

CHAPTER 7: ITEM CHARGES

This chapter contains the following sections:

- Overview
- Setting Up Item Charges
- Purchase Item Charges
- Sales Item Charges
- Purchase and Sales Allowances

Overview

Accurate and relevant cost accounting information is an essential prerequisite to efficient and competent decision-making in any trading company. At a minimum, companies register and analyze cost records derived from invoice information of their purchase and sales transactions.

However, as the cost of distributing, handling, and transporting goods has in many industries started to represent a larger share in the total inventory cost compared to direct purchase and manufacturing costs, there emerges a strong need to account for these costs. Examples of these additional costs are insurance, freight cost, custom duties, or any other costs associated with delivering and transport services.

Moreover, the possibility to collect detailed cost statistics at the item level becomes relevant when both determining cost of goods sold and accounting for additional sales expenses that affect profit calculations. In the first case, the company's cost structure must have the facility to allow allocation of additional acquisition cost representing expenses (inventoriable costs) related to the purchase. In the second case, additional costs incurred as part of a sale transaction must be directly linked with the sale in question as expenses (non-inventoriable cost) in order to accurately calculate profit.

In Microsoft® Business Solutions–Navision®, to account for both inventoriable and non-inventoriable cost incurred in connection with purchase and sale transactions respectively, accountants can use the Item Charges granule. Item charges represented by, for example, the cost of a purchase invoice from a transport agent for delivering a shipment from a supplier can be assigned to a receipt document. Identified by its own category, when posted, this item charge becomes a part of the total landed cost of the item(s) to which the charge was assigned.

Furthermore, the item charges solution is flexible enough to incorporate a facility that allows the user to register and post additional cost independently of the posting time of the associated purchase or sales document. That is, item charges can be assigned to the delivery after it has been posted as received and invoiced and even after the respective items have been sold. The program's costing mechanism then ensures that these costs are rolled into the inventory value and cost of goods sold calculations. The granule's functionality supports allocating the charge cost amount based on quantity and amount.

In addition to its primary goal of supporting companies in identifying and accounting for additional landed and sales-related cost, the functionality of the Item Charges granule is so versatile that it can be drawn upon when handling other sales and purchase situations. For example, in a sales return situation where items are not required to be physically returned to the company, an item charge can be used to easily register and post an allowance amount (in the form of a credit memo). Another example is represented by the practice of charging (selling) a customer transportation fees in relation to delivering shipments or charging restock fees in connection with returns.

This chapter demonstrates the multiple possibilities incorporated in the Item Charges granule and explains how the program can support companies in their objective of achieving optimal cost control and creating a reliable basis for informed decision-making.

Most important usage scenarios included in this chapter are grouped under the following headings:

- Purchase item charges
- Sales item charges
- Purchase and sales allowances

To learn more about posting principles and the mechanism behind item charges, refer to the *Inventory Costing* training manual.

Setting Up Item Charges

The item charges setup is part of the general Finance setup. Companies can set up different item charge numbers to distinguish charge types that they want to account for and for which they want to create cost and sales statistics.

Cronus has set up a number of different item charges that are typical for their business operations. From the Financial Management menu, click INVENTORY SETUP→ITEM CHARGES. The Item Charges window displays.

Like an item, an item charge must have a general product posting group and VAT product posting group specified in order for the program to determine which account to post the charge amount to.

Once set up, an appropriate item charge type can then be selected on a purchase (sales) document line. There are no limits as to what companies can include in the category of item charges.

Purchase Item Charges

When purchasing goods from suppliers, companies often incur additional costs, such as freight, handling charges, import taxes, and so on, which make up the purchase's total landed costs and thus must be included in the calculation of inventory value and cost of goods sold.

On the other hand, depending on the nature of their sales agreements, companies may also pay these costs when delivering shipments to the customers. In this case, these costs represent expenses that are non-inventoriable and that affect the company's overall profit calculation.

In both situations, accountants can use the program to register the additional costs as a separate cost category and link them directly to the items that they relate to. In Microsoft Navision, these costs are referred to as item charges. Registering item charges can be done in two ways:

- As a separate document (purchase order/invoice)
Typically, this is a feasible option when the invoice for the cost amount arrives some time after the original purchase document has been posted or when the charge must be assigned to a sales document.
- In the same purchase document
This option can be chosen when the charge amount is known at the time of posting the receipt of items to which the charge relates.

As an additional help, the program can also suggest an assignment of the item charge to the selected document lines, which can then be modified if needed.

Handling Additional Direct Cost as an Item Charge

Consider the following scenario:

Scenario 1

Following the earlier shipment delivery from vendor 10000 (document no. 106006), Cronus' accounting department receives an invoice for 100 LCY from the same vendor for the transportation services they provided in connection to this delivery.

The accountants must now register these additional landed costs in the program and assign them to the purchase in question.

As the purchase order with the mentioned delivery has already been posted, the associated freight charges must be registered in a separate invoice:

1. Open a purchase invoice and fill in the header with the vendor details.
2. On the line, in the **Type** field, select **Charge (Item)**. In the **No.** field, select P-FREIGHT as a charge type representing freight-related cost.
3. In the **Quantity** field, enter 1, and in the **Direct Unit Cost** field, enter 100. This way of entering charge details is appropriate where the total invoice amount applies to the entire order delivery.

The charge must be assigned to the posted purchase order (order number 106006):

4. Select the item charge line, and click **LINE→ITEM CHARGE ASSIGNMENT**. (Alternatively, click the **AssistButton** in the **Qty. to Assign** field on the purchase line.)

The Item Charge Assignment (Purch) window appears empty. This signifies the fact that an item charge is being assigned to an already posted document rather than to an order line created in the same document as the item charge. In the latter case, the order line(s) would appear in the Item Charge Assignment (Purch) window.

In order to assign a charge amount to a posted document, the user has to retrieve it by using the Get Line functions. As, according to scenario 1, the freight invoice relates to a purchase order, the user must retrieve respective posted receipt lines:

5. In the Item Charge Assignment (Purch) window, click **FUNCTIONS→GET RECEIPT LINES**. The Purch. Receipt Lines window appears.

***NOTE:** Item charges can be assigned to any posted outbound (return shipment and sales shipment) and inbound (return receipt and transfer receipt) documents.*

6. Browse to the order number 106006 (posted receipt number 107023), select all four order lines, and click **OK**.

The program copies the selected lines into the Item Charge Assignment (Purch.) window. Now the user can choose to assign the charge amount manually by entering the values in the **Qty. to Assign** field for all the lines or use the program's function to make assignment automatically. In the second case, the total charge amount can be assigned either equally among the lines or proportionally as based on the line amount.

Automatically assign the charge by amount:

7. Click **FUNCTIONS**→**SUGGEST ITEM CHARGE ASSIGNMENT**. Select Amount and click **OK**.

The charge amount of 100 LCY is now distributed proportionally among the purchase order lines.

Note that at the bottom of the Item Charge Assignment (Purch) window, there are status fields that show the total charge amount to assign, how much of this has already been assigned, and how much is left to be assigned by both quantity and amount.

8. Close the Item Charge Assignment (Purch) window.

The **Qty. to Assign** field on the purchase invoice line is now updated.

9. Because the program is set up to require a vendor invoice number, enter characters of your choosing in the **Vendor Invoice No.** field.
10. Post the invoice. As a result of this posting, the program created a link between the items from the selected purchase order and the item charge. More specifically, as the cost value (total landed cost) of the earlier purchased items has now increased by the charge amount without the actual quantity being increased, the program created an additional value entry that it linked to the item ledger entry of the posted purchase receipt.

View the value entries related to the item ledger entry for item 1928-W that was created as a result of posting the purchase order (receipt number 107023) and the freight charge:

11. From the Purchase menu, click **HISTORY**→**POSTED RECEIPTS**.
12. Browse to the posted purchase receipt no. 107023. Navigate to the item ledger entries:

Posting Date	E... T...	Document No.	Item No.	Location Code	Quantity	Invoiced Quantity	Remaining Quantity	Cost Amount (Actual)	Cost Amount (Non-Invtbl.)
01/17/01	P...	107023	1924-W	GREEN	5	5	5	408.00	0.00
01/17/01	P...	107023	1924-W	YELLOW	15	15	15	1,224.00	0.00
01/17/01	P...	107023	1928-W	GREEN	20	20	20	3,840.00	0.00
01/17/01	P...	107023	1928-W	YELLOW	41	41	41	7,872.00	0.00

The quantity has not changed.

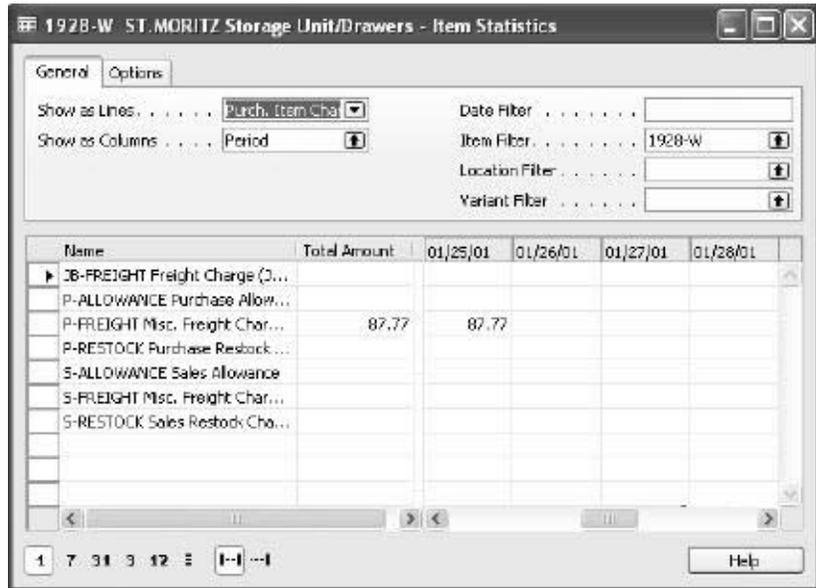
13. Select the first item ledger entry for item 1928-W (posted for the Green location), and open the related value entries (press CTRL + F5).

A new value entry of the type Direct Cost representing the additional cost of the freight invoice was created.

NOTE: You can learn more about the principles of inventory accounting in Microsoft Navision in the Inventory Costing training manual.

Based on the value entry, the charge amount is now included in the cost and profit calculations. If required, the accountants can also collect statistical information specified per each item charge category.

14. In the Item Statistics window, in the **Show as Lines** field, select Purchase Item Charge Spec.



NOTE: Because an item charge assignment changes the item cost amount without changing the quantity of the posted entry, item charges can be used for correcting value-related errors that often occur in the starting phase of program implementation.

Handling Non-inventoriable Costs as Item Charges

In addition to having detailed statistics on their inventory landed cost, many companies may find it important to account for non-inventoriable costs. This cost category becomes particularly relevant in situations where companies incur freight-out costs that affect the profit calculations, or they deal with vendor- or headquarters-owned inventory, and thus financially do not carry any inventory on their own (the accounting model used in this case is often referred to as retail-minus).

***NOTE:** The retail-minus model can be illustrated by the scenario where a company's subsidiary operates as a sales office and does not carry any inventory at its own premises. All sales could be done by means of drop shipment, with the sales revenues being posted at the subsidiary. The headquarters would then on a regular basis send the subsidiary purchase invoices for the cost price of the items sold. Posted as item charges related to sales, these costs would be recorded as sales expenses (non-inventoriable cost) and the subsidiary's profit calculated respectively.*

As mentioned earlier, to account for non-inventoriable cost incurred in connection with sale transactions, accountants can use item charges functionality. The registering and posting procedure is essentially the same as the one described in the previous section with the only difference being that the item charge amount is assigned to outbound documents (posted sales and return shipments).

Test Your Skills – Handling Item Charges

Scenario: You have an open purchase order from vendor 10000. The order number is 106009. In connection with this order, you additionally receive an invoice from the same vendor for freight service for the amount of 150 LCY.

All Levels

Your task is to register these additional invoices in the program, ensuring that inventory costs are updated correctly.

Sales Item Charges

Handling Sales Item Charges

The previous section introduced the functionality of item charges and illustrated how it can be used to handle additional (direct and non-inventoriable) costs – freight costs, packing, insurance, customs, and so on – that a company may incur as part of a purchase and/or sale transaction

When these additional costs are to be paid by a customer, this can be considered as a regular sales transaction with no physical items involved. The company can then record the cost amounts as sales item charges and link them to the relevant outbound document, that is, sales shipment and sales return receipts. In this way, the company can create detailed statistics of its sales and revenue figures.

The principles of recording, assigning, and posting sale item charges are identical to those applied for purchase item charges and is not repeated here in greater detail.

The following scenario highlights the main points:

Scenario 2

After a number of shipments were made to customer 20000 in January, on 01/31/01, Cronus' shipping department informed the accounting department that on the customer's request they had insured all the shipments for the total amount of 40 LCY.

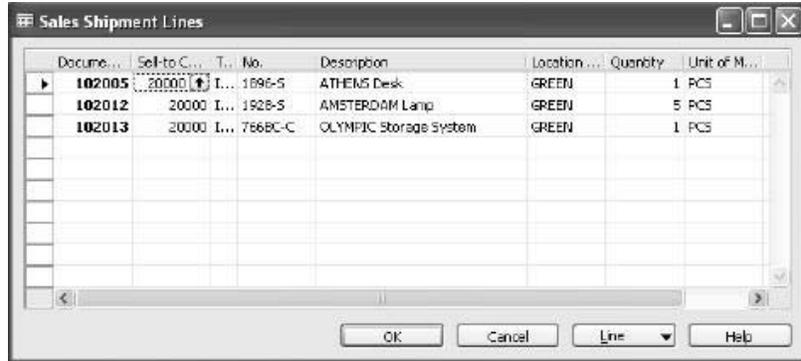
The accountant must now invoice the customer for the additional insurance costs for the order in question and make sure that these cost amounts are reflected in the sales statistics for the items to which insurance cost applies.

1. Add a new item charge category called Insurance to the company's item charge list. Set it up with the same General and VAT Posting Groups that the other Item Charges have.
2. Create a sales invoice, with a Posting Date of 01/31/01, for the insurance amount of 40 LCY to be charged to customer 20000.

Observe that, as the charge is being sold to the customer rather than incurred by the company as cost, the charge amount must be entered in the **Unit Price Excl. VAT** field.

***NOTE:** The program does not support the possibility of posting costs associated with a charge automatically as a part of posting a charge line from a sales document. Costs related to a charge must be posted directly to an appropriate G/L account as an expense or as an item charge from a purchase document.*

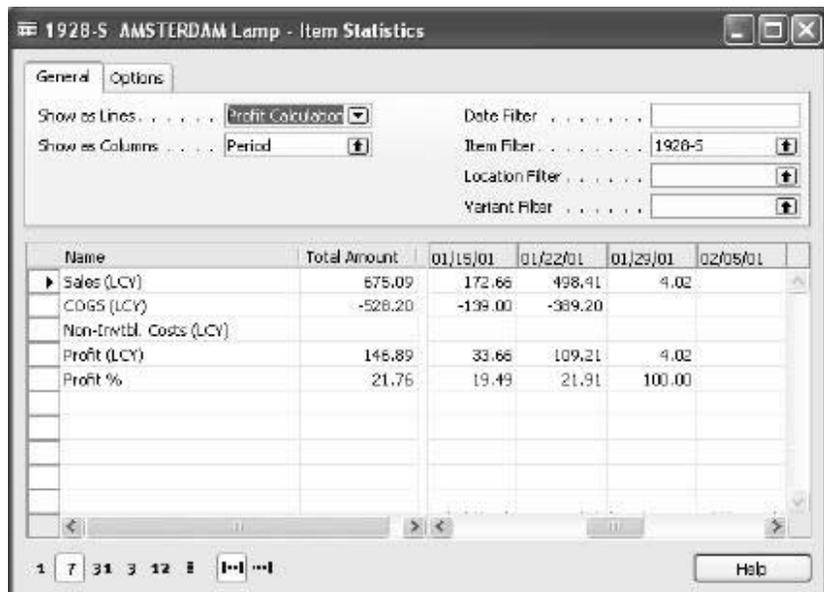
- Assign the insurance charge to all the sales lines shipped to customer 20000. Use the Get Shipment Lines function from the Item Charge Assignment (Sales) window to retrieve the lines.



- In the Item Charge Assignment (Sales) window, assign the charge to the lines based on the line amounts.
- Post the sales invoice.

As a result, the program creates value entries with a link to the item ledger entries for original sales and, based on that, the sales statistics for the previously sold items get updated.

- View profit calculation statistics for item 1928-S.



The amount of 4.02 LCY is now included in the revenues and profit calculations. If required, the accountants can also collect statistical information specified per each item charge category.

Purchase and Sales Allowances

As mentioned in the introduction, one of the essential functions of the item charges granule is to facilitate registering changes to transaction costs and price amounts at the item level without affecting item availability information. As demonstrated in the previous sections, this underlying principle can find many diverse applications within managing financial flow of purchase and sales transactions.

This section illustrates the usage of item charges with regard to purchase and sales allowances. Allowance is a term often used in connection with returns. For example, in situations where items arrive to a customer in a damaged condition, the company may offer the customer the opportunity to keep the damaged items and pay a reduced price for them instead of physically returning the items back to them. The customer would then receive a sales allowance in a form of a credit memo for the reduced amount. Similarly, in order to correct a wrongly priced delivery (with no physical return of items involved), a vendor would issue an allowance to the company, who would register this amount as a purchase credit memo of an item charge type. To learn more about sales and purchase returns, refer to Chapter 9 “Returns Management” in this training manual.

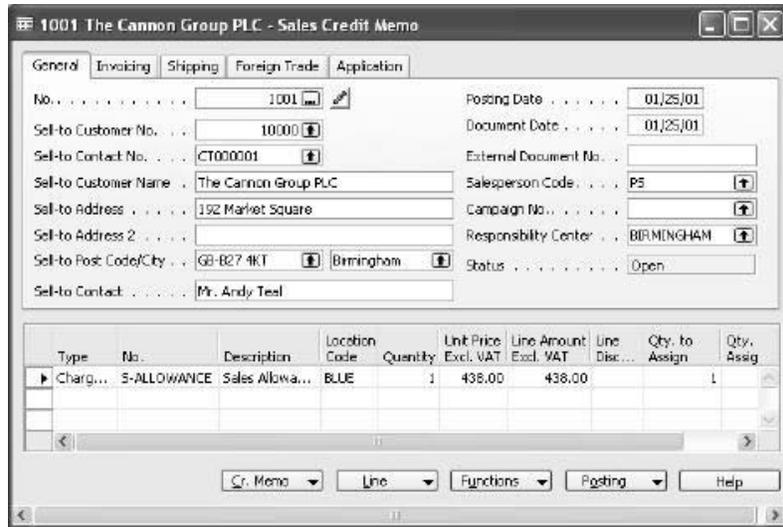
Consider the following scenario:

Scenario 3

After a shipment was delivered and invoiced to customer 10000, the salesperson at Cronus has discovered that item 1964-W in the shipment was priced incorrectly – 15% higher than the agreed price. The shipment number is 102030. The customer should now be compensated for the difference. As the items are in perfect condition, they will not be returned to Cronus.

An accountant must now issue a credit memo of an item charge type:

1. From the Financial Management menu, click RECEIVABLES→CREDIT MEMO to create a new credit memo.
2. Enter the header details for customer 10000. Enter the charge line details. (You may want to use the Copy Document function to retrieve the price information from the shipment document.)
3. Select Sales Allowance as the type of the item charge.
4. In the **Quantity** field enter 1, and in the **Unit Price Excl. VAT** field, enter 438 (15% of the total order price of 2,920 LCY).
5. Assign the charge to the sales line for item 1964-W in the posted shipment number 102030.



6. Post this credit memo.

The customer and item sales statistics have now been updated without the original shipment quantity (and thus item availability) being changed.

Test Your Skills – Handling Purchase Allowance

Scenario: Upon receiving and invoicing a shipment (No. 107019) from vendor 10000, the inventory manager discovers that two units of item 70011 had a slight fault on the glass surface. The inventory manager contacts the vendor about the problem, and the vendor offers Cronus the opportunity to keep the items for a reduced price (by 40%). Cronus receives a credit memo from the vendor.

All Levels

Your task is to register this agreement in the program ensuring that the transaction is reflected at the item statistics level.

Quick Interaction: Lessons Learned

Take a moment to write down three Key Points you have learned from this chapter:

1.

2.

3.
