



Inventory Control

Should My Business Be Tracking Quantities?

Considerations and Recommendations

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Table of Contents

Contents

Overview	1
Assumptions.....	1
Four Levels of Inventory Control.....	2
LEVEL 1: No Inventory Control.....	2
Disadvantages	2
LEVEL 2: Parts List.....	2
(I am guessing that about 50% +/- of our accounts are at level 2).....	2
Benefits	2
Considerations	2
Recommendations	2
LEVEL 3: Quantity Tracking.....	3
(I am guessing that about 45% +/- of our accounts are at level 3).....	3
Benefits	3
Requirements.....	3
Will this Be Beneficial to You?	3
LEVEL 4: Balancing the Inventory Value to the General Ledger	4
(I am guessing that about 5% +/- of our accounts do this and about 3% are successful)	4
Benefits	4
Disadvantages	4
Requirements to Successfully Implement Levels 3 & 4	4
Common Questions and Concerns	5
Conclusions	6
Charts	7

Overview

This document is intended to set the expectations for any company trying to track inventory. Most everything mentioned is independent of our Ascente software. We will also discuss the requirements for balancing the inventory sub ledger (*Costed Inventory Report*) to your inventory asset account (*Balance Statement*). This is not intended to discourage you, but it is intended to make you aware of the commitment required to accomplish this?

I do recommend you consult with your accountant regarding this and what is best for your business.

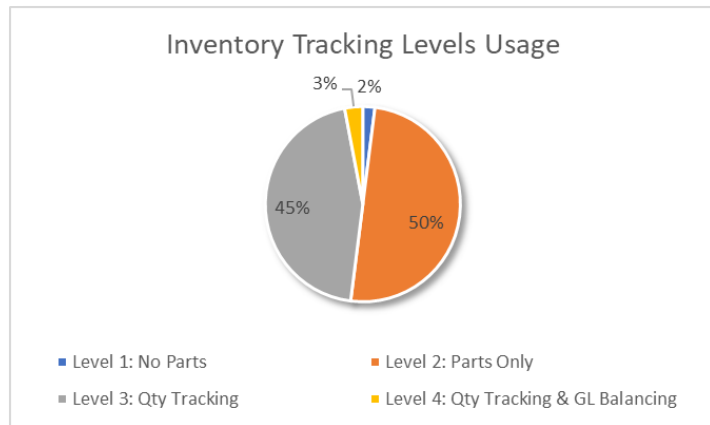
Every company should want to know what inventory quantities they have on their trucks and in the shop, why would you not want to know that? Well there are many factors that go into this consideration. There is an investment required to track and balance inventory quantities and costs.

- What shrinkage in inventory value is typical for a year?
- What is the value of the inventory do you stock on your trucks and in the shop?
 - Obviously, a business with two trucks that have less than \$1,000 of stock on the trucks has different then a company with multiple branches with many stocked trucks at each branch and have a high dollar investment in inventory on each truck.
- Do you purchase directly to jobs or to inventory?
- When purchasing inventory, does your accounts payable operations distribute the costs to an inventory asset GL account or to a cost of goods sold GL account?
- Can operators just grab parts without detailing part numbers, locations and quantities?
- Do you have a dedicated employee to track, order and restock the inventory parts?
- Are your operators capable of processing all inventory quantity movements for orders, receipts, billing and restocking in detail using part numbers, locations and quantities?
- Are your operators capable of detailing every movement of inventory using part numbers, locations and quantities for ALL inventory movements?
- Do you want to track ALL parts or just the parts with a minimum value amount? For example, only parts valued more than \$5.

Assumptions

- You already have your part numbers setup in the Ascente / Inventory / Maintenance / Part numbers must be added for every part that you want to track quantities for.
- All parts tracked, must have a *Part Type* set to 'Stocked'.
- Every tracked part is assigned an inventory location (*shop or truck*).
- Every movement of inventory will include the part number, location and quantity. These inventory movements include:
 - Purchasing
 - Receiving
 - Billing Entry
 - Inventory to Job Transfers
 - Restocking
 - Inventory Adjustments
 - Physical Inventories
- Accounting: Only inventoried parts purchases will be distributed to the inventory asset GL account. Non-inventoried parts are typically expensed to a cost of goods sold GL account.

Four Levels of Inventory Control



LEVEL 1: No Inventory Control

Part numbers, description, cost and sell are all entered manually for each line part.

Disadvantages

- This requires a lot of data entry for operators
- All cost and sell prices must be researched
- The part numbers and descriptions are not standard
- Sales analysis reporting not possible when part numbers vary
- Quantity tracking and transaction history in inventory is not possible

LEVEL 2: Parts List

(I am guessing that about 50% +/- of our accounts are at level 2)

Part numbers are setup with a description, cost and sell price.

Benefits

- The data entry operators can enter a part number and the description, cost and sell will automatically be retrieved.
- Consistent prices
- The ability to create a price book
- Sales analysis and inventory transaction history is now possible by part number and location.

Considerations

The initial investment of time in setting up the inventory files can take a while to do.

Recommendations

- Every company should have a parts list setup. The benefits are well worth the time invested in building the part file. You will never have every possible part, but the common ones used and stocked should be entered.
- Many companies have decided to not track the small and inexpensive parts such as individual washers or bolts and have decided to only track parts of a value greater than a predetermined value.

LEVEL 3: Quantity Tracking

(I am guessing that about 45% +/- of our accounts are at level 3)

Track stock on hand and on order quantity levels in the warehouse and on the trucks.

Benefits

- Inventory levels and investment can be controlled.
- Seasonal levels can be maintained.
- Inventory Valuation Report can be generated. This is the value of the inventory at the locations.
- Stock Status Reports can be generated.
- Unnecessary purchases can be prevented.
- Price Books by Truck can be generated.

Requirements

- All parts that will have the quantities tracked must be setup in the parts file. You do not need to track every part.
- There must be only one primary part number for every part. This does pertain to alternate part numbers.
- All movements of inventory, every in and out, must be entered into the system using part numbers, quantity and location. This means that the following systems must be fully implemented.
 - Purchasing
 - Service Invoicing
 - Inventory Control - Restocking
 - Requires a lot of data entry.
 - Requires support from the technicians, purchasing department, inventory department and accounting.
 - Requires a full-time person to be responsible for managing the warehouse and purchasing. The honor system never works.

Will this Be Beneficial to You?

- Do you have a large investment in inventoried parts?
- Do you have a problem with theft or shrinkage?
- Can you cost justify caging your inventory?
- Can you cost justify a full-time person to manage the warehouse and purchasing?
- Are you investing a lot of time and money in chasing parts that you already have in stock?

LEVEL 4: Balancing the Inventory Value to the General Ledger

(I am guessing that about 5% +/- of our accounts do this and about 3% are successful)

This level will result in you being able to track the inventory value at all locations and balance that with your general ledger inventory asset account. You will use the Subsidiary Ledger Audit Report to verify that they are in balance.

Benefits

- Same as levels 2 & 3
- You can have more confidence that the balances for the inventory account(s) are correct and your financials will therefore reflect that, and your accountant will be much happier.
- Your costs of goods sold account(s) will probably be more accurate and that will also reflect on your financials.

Disadvantages

- More data entry will be required.
 - Accounts payable will need to assure that only inventoried parts are posted to the inventory asset GL account and all other purchases for noninventoried parts go to a different GL account.
- A person will need to be responsible to supervise inventory.
- All inventory movements will need to have a documented audit trail.
- All inventory entries will need to use part numbers.
- Only tracked Parts purchased and sold can flow through the inventory asset account.
- Time will be required to manage and balance this monthly.

Requirements to Successfully Implement Levels 3 & 4

- Caged or Enclosed Warehouse
 - The technicians should never be able to grab parts when ever they want.
- One Full Time Employee
 - There should be one person responsible for inventory control.
 - This person should be responsible for shipping, receiving and purchasing.
- Part Requisition and Transfer Forms
 - Record All Billings, Orders and Transfers by Part by Part Number.
 - Signed Documents for Each Transfer.
- Specific (Unique) Part Numbers for Each Part in Inventory
- Compliance by the Technicians
- Incentives for Technicians to Comply
 - Job Security
 - Some companies will make this a condition of employment that all inventory movements are documented correctly.
 - Financial: Some companies will offer a bonus at the end of the that will be reduced by the value of the inventory that is missing.
- All part numbers, quantities and locations must be entered correctly.
- All variances between flat rate tasks and actual parts used must be noted.
- All parts that come from another truck must be noted.
- All parts that are a result of a purchase order must be noted along with the quantities and costs.
- Any quantities that were purchased that are going into truck stock should also be noted
- You cannot have more than one primary part number for any part. Any part can have multiple alternate part numbers though.

Common Questions and Concerns

Many companies are initially overwhelmed by the thought of having to create part numbers in Traverse for all parts that they want to track. This can be a big task and is worth the time required to do it right.

- You need to enter a part for every part that you want to track quantities for. You do not need to track quantities for every washer and screw.
- What part number should I use?
 - Do we want to use vendor part numbers?
 - Do we want to use manufacturer part numbers?
 - Do we want to use our own part numbers?
 - Remember that these part numbers will need to be used in the purchasing cycle and by the technicians in the field on their paperwork.
- Do the technicians need to enter every part number that they used?
 - If you want to track those quantities, they do.
- How will the technicians know what part number to use for each part?
 - If the Ascente Mobile Pro product is used on a mobile unit, they will be able to look up and select their parts from your inventory database.
 - You will need to either:
 - Label your parts or bins in their trucks
 - Provide a printed list of the parts and prices for each technician.
- Can I just purchase an inventory database or Flatrate system from a vendor and have it installed?
 - That can be done, but often just leads to more issues due to:
 - Do they have all the parts that you need?
 - Merging with already existing parts
 - The part numbers that they use may be confusing to you or are too many digits
 - Their part descriptions could be inadequate or too general and not specific enough.
 - Their costs are different than yours
 - Their prices are different than yours
 - Their Flatrate price books are not in a format you are comfortable with
 - Can their Flatrate database be used for inventory tracking?
 - Some are strictly intended for pricing and sales and not for detailed part tracking.
 - Know that if you purchase an inventory database, you will still need to maintain it on an ongoing basis.
- Can my vendor's part numbers be used?
 - This can be done, and some accounts even have the vendor handle the restocking of the trucks. But if you want to be able to do inquiries, reports and accounting processing in the system, all detail processing will need to be done in the system by part number. Vendor part numbers are typically setup as *alias part* numbers to a primary part.
- Do we have to do purchase order processing?
 - You must process every part purchased in order to increase your on-hand totals or get committed costs on your job cost reports. Yes, you must process your purchases and returns in detail by part #.
- Can we just enter a purchase for a dollar amount without detailing the parts and quantities?
 - Yes, but you will not be able to track the parts or have the cost go through your inventory asset account.

Inventory Control Should My Business Be Tracking Quantities?



- Can I justify hiring a full-time person and caging my inventory?
 - What are your current costs for shrinkage or not tracking inventory? You need to cost justify this. There is a cost associated with tracking inventory quantities and not tracking inventory quantities.
- Can we use our own part numbers and vendor part numbers?
 - Yes, you can setup multiple alias part numbers for a part. They all reference the primary part number.
- When I purchase directly for a service or construction job, and not to inventory, do I need to detail the individual parts, quantities and costs?
 - If they are *not* going into the inventory, then breaking them out is not required and you could just enter one line on the purchase order, if the following are acceptable to you:
 - There will be no purchasing or inventory transaction history will exist for each individual part.
 - You will not have the *average cost* or *last cost* values being updated.
- All the parts being purchased will be using either the same *bill type* or *cost code*.

Conclusions

- Everyone should at a minimum, setup part numbers for the common parts you enter repetitive transactions for.
- Quantity tracking requires detail input of part #'s, quantities and location for all tracked parts for every transaction entered.
- Full implementation of ALL the following processes is required:
 - Purchasing – Orders
 - Purchasing - Receipts
 - Billing
 - Job Cost - Transfers
 - Restocking and Physical Inventories
- Balancing the inventory sub ledger to your inventory GL account requires:
 - Accounting's processing compliance.
 - The inventory '*Cost Basis*' must be set to '*Average Cost*'.
- Your company will need to determine the costs and benefits of each of the four levels of inventory tracking and make an informed decision.
 - Level 1: No Parts
 - Level 2: Part Numbers
 - Level 3: Quantity Tracking
 - Level 4: Quantity Tracking & Balancing to the GL

Inventory Control Should My Business Be Tracking Quantities?



Charts

Benefits - Quantity Tracking	Level 1	Level 2	Level 3	Level 4
Quantity Tracking is possible			X	X
Alias Part Numbers can be used		X	X	X
Part costs and prices automatically entered		X	X	X
Ascente Work Order Restock Program can be used		X	X	X
Inventory Transaction Reporting is possible		X	X	X
Costed Inventory Report can be used for Inventoried Parts			X	X
Inventory to Job Transfers can be done		X	X	X
Physical Inventory Module can be used			X	X
Balancing Inventory Sub Ledger to the Inventory General Ledger Possible				X

Inventory Control Should My Business Be Tracking Quantities?



Requirements - Quantity Tracking	Level 1	Level 2	Level 3	Level 4
Part Setup		X	X	X
Must enter Part #, Location and Quantity for ALL tracked inventory transactions			X	X
Must only have one part # per part (<i>this does not include alias parts</i>)			X	X
PO Processing: Orders must be processed in Ascente			X	X
PO Processing: Receipts must be processed in Ascente for the entered PO's			X	X
AP Invoicing: Inventoried Parts must be posted to the inventory GL account			X	X
AP Invoicing: Noninventory Parts must <i>not</i> be posted to the inventory GL account			X	X
Billing: Inventoried Parts Costs must credit the inventory GL account			X	X
Physical Inventory done at least annually and when a truck is assigned			X	X
Restocking all locations done as necessary			X	X
Items grabbed of other trucks/locations must be coded or transferred as such			X	X
Technicians must be held accountable for inventory variances			X	X
There must be an incentive for the techs and operators to do things correctly to assure the necessary compliance to assure correct inventory counts.			X	X
Dedicated person to track and manage all inventory transactions			X	X
Must have a caged inventory. Techs can't just grab parts.			X	X
Must have an audit trail for inventory restocking and transfers			X	X

Inventory Control Should My Business Be Tracking Quantities?



Requirements - Balancing Inventory Sub Ledger (Costed Inventory Report) to the GL Inventory Account(s)	Level 1	Level 2	Level 3	Level 4
Part Setup (must reference the correct Inventory GL Account code if <i>Not</i> tracking inventory GL by location)				X
Ascente / Inventory / GL Account Codes: These must link to the correct inventory asset GL account				X
The Ascente / Inventory / Maintenance / Product Line records must be linked to the correct GL account code (<i>Not</i> tracking inventory GL by location)				X
The Ascente / Inventory / Maintenance / Part Location records must be linked to the correct GL account code (<i>When</i> tracking inventory GL by location)				X
All accounts payable invoices for tracked inventory must be posted to the inventory GL account.				X
All accounts payable invoices for nontracked inventory must <i>not</i> be posted to the inventory GL account.				X
When initial inventory counts and inventory GL account balances are set, they should balance.				X