

## How to Handle Inventory Items with No On Hand Quantities



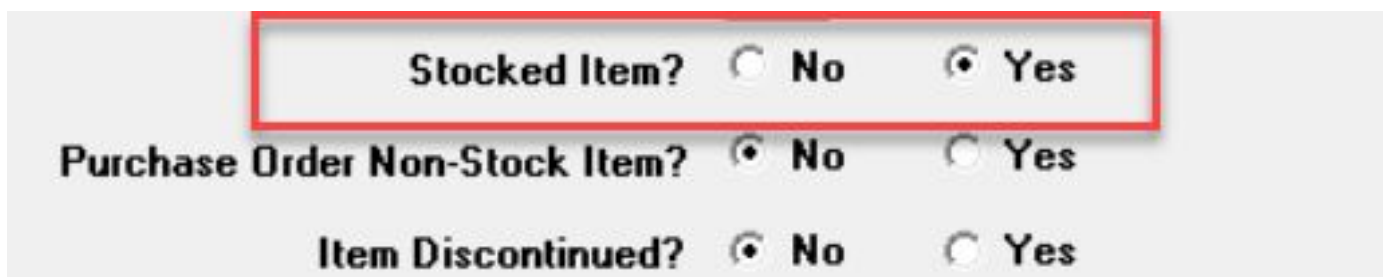
## Introduction

Every distributor has items that they bill out to customers that do not have on-hand quantities. A common example would be cylinder hydro tests that someone else does for you. There are several problems when dealing with this type of sale item.

1. It's set up in inventory, but if there's no on-hand quantity, your inventory valuation goes negative. If you put a quantity in, the value is inflated since there is no true inventory.
2. When the item is sold, if you are not careful with your general ledger entries, the inventory accounts in general ledger are reduced when it shouldn't have been.

The following discussion gives some suggestions for how to handle this situation.

1. When setting up the item, there is a check box on the Miscellaneous Tab in the inventory file called Stocked Item? Check this box to No. There is a special version of the Inventory Valuation Report (IN130L) that asks the question "Do You Want To Include Items Not Stocked?" If Yes is selected for this question, then the valuation report will not print these items and consequently not include them in the valuation totals.
2. Another suggestion is to create a separate location for the item, something easy to remember like "R" for Repairs. Since these items do not have on-hand quantities the quantity will go negative. When the inventory valuation reports are printed, it would be easy to separate these items from the totals since all the Location R items will be separate.



The image shows a screenshot of an inventory setup form with three rows of radio button options. The first row, 'Stocked Item?', has a red rectangular box around it. In this row, the 'Yes' option is selected. The second row, 'Purchase Order Non-Stock Item?', has the 'No' option selected. The third row, 'Item Discontinued?', also has the 'No' option selected.

<b>Stocked Item?</b>	<input type="radio"/> No	<input checked="" type="radio"/> Yes
<b>Purchase Order Non-Stock Item?</b>	<input checked="" type="radio"/> No	<input type="radio"/> Yes
<b>Item Discontinued?</b>	<input checked="" type="radio"/> No	<input type="radio"/> Yes

```
DO YOU WANT TO INCLUDE GAS ITEMS (STATUS 7)? (Y/N) Y
```

```
DO YOU WANT TO INCLUDE ITEMS NOT STOCKED? (Y/N) Y
```

3. You must also make sure that the general ledger is posting correctly. You can have different sales and cost of goods sold accounts attached to an inventory item based on the Control Number used in the inventory master record. An example is shown below.
4. The first thing that needs to be done is to create a new Control Number for these types of items. In the example below, we created a new control number called “Sales Non-Stock Hydro Test”. This can be as specific or as generic as you want. In the example below we have “Sales Non-Stock Hydro Test”, but you could just as easily say “Sales Non-Stock Repairs”
5. The Sales account in the example below is Sales Non-Stock Hydro Test. You should do this so as to clearly differentiate these items from traditional inventory items. The side benefit is that now it’s possible to show these items as a different category of sales on the income statement.
6. You will also want the sales of these items to post to a different cost of goods sold account.
7. A final consideration is to post to a non-inventory account. This will keep the billing update from reducing the normal inventory account when items are sold.

**Note:**

- a. Always consult with your accountant to make sure that the general ledger accounts being posted to in the example provided do not conflict with the goals established for your company.
- b. Once set up you should test thoroughly to make sure the inventory valuation and general ledger totals are correct.

- c. The Inventory – Non Stock Misc. would not be shown on your financial statements since it is in effect a dummy account.

General Ledger Control File Maintenance

File Edit Help

Number 14

Description Sales Non-Stock Hydro Test

G/L # (1)	1 00 11500	ACCOUNTS RECEIVABLE	DEBIT
Auto1	1	DEBIT	
G/L # (2)	1 00 40201	Sales Non-Stock Hydro Test	CREDIT
Auto2	2	CREDIT	
Cost Of Goods Sold			
G/L # (3)	1 00 50131	Cost of Goods-Non Stocks	DEBIT
Auto3	1	DEBIT	
G/L # (4)	1 00 12101	Inventory - Non Stock Misc.	DEBIT
Auto4	2	CREDIT	
Discount			
G/L # (5)	1 00 50135	TRADE DISCOUNTS	DEBIT
Auto5	1	DEBIT	
G/L # (6)	1 00 11500	ACCOUNTS RECEIVABLE	DEBIT
Auto6	2	CREDIT	

OK Cancel

Enter a 30 character description

Should you have any additional questions, please feel welcome to contact your Support Representative.

### Dataweld Software

1909 Citizens Bank Drive Bossier City, LA 71111

Phone: 318-746-6111 Fax: 318-746-0323

[www.Dataweld.com](http://www.Dataweld.com)