

MYOB Exo Business White Paper

Stock Valuation

Last modified: 8 August 2017

myob

Contents

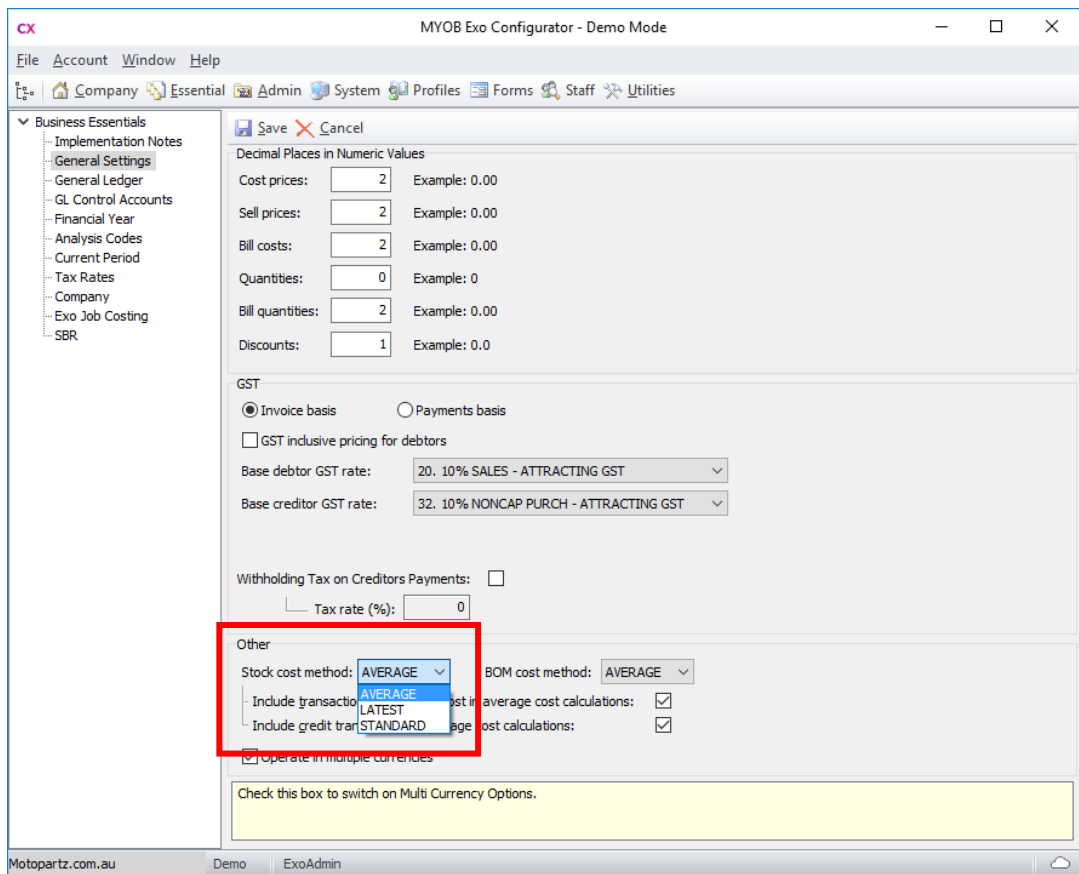
Overview	1
Costing Options	1
Average Cost.....	2
Average Cost Options	2
Average Cost Calculation.....	2
Latest Cost	4
Standard Cost.....	4
Stock Take	4
General Ledger Stock Valuation	5
Perpetual Inventory.....	5

Overview

This paper provides an overview of the options available for obtaining a stock valuation, and discusses which methods are compatible with perpetual inventory systems and the General Ledger (GL).

Costing Options

The costing settings are located in EXO Business Config at **Business Essentials > General Settings**:



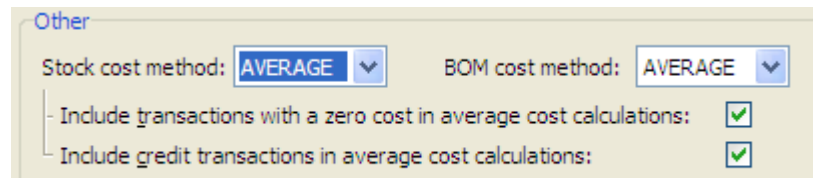
These options control the method of cost calculation performed when stock transactions are created.

Average Cost

Average cost is computed for stock-in transactions such as stock receipts arising from purchase order receipts, inwards goods costing and creditor invoices from stock functions. The average cost calculation is well defined in accounting circles.

Average Cost Options

If the cost method is set to Average, then the following options are also relevant:



- **Include transactions with a zero cost in average cost calculations:** Set this option if you want stock transactions with zero cost to affect the average cost.
- **Include credit transactions in average cost calculations:** Set this option if you want stock transactions with negative quantities to affect the average cost when decrementing stock levels.

Both these options default to false. See the following worked examples of average cost calculations. Note that these options allow their corresponding transaction scenario to lower the average cost, perhaps below the cost at time of last stock receipt.

Average Cost Calculation

Average cost is calculated as follows:

1. Obtain the extended total value of the current stock transaction from the landed cost (local currency) of the receipt transaction being processed.
2. Obtain the extended total value of pre-existing stock by multiplying the pre-existing average cost by the pre-existing total stock on hand.
3. Calculate the new stock level by adding the transaction quantity to the pre-existing stock level. (In EXO Business this is the overall stock level for the stock item, rather than the individual stock level for the location associated with the stock transaction).
4. Add the two extended stock values from the first two points in this process to derive a new extended stock value.
5. Divide the new extended stock value by the new total stock level (across all stock locations) of the stock item.

Example

1. A stock receipt for 10 items is processed with a landed cost of \$16.00. This transaction has an extended value of \$160.00 (10 x \$16.00)
2. Pre-existing stock is 20 units at an average of \$10.00 per unit. This has an extended stock value of \$200.00
3. The new stock level is 30 units (20 + 10).
4. The new extended stock value for these 30 units is \$360.00 (\$200.00 + \$160.00).
5. The new average cost for this stock item is \$12.00 (\$360.00 divided by 30 units).

If the **Include transactions with a zero cost in average cost calculations** option is enabled, and another transaction at zero cost is then processed, the result can be seen in the continued worked example:

1. A stock receipt for 6 items is processed with a landed cost of \$0.00. This transaction has an extended value of \$0.00 (6 x \$0.00).
2. Pre-existing stock is 30 units at an average of \$12.00 per unit. This has an extended stock value of \$360.00
3. The new stock level is 36 units (30 + 6).
4. The new extended stock value for these 36 units is unchanged at \$360.00 (\$360.00 + \$0.00).
5. The new average cost for this stock item is now \$10.00 (\$360.00 divided by 36 units).

Continuing the example, if the profile **Include credit transactions in average cost calculations option** is enabled, and a credit is processed (e.g. goods returned to supplier):

1. A credit is done back to the supplier 10 items is processed at an agreed credit rate of \$12.00. This transaction has an extended value of -\$120.00 (-10 * \$12.00)
2. Pre-existing stock is 36 units at an average of \$10.00 per unit. This has an extended stock value of \$360.00
3. The new stock level is 26 units (36 - 10).
4. The new extended stock value for these 26 units is \$240.00 (\$360.00 - \$120.00).
5. The new average cost for this stock item is now \$9.23 (\$240.00 divided by 26 units).

When new transactions are created and inserts occur into the STOCK_TRANS table, the trigger STOCK_POST_COSTS calculates and updates STOCK_ITEMS.AVGCOST.

Note: There are multiple triggers on the STOCK_TRANS table, and the firing order of these triggers is crucial to correct cost calculation. When customising any of these triggers on an MSSQL database, the firing order should be reset using the following command pair:

```
SP_SETTRIGGERORDER STOCK_TR_POST,FIRST,'INSERT'  
GO  
SP_SETTRIGGERORDER STOCK_POST_COSTS,LAST,'INSERT'  
GO
```

Latest Cost

The latest cost – the cost of the last stock receipt transaction – is stored against a stock item in EXO Business regardless of the **Stock cost method** selected in EXO Business Config. However, setting the **Stock cost method** field in EXO Business Config to “Latest” means the Latest Cost is used when calculating stock costs in EXO Business.

The Latest cost option is not compatible with Perpetual stock integration to the General Ledger. However Latest cost can be used for stock valuation figures to assist in the preparation of the stock on hand figures needed to post when using the Periodic stock integration method.

Standard Cost

A standard cost can be entered against a stock item in EXO Business regardless of the **Stock cost method** selected in EXO Business Config. However, setting the **Stock cost method** field in EXO Business Config to “Standard” means the Standard cost is used when calculating stock costs in EXO Business.

The Standard cost option is not compatible with Perpetual stock integration to the General Ledger. However Standard cost can be used for stock valuation figures to assist in the preparation of the stock on hand figures to needed to post when using a Periodic stock integration system.

Note: The FIFO Cost is no longer supported in EXO Business.

Stock Take

Average Cost: Increases or decreases the stock at the current weighted average cost value of the stock item being adjusted.

General Ledger Stock Valuation

Only Weighted Average Cost and First in First Out (FIFO) stock costing methods are supported with perpetual inventory. The Latest and Standard cost options require the user to deal with variances in the stock control and clearing accounts and are therefore not supported or recommended in a perpetual inventory system which is integrated with the GL.

Note: For detail on comparing the Periodic and Perpetual methods of GL Stock integration, refer to the *Stock Integration* white paper.

Perpetual Inventory

If stock has been supplied on a sales order but not yet invoiced then the Cost of Sales will be posted to the trading account but the sale will not be realised until the order has been invoiced. Therefore an accrual will need to be processed for the sale value of that stock, assuming that it has been shipped to the customer.

The variance between the invoiced value of stock and the receipt value if any will need to be journalised to a variance account in the Statement of Financial Performance. It is preferable where the stock has not yet been posted to the GL or subsequently sold, to adjust the transaction on the stock transaction tab and recalculate the Weighted Average Cost.

If stock is allowed to go into a negative position the difference in value between the weighted average on the sale transaction and the subsequent receipt of that inventory item will need to be journalised between stock on hand to cost of sales.

Note: A utility is available in EXO Business Config at **Utilities > Stock > Weighted Average Cost Recalculation**. This utility recalculates the weighted average cost based on the stock transactions in the system. This will give a misleading result if the initial opening balances of stock items were not entered with a stock transaction that noted the initial weighted average cost.