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VISUAL FINANCIALS CORNER

Visual Month-End Quality: How Can I Know if I Do Not See?

“How can I know if I do not see?”. A Visual user asked me this while I was reviewing her inventory discrepancies. This question touched on a very good point. If it is difficult to gather the relevant information in order to solve a problem, we are most likely not being effective enough in choosing the best solution to achieve the goal.

I decided to start sharing the main principles that I had learned over the years while doing financial consulting for Visual. I wanted users to become inspired about understanding what was happening with their data and empowered to resolve any issues on their own, whenever possible.

There are typically three main principles that the finance department will look for when closing the month in Visual. These are:

1. How accurate are the numbers?
2. How fast can they fix any issues and close the month?
3. How will they know if they missed anything?

Today, we look at the first principle as we consider the importance of Inventory Accuracy and Subledger Reconciliation Process.

In my experience as a financial consultant for Visual, I found that there is a misconception related to inventory and WIP reconciliation process. This is why I want to provide more information on how Visual works in this area. I believe it will give you the knowledge on how to take the right approach in order to validate your published numbers.

The core of your Visual inventory resides in the accumulation of transactions. This happens to be in the Manufacturing side of the system. Typically, raw material is purchased and it is then used in the manufacturing process before being received into inventory and finally sold or shipped to consumers. The sequence of entering these transactions is critical for the guarantee of a proper cost allocation. When the sequence of this order is broken, discrepancies between the different Visual reports appear. This is when the confusion begins and you are left wandering which report has the correct numbers.

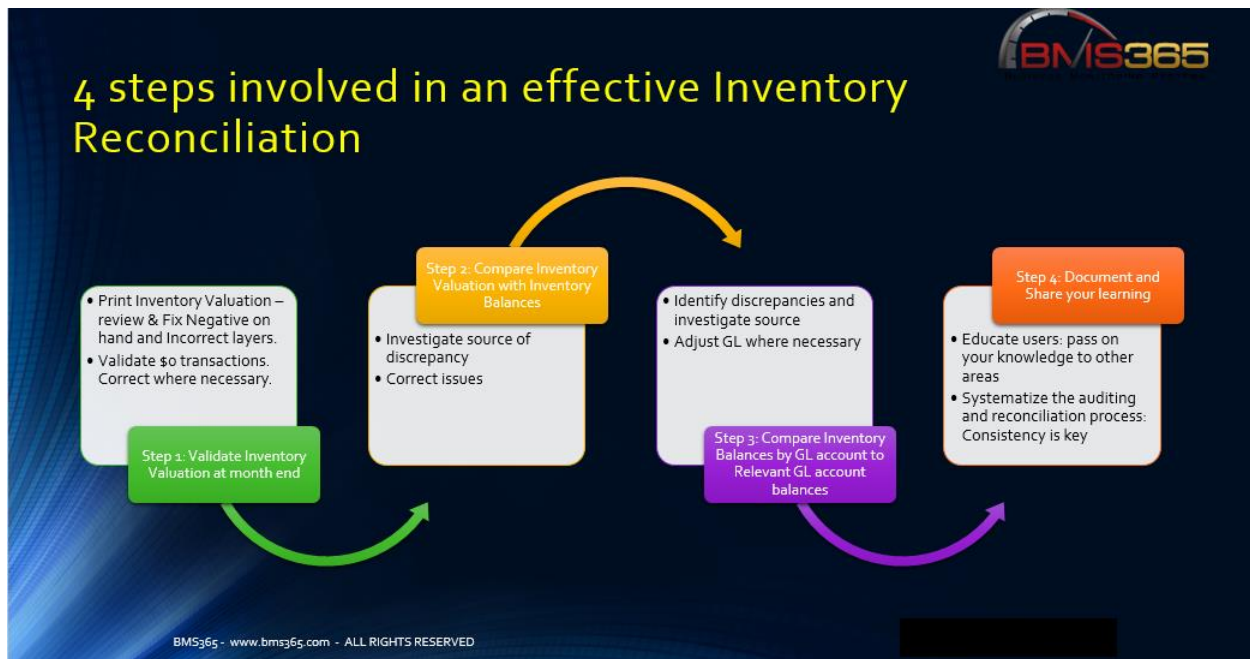
Let's review the proper steps to take in order to validate those values:

1. The **Inventory Valuation** report will contain the most accurate picture at month-end. You may, however, encounter errors if there is an incorrect Fifo layer or if a part has a negative quantity on hand at month-end. These issues must be fixed because it is crucial to have a trustworthy Inventory Valuation report at month-end in order to progress to the next step.
2. The **Inventory Balances** report is a secondary table that is updated when Costing Utilities is run and Mfg Journals are prepared. I often see a tendency for users to adjust the GL to the numbers shown in this report and this is incorrect. You should keep in mind that, according to the first step, the correct values are already in the Inventory Valuation report. Once you have verified that the Inventory Valuation report has no issues, you can compare it to the Inventory Balances

report. This allows you to identify any parts that are not displayed correctly in the Financial Subledger. Any differences must be fixed before progressing to the next step.

3. The GL (Inventory Control Account Balances) should reflect what is happening on the Manufacturing side. The GL almost always contains the correct values and should not be adjusted to the Inventory Balances too quickly, unless you have proven that the Inventory Valuation and Inventory Balances Subledgers are in sync. There might be times where the GL reports incorrect postings. These may include when a GJ has been posted to control accounts, if the inventory control account has been used in the wrong journal or if a change in product codes at Part ID level occurs without following the proper process. These issues are, however, a topic for a future blog.

To summarize, here is the Inventory Reconciliation process in graphic mode:



I hope you found this article to be informative and useful. Please do not hesitate to ask if you wish to know more. Feel free to submit your questions via email.

Stay tuned too, as we continue onto the next topic. Month-end quality: How fast can you close the month?

Thank you for reading.

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