

# Accounting: requests to expense COGS in advance

- We occasionally receive requests to expense to cost of goods sold (COGS) at the time of billing
- We also receive other requests regarding not properly tracking inventory
- The requests are often related to “how things were done previously” or something similar
- The crux of this problem is accounting and business management methods used for perpetual inventory vs periodic inventory

## Perpetual Inventory

- System Five implements perpetual inventory
  - The sub-ledger uses first in first out (FIFO) lines from received PO's to track the sub ledger, and is reported on via the inventory value report
  - The inventory account(s) on the general ledger can then be used for financial control
- Perpetual vs Periodic inventory.
  - When using periodic inventory a company will normally expense inventory immediately and not track inventory value
  - In System Five the inventory GL entries must flow through an inventory account
    - A bill posts to inventory, and customer invoices remove from inventory and expense to COGS

## Can we implement Perpetual Inventory?

- There are significant drawbacks, and pitfalls to avoid but it is possible. However it is not recommended
- It is important to evaluate each individual scenario to see if there are appropriate solutions to the business need. We often find that there is already another solution for the business problem, or another more effective approach.

## Business case

- You would like to expense your inventory immediately upon purchase.
  - You do not track stock
  - When you sell inventory you only record revenue, but no costs
- All of your customer invoices would show 100% profit
- You would not have an inventory value
- The key benefit of System Five for tracking inventory is lost, so again, we do not recommend this scenario
- I have had clients manually post the bill directly to the COGS account, but there are ways to automate this process a little. Again, it is important to remind everyone that you should contact an implementation specialist to help build a solution for your specific needs. (See Immediately Expense COGS below)

## Immediately Expense COGS

- It is possible to immediately expense to COGS
- It does not prevent System Five from behaving like a perpetual inventory system
- The method to do this would be to move the Inventory account from our default of 1200 to a 5000 series account like account 5000.
  - When you add a PO to a bill from the PO Tab the inventory value account 5000 will be automatically added to the bill.
  - It is possible to make the alternate inventory account for each category be the same as the COGS account. So that the COGS of the category is posted to immediately.
    - When the inventory is sold there should not be a cost, but if there was, the cost would come out of COGS and go back into COGS because the inventory account in this scenario is set the COGS account.

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