahalo הודות. **Dhanyavād** Köszönöm Takk Terima kasih **Grazie** Grazzi

Thank you!

감사합니다 Paldies Choukrane Aċiū Благодарам ありがとうございます
谢谢 Баярлалаа **Dziękuję** Obrigado Mulțumesc **Спасибо** Ngiyabonga
Ďakujem **Tack** Nandri Kop khun Teşekkür ederim Дякую Хвала Diolch