



AccountMate Year-End Preparations

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 SQL, MSDE and 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 Data Manager from the Utilities menu; then, perform Recalculate Inventory Data. This is a required procedure before you can proceed to freeze inventory data.
2. Access the **Physical Inventory Count** function from the **Transactions** menu in the IC module.

3. 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, enter the appropriate criteria for the inventory items that you want to freeze. Verify that the criteria you defined will cover all inventory items for 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 subsequently update the corresponding inventory records. The on-hand quantities reflected in the **Input Physical Count** window will still be the quantities at the time the inventory items were frozen, excluding the effect of transactions recorded after the freeze. You must clear the frozen items and freeze again the inventory items if you want the on-hand quantities to reflect the transactions recorded after the initial freeze was performed.*

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. In addition to recording physical inventory counts, you can also use the worksheet to confirm units-of-measurement and other data. Use the information written in this worksheet during the actual inventory count as a basis for updating the quantity recorded in AccountMate using the **Input Physical Count** function.

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

4. After conducting the actual count, access the **Input Physical Count** option. Define the range of items for which you are going to input your physical count results. Use the same criteria you used when you froze the inventory. Verify that all inventory items included in your physical count are included in the criteria you have defined.
5. In the second **Input Physical Count** window, enter in the **Counted** field the actual counted quantities.
6. 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 select the serial #, lot # and/or kit # records that were actually counted during the physical count. For your input to be valid, the quantity counted must match the number of serial/lot/kit # records that you selected. If the counted quantity is more than the total number of serial/lot/kit # records available for

selection or if there were serial/lot/kit numbers counted that do not appear on the screen, 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/kit 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.

7. Print the **Physical Count Variance Report**. This report shows the difference between the on-hand quantities that were in AccountMate when you froze the inventory records and the actual quantities that you recorded after performing the physical count. You can compare this report against your physical count working papers to see if you have entered the correct values.
8. To commit these changes into 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 inventory account balances to match the 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.
9. Click the **Update** button. The inventory records will be updated with the quantities entered using the **Input Physical Count** function. Any resulting 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.
10. An inventory record that is included in the Update Physical Count is automatically unfrozen by AccountMate; hence, the newly updated inventory item will be released unless you freeze it once again. For frozen items that are not included in the Update Physical Count, you must access the **Clear Frozen Inventory** function. 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.

11. If the physical count reveals both a quantity and cost variance between the inventory items 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 sold 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 recorded as part of an AR invoice while the inventory items are frozen.

Transactions recorded for an item after it is frozen for a Physical Inventory Count will have a slightly different effect on the resulting on-hand quantities as they would have had they been recorded at any other time.

For example, an inventory item that has 2,000 units on hand at the time it is frozen for the count may have an AR invoice posted for 5 units of the item during the course of the Physical Inventory Count. Ordinarily, these 5 units will be deducted from the 2,000 on-hand quantity to arrive at the balance of 1,995 units of the item; however, while this is the balance that will be shown for the inventory item while the Physical Inventory Count is taking place in AccountMate, the actual on-hand balance after the count is completed may not be the same amount.

If the user was to input a count value of 1,995 units, the 5 units from this invoice will be deducted not from the 2,000 units shown to be on-hand in AccountMate immediately before the freeze but from the final count value of 1,995; thus, the on-hand quantity after the count will show 1,990 units. The 5 units invoiced will appear to have been deducted twice and the resulting on-hand quantity will be understated.

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. Alternatively, you can stop all users from recording any transactions affecting 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 recorded in AccountMate with the quantities counted during the actual physical count.

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