

Volodymyr Myronenko

Financials in Microsoft Dynamics[®] AX 2012

2nd Edition

www.dynamicsaxtraining.com

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This training is intended for professionals who are involved in the implementation and support of the Financial module at a customer site, as well as for those who need to advise customers, or make modifications within the area. The paper offers an overview of the principles used within the Financial module of Microsoft Dynamics® AX 2012 R3.

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1. Basic concepts

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Introduction

In this training lesson, we will study what accounting is, what its main principles are, its terminology, and how accounting is used in a company. The accountingcoach.com is a very good site with clear and concise explanation of Accounting.

Let's assume that Taras goes into the pizza business – namely, cooking and selling pizza. The name of the new company is *The Tastiest*. Taras will start his business by putting some of his personal savings into it. In effect, he is buying shares of The Tastiest's common stock. This is the first initial transaction – the company receives cash but at the same time the company has a debt. Try to illustrate this transaction.

First Transaction (Accounting Equation)

Imagine a circle which represents the whole company, its left side is the Assets and its right side is the Liabilities. Assets are the things that the company owns and are sometimes referred to as the resources of the company. Liabilities are obligations of the company; they are amounts owed to others. What the company owes the outsiders call Liabilities and what it owes the owner calls Owner's Equity. So, the right side is Liabilities and Owner's Equity (the type of Liabilities).

At the beginning the circle looks like a dot, because the company doesn't have any Assets and Liabilities. When Taras invests some of his personal money, the following occurs: the company gets cash (which is the Assets), but the company owes the money to Taras. Let's assume that Taras invests 10 000\$ into his business. The circle will look as follows:

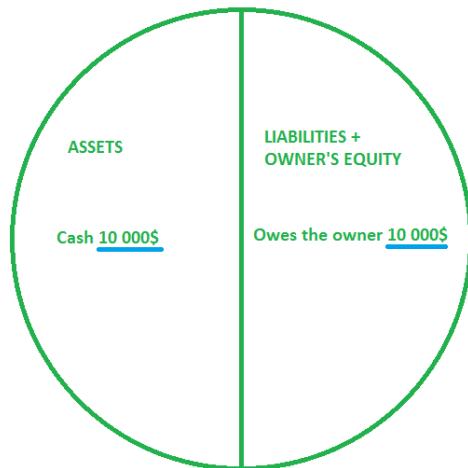


Figure 1.1 Company balances after investment

The circle demonstrates the basic accounting equation: Assets = Liabilities + Owner's Equity. The accounting equation should always be in balance. It guarantees that the money cannot appear from anywhere. In our case the company cash (Assets) was given by the owner (Liabilities).

1. Basic concepts

The field of accounting—both the older manual systems and the today's basic accounting software—is based on the 500-year-old accounting procedure known as double entry. Double entry is a simple yet powerful concept: each and every one of a company's transactions will result in an amount recorded into at least two of the accounts in the accounting system. In our case, the first transaction records the amount to the "Cash" and "Owes the owner" accounts.

Owe the owner => \$10 000 => Cash

The transaction could be recorded in the following manner:

Cash	Owe the owner
10 000 \$	10 000 \$

The dual form of transaction is caused by natural law. Nothing is lost in the universe, it is only changed. You can transfer an apple from one hand to another and you can also observe it separately: for the 1st hand –minus one apple, for the 2nd hand – plus one apple.

The accounting equation is in balance: \$10 000 (Cash) = \$0 (Liabilities) + \$10 000(Owner's Equity).

Purchase Vehicle for Cash (Debit & Credit)

The Company decides to purchase a used delivery car which costs 1200 \$ by writing a check for \$ 1 200. In this case, the new account which is called Vehicles (or Delivery equipment) is required. Vehicles is an Asset account.

The list of all company accounts is named the **Chart of Accounts**. The chart of accounts is a listing of the account names that a company has identified and made available for recording financial transactions. A company has the flexibility to tailor its chart of accounts to best suit its needs, including adding accounts as needed.

This transaction records the amount to the Cash and Vehicles accounts.

Cash => \$ 1 200 => Vehicles

The transaction could be recorded in the following manner:

Cash	Vehicles
\$1 200	\$1 200

According to the Double entry procedure, one amount is used for the two accounts. Because the amount cannot be taken from anywhere. In our case it is \$1 200.

But in this case, the accounting equation is not in balance: \$10 000 (Cash) + \$1 200 (Cash) + \$1 200 (Vehicles) ≠ \$0 (Liabilities) + \$ 10 000 (Owner's Equity).

1. Basic concepts

It is logical that Cash is decreased, but according to the double entry procedure, it is impossible to create the following transactions:

Cash	Vehicles
-\$1 200	\$1 200

How was this problem solved by the middle ages accountants? They decided to divide all accounts into two parts. In one part, they recorded all amounts that increased the account amount, in the other part, they recorded all amounts that decreased the account amount. They called these parts as **Debit** and **Credit**. For example, if the Cash increases, the amount is recorded into the Debit part, if the Cash decreases, the amount is recorded into the Credit part. The total Cash amount is calculated in the following manner Debit – Credit.

In our case, the accounts will have the following view after the two transactions:

Cash		Owe the owner		Vehicles		
Debit	Credit	Debit	Credit	Debit	Credit	
\$10 000			\$10 000			First transaction
	\$1 200			\$1 200		Second transaction
\$ 8 800		\$10 000		\$1 200		Total

Note that if the amount is debited in one account, the same amount should be credited in another account, because the money cannot be taken from anywhere. So one account is Debited and the other account is Credited, and vice versa. It is impossible that in one transaction both accounts are Credited (or Debited). When we sum all Debit amounts from all accounts and sum all Credit amount, they will be the same, i.e. **Debit = Credit**.

Let's check the accounting equation. In the accounting equation, the total account amount is used without debit or credit parts.

Total "Cash" amount is \$10 000 (Debit) – \$1 200 (Credit) = \$8 800.

Total "Owe the owner" amount is \$0 (Debit) – \$ 10 000 (Credit) = – \$10 000.

Total Vehicles amount is \$1 200 (Debit) – \$0 (Credit) = \$1 200

\$8 800 (Cash) + \$1 200 (Vehicles) ≠ \$0 (Liabilities) – \$ 10 000 (Owner's Equity).

Something is wrong again, the amount is correct but the sign is different. We have made one mistake, because we assumed that the Debit part contained the amount that increased the total account amount, the following formula was used Debit – Credit. But, for the Liabilities and Owner's Equity accounts it is not true. Look at the first transaction, both accounts are increased! The "Owe the owner" account was increased by \$10 000 with the help of Credit part. So, the total "Owe the owner" amount should be calculated in the following manner: \$10 000 (Credit) – \$0 (Debit) = \$10 000. Remember the total account amount for Liabilities and Owner's Equity accounts is calculated in the following manner: Credit – Debit.

1. Basic concepts

Remember that any **Debited** account is “**good** for a company”, and any **Credited** account is “**bad** for a company”. For example, when the Cash account is **debited** it is good because the company’s cash is increased. When the Cash account is **credited** it is bad because the company’s **cash is decreased**. When the “Owes the owner” account is **credited**, it is bad because the company’s debt to the owner is **increased**. Note that in both cases the amount is entered in the Credit part, the cash is decreased, but the debt is increased and in both cases it is bad for the company.

Look at our circle after the second transaction. The circle has almost not changed. The money was moved from one asset account to another. Note that all accounts contain the total amount. For the asset accounts the total amount is Debit – Credit, for the Liabilities and Owner’s Equity accounts, it is Credit – Debit.

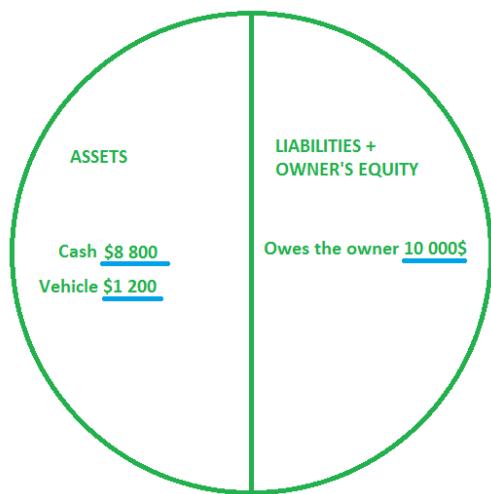


Figure 1.2 Company balances after purchase

Purchasing Pizza Ingredients (Voucher)

To prepare pizzas, the Company decides to purchase, for example, the following ingredients:

- 50 kg of cheese for \$500
- 300 bases for pizza for \$10
- 25 kg of salami for \$300
- 5 kg of olives for \$40

Taras contacts the supermarket administrator and agrees to pay for these ingredients within 30 days. When he brings all the ingredients to the company store, he decides to record a purchase transaction. First of all he creates the Cheese, Pizza bases, Salami, and Olives accounts to record the amounts spent for these ingredients and the Super Market account to record the liabilities for the Super Market vendor.

1. Basic concepts

The purchase operation has the following transactions:

Super Market (Vendor)		Cheese		Pizza basis		Salami		Olives	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
	\$500+\$10+\$300+\$40=\$850	\$500		\$10		\$300		\$40	

The Super Market total amount is increased. Since Super Market belongs to the Liabilities accounts, the amount is recorded in the Credit part (Account amount = Credit – Debit). The other explanation – since the liabilities are increased, it is bad for the company, so the amount is recorded to the Credit part. The Cheese and other ingredients accounts are also increased. Since they belong to the Assets accounts, the amount is recorded to the Debit part (Account amount = Debit – Credit). The other explanation – since the assets are increased, it is good for the company, so the amount is recorded to the Debit part.

The circle is increased and will look as follows:

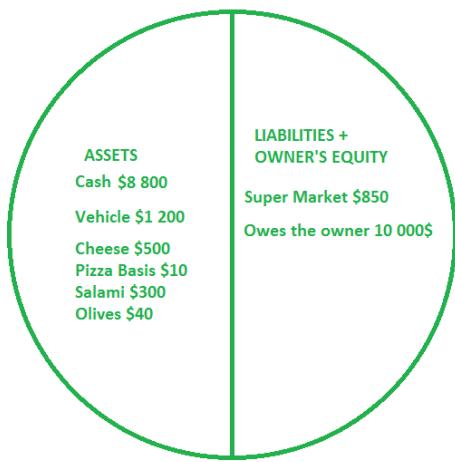


Figure 1.3 Company balances after second purchase

Note that all accounts in the circle contain the total amount, for the assets it is Debit – Credit, for the liabilities and owner's equity, it is Credit – Debit.

The circle is increased because someone has lent the money to our company. In this case, it is the Super Market. In the first transaction, the circle is increased, because Taras lends (invests) money to the company. Note that for the company doesn't care who lends the money the Vendor or the Owner, this money is company liabilities.

Let's check the accounting equation:

$$\begin{aligned} \$8\,800 \text{ (Cash)} + \$1\,200 \text{ (Vehicles)} + \$500 \text{ (Cheese)} + \$10 \text{ (Pizza base)} + \$300 \text{ (Salami)} + \$40 \text{ (Olives)} = \\ \$850 \text{ (Liabilities)} + \$10\,000 \text{ (Owner's Equity)}. \end{aligned}$$

1. Basic concepts

When Taras pays for the ingredients, **the circle will be decreased**. The transaction will have the following view:

Cash		Super Market	
Debit	Credit	Debit	Credit
	\$850	\$850	

The company's Cash is decreased, since the Cash amount is Debit – Credit, the Credit part should be increased. The other explanation – the company's Cash is decreased, it is bad for the company, so the Credit part is used, the debt to the Super market is decreased, it is good for the company, so the Debit part is used.

The circle is decreased and will have the following view:

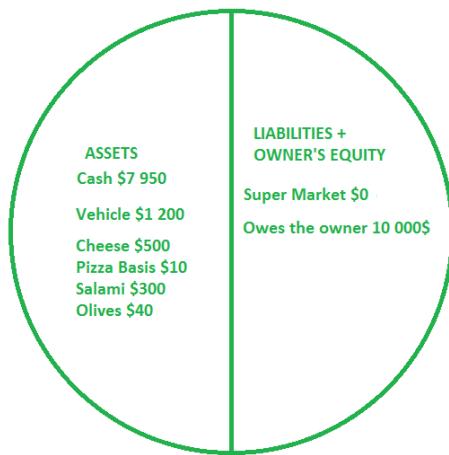


Figure 1.4 Company balances after payment

The circle shows the current snapshots of the accounts totals. The transaction information must be stored separately for each account, if we look, for example, at the Cash account, we can get the following information:

Cash	
Debit	Credit
\$10 000	
	\$1 200
	\$850

In this case, we can understand why our company has only \$7 950 cash. You can note that it is not clear why the Cash was increased by \$10 000 or decreased by \$850 and you will be right. To understand what happened, we should look at all accounts that were involved in one transaction. For this purposes, a **voucher** is used. A voucher is an identification which is assigned to all amounts recorded in scope of one transaction. For example, the last transaction uses the "Voucher_4" identification. The transaction will look as follows:

1. Basic concepts

Cash		Super Market	
Debit	Credit	Debit	Credit
	\$850 (Voucher_4)	\$850 (Voucher_4)	

When we look at the Cash account, we can get the following information:

Cash	
Debit	Credit
\$10 000	
	\$1 200
	\$850 (Voucher_4)

So now, to answer the question why our cash account was decreased by \$850, we should search through all the accounts and find where the Voucher_4 identification is available. In our case, it is the Super Market account. On the basis of the voucher identification, we restore the following transaction: Cash => \$850 => Super Market. So, the cash account is decreased because the company paid to the Super Market vendor.

Selling Pizza (Profit & Loss Accounts)

Let's look how the company sells. Taras receives the first order for 1 pizza which costs \$15. Let us assume that Taras has already purchased an electric oven for \$1000. The updated circle will look as follows (the transaction is similar to the vehicle purchase):

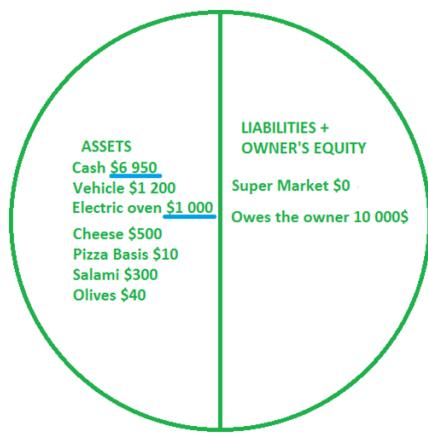


Figure 1.5 Company balances after purchase

For one pizza, Taras uses 1 pizza base for \$0.03 ($\$10 * 1/300$), 0.3 kg of cheese for \$3 ($\$500 * 0.3/50$), 0.2 kg of salami for \$2.4 ($\$300 * 0.2/25$), and 0.15 kg of olives for \$1.2 ($\$40 * 0.15/5$). He notes that for making one pizza, the electric oven uses electric energy for \$0.2. He has decided not to take into account the electric energy and personal labor. Taras also pays \$1 for the express services. Let's calculate the total cost of goods sold: $\$0.03 + \$3 + \$2.4 + \$1.2 = \$6.63$

1. Basic concepts

The sales operation will have the following transactions:

Customer		Sales							
Debit	Credit	Debit	Credit						
\$15			\$15						
Cheese		Pizza basis		Salami		Olives		Cost of goods sold	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
	\$3		\$0.03		\$2.4			\$1.2	6.63
Cash		Delivery Expense							
Debit	Credit	Debit	Credit						
	\$1	\$1							

Let's analyze the Debit and Credit parts of accounts. Note that the new accounts were used. They are Customer, Sales, Cost of goods sold, and Delivery Expense.

In the first transaction, we use the Customer and Sales accounts. The Customer account is the company's Asset, because this account contains the amount that the Customer must pay to the Company. Since this Asset is increased by \$15 the Debit part is used. We already know that in one transaction, the Debit part should be equal to the Credit part. So, for the Sales account, the Credit part is used. At first sight, the Sales is the Asset account, because it contains the amount of money that the company earns. But, it is not the Asset. Because the company should give all profit to the owners. The Sales account contains the amount that must be returned to the company owners, in other words, Sales is similar to Liabilities.

In the second transaction, we use the Cost of goods sold account. The Cheese, Pizza basis, Salami, and Olives account are the Assets accounts. For the Assets account, the account amount is Debit – Credit. Since the account amount is decreased, the Credit part is used. In other words, the quantity of ingredients decreased in the stock – it is bad for the company, the Credit part is used. Since in one transaction, Debit = Credit, the Debit part is used for the Cost of goods sold account. Cost of goods sold is similar to the company Assets account.

The Sales and Cost of goods sold accounts answer the question whether the Company makes profit. If Sales plus Cost of goods sold are more than zero, the company is profitable. These accounts are named the Profit & Loss accounts. All Profit & Loss accounts are located on the right side of the circle. Because the Company makes profit, then this profit should be returned to the owner. In other words, the company's profit is the liabilities.

Since the Profit & Loss accounts belong to the Liabilities, the total Profit & Loss amount is Credit – Debit (of all Profit & Loss accounts). Note that the Sales total amount is positive and the Cost of goods sold total amount is negative.

1. Basic concepts

The circle will look as follows:

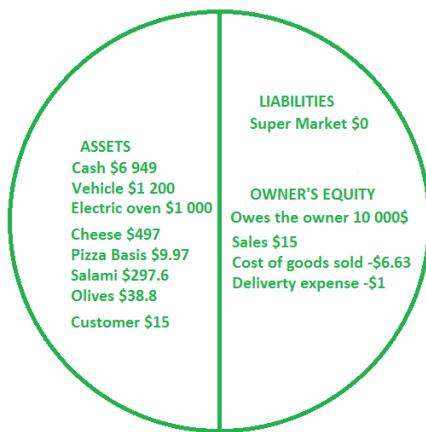


Figure 1.6 Company balances after sales

Note that the circle contains the total account amount, for the Assets, amount is Debit – Credit, for the Liabilities and Owner's Equity, amount is Credit – Debit. For example, for the Sales account, it is \$15(Credit) – \$0 (Debit) = \$15, for the Cost of goods sold account, it is \$0 (Credit) – \$6.63 (Debit) = - \$6.63.

You may note that Delivery Expense is also the Profit & Loss account.

Let's check the accounting equation: \$6 949 (Cash) + \$1 200 (Vehicle) + \$1 000 (Electric oven) + \$497 (Cheese) + \$9.97 (Pizza Basis) + \$297.6 (Salami) + \$38.8 (Olives) + \$15 (Customer) = \$0 (Liabilities) + \$10 000 (Owes the owner) + \$15 (Sales) – \$6.63 (Cost of goods sold) – \$1 (Delivery expense).

$$10\ 007.37 = 10\ 007.37$$

The company's profit equals the total Profit & Loss amount. Taras's Company earns \$7.37. Note that the company's circle increased by \$7.37. The total Assets amount is 10 007.37, the total Liabilities amount is 10 007.37. If the circle increased, then the company's Assets and the company's Liabilities are increased. In other words, the company's cost or value increases. But, remember that the Liabilities divided to Owner's Equity and other Liabilities. It is very good if the Owner's Equity increases and it is not very good if other Liabilities increase. In the first case, the company owes the money to the owner, in the second case, the company owes the money to other(s).

In this example, the Customer hasn't paid for the pizza yet. When the Customer pays for the pizza, the following transaction should be recorded:

Cash		Customer	
Debit	Credit	Debit	Credit
\$15			\$15

1. Basic concepts

The debit part for the Cash account is used, because the company's cash is increased (it is "good" for the company). The credit part for the Customer account is used, because the Customer has decreased his debt to the company (it is "bad" for the company, because the Customer's debt is decreased).

If we look at the Customer account, we can see the following:

Customer	
Debit	Credit
\$15	
	\$15

We can see that the Customer amount is zero (\$15 (Debit) – \$15 (Credit)). In other words, the Customer pays for the items, and has no debt to our company.

In real life, we receive the money for the pizza the same time when we deliver it. In this case, the payment transaction is included in the sales operation. But, when the company sells items to other companies, the payment occurs during the payment period. It can be 2 weeks, 1 month, or even 3 months after the items are delivered, in other words, during any time period.

Remember that the revenues are recognized as soon as a product has been sold, regardless of when the money is actually received. It is the **accrual basis of accounting** the type of revenue recognition principle. Note that in our example, we calculate the revenue before the payment operation. It doesn't matter when the payment occurs, because we assume that the money already belongs to us.

Chart of Accounts

A **chart of accounts** is a listing of the account names that a company has identified.

You can ask how many accounts there can exist. Each company has its own set of accounts. An account contains information about the amount of money that is used. One company sells books and has the Books account, another company sells cars and has individual accounts for each car brand (Fiat, ZAZ, Daewoo, Mercedes, etc). For convenience, the smart accountants who lived several centuries ago classified all accounts by groups.

The main groups of accounts are:

1. Assets:
 - o Current asset: Cash, Accounts receivable, Inventory
 - o Property, Plant, and Equipment: Land, Buildings, Equipment, Vehicles
2. Liabilities:
 - o Current liabilities: Accounts payable
3. Owner's equity
4. Profit & Loss: Operating revenues (Sales), Cost of goods sold, Expenses

1. Basic concepts

The accounts used in this training belong to the following groups:

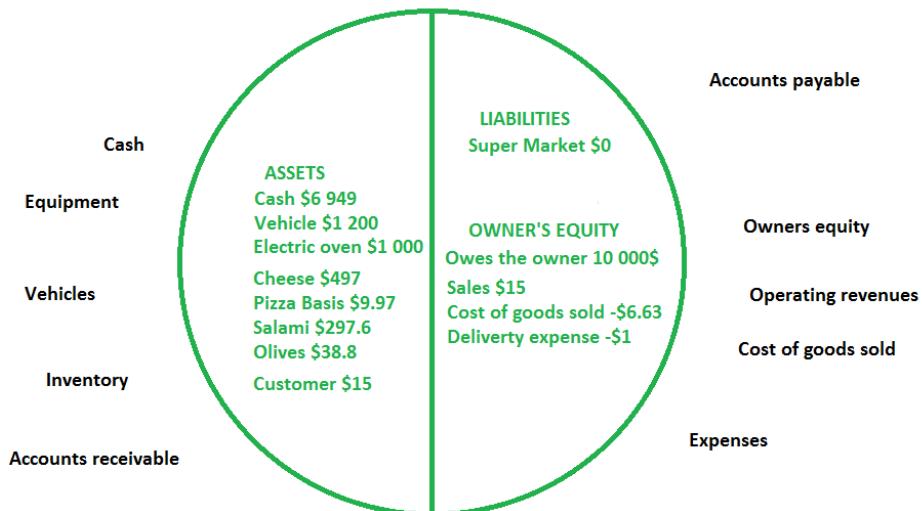


Figure 1.7 Account groups

In the next training lesson, we will review the chart of accounts in Dynamics AX.

Financial Statements – Balance Sheet, Income Statement, and Cash Flow Statement

When we purchase or sell, we used the circle to analyze the current financial situation in the company. The circle answers the questions how many assets or liabilities there are in the company for the current moment. In other word, the circle is a snapshot of the company's financials. In accounting, instead of the circle the Balance sheet is used.

The accounting balance sheet is one of the major financial statements used by accountants and business owners. The balance sheet presents a company's financial position at the end of a specified date. Because the balance sheet informs the reader of a company's financial position as of one moment in time, it allows someone—like a creditor—to see what a company owns as well as what it owes to other parties as of the date indicated in the heading. This is valuable information to the banker who wants to determine whether or not a company qualifies for additional credit or loans. Others who would be interested in the balance sheet include current investors, potential investors, company management, suppliers, some customers, competitors, government agencies, and labor unions. [Example of a Balance Sheet](#).

We already know how to answer the questions whether our company is profitable or not. To know this, it is required to sum the amounts of all profit and loss accounts. In our example, we have the Sales, Cost of goods sold, and Delivery expense profit and loss accounts. Accountants use the Income statement to see whether a company is profitable. The income statement is sometimes referred to as the profit and loss statement (P&L).

1. Basic concepts

The income statement is important because it shows the profitability of a company during the time interval specified in its heading. The period of time that the statement covers is chosen by the business and will vary (for the month, quarter, year). Keep in mind that the income statement shows revenues, expenses, gains, and losses; it does not show cash receipts (money you receive) nor cash disbursements (money you pay out).

People pay attention to the profitability of a company for many reasons. For example, if a company was not able to operate profitably—the bottom line of the income statement indicates a net loss—a banker/lender/creditor may be hesitant to extend additional credit to the company. On the other hand, a company that has operated profitably—the bottom line of the income statement indicates a net income—demonstrated its ability to use borrowed and invested funds in a successful manner. A company's ability to operate profitably is important to current lenders and investors, potential lenders and investors, company management, competitors, government agencies, labor unions, and others.

Profit and loss contains the following elements: Revenues and Gains, and Expenses and Losses. [Example of Income statement.](#)

Note that we prompt about the revenue when a product has been sold, regardless of when the money is actually received. But the Customer could not pay for our pizza for some reason. Similarly, the expenses reported on the income statement might not have been paid. You could review the balance sheet changes to determine the facts, but the Cash flow statement has already integrated all that information. As a result, savvy business people and investors utilize this important financial statement. We don't analyze this statement.

The Balance sheet, Income statement, and Cash flow statement are the major financial statements used by accountants and business owners.

To know more about a Financial statement, I recommend you these articles: [Balance sheet](#), [Income statement](#), [Cash flow statement](#).

Accounting Cycle

We already know that some company operations (purchase, sales) should be recorded as transactions (that move amounts from one accounts to others). In this paragraph, we will learn all the steps from the business operation till the financial statement. This flow is called the accounting cycle. This is what an accountant does.

The accounting cycle is the sequence of procedures used to keep track of what has happened in the business and to report the financial effect of those things. The following is a depiction of the steps in the accounting cycle and a brief description of each.

1. **Some operation occurs.** For example a purchase.
2. **Business paper or computer record.** Usually, the accounting department is not where the transaction takes place. It is necessary that a paper or a computer record be prepared at the point-of-sale so that the accounting department is aware that a transaction occurred (for different operations different transactions occurred).

3. **Analyze.** The personnel in accounting analyze the business papers. The goal is to write correct transactions. It is necessary to determine the following:
 - “What happened?” What kind of business took place? Did we charge our customer for something, get money for something, buy something, etc.?
 - “What accounts will change?” Asset, Liability, Owner’s Equity.
 - “How will they change?” Will the accounts increase or decrease?
 - “Do they get a Debit or Credit?” Debits and Credits were discussed in detail in the previous paragraph. Debit is “good” for the company, Credit is “bad” for the company.
4. **Journalize.** The main journal for an accountant is the General Journal. General Journal is used to write transactions to it. In this step, the accountant writes transactions to the General Journal.
5. **Post.** Post the journal (or posting) is the act of transferring the information in the journal to the appropriate accounts. In the previous step, the Accountant wrote the transactions in the journal, and in this step, the transactions are posted – amounts are transferred from one account to another.
6. **Trial Balance.** A trial balance is a list of all accounts and their balances. It is a written view of the financial circle. The accountant checks the accounting equation: Assets = Liabilities + Owner’s Equity.
7. **Adjustments.** Generally speaking, adjusting entries are made at the end of a period to ensure that Revenues are reported when earned and Expenses are reported when incurred. We will study this step in detail in the future lesson.
8. **Adjusted Trail Balance.** The accountant checks the accounting equation after adjustments.
9. **Prepare Financial Statements.** Financial Statements are used to report the financial position and results of operating a business. They are the Balance Sheet, Income Statement, and Cash Flow Statement.
10. **Close.** The accountant prepares closing entries for the temporary Owner’s Equity accounts such as the Revenue and Expense accounts. The closing entries are recorded after the financial statements for the accounting year are prepared. The reason for the closing entries is to ensure that each revenue and expense account will begin the next accounting year with a zero balance.
11. **Post-closing Trial Balance.** The accountant checks the accounting equitation after the close.

Summary

Let's recall what have been studied in this training lesson:

- Accounting equation: Assets = Liabilities + Owner's Equity
- Double entry system: Debit = Credit
- Purchase process analyses
- Sales process analyses. Accrual basis of accounting
- Chart of accounts
- Financial statements – Balance sheet, Income statement, Cash flow statement
- Accounting cycle

In the next training lesson, we will learn what the General ledger is.

2. General ledger

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2. General ledger

Demo Data

The Microsoft demo data for DAX 2012 is used in this tutorial. You can find more information about demo data [here](#).

In this tutorial we work with the USMF (Contoso Entertainment System USA) company.

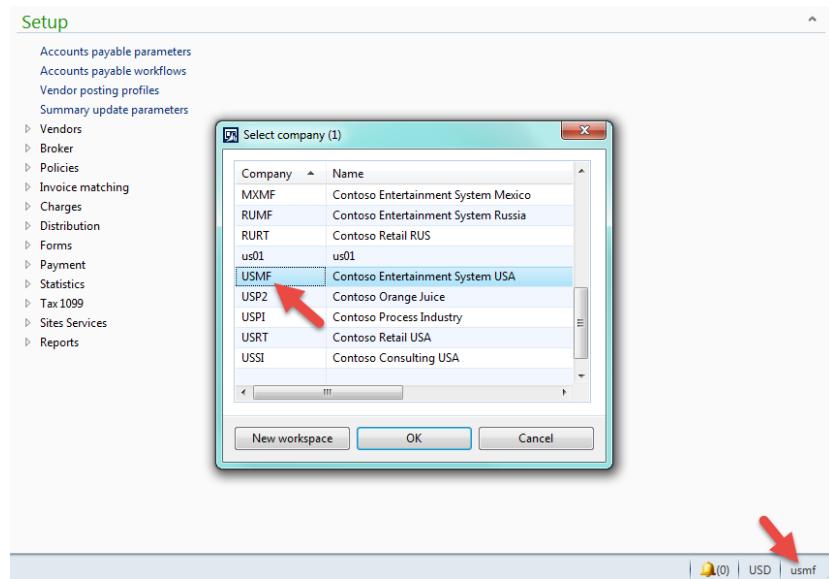


Figure 2.1 Select company form

Introduction

The financial module in Dynamics AX is called the General ledger. In this training lesson we will learn the main entities of the General ledger module: Chart of accounts, Account structures, Transactions, General journal, and Reporting.

How did the Accountant record operations in the past when there were no computers? According to the accounting cycle, the Accountant receives a document and then analyzes what account should be used for this operation from the Chart of accounts. Then, he records the transactions in the General journal. Then, the Accountant “posts” the transactions by adding the amounts to the debit or credit parts of the account in the General ledger. So, the Accountant uses four documents: an operation document, the Chart of Accounts, the General journal, and the General ledger.

The Chart of accounts is a list of accounts, the General journal is used to record transactions, the General ledger contains the results of posting.

The balance sheet and the income statement are built on basis of the general ledger. The general ledger is built up by posting transactions recorded in the general journal, purchase order, sales order, production order, etc. The general ledger should include the date, description, and the balance or the total amount for each account. It is usually divided into at least seven main categories. These categories generally include the assets, liabilities, owner's equity, revenue, expenses, gains, and losses. The general

2. General ledger

ledger should always be in balance, thus maintaining the accounting equation: Assets = Liabilities + Owner's Equity.

In Microsoft Dynamics AX, the General ledger is the chart of accounts plus the account transaction or, in other words, the place where all information about the accounts and their transactions is stored. That is why the General ledger name is given to the entire module in Microsoft Dynamics AX.

Note that the account transactions are often called general ledger transactions, and the accounts are usually called general ledger accounts.

Chart of Accounts

A **chart of accounts** is a listing of account names that a company has identified. The Chart of accounts is a list of accounts that are used to track the company activity in money equivalent.

In Dynamics AX, a user can create as many chart of accounts as desired. But only one chart of account can be activated per company.

Let's review the Chart of accounts in our demo data. Go to **General ledger > Setup > Chart of accounts > Chart of accounts**. The **Chart of accounts** form opens.

Main account	Name	Main account type	Main account category
110110	Bank Account - USD	Asset	CASH
110115	Bank Account - CAD	Asset	CASH
110120	Bank Account - CNY	Asset	CASH
110130	Bank Account - EUR	Asset	CASH
110140	Bank Account - DKK	Asset	CASH
110150	Bank Account - GBP	Asset	CASH
110160	Bank Account - Payroll	Asset	CASH
110180	Petty Cash	Asset	CASH
112000	Safe drop	Asset	CASH
112010	Bank drop	Asset	CASH
112100	Deposits - Cash	Asset	CASH

Figure 2.2 Chart of accounts form

The form contains the chart of account name and the list of related main accounts.

The user can create a new chart of accounts and create new main accounts or modify existing chart of accounts.

Note that only one chart of accounts can be used with one company. The chart of accounts used by the company is set up here: **General ledger > Setup > Ledger**. The **Ledger** form opens.

2. General ledger

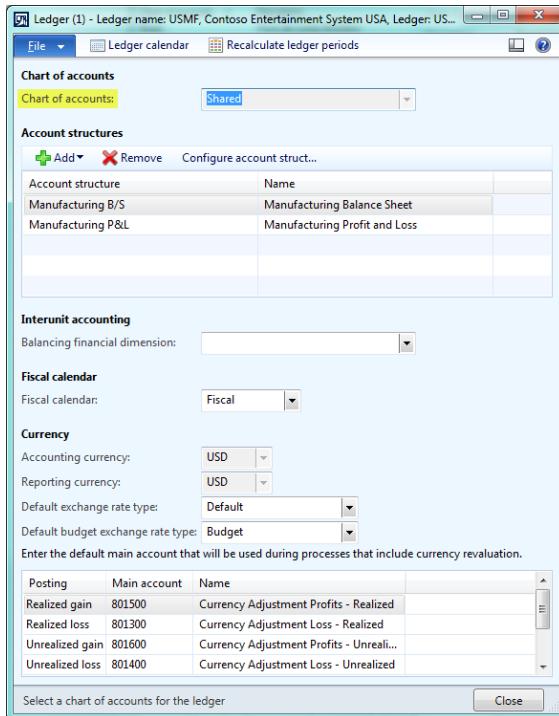


Figure 2.3 Ledger form, Chart of accounts

When the Chart of accounts is specified, the list of accounts can be reviewed here: **General ledger > Common > Main accounts**.

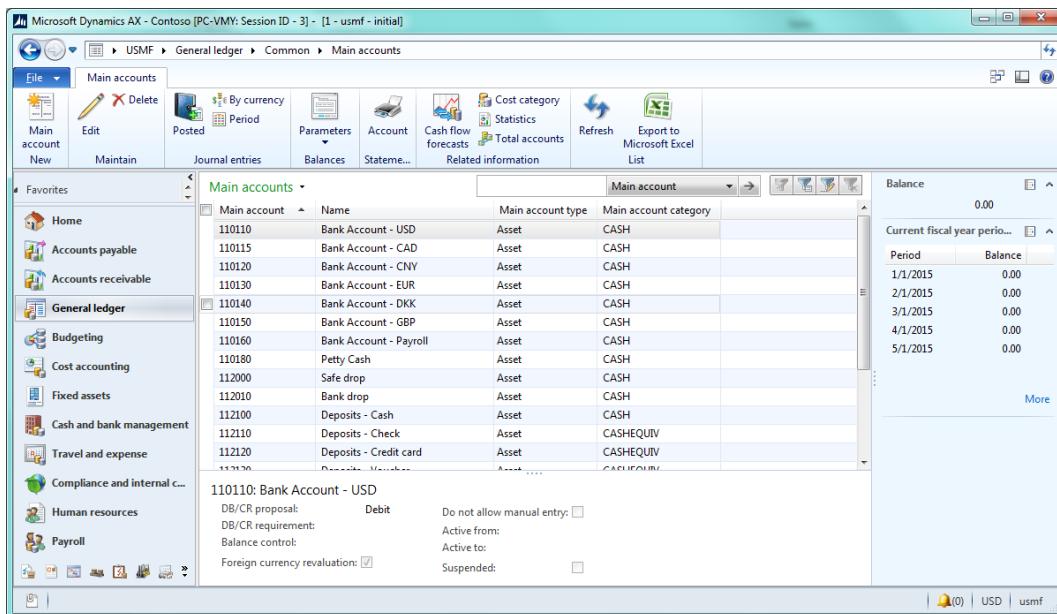


Figure 2.4 Main accounts list page

2. General ledger

From this form, the user can review transactions posted to each main account by clicking the **Journal entries > Posted** button.

Note that total accounts are available in the **Main accounts** form. The Total account contains the sum of all accounts that are assigned to it. The total accounts are not used in a transaction and do not influence the accounting equation. They are used for reporting. For example the 119999 (TOTAL CASH & CASH EQUIVALENTS) account shows the total amount for the accounts from 110110 to 112160 (select the total account and click the **Period** button to verify this) – it is not necessary to manually sum all accounts to know how much cash the company has.

We will use some of these accounts when analyzing the purchase and sales transactions in Microsoft Dynamics AX.

Account Structure

Sometimes it is required to record some additional information when a transaction is recorded to the general ledger account.

For example, you have two sales teams in New York and Kyiv. Both teams work for one company and enter sales orders into the system. You need to know how many sales orders are created by each team. When a sales order is invoiced, general ledger transactions are generated:

Debit	Credit	Debit	Credit
Customer		Sales	
\$\$			\$\$

Debit	Credit	Debit	Credit
Inventory		Cost of goods sold	
	\$\$	\$\$	

The transactions for some amount are recorded to the general ledger account. Both teams generate transactions for this ledger account during the sale. If we look at the transactions for this ledger account, we can see something like this:

Customer	
Debit	Credit
\$\$	
\$\$	
\$\$	

As you can see it is not clear which team entered transactions to the ledger account. If we add the sales team information to the ledger transactions, we can identify which transaction is generated by the New York and Kyiv teams.

This additional information is called financial dimension. If we create the Sales team financial dimension, ledger account have the following view:

Customer	
Debit	Credit
\$\$ (New Yourk)	
\$\$ (Kyiv)	
\$\$ (New York)	

Account structure consists of the main account (it is mandatory) and can include financial dimensions.

2. General ledger

Financial dimensions are stored here: **General ledger > Setup > Financial dimensions > Financial dimensions**. The **Financial dimensions** form opens.

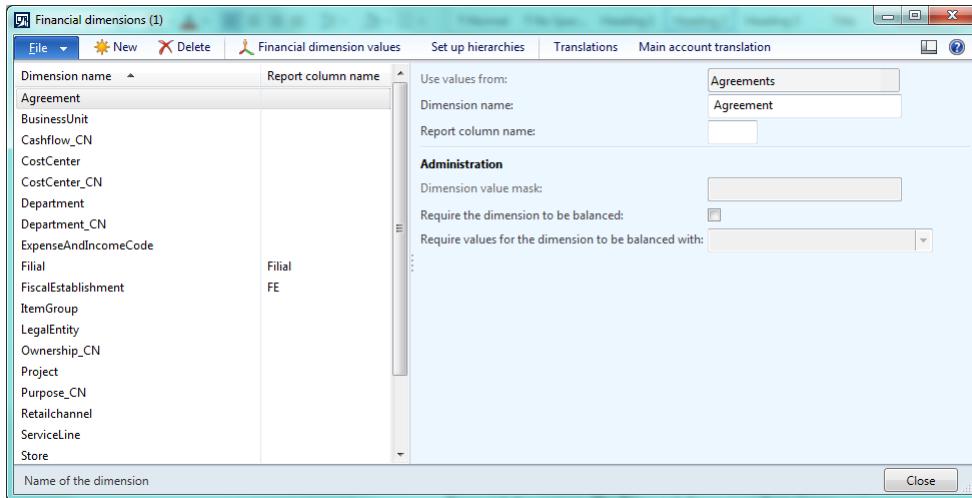


Figure 2.5 Financial dimensions

Financial dimensions are assigned to account structure here: **General ledger > Setup > Chart of accounts > Configure account structures**. The **Configure account structures** form opens.

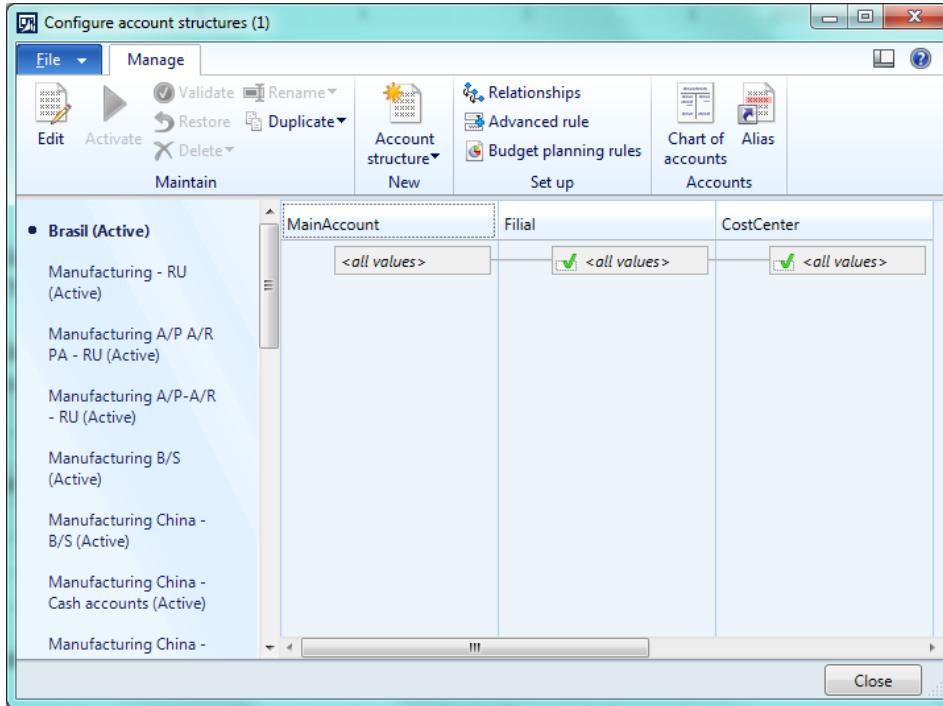


Figure 2.6 Configure account structures

For example, in the picture above the Brazil account structure consist of the main account and two financial dimensions.

2. General ledger

Financial dimension for the ledger transaction can be specified manually when operations is recorded with the help of the General journal.

Financial dimensions can be set up on a lot of Dynamics AX entities: Customer, Vendor, Purchase order, Purchase line, Sales order, Sales line, etc. and are transferred to the general ledger transactions automatically during posting.

For example: **Accounts payable > Common > Vendors > All vendors** > double-click any vendor > the **Vendors** form opens > **Financial dimensions** fast tab.

Several account structures can be used in one company. For example, it is possible to set up that one ledger account has the Sales team financial dimension but others do not.

Company account structures are specified here: **General ledger > Setup > Ledger > Account structures** field group.

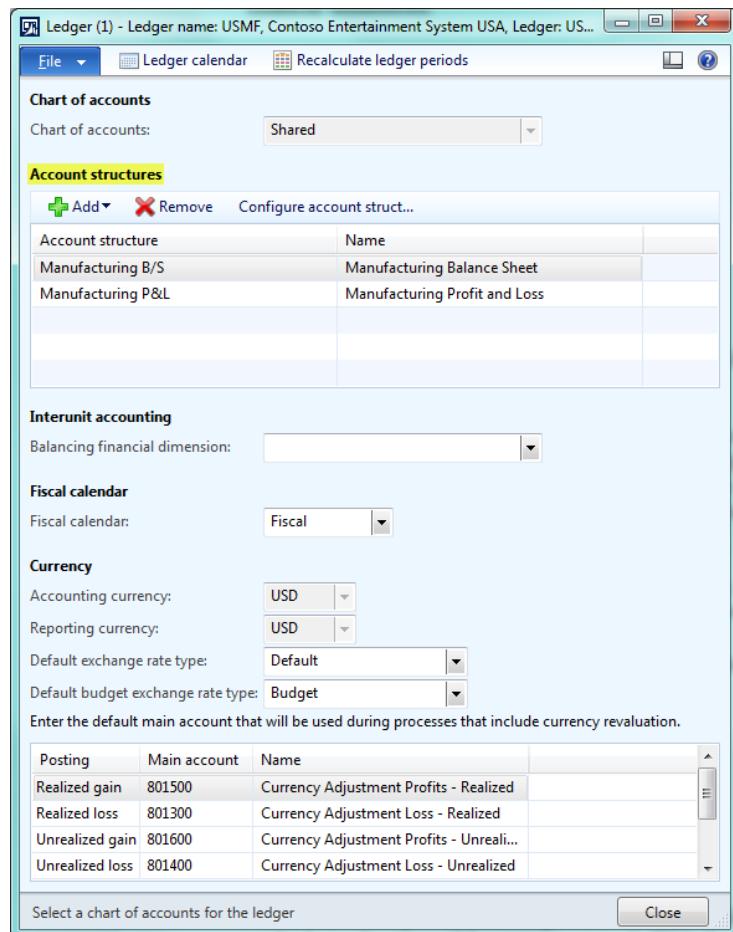


Figure 2.7 Ledger form, Account structures

In our demo data, we have two different account structures for the balance sheet and profit and loss accounts.

2. General ledger

Let's go to the **Configure account structures** form and review the Manufacturing B/S and Manufacturing P&L accounts structures: **General ledger > Setup > Chart of accounts > Configure account structures**.

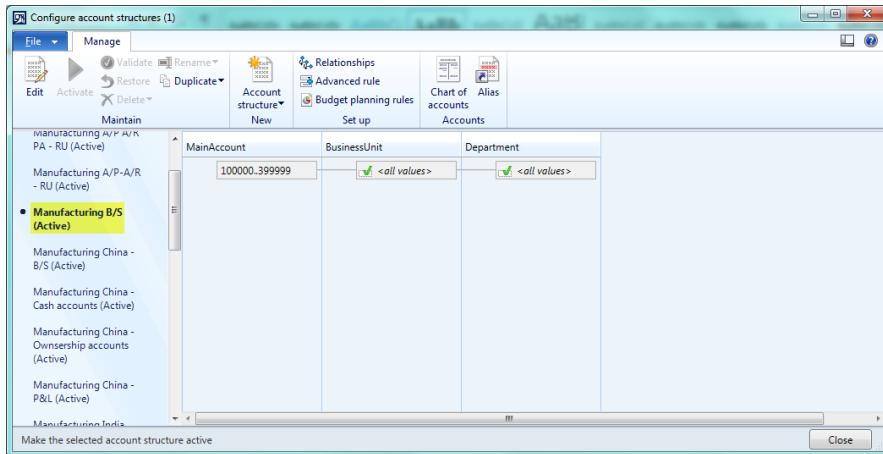


Figure 2.8 Configure account structures, Balance sheet accounts

Ledger accounts from 100000 to 399999 uses two financial dimensions: Business unit and Department.

If we look at the Manufacturing P&L account structure, we see that accounts from 400000 to 999999 use 4 financial dimensions: Business unit, Department, Cost center, and Item group.

As it was mentioned above, the financial dimensions can be set up on a lot of Dynamics AX entities.

Let's look what dimensions can be specified per vendor. **Accounts payable > Common > Vendors > All vendors > double-click any vendor > the Vendors form opens > Financial dimensions fast tab**.

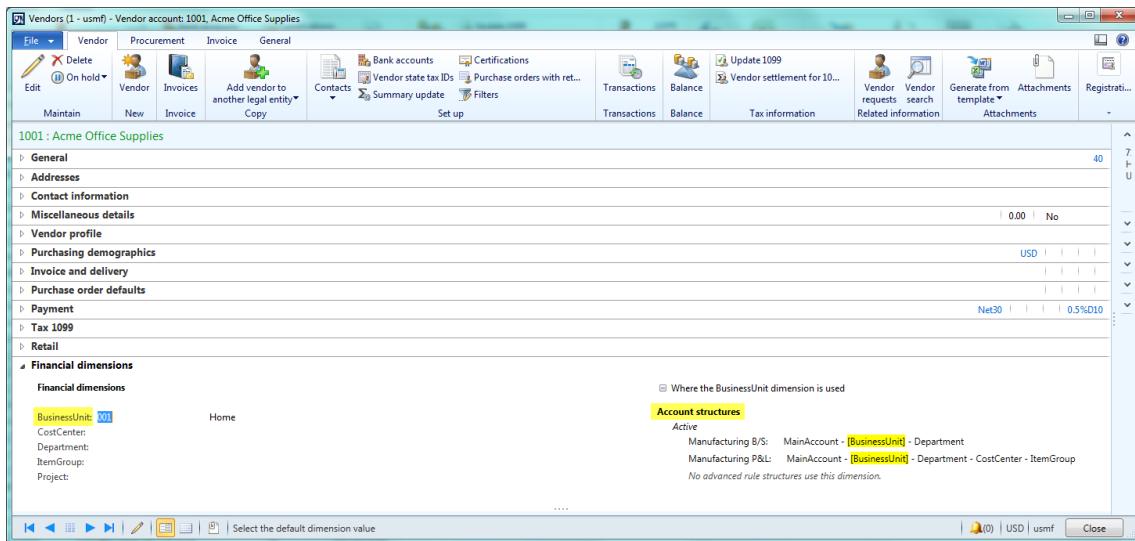


Figure 2.9 Vendor financial dimensions

As we can see, the Vendor financial dimensions consist all dimensions from all company accounts structures (specified in the Ledger form).

2. General ledger

When we click the financial dimension name, the **Account structures** field group shows which account structure(s) contains this dimension.

Financial dimensions values specified for this vendor are used as ledger and subledger transactions dimensions when some operation with this vendor (for example purchase) is recorded to the general ledger and subledger.

General Journal

Remember in the previous training lesson we have studied the Accounting cycle. The accounting cycle shows the steps of the accountant work. With the help of the purchase order and the posting profiles, some steps are performed automatically to simplify the accountant's work. We will look at the purchase order later in the next lesson.

But, all processes that influence the financial situation of the company can be recorded with the help of the General journal. The General journal is the most basic of journals. Since Microsoft Dynamics AX has the **Purchase order**, **Sales order**, **Production order**, and other forms, the general journal is not used so frequently.

The following operations are usually recorded with the help of the General journal: bad debts, sale of an asset, write-off, etc.

Let's assume that the company decides to purchase **10 subwoofers** (M0013 Subwoofer) from the **US-104** (Fabrikam Supplier) vendor for \$499.90.

Let's record the purchase operation with the help of the general journal and go through the accounting cycle steps (open the "Accounting cycle" paragraph from the first lesson to recall).

1. Some operation occurs

- In our case the first step is when the Purchase Manager initiates purchasing the items and signs the Invoice document for \$499.90.

2. Business paper or computer record

- Then the Purchase Manager brings the Invoice document to the accounting department.

3. Analyze.

The accounting personnel analyze the business papers. It is necessary to determine the following:

- "What happened?"
 - Answer – The company buys items.
- "What accounts will change?"
 - Answer – Inventory (Asset) and Accounts payable (Liabilities). The accountant decides to use the 140100 account as the television receipts and the 200100 account as the accounts payable.
- "How will they change?"
 - Answer – Inventory increases and the Accounts payable increase as well.
- "Do they get a Debit or Credit?"
 - Answer – If the assets increase, the debit part is used, if the liabilities increase, the credit part is used. Debit is "good" for the company, Credit is "bad" for the company.

2. General ledger

4. Journalize

- The Accountant writes the following transactions to the general journal:

140100 (Inventory)		200100 (Accounts payable)	
Debit	Credit	Debit	Credit
\$499.90			\$499.90

5. Post

- The Accountant posts the general journal.

6. Trial Balance

- The Accountant reviews general ledger transactions and checks the accounting equation.

All the other steps (from the “Accounting cycle” paragraph) are performed at the end of the period or the fiscal year and will be discussed later in this training.

Let’s journalize and post this business operation in Dynamics AX with the help of the General journal and analyze the results.

To create a new journal, take the following steps:

- Go to **General ledger > Journals > General journal**. The **General journal** form opens. Create a new journal by clicking Ctrl +N.
- Select “*GenJrn*” in the **Name** field.

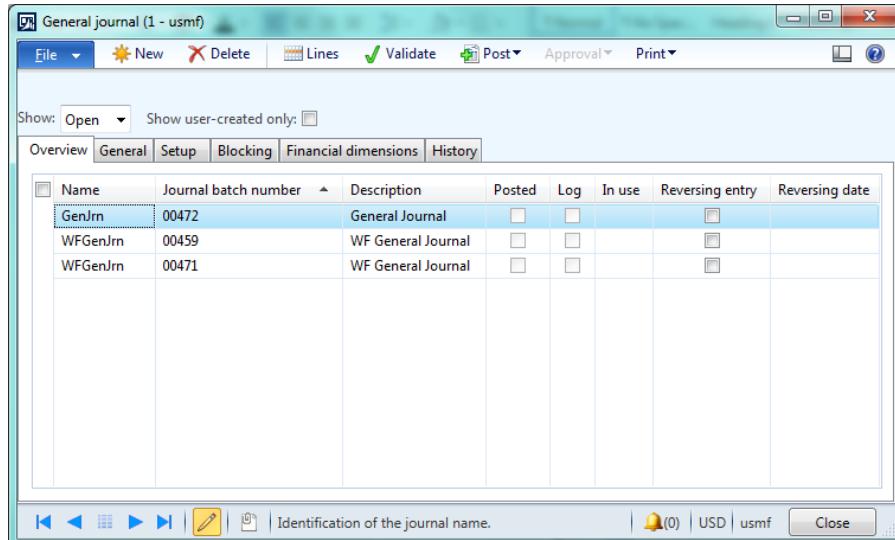


Figure 2.10 General journal form

- Click the **Lines** button. The **Journal voucher** form opens.
- Create a new line. Select the *140100 (Raw Materials Inventory)* account in the **Account** field.

2. General ledger

5. Fill in \$499.90 in the **Debit** field. Save the line.
6. Create a new line. Select the **200100 (Accounts Payable - Domestic)** account in the **Account** field. The “Value 200100 is not allowed for manual entry. Enter another value.” message appears.
 - o Each account in the Dynamics AX has the setup that enables or disables posting with the help of a general journal. Enable journal posting for the 200100 account: Go to **General ledger > Common > Main accounts** > Find the 200100 account > **Edit** button > **General** fast tab > clear the **Do not allow manual entry** check box.
7. Return to the **Journal voucher** form and select the 200100 account in the **Account** field again.
8. Fill in \$499.90 in the **Credit** field. Save the line.

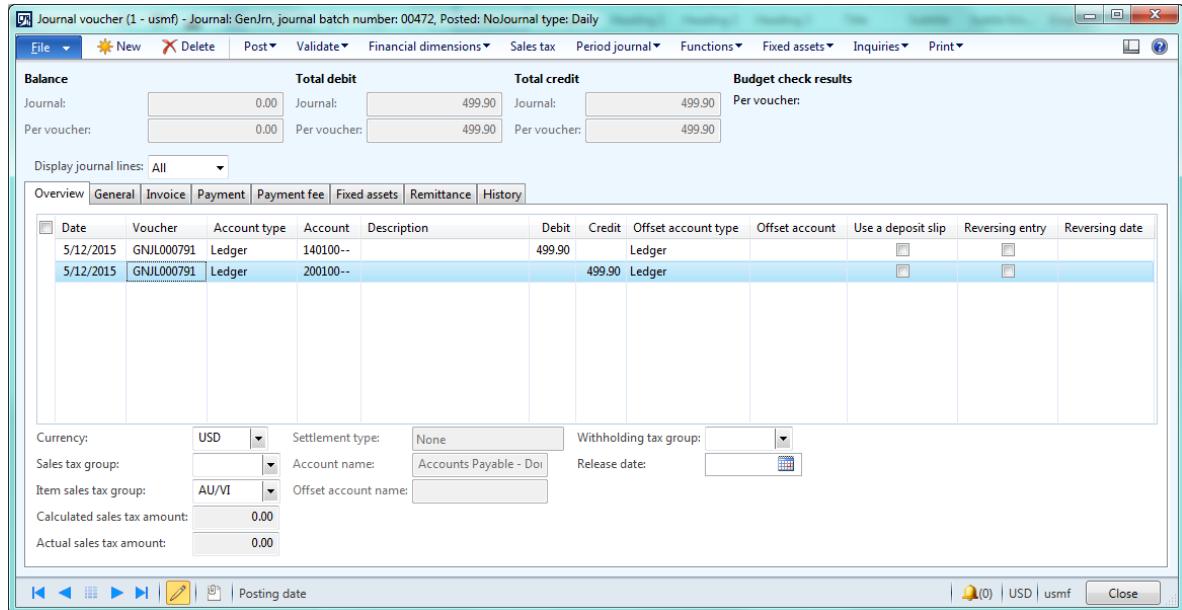


Figure 2.11 Journal voucher form

9. Note that for each operation the Debit part should be equal to the Credit part. One operation consists of two journal lines with identical voucher number.
10. Click the **Validate > Validate** button. The “Journal is Ok” message appears.
11. It is also possible to record the same transactions in one line with the help of the offset account. The amount will be recorded to the offset account in the differ part. For example, if the amount is recorded to the credit part for the account, then for the offset account, the amount will be recorded to the debit part. In other words, we can write the same transactions in the following way:

2. General ledger

The screenshot shows the 'Journal voucher' window. At the top, it displays 'Journal voucher (1 - usmf) - Journal: GenJrn, journal batch number: 00472, Posted: NoJournal type: Daily'. Below this are various menu options like File, New, Delete, Post, Validate, etc. A 'Balance' section shows 'Total debit' and 'Total credit' fields. A 'Budget check results' section shows 'Per voucher:'. A 'Display journal lines' dropdown is set to 'All'. Below these are tabs for Overview, General, Invoice, Payment, Payment fee, Fixed assets, Remittance, and History. The main grid shows a single row of data:

Date	Voucher	Account type	Account	Description	Debit	Credit	Offset account type	Offset account	Use a deposit slip	Reversing entry	Reversing date
5/12/2015	GNJL000790	Ledger	140100--		499.90		Ledger	200100--			

Below the grid are several input fields: 'Currency' (USD), 'Settlement type' (None), 'Withholding tax group' (dropdown), 'Release date' (calendar), 'Sales tax group' (Raw Materials Inventory), 'Item sales tax group' (AU/VI), 'Offset account name' (Accounts Payable - D01), 'Calculated sales tax amount' (0.00), and 'Actual sales tax amount' (0.00). At the bottom are navigation icons (Back, Forward, Search, etc.) and status indicators.

Figure 2.12 Journal voucher form

12. Posting a journal is the act of transferring the journal information (i.e. the amount) to the appropriate accounts. To do this, click the **Post > Post** button. The “Number of vouchers posted to the journal: 1” message appears. It means that the journal is posted successfully.

The accountant checks the posting results by reviewing general ledger transactions and running the Trial balance.

General Ledger Transactions

Let's review the general ledger transactions generated by ledger journal posting.

In the **Journal voucher** form, click the **Inquiries > Voucher** button. The **Voucher transactions** form opens. This form contains the general ledger transactions.

The screenshot shows the 'Voucher transactions' window. At the top, it displays 'Voucher transactions (1 - usmf) - Journal number: 013849, 5/12/2015'. Below this are various menu options like File, Subledger journal, Transaction origin, Transactions, Audit trail, etc. A 'General' tab is selected. The main grid shows two rows of data:

Journal number	Voucher	Date	Year closed	Ledger account	Currency	Amount in transaction currency	Amount	Amount in reporting currency	Posting layer	
013849	GNJL000791	5/12/2015		140100--	USD	499.90	499.90	499.90	Current	
013849	GNJL000791	5/12/2015		200100--	USD		-499.90	499.90	-499.90	Current

Below the grid are fields for 'Description' and 'Account name' (Raw Materials Inventory). The bottom bar includes navigation icons (Back, Forward, Search, etc.) and status indicators.

Figure 2.13 Voucher transactions form

2. General ledger

We can see that the ledger transactions have the same view as the account was planned and are similar to the journal lines (from the **Journal voucher** form). But, for example, if taxes are applied to the journal lines, additional ledger transactions for the tax ledger account are generated. As a result, the number of lines in the **Journal voucher** form and the **Voucher transactions** form is differ.

Let's check what transactions are recorded to the 200100 (Accounts Payable - Domestic) account and the account balance.

Open the **Main accounts** list page (**General ledger > Common > Main accounts**) and find the 200100 account.

Click the **Journal entries > Posted** button, the **Account number** form opens.

The screenshot shows the 'Account number' form for account 200100. The main area is a grid of transaction details:

Journal number	Voucher	Date	Year closed	Type	Currency	Amount in transaction currency	Amount	Amount in reporting currency
012234	PIV-110000530	12/31/2012		Operating	USD	-66.00	66.00	-66.00
012234	PIV-110000530	12/31/2012		Operating	USD	-1,171.00	1,171.00	-1,171.00
012234	PIV-110000530	12/31/2012		Operating	USD	-422.00	422.00	-422.00
012234	PIV-110000530	12/31/2012		Operating	USD	-654.00	654.00	-654.00
012234	PIV-110000530	12/31/2012		Operating	USD	-114.00	114.00	-114.00
012234	PIV-110000530	12/31/2012		Operating	USD	-1,076.00	1,076.00	-1,076.00
012234	PIV-110000530	12/31/2012		Operating	USD	-749.00	749.00	-749.00
012234	PIV-110000530	12/31/2012		Operating	USD	-86.00	86.00	-86.00
012234	PIV-110000530	12/31/2012		Operating	USD	-48.00	48.00	-48.00
012234	PIV-110000530	12/31/2012		Operating	USD	-134.00	134.00	-134.00
013848	PIV-110000541	4/2/2015		Operating	USD	-499.90	499.90	-499.90
013849	GNJL000791	5/12/2015		Operating	USD	-499.90	499.90	-499.90

Below the grid, there are fields for 'Ledger account' (200100), 'Account name' (Accounts Payable - Domestic), and 'Description'. At the bottom, there are navigation buttons and a note: 'The transaction amount, in the accounting currency'.

Figure 2.14 Account transactions form

Our demo data already has a lot of transactions on this account. But, according to the date, only one transaction was generated for this account during the journal posting process.

From this form we can also review all transactions associated with the voucher. To do this, click the **Voucher** button. The **Voucher transactions** form opens with the same general ledger transactions.

The total amount (or the account balance) is the sum of all transaction amounts. To view the account balance per periods, click the **Journal entries > Period** button on the **Main accounts** list page.

2. General ledger

Period name	Period	Period code	Balance	Percent	Accumulated
Period 0	1/1/2015	Opening	0.00	0.00	0.00
Period 1	1/1/2015	Operating	0.00	0.00	0.00
Period 2	2/1/2015	Operating	0.00	0.00	0.00
Period 3	3/1/2015	Operating	0.00	0.00	0.00
Period 4	4/1/2015	Operating	-499.90	50.00	-499.90
Period 5	5/1/2015	Operating	-499.90	50.00	-999.80
Period 6	6/1/2015	Operating	0.00	0.00	-999.80
Period 7	7/1/2015	Operating	0.00	0.00	-999.80
Period 8	8/1/2015	Operating	0.00	0.00	-999.80
Period 9	9/1/2015	Operating	0.00	0.00	-999.80
Period 10	10/1/2015	Operating	0.00	0.00	-999.80
Period 11	11/1/2015	Operating	0.00	0.00	-999.80
Period 12	12/1/2015	Operating	0.00	0.00	-999.80
Period 13	12/31/2015	Closing	0.00	0.00	-999.80

Debit in period: 0.00 Debit accumulated: 0.00
Credit in the period: 0.00 Credit accumulated: 0.00

Figure 2.15 Period balances form

We can see that the balance is increased in the Period 5. It means that during this period the Accounts payable is increased by \$499.9.

To review all accounts balances, the Trial balance is required. In Dynamics AX it is easy to review the trial balance.

Go to **General ledger > Common > Trail balance**. The **Trial balance** list page opens.

In my cast the list page has the following view:

Ledger account	Name	Opening balance	Debit	Credit	Closing balance
140100	Raw Materials Inventory	0.00	1,499.70	499.90	999.80
200100	Accounts Payable - Domestic	0.00	0.00	999.80	-999.80
200140	Accrued Purchases - Received Not Invoi...	0.00	499.90	499.90	0.00
600180	Raw Materials Receipts	0.00	0.00	0.00	0.00

Figure 2.16 Trial balance list page

This form contains only accounts that have balances. The user can review all account transactions and account balance per periods.

2. General ledger

The Accountant uses the **Trial balance** form to check the accounting equation: Assets = Liabilities + Owner's Equity.

As you can see:

- Debit part is equal to Credit part. (In Dynamics AX, it is possible to post business operation to general ledger only when Debit is equal to Credit.)
- Assets = Liabilities + Owner's Equity. The "Raw materials" account is Asset and the "Accounts Payable – Domestic" account is Liability, so accounting equitation is: \$499.90 = \$499.90 + 0.

Sub Ledgers

What have we missed when recording the purchase with the help of the general journal? We haven't entered the information about the vendor and the item.

If we look at the ledger account and its transactions, we can't answer the question what item and from whom was purchased. For example, we can only find that the account 200100 has \$499.90 in the credit part, which means that the company owes \$499.90 to some vendor. The ledger transactions don't have the information about the vendor, so it is impossible to find out from who the items were purchased.

It is possible to add a Vendor financial dimension to the account structure and fill in this dimension when entering the journal line. In this case each ledger transaction contains information about vendor.

But it is not convenient to filter ledger transactions by dimension and review the balance for certain dimension value. It is better to have the Vendor entity that contains all vendor transactions and balance.

For this purposes, the Accountant uses sub ledgers.

There are several sub ledgers in Dynamics AX:

- Vendor ledger
- Customer ledger
- Item ledger
- Sales tax ledger
- Bank ledger
- Fixed assets ledger

Vendor Ledger

The **Vendor ledger** contains the vendor accounts instead of ledger accounts. In other words, the "chart of accounts" for the Vendor ledger is a list of vendors. The vendor ledger contains a separate account for each vendor and tracks vendor balances separately.

When the company purchases items from the vendor, a vendor transaction is created. This transaction contains the vendor information and the amount to be paid.

2. General ledger

Each vendor account has a corresponding ledger account in the general ledger. This ledger account is called a controlling account.

The vendor accounts are summed and compared with their controlling account to ensure accuracy as part of the trial balance preparation process.

The Controlling account is a ledger account that is assigned to a vendor account with the help of a posting profile. Usually one controlling account is used for all vendors. So, this controlling account contains total vendors balances and is called the Accounts payable account.

The Vendor posting profile is specified here: **Accounts payable > Setup > Accounts payable parameters > Ledger and sales tax tab > the Posting field group > the Posting profile field.**

The Vendor posting profile is set up here: **Accounts payable > Setup > Vendor posting profiles.**

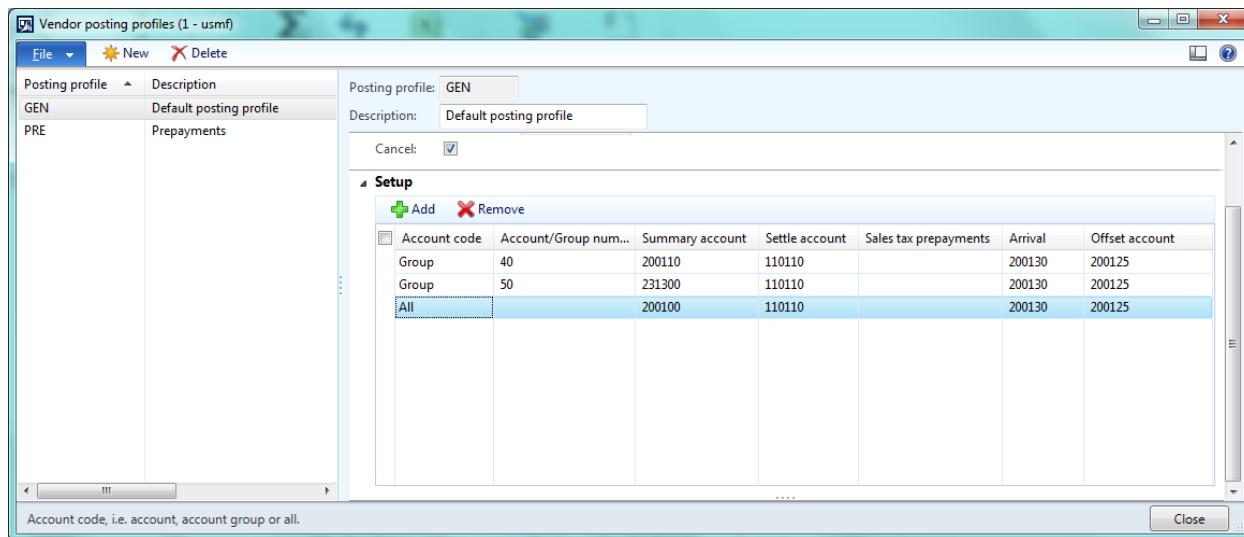


Figure 2.17 Trial balance list page

In our case, all vendor accounts, except Intercompany vendors (the “50” vendor group) and Other vendors (the “40” vendor group) have the 211100 controlling account.

The Vendor ledger is accessible from here: **Accounts payable > Common > Vendors > All vendors.**

2. General ledger

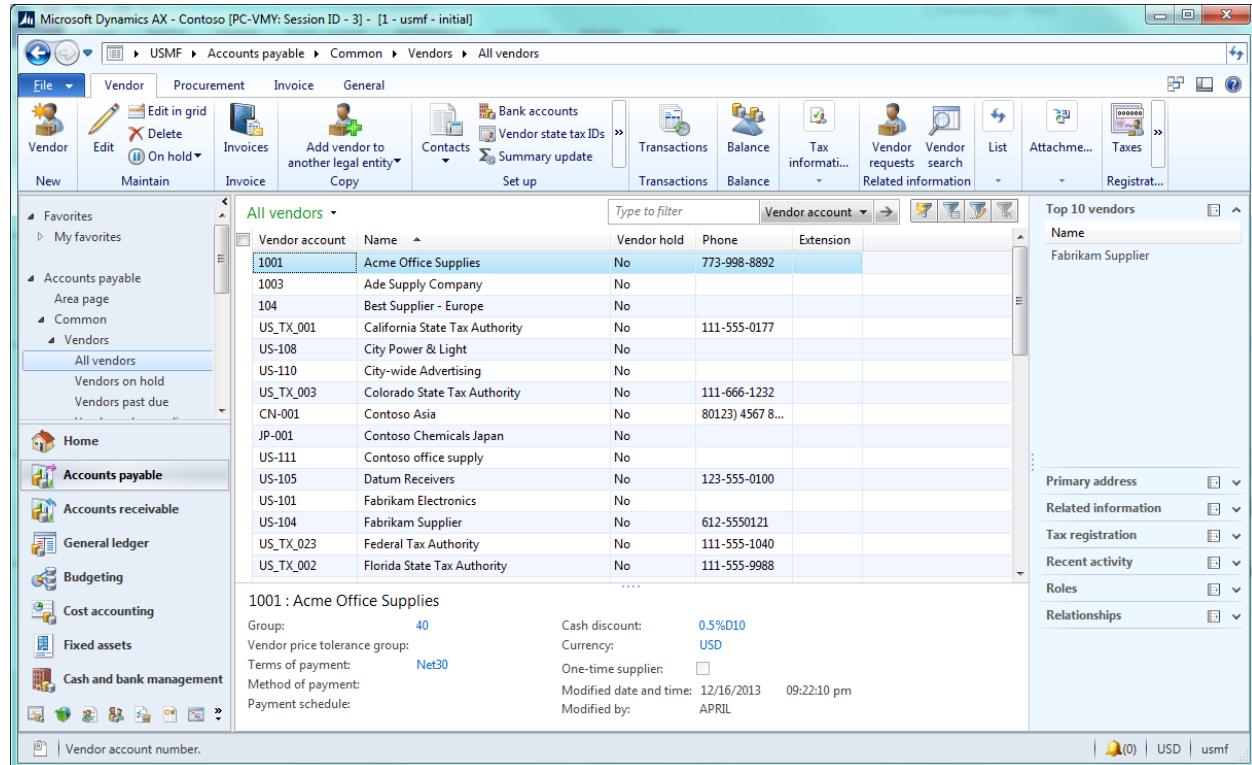


Figure 2.18 Vendor ledger

Inventory Ledger

By analogy with the Vendor ledger, the **Inventory ledger** is used to record the item transactions. This information is used to find out what items were purchased.

The Inventory ledger contains a separate account for each item. In other words, the “chart of accounts” for the Item ledger is a list of items.

When the company purchases items, an item transaction is created. This transaction contains the item name and the item cost.

The item accounts can then be summed and compared with their controlling account to ensure the accuracy as part of the process of preparing a trial balance.

The controlling account is set up in the **Posting** form located under **Inventory management > Setup > Posting > Posting**. Since item different states (Received, Purchased, Delivered, Sold) should be posted to different controlling accounts there are a lot of setups.

The “chart of accounts” for the Item ledger is a list of items located under **Product information management > Common > Released products**.

2. General ledger

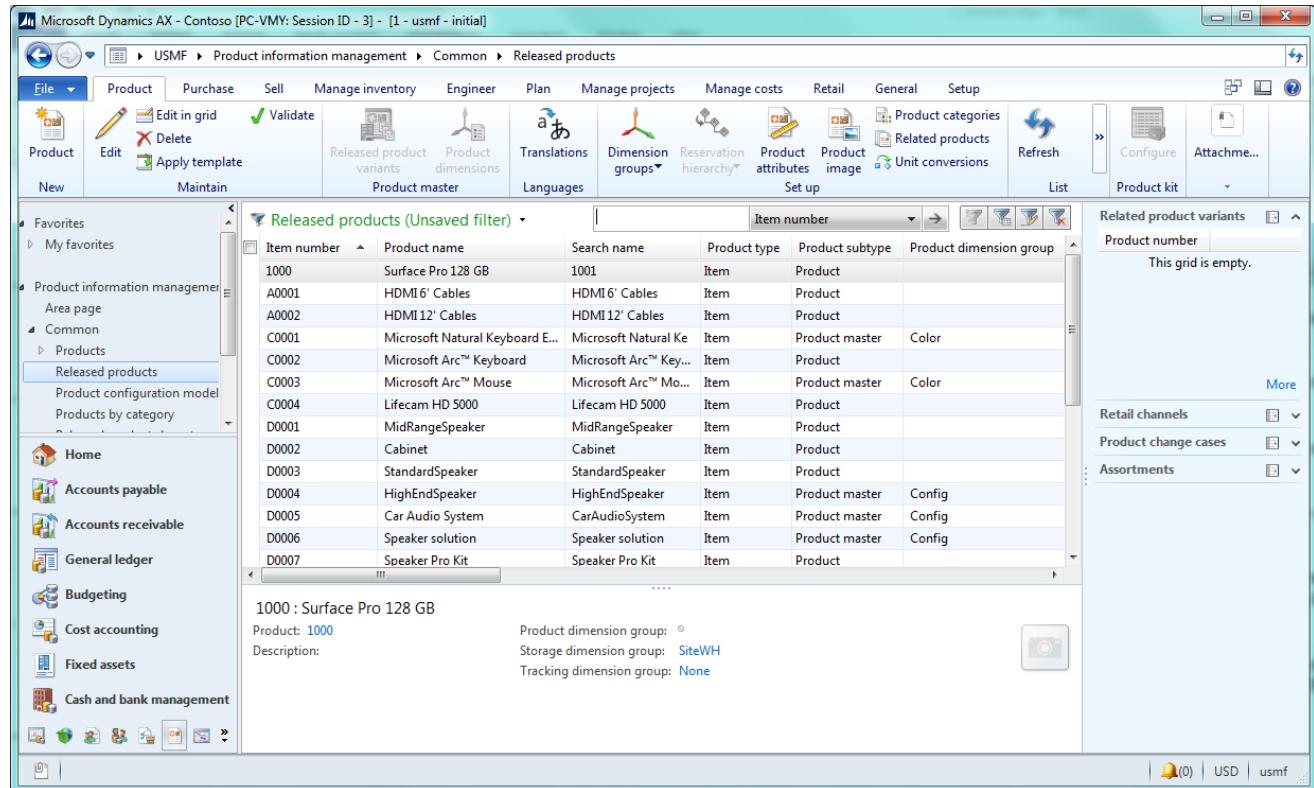


Figure 2.19 Item ledger

Post Subledger Transaction (Vendor Transaction)

Just to recall in the “General journal” chapter we have assumed that the company decides to purchase 10 subwoofers (M0013 Subwoofer) from the US-104 (Fabrikam Supplier) vendor for \$499.90. We have recorded this operation in the Dynamics AX but without the vendor and item details.

Let’s create a new general journal and try to post the following transaction:

M0013 (Item)		US-104 (Vendor)	
Debit	Credit	Debit	Credit
\$499.90			\$499.90

- 1) Open the **General journal** form: **General ledger > Journals > General journal**
- 2) Create a new journal:
 - a. In the **General journal** form, click the **New** button.
 - b. Select **GenJrn** in the **Name** field. Save the line.
- 3) Create new lines and try to specify the vendor and item details:
 - a. In the **General journal** form, click the **Lines** button.
 - b. In the **Account type** field, select the **Vendor** type.
 - c. In the **Account** field, select the **US-104** vendor.
 - d. In the **Credit** field, type the **\$499.90** amount.

2. General ledger

- e. Look up the **Offset account type** field. We can see the following types: Ledger, Customer, Vendor, Project, Fixed assets, and Bank.

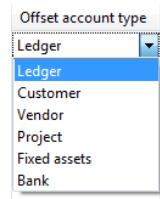


Figure 2.20 Offset account type field

As you can see, it is impossible to select the *Item* account type and specify the M0013 Subwoofer item.

The General journal is not used to enter item transactions. It is because an item transaction has a lot of status while the ledger, or vendor, or customer, or bank transactions don't have status.

Item transaction receipt (purchase) status is Ordered, Arrived, Registered, Received, and Purchased. Item transaction issue (sales) status is On Order, Reserved, Picked, Deducted, and Sold.

Some of this status has own controlling account in the Item posting profile. There is no functionality for managing item transaction status from the General journal.

The General journal has only one step – posting a transaction (recording some facts to the general ledger, i.e. moving the money from one account to another). With the help of the general ledger, you cannot post the item transaction.

To record item transactions and manage its status, the **Purchase order** and **Sales order** forms are used.

Let's use the *140100 (Raw Materials Inventory)* ledger account instead of a specific item.

A screenshot of the 'Journal voucher' window. The window title is 'Journal voucher (1 - usmf) - Journal: GenJrn, journal batch number: 00473, Posted: No, journal type: Daily'. The main area shows a journal entry with a debit side and a credit side. The debit side is for 'US-104' (Account type: Vendor) with a value of 499.90. The credit side is for '140100--' (Offset account type: Ledger) with a value of 499.90. The journal batch number is 00473 and the journal type is Daily. The window includes various tabs like Overview, General, Invoice, Payment, Payment fee, Fixed assets, Remittance, 1099, and History.

Figure 2.21 Journal voucher

Now we can validate and post the journal and review the results. Click the **Validate > Validate** button. The "Journal is OK." message appears. Click the **Post > Post** button. The "Number of vouchers posted to the journal: 1" message appears.

2. General ledger

To review the posting results, click the **Inquiries > Voucher** button. The **Voucher transactions** form opens.

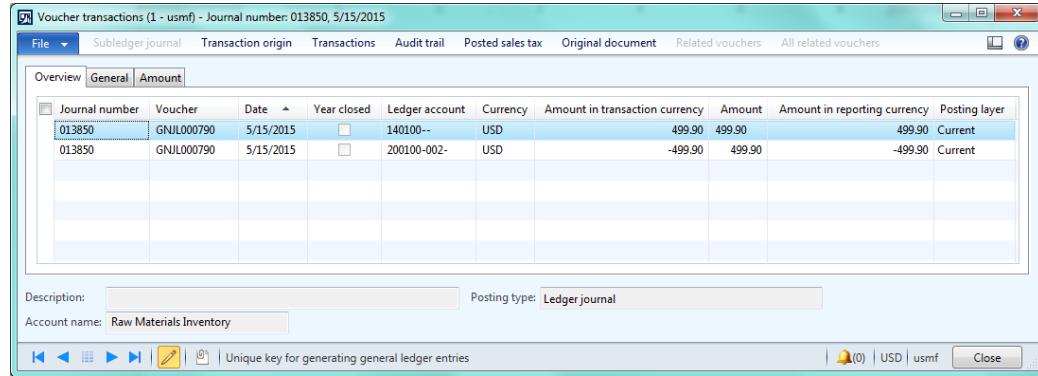


Figure 2.22 Voucher transactions

This form contains only general ledger transactions. We can see that instead of the **US-104** vendor account, the **200100** ledger account with the **002** business unit financial dimension is used. The **200100** ledger account is a controlling account for the **US-104** vendor. The Controlling account for a vendor is specified in the Vendor posting profile.

If we go to the **Vendors** form (**Accounts payable > Common > Vendors > All vendors**), find the **US-104** vendor and double-click to view details. We can find on the **Financial dimension** fast tab that this vendor has the **002** business unit financial dimension specified. So, this dimension is used for all vendor transactions, and corresponding ledger transactions on the controlling account.

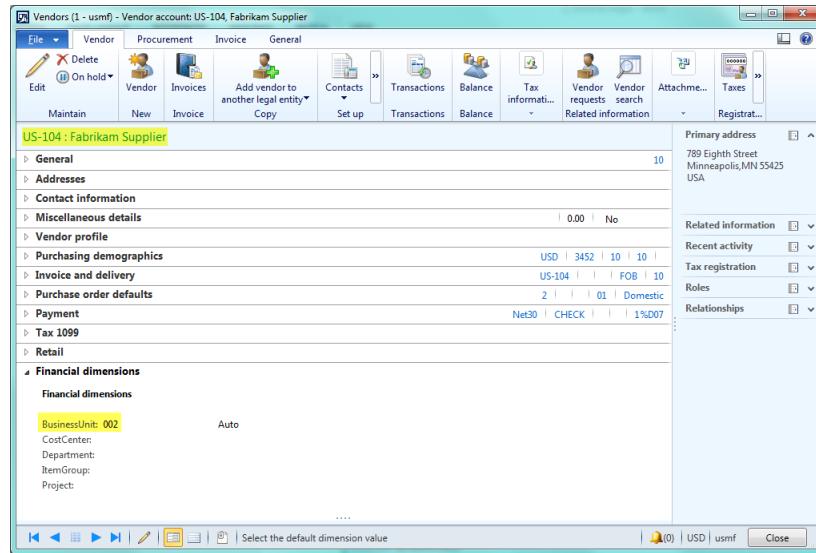


Figure 2.23 Vendors form

You can say that there are no vendor details and vendor transactions in the **Voucher transactions** form. And, you are right! That is because the form contains only ledger transactions. To review all transactions

2. General ledger

(ledger and subledger) that are generated during the posting, click the **Transaction origin** button in the **Voucher transactions** form.

The screenshot shows the 'Transaction origin (1 - usmf) - Module: Vendor, US-104' window. It has tabs for Overview, General, and Financial dimensions. The General tab is selected, displaying a table with columns: Module, Voucher, Date, Number, Text, Currency, Amount in transaction currency, Amount, Dimensions, and Number. Three rows are listed: 'Ledger' (GNJL000..., 5/15/2015, 200100-002-, USD, -499.90, -499.90), 'Ledger' (GNJL000..., 5/15/2015, 140100--, USD, 499.90, 499.90), and 'Vendor' (GNJL000..., 5/15/2015, US-104, USD, -499.90, -499.90). Below the table, there are fields for Name (Fabrikam Supplier) and Table (Vendor transactions). The bottom bar includes application modules and navigation buttons.

Figure 2.24 Transaction origin form

We can see that among the ledger transactions there is also one vendor transaction. If you review the origin transaction for the previous journal (where we don't specify a vendor), you do not see the Vendor transaction.

Let's find the US-104 vendor and check the transactions for it. As we said earlier, the chart of accounts for the vendor ledger is the vendor list.

The vendors are listed here **Accounts payable > Common > Vendors > All vendors**. The All vendor list page opens.

Find the US-104 vendor and click the **Transactions** button. The **Vendor transactions** form opens.

The screenshot shows the 'Vendor transactions (1 - usmf) - Voucher: GNJL000790, 5/15/2015, Vendor account: US-104' window. It has tabs for Overview, General, Payment, Promissory note, Settlement, Remittance, History, 1099, and Financial dimensions. The General tab is selected, displaying a table with columns: Voucher, Date, Invoice, Note ID, Sequence number, Status, Remittance number, Amount in transaction currency, Balance, and Currency. Several rows are listed, including PIV-110000..., PIV-110000..., APPM000102, APPM000103, PIV-110000..., and PIV-110000... (GNJL000790). Below the table, there are fields for Description, Amount (-499.90), and Balance (-499.90). The bottom bar includes application modules and navigation buttons.

Figure 2.25 Vendor transactions

We can see the vendor transaction that was generated as a result of general ledger posting.

2. General ledger

In the **Vendor transactions** form, you can find all information related to the subledger transaction: voucher (contains general ledger transactions), original document (in our case it is a general journal, but can be a purchase order), when the transaction should be paid (on the **Payment** tab), if the transaction is settled (i.e. paid, on the **Settlement** tab).

Note that we have posted two general journals and as a result two general ledger transactions were generated for the 200100 ledger account. But we specify the vendor information only in the second journal.

Now, the following situation happens in the company. The total Vendor's balance is \$499.90, but the 200100 controlling account (Accounts payable) balance for the current year is \$999.80. In other words, the vendor balance and the controlling account balance do not match. This leads to additional effort for the Accountant to clarify this discrepancy.

To prevent such situations, the **Do not allow manual entry** check box is used for all controlling accounts (in the **Chart of accounts** form). Because of this, the 200100 and 140100 accounts were blocked to be used in the journal.

Summary

In this training we have studied what General ledger and Subledger are.

The main entities of the General ledger which are:

- Chart of accounts. Which is an account names list that a company has identified.
- Transaction.
- Financial dimension. Which contains additional transaction information.
- Account structure. Account structure consist of a main account (it is mandatory) and can include financial dimensions.
- General journal. Which is used to enter transactions.

The main entities of Subledger are:

- Chart of subledger accounts – it can be a list of vendors, customers, items or other lists.
- Transaction. Subledger contains own subledger transactions.
- Financial dimension. Subledger uses the same financial dimensions and account structure as the General ledger.
- Posting profile – posting profile is used to set relation between a subledger account and a ledger account. Such ledger account is called a controlling account.
- General journal. It is used to enter general ledger and subledger transactions.

Each time when a transaction is posted to a subledger account, it is posted to a controlling account (ledger account) automatically. So, each subledger transaction has a corresponding ledger transaction.

It is impossible to post an item transaction with the help of the General journal. It is because the item transaction has a lot of status (while the ledger, vendor, customer, or bank transactions don't have status). Some of this status have its own controlling account in the Item posting profile.

2. General ledger

With the help of the General journal, we can post all operations that do not include the Item transactions: payments, bad debts, sale of an asset.

In the next training lesson, we are going to enter a purchase operation to the system with the help of the Purchase order.

3. Purchase

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3. Purchase

Demo Data

For this tutorial, the Microsoft demo data for DAX 2012 is used. You can find more information about the demo data [here](#).

Also, we use the USMF (Contoso Entertainment System USA) company.

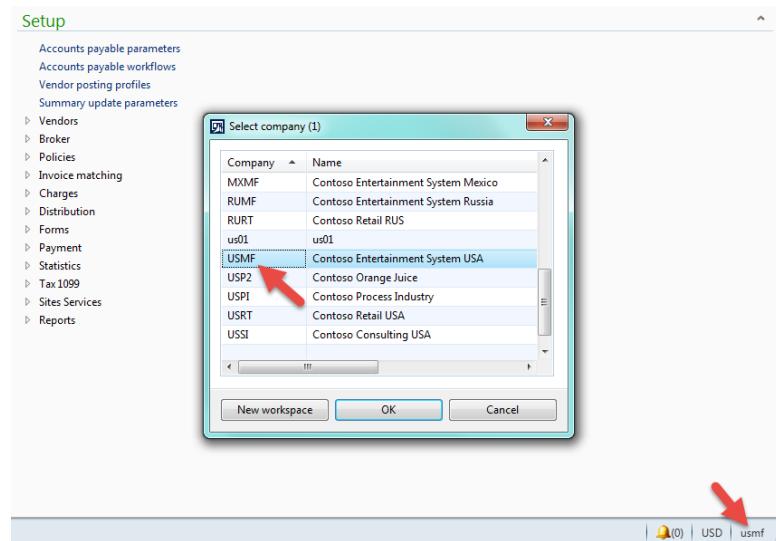


Figure 3.1 Select company

Introduction

In this training lesson, we will learn how a purchase process is integrated with the financial area. When I say a purchase I mean a business process of purchasing goods. In Microsoft Dynamics AX, this business process is called the procurement and sourcing business process. You can find good explanation of this business process in the [technet](#). Below you can see the purchase business process that is covered by the Dynamics AX application.

3. Purchase

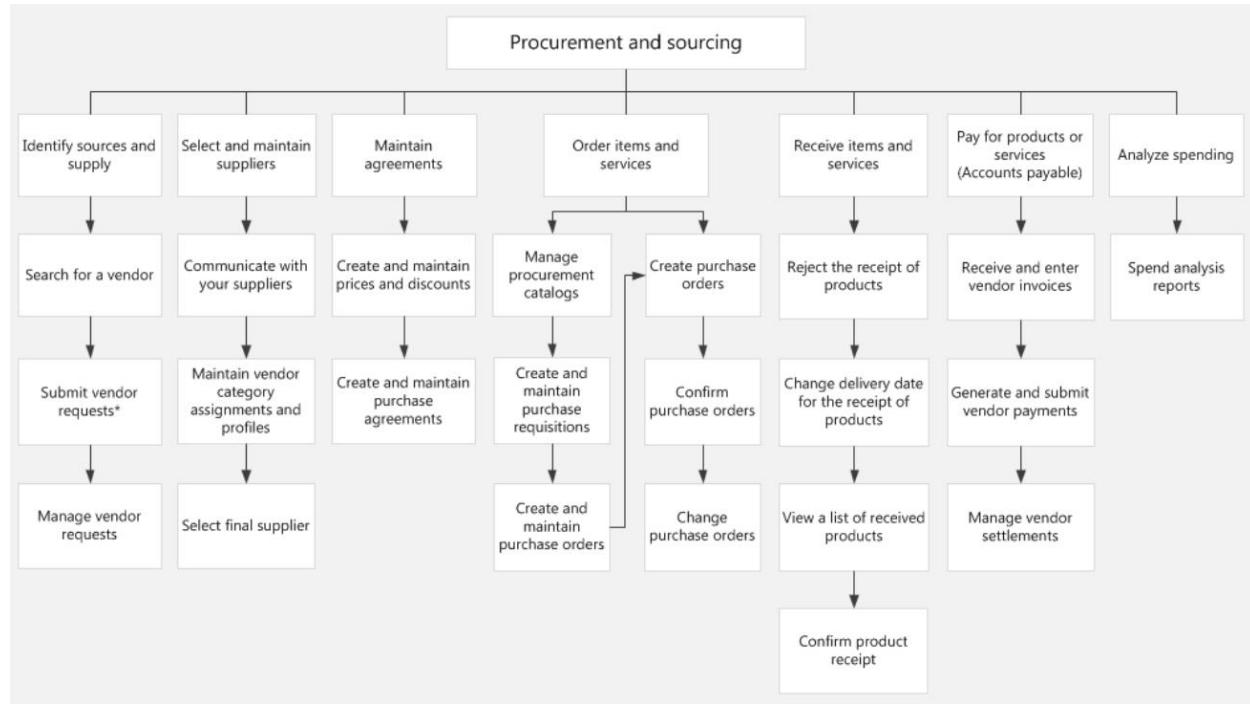


Figure 3.2 Procurement and sourcing business process

The purchase business process consists of the following steps:

- Selecting a vendor (the first three columns, i.e. “Identify sources and supply”, “Select and maintain suppliers”, and “Maintain agreements”)
- Ordering items and services
- Receiving items and services
- Paying for products or services
- Analyzing expenses

From the financial point of view, only two steps are important: **Receive items and services** and **Pay for produces or services**. Other steps do not affect the company ledger accounts (in other words, other steps are not evaluated in money equivalent and not tracked by the financial team). For example, the company profit does not depend on the number of vendors. You can argue that if the more vendors a company has the better it is for the company (because the purchase price is lower), but currently Financial people can't track such information (larger number of vendors) in money equivalent.

As far as we are studying financials, in this lesson we are looking in detail into the **Receive items and services** and **Pay for produces or services** business steps.

We will purchase some items, and analyze financial transactions.

Purchase Order

The company decides to purchase **10 subwoofers** (M0013 Subwoofer). Let's assume that the company already selects the **US-104** (Fabrikam Supplier) vendor. This means that the company has already passed the "Identify sources and supply", "Select and maintain suppliers", and "Maintain agreements" business process steps.

So, the company needs to go through the following steps:

- Order items and services
- Receive items and services
- Pay for products or services

In Microsoft Dynamics AX, the **Purchase order** is used to go through the "Order items and services" and "Receive items and services" steps.

The Purchase order has the following status fields (you can find them by the following path: **Purchase order** form > **Purchase order** button group > **Header view** button > **General** fast tab > **Status** field group):

- **Status** field: Open order > (Canceled) > Received > Invoiced
- **Document status** field: None > Purchase inquiry > Purchase order > Receipts list > Product receipt > Invoice
- **Approval status** field: Draft > In review > (Rejected) > Approved > In external review > Confirmed > Finalized.

The **Status** field contains the status that is financially tracked. When the purchase order status is changed, this event is reflected in the general ledger accounts.

The **Document status** field contains the status that shows the document printed to (and sent) to the vendor.

The **Approval status** field contains the status that are used when the Purchase order workflow is enabled. For more information about the Procurement and sourcing workflows, refer this [article](#).

The purchase order covers the following steps:

- Order items and services
 - Order (create a purchase order)
 - Status = Open order
 - Document status = None
 - Approval status = Draft
 - Confirmation
 - Status = Open order
 - Document status = None > Purchase inquiry > Purchase order
 - Approval status = Draft > In review > (Rejected) > Approved > In external review > Confirmed

3. Purchase

- Receive items and services
 - Arrival
 - Status = Open order
 - Document status = Purchase order
 - Approval status = Confirmed
 - Registration
 - Status = Open order
 - Document status = Receipts list
 - Approval status = Confirmed
 - Product receipt
 - **Status = Received**
 - Document status = Product receipt
 - Approval status = Confirmed
 - Invoice
 - **Status = Invoiced**
 - Document status = Invoice
 - Approval status = Confirmed
 - Finalized
 - Status = Invoiced
 - Document status = Invoice
 - Approval status = Finalized

As you can see, from financial point of view only the Product receipt and Invoice steps are interesting, because only in these steps the Status is changed (i.e. the event is recorded to the general ledger accounts).

We will go through these steps with the attention to the financial results. To know more about the Arrival and Registration steps, read the Trade and logistics training.

Creating a Purchase Order

Let's create a purchase order. Open the **All purchase order** list page by navigating to **Accounts payable > Common > Purchase orders > All purchase orders**. The **All purchase order** list page opens.

3. Purchase

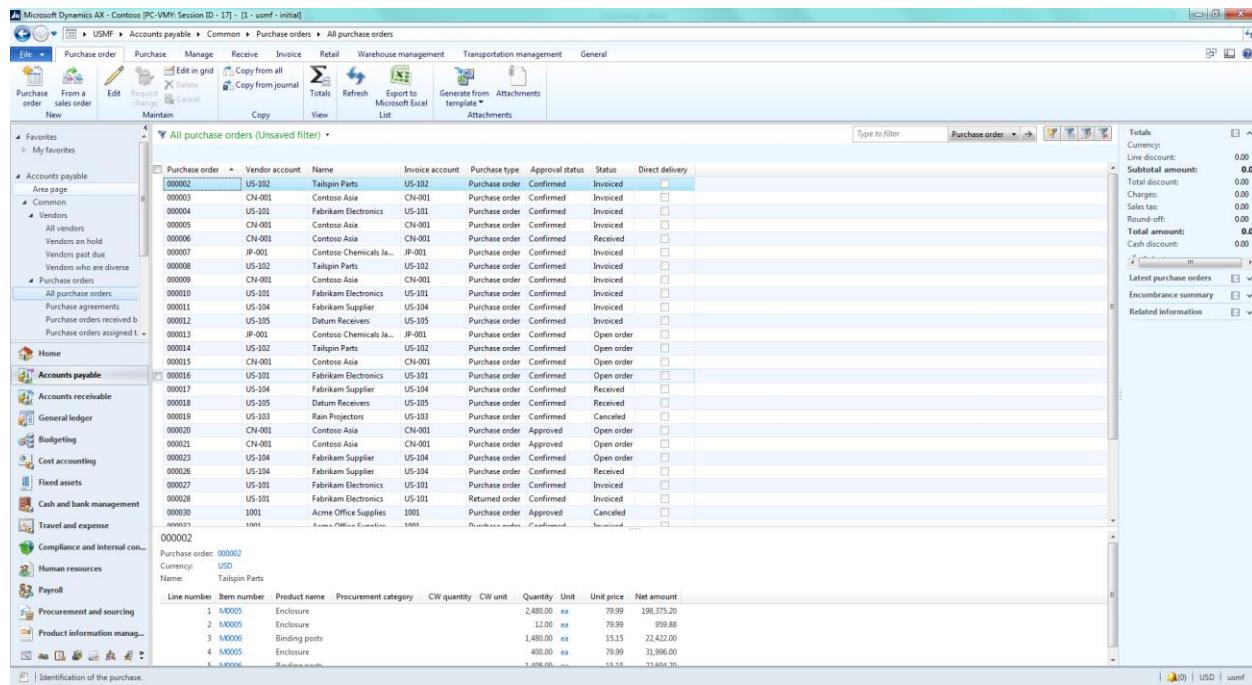


Figure 3.3 All purchase order list page

Create a purchase order for the vendor US-104. Click the **Purchase order** button in the left upper corner. The **Create purchase order** form opens. Select the vendor **US-104** in the **Vendor account** field. The vendor information is automatically filled in.

The screenshot shows the 'Create purchase order' dialog box. In the 'Vendor' section, 'Vendor account' is set to 'US-104' and 'Name' is 'Fabrikam Supplier'. Under 'Address', 'Warehouse Address' is listed with address '321 North Street, Gate 3, Tacoma, WA 98401, USA'. The 'General' section contains fields for 'Purchase order' (000038), 'Purchase type' (Purchase order), 'Invoice account' (US-104), 'Currency' (USD), 'Accounting date' (3/31/2015), 'Delivery date' (3/31/2015), 'Site' (2), 'Warehouse' (24), and 'Intercompany' (unchecked). The 'Administration' section is expanded, showing 'Project ID' and 'Purchase agreement ID' fields. At the bottom, a note states 'Vendor with whom the purchase order is placed.'

Figure 3.4 Create purchase order form

3. Purchase

Click **OK** in the **Create purchase order** form. The new purchase order will be created and opened in the **Purchase order** form.

Create a purchase order line in the purchase order for 10 items. In the **Purchase order** form in the **Purchase order lines** fast tab, create a new line. Select the item **M0013** in the **Item number** field. Set the **Quantity** field value to **10**. Save the line (Ctrl+S).

The **Site**, **Warehouse**, **Quantity**, **Unit**, and **Unit price** fields will be filled in automatically. The default parameters are set up here:

- Site, Warehouse: the **Vendors** form (**Accounts payable > Common > All Vendors** > find vendor **US-104** and double click > **Vendors** form > **Purchase order defaults** fast tab > **Site, Warehouse** fields)
- Quantity, Unit: the **Released product details** form (**Product information management > Common > Released products** > find item **M0013** and double click > **Released product details** form > **Manage inventory** menu button > **Default order settings** button > **Purchase order** tab > **Unit** and **Min. order quantity** fields). Note that if the **Min. ordered quantity** is zero the 1 will be used on the purchase line by default.
- Price: **Released product details** form (**Product information management > Common > Released products** > find item **M0013** and double click > **Released product details** form > **Purchase** fast tab > **Price** field).

The **Purchase order** form will look as follows:

The screenshot shows the Microsoft Dynamics AX Purchase Order form. The title bar reads "Purchase order (1 - usmf) - Purchase order: 000038, Fabrikam Supplier". The ribbon tabs include Purchase order, Purchase, Manage, Receive, Invoice, Retail, Warehouse management, Transportation management, and General. The main area is divided into sections: Purchase order header (Delivery date: 3/31/2015, Vendor: Contact ID: [dropdown], Replenishment: Service category: [dropdown], Contract concession: [checkbox], Discounts: Total discount %: 0.00), Purchase order lines (Line details: Add line, Add lines, Add products, Remove, Purchase order line: [dropdown], Financials: [dropdown], Inventory: [dropdown], Product and supply: [dropdown], Update line: [dropdown]), and a right-hand panel with "Latest purchase orders" (list of open, received, and invoiced orders), "Totals" (summary table), and "Encumbrance summary". The "Purchase order lines" section displays one line item: Type: 1, Item number: M0013, Product name: Subwoofer, Site: 2, Warehouse: 24, CW quantity: 10.00, CW unit: ea.

Figure 3.5 Purchase order form

3. Purchase

We have completed the first create order step. The purchase order status is the following (**Purchase order** form > **Purchase order** menu button > **Show** > **Header view** button > **General** fast tab > **Status** field group):

- Status = Open order
- Document status = None
- Approval status = Approved

Confirmation

This step belongs to the Order items and services business step and depending on the company needs can be extended to a lot of sub steps.

The Company can:

- Use Purchase requisition
- Enable Purchase requisition review and Purchase order workflows
- Use Purchase inquiry

All this is done for one reason – top management wants to control the Purchase department as much as possible. Because they are afraid that a Purchase manager can purchase something for higher prices.

Note that Dynamics AX can also be used in Public sector (i.e. by country government or by a city mayor) in this case the Purchase Order Confirmation step can be much more complex.

Note that all this activity has no influence on company financials. So, we can simplify this process to minimum.

The Purchase Manager agrees with the vendor all purchase details and confirms them. To record in the system that the purchase order is confirmed, the confirmation step is used. This step does not generate transactions, because it does not influence the company's assets or liabilities.

The Purchase Manager opens the **Purchase order** form and clicks the **Purchase > Generate > Confirmation** button. The **Confirm purchase order** form opens. Click **OK**.

3. Purchase

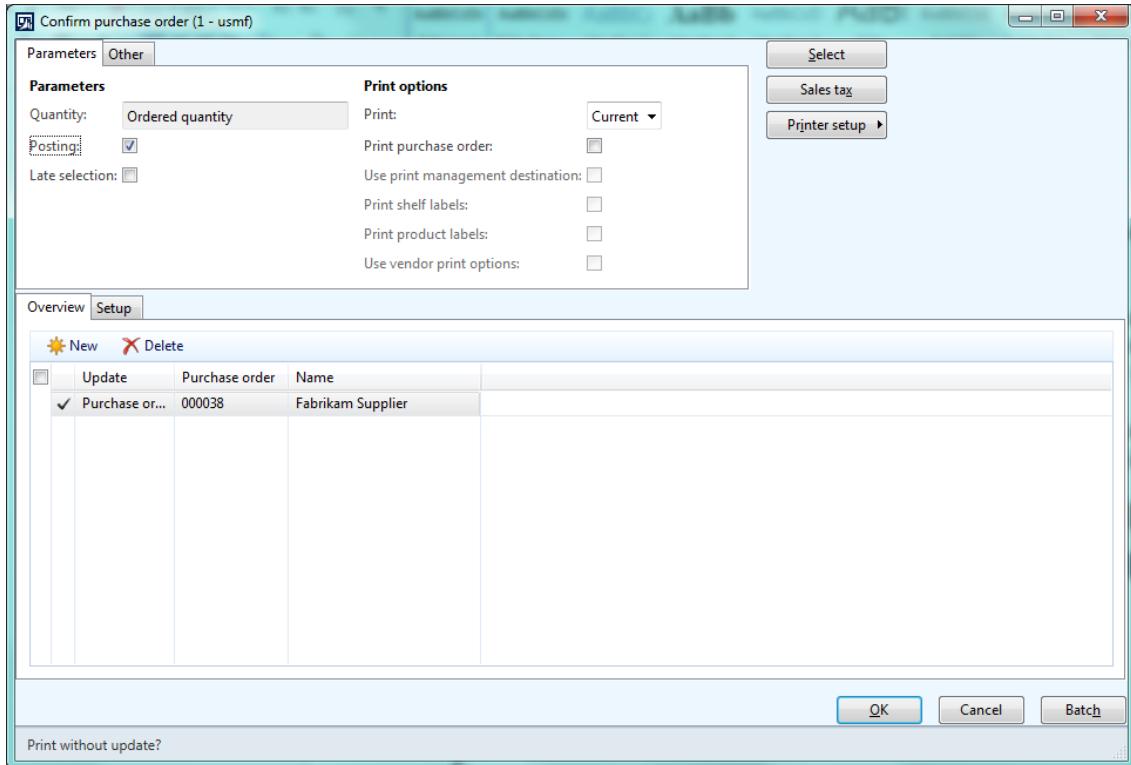


Figure 3.6 Confirm purchase order form

In the **Purchase order** form, click **Purchase > Journals > Purchase order confirmations** button to review the posting results. The **Purchase order confirmations** form opens.

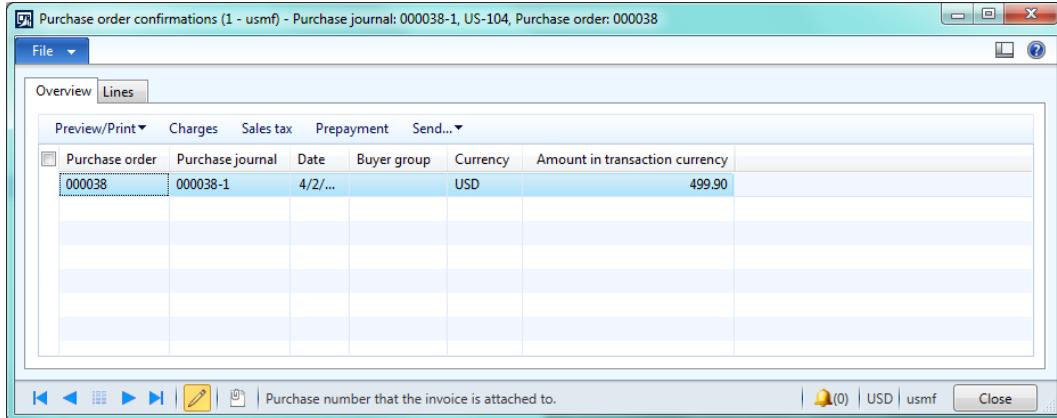


Figure 3.7 Purchase order confirmations form

The form contains the result of confirmation operation. We can see that the purchase journal "000038-1" is created with one line and is posted. This operation has no influence on accounts. The **Purchase order confirmations** form doesn't have the **Voucher** button.

3. Purchase

A voucher is used to group all transactions generated for one operation. Since the **Purchase order journal** form doesn't have the **Voucher** button, the confirmation operation never generates transactions.

The purchase order status is the following (**Purchase order** form > **Purchase order** menu button > **Show** > **Header view** button > **General** fast tab > **Status** field group):

- Status = Open order
- Document status = Purchase order
- Approval status = Confirmed

Arrival and Registration

Arrival and registration steps are used when the Warehouse management is enabled for the item. This step is used to track items that arrived into the warehouse and the places where the items were stored in the warehouse. This process is described in more detail in the [Item arrival and registration lesson](#) from the Trade and Logistics training.

The Warehouse management consists of the item arrival and registration steps during purchase and the picking and shipping steps during sales. The item M0013 doesn't use the Warehouse management, because it doesn't have the location and pallet dimensions (see the Storage dimension group) and the Registration and Picking steps are not mandatory (see the Item model group). Both groups are set up in the **Released product details** form.

This step is used to record that items arrived. Note that the item is not the company's property yet. Since the item is not the company's property, the operation does not influence the company's assets or liabilities. Transactions are not generated.

To record that the items arrived and are registered, do the following (for the items that do not use the Warehouse management only). In the **Purchase order** form, click the **Receive** > **Generate** > **Posting receipts list** button. The **Posting receipt lists** form opens. On the **Lines** tab, you can make sure that all items will be registered. Click **OK**.

3. Purchase

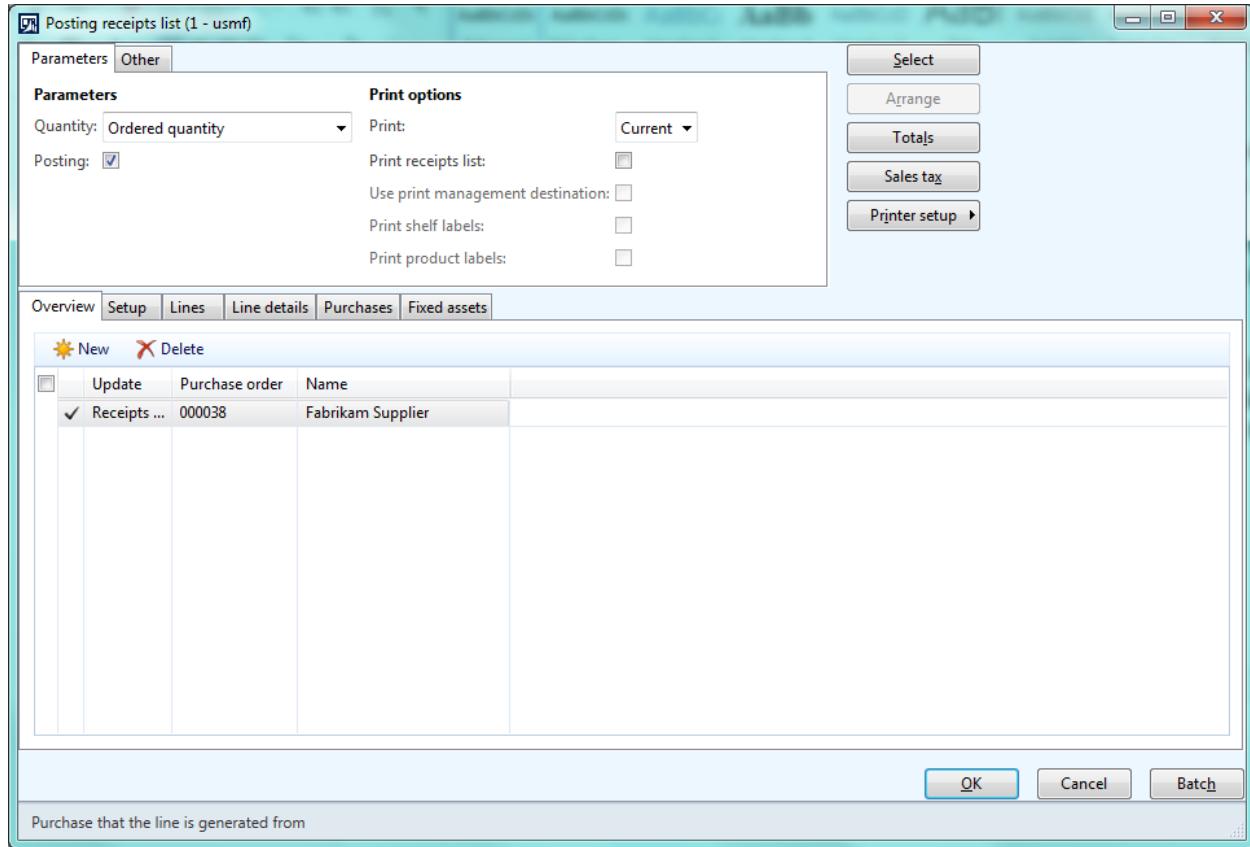


Figure 3.8 Posting receipts list form

To review the posting results in the **Purchase order** form, click the **Receive > Journals > Receipts list** button. The **Receipts list journal** form opens.

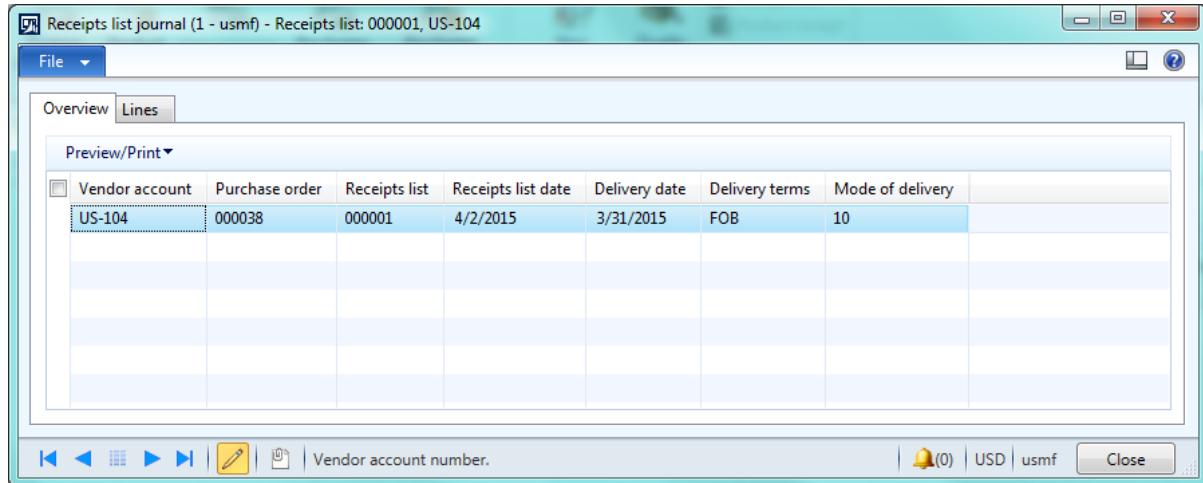


Figure 3.9 Receipts list journal form

We can see that the receipt list journal is created. But the **Receipts list journal** form also doesn't have the **Voucher** button, because this operation never generates transactions.

3. Purchase

The purchase order status are the following (**Purchase order** form > **Purchase order** menu button > **Show** > **Header view** button > **General** fast tab > **Status** field group):

- Status = Open order
- Document status = Receipts list
- Approval status = Confirmed

Product Receipt

The Product receipt step is used to record that the items are delivered and become the company's property. Since the items become the company's property, the company assets and liabilities change, because the company's inventory is increased. This operation generates transactions.

The inventory increases and the vendor liabilities also increase. Inventory is the company's asset, so when the asset account is increased, the debit part is used (Debit is "good" for the company). The Vendor or Accounts payable are the company liabilities; when liabilities increase, the credit part is used (Credit is "bad" for the company). In the previous training lesson, we analyzed the same transaction when purchasing the pizza ingredients. The transaction will look as follows:

Inventory		Accounts payable	
Debit	Credit	Debit	Credit
\$499.90			\$499.90

Let's post the product receipt in Microsoft Dynamics AX and check the results. In the **Purchase order** form, click the **Receive** > **Generate** > **Product receipt** button. The **Posting product receipt** form opens. Enter any value in the **Product receipt** field, for example "Product receipt 1" and click **OK**.

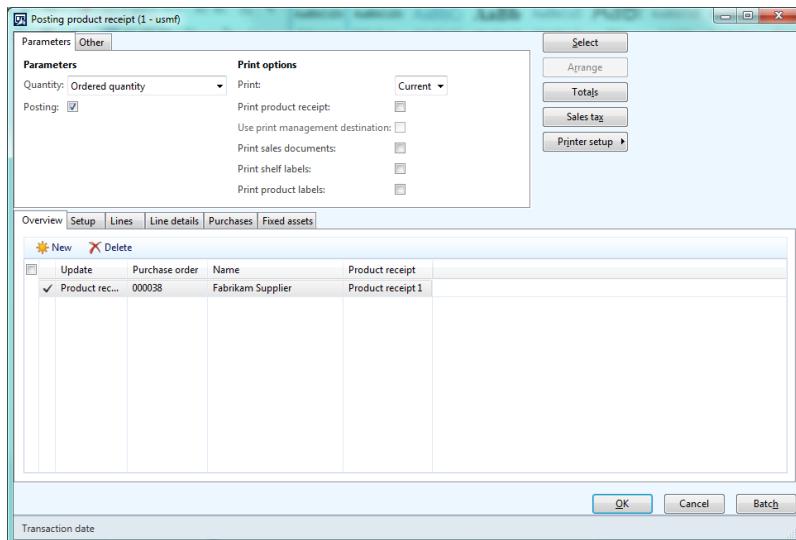


Figure 3.10 Posting product receipt form

3. Purchase

To review the posting results in the **Purchase order** form click the **Receive > Journals > Product receipt** button. The **Product receipt journal** form opens.

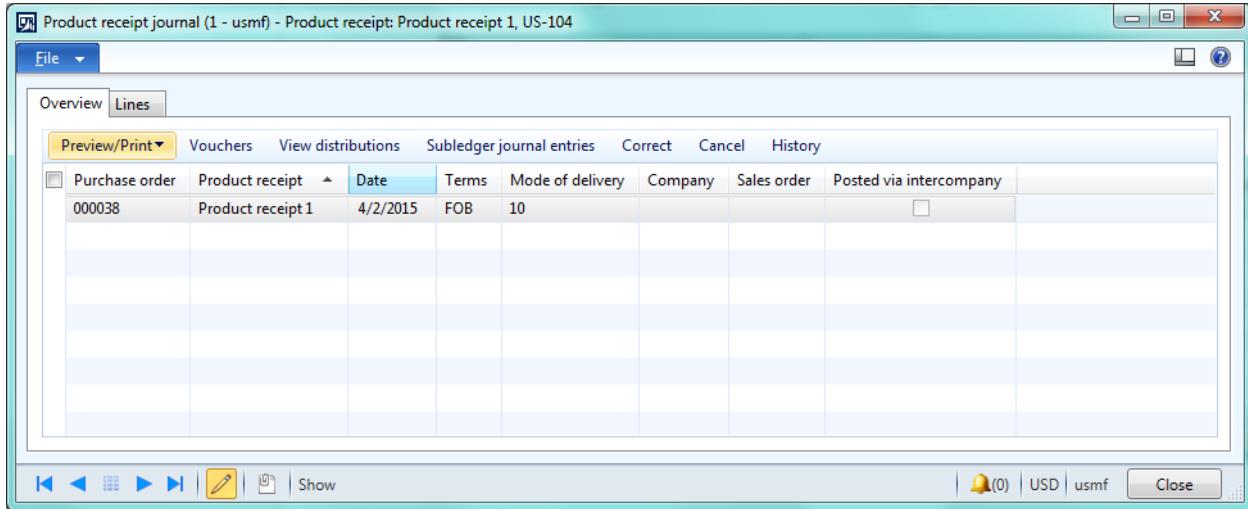


Figure 3.11 Product receipt journal form

We can see that the product receipt journal is generated. The **Product receipt journal** form contains the **Vouchers** button. To view the transactions that are generated for this step click the **Vouchers** button. The voucher contains all transactions that were generated for one posting. The **Voucher transactions** form opens.

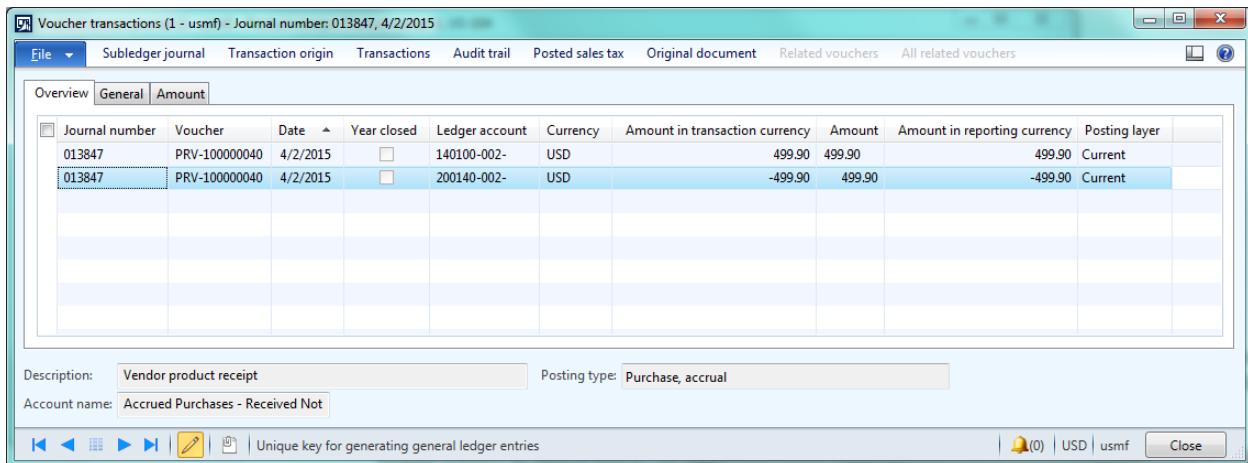


Figure 3.12 Voucher transactions form (Product receipt)

If you don't have a voucher with transactions after posting the Product receipt, please see the "Subledger journal entries" paragraph.

3. Purchase

The form contains two lines – one line for each account. The following accounts were used:

140100		200140	
Debit	Credit	Debit	Credit
\$499.90			\$499.90

This transaction is similar to the one that we have assumed. Let's find the information about these accounts.

All accounts that belong to the active chart of accounts are listed on the **Main accounts** list page. Go to **General ledger > Common > Main accounts**. The **Main accounts** list page opens. Find the 140100 account.

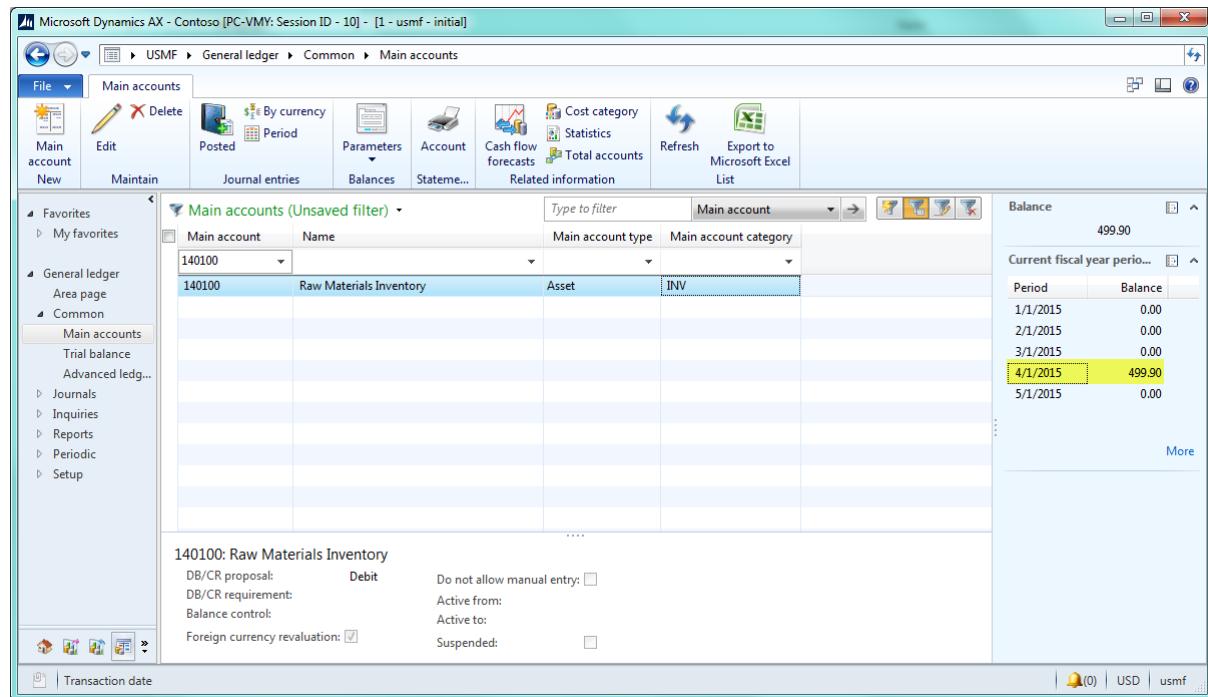


Figure 3.13 Main accounts list page

We can see that the account 140100 is called “Raw Materials Inventory”. The total account for this account is 149999 (TOTAL PHYSICAL INVENTORY). So, this account is one of the Inventory accounts that is used to store the money equivalent of items that were delivered but not invoiced.

Find the account 200140 in the **Main accounts** list page. We can see that the account 200140 is called “Accrued Purchases - Received Not Invoiced”. The total account for this account is 200999 (TOTAL ACCOUNTS PAYABLE). So, this account is one of the Accounts Payable accounts that is used to store the un-invoiced liability.

So, we make sure that Microsoft Dynamics AX generates the same transaction as we have assumed.

3. Purchase

The purchase order status are the following (**Purchase order** form > **Purchase order** menu button > **Show** > **Header view** button > **General** fast tab > **Status** field group):

- Status = Received
- Document status = Product receipt
- Approval status = Confirmed

Note that the purchase order status changed from *Open* order to *Received*.

Invoice

The final and the main step in the purchase process is the Invoice. This step is used to record that the company agrees to pay for the delivered items. Until the invoice step is performed, the company could not pay for the delivered items. The vendor sends the Invoice document with the amount to pay. If the Company agrees to pay this amount for the delivered items, the Invoice is registered (in other words is posted) in the system.

This process changes the financial situation in the company, because the product receipt transaction should be reversed and a transaction with the inventory and accounts payable accounts must be generated.

The transactions will look as follows:

Inventory un-invoiced		Accounts payable not invoiced		
Debit	Credit	Debit	Credit	
	\$499.90	\$499.90		Reverse the amount from product receipt step
Inventory		Accounts payable		
Debit	Credit	Debit	Credit	
\$499.90			\$499.90	Invoice

The first transaction reverses the amount on the accounts that were used in the product receipt step.

3. Purchase

For example after the reverse the inventory un-invoiced total amount will be zero (Debit – Credit):

Inventory un-invoiced	
Debit	Credit
\$499.90	
	\$499.90
Total = 0	

The Accrued Purchases - Received Not Invoiced account will also have the zero amount.

This means that the company doesn't have the un-invoiced inventory and the accounts payable that are not yet approved.

Let's post the invoice in Microsoft Dynamics AX and check the results. In the **Purchase order** form, click the **Invoice > Generate >Invoice** button. The **Vendor invoice** form opens. Enter any value in the **Invoice** field, for example "Invoice 1", and click the **Vendor invoice > Actions > Post** button.

Currency:	USD
Subtotal amount:	499.90
Total discount:	0.00
Charges:	0.00
Sales tax:	0.00
Invoice amount:	499.90
Cash discount amount:	5.00

Figure 3.14 Vendor invoice form

To review the posting results in the **Purchase order** form, click the **Invoice > Journals > Invoice** button. The **Invoice journal** form opens.

3. Purchase

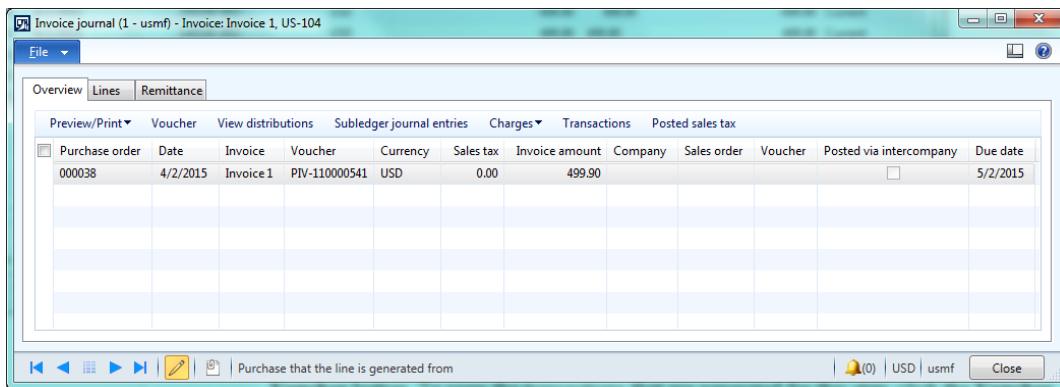


Figure 3.15 Invoice journal form

We can see that the invoice journal is generated. The **Invoice journal** form contains the **Voucher** button. To view the transactions that are generated for this step, click the **Voucher** button. The voucher contains all transactions that were generated for one posting. The **Voucher transactions** form opens.

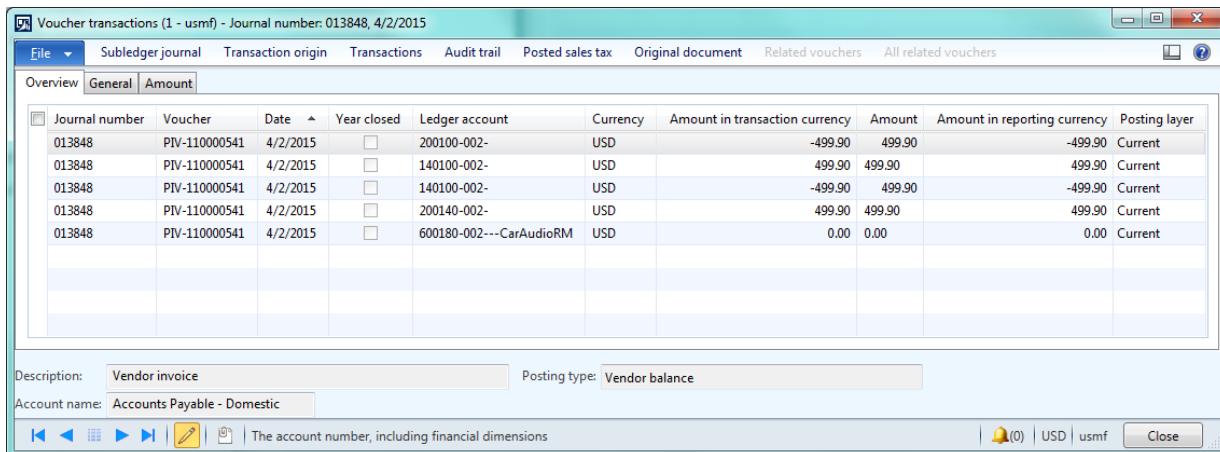


Figure 3.16 Voucher transactions form

The form contains five lines. We expect 4 lines, but there are 5 lines, one line with zero amount. We will analyze this line a bit later in the “Subledger journal entries” paragraph.

The following accounts were used:

140100		200140	
Debit	Credit	Debit	Credit
	\$499.90	\$499.90	
140100		200100	
Debit	Credit	Debit	Credit
\$499.90			\$499.90

3. Purchase

The first transaction reverses the amount on the 140100 (Raw Materials) and 200140 (Accrued Purchases - Received Not Invoiced) accounts.

Let's find information about the accounts from the second transaction.

First account is 140100 (Raw Materials Inventory). This is one of the Inventory accounts. This account is used to store the money equivalent of the items that the company has.

Note that the 140100 account is used to store the money equivalent for both received but not invoiced and invoiced items.

Open the **Main accounts** form by navigating to **General ledger > Common > Main accounts**. Find the account 200100. The account is called "Accounts Payable - Domestic". The total account is 200999 (TOTAL ACCOUNTS PAYABLE). So, 200100 is one of the Accounts payable accounts.

We make sure that Microsoft Dynamics AX generates the same transactions as we have assumed.

The purchase order status are the following (**Purchase order** form > **Purchase order** menu button > **Show > Header view** button > **General** fast tab > **Status** field group):

- Status = Invoiced
- Document status = Invoice
- Approval status = Confirmed

Note that the purchase order status changes from *Received* to *Invoiced*.

Finalize

When purchase order is invoiced it can be finalized. Before order is finalized User can modify purchase order: add new purchase line, or change some parameters. After order is finalized it cannot be changed. This step is optional and have no influence on financial.

Let's finalize the order. In the **Purchase order** form, click the **Purchase > Generate > Finalize** button. The **Finalize** form opens. Click Ok.

The order is locked for update.

The purchase order status are the following (**Purchase order** form > **Purchase order** menu button > **Show > Header view** button > **General** fast tab > **Status** field group):

- Status = Invoiced
- Document status = Invoice
- Approval status = Finalized

3. Purchase

General Ledger Transactions

Let's check what transactions are recorded to the 140100 (Raw Materials Inventory) account and the account balance.

Open the **Main accounts** list page and find the 140100 account. Click the **Journal entries > Posted** button, the **Account number** form opens.

The screenshot shows the 'Account number 140100 (1 - usmf) - Main account: 140100, Raw Materials Inventory' window. The window title bar includes the account number and name. The menu bar has options like File, Voucher, Subledger journal, Transaction origin, Audit trail, Posted sales tax, Original document, and Ledger settlements. Below the menu is a toolbar with buttons for Overview, General, and History. The main area is a grid table showing transaction details:

Journal number	Voucher	Date	Year closed	Type	Currency	Amount in transaction currency	Amount	Amount in reporting currency
013801	IAV-000002	1/7/2014		Operating	USD	-21,441.93	21,441.93	-21,441.93
013801	IAV-000002	1/7/2014		Operating	USD	-5,641.30	5,641.30	-5,641.30
013801	IAV-000002	1/7/2014		Operating	USD	27,083.26	27,083.26	27,083.26
013802	IAV-000003	1/7/2014		Operating	USD	-97,437.12	97,437.12	-97,437.12
013802	IAV-000003	1/7/2014		Operating	USD	-25,637.17	25,637.17	-25,637.17
013802	IAV-000003	1/7/2014		Operating	USD	123,074.30	123,074.30	123,074.30
013803	PRO-001586	1/9/2014		Operating	USD	-31,228.32	31,228.32	-31,228.32
013807	PRO-001593	1/9/2014		Operating	USD	-156.15	156.15	-156.15
013812	PRO-001600	1/9/2014		Operating	USD	-156.15	156.15	-156.15
013847	PRV-100000040	4/2/2015		Operating	USD	499.90	499.90	499.90
013848	PIV-110000541	4/2/2015		Operating	USD	499.90	499.90	499.90
013848	PIV-110000541	4/2/2015		Operating	USD	-499.90	499.90	-499.90

Below the grid, there are fields for 'Ledger account' (140100 - 002 -), 'Account name' (Raw Materials Inventory), 'Description' (Vendor invoice), and a note about the unique key for generating general ledger entries. The bottom right corner shows a bell icon with (0), USD, usmf, and a Close button.

Figure 3.17 Account transactions form

Our demo data already has a lot of transactions on this account. But, according to the date, only three transactions were generated for this account during the purchase process. The first transaction was generated during the Product receipt step. The last two transactions were generated during the Invoice step (one is a reverse, another is an item receipt).

To view all transactions associated with the voucher number, click the **Voucher** button. The **Voucher transactions** form opens. On the **General** tab, in the **Document** field we can find the document number for which the transaction was generated.

We make sure that the first transaction was generated for the product receipt operation, and the second and third for the invoice operation.

The total amount (or the account balance) is the sum of all transaction amounts. To view the account balance, click the **Journal entries > Period** button in the **Main accounts** list page.

3. Purchase

Period name	Period	Period code	Balance	Percent	Accumulated
Period 0	1/1/2015	Opening	0.00	0.00	0.00
Period 1	1/1/2015	Operating	0.00	0.00	0.00
Period 2	2/1/2015	Operating	0.00	0.00	0.00
Period 3	3/1/2015	Operating	0.00	0.00	0.00
Period 4	4/1/2015	Operating	499.90	100.00	499.90
Period 5	5/1/2015	Operating	0.00	0.00	499.90
Period 6	6/1/2015	Operating	0.00	0.00	499.90
Period 7	7/1/2015	Operating	0.00	0.00	499.90
Period 8	8/1/2015	Operating	0.00	0.00	499.90
Period 9	9/1/2015	Operating	0.00	0.00	499.90
Period 10	10/1/2015	Operating	0.00	0.00	499.90
Period 11	11/1/2015	Operating	0.00	0.00	499.90
Period 12	12/1/2015	Operating	0.00	0.00	499.90
Period 13	12/31/2015	Closing	0.00	0.00	499.90

Debit in period: 0.00 Debit accumulated: 0.00
Credit in the period: 0.00 Credit accumulated: 0.00

◀ ▶ ⏪ ⏩ | 🖊 | 🗑 | Today's date | 📡(0) | USD | usmf | Close |

Figure 3.18 Period balances form

We can see that the balance is increased in the Period 4. It means that during this period the Raw materials inventory is increased for \$499.9.

Note that the account transactions could not be created for the Product receipt step, because it is an optional step. The Dynamics AX records the information to the accounts during the product receipt step if the company wants to track the un-invoiced items.

The Inventory model group is used to enable or disable the creation of account transactions during the product receipt step. Let's check the inventory model group of the item M0013. Go to **Product information > Common > Released products** > find M0013 item > double click the line > **Released product details** form opens > **General** fast tab > **Administration** field group > **Item model group** field. The M0013 item uses the "STD" item model group.

3. Purchase

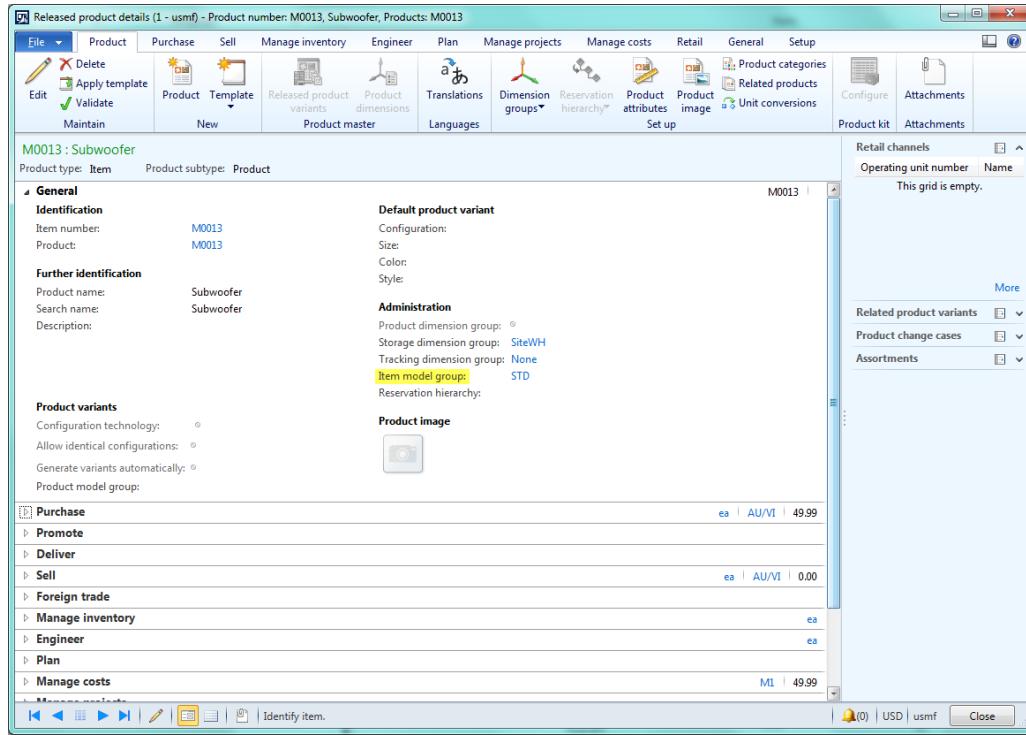


Figure 3.19 Released product details form, Item model group field

Let's find out what setup this group has. Go to **Inventory management > Setup > Inventory > Item model groups** > find the "STD" group > **Setup** fast tab.

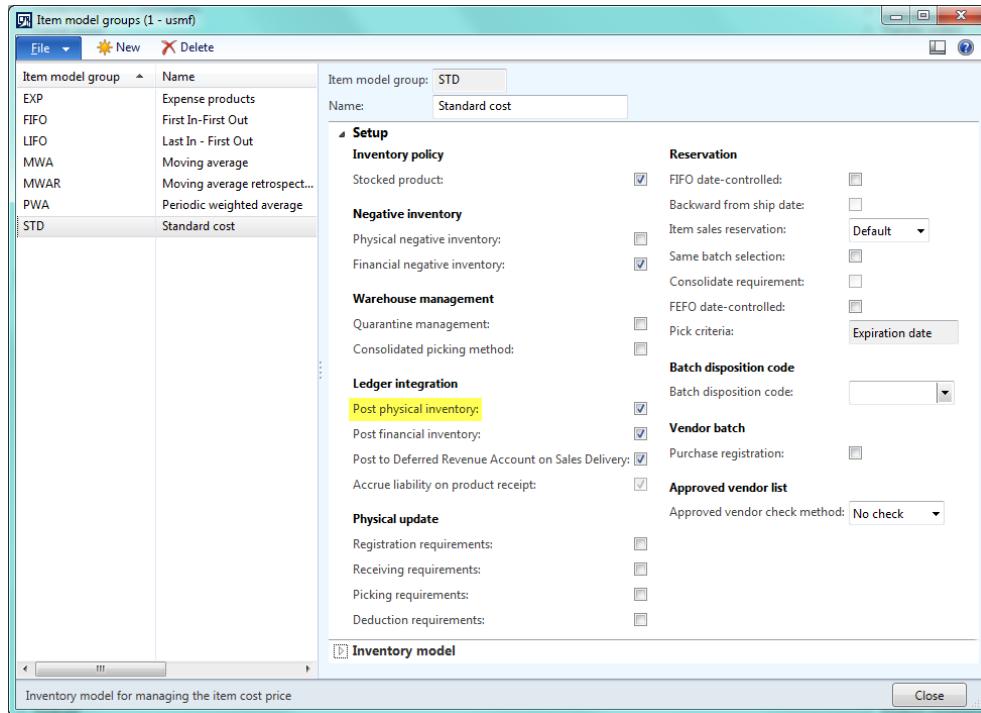


Figure 3.20 Item model groups form

3. Purchase

The **Ledger integration** field group contains the settings which will allow generating transactions during the product receipt step (the **Post physical inventory** check box), or even during the invoice step (the **Post financial inventory** check box).

We make sure that for the M0013 item, the transaction is generated during the product receipt step. During the invoice step this transaction is reversed and a new transaction is created.

Subledger Journal Entries

In Dynamics AX 2012 new subledger journal entries are introduced. These terms confuse me because a subsidiary ledger or sub ledger term is used in financials worldwide with another meaning.

We already know from the previous lesson that Dynamics AX has the following subledgers: vendor, customer, and item ledgers. These subledgers have own transactions.

But subledger journal entries it is about another thing. When a purchase order is invoiced, the general ledger transactions are generated. The Financial clerk checks the ledger transactions and for example finds out that wrong ledger accounts are used when the purchase order is invoiced. So for the Financial clerk it is nice to review the ledger transactions before posting occurs. For this purpose, subledger journal entries were introduced in Dynamics AX 2012.

For example, when a purchase order is invoiced, the subledger transactions are generated. The Financial clerk can review them. He or she cannot directly modify the subledger transactions but can change the setup that is used for creating transactions (i.e. change the posting profile). If subledger transactions are valid, subledger transactions can be transferred to the ledger.

The process of generating subledger transactions is called Journalizing. The process of transferring subledger transactions to ledger is called Posting.

Note that general journal posting does not generate subledger transactions. I think it is because the user enters transactions manually so there is no sense to review them after journalizing.

As you may note in this training lesson we have seen the ledger transactions right after the purchase order was Product received or Invoiced in the **Voucher transactions** form. It is because the journalizing and posting processes were performed one after another automatically.

Let's check setup go to the **General ledger > Setup > General ledger parameters > Batch transfer rules** menu tab.

3. Purchase

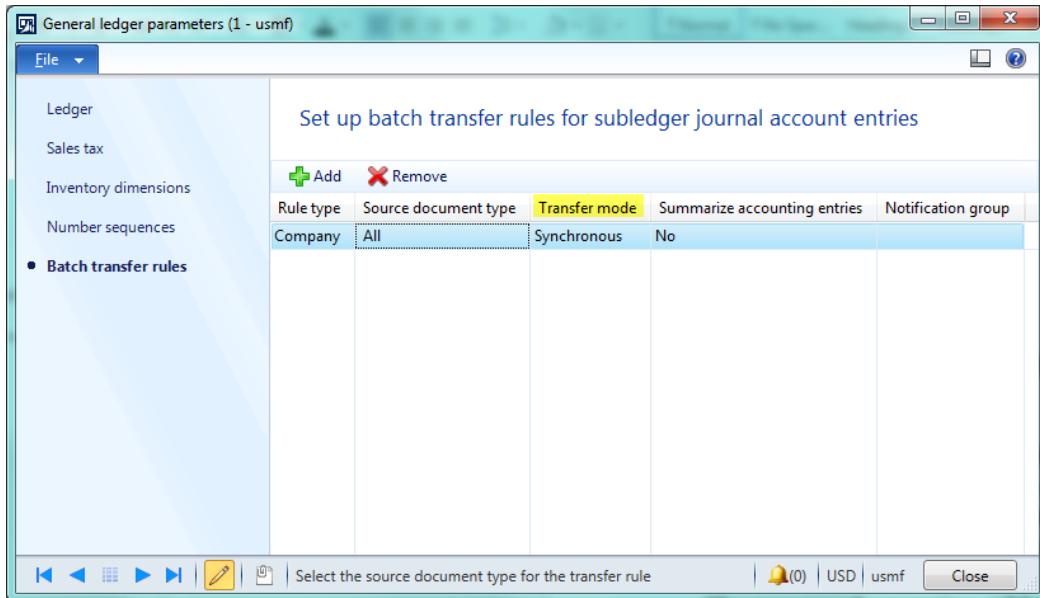


Figure 3.21 General ledger parameters form

The **Transfer mode** field determines if posting occurs after journalizing automatically or manually via batch jobs. The *Synchronous* means that posting occurs after journalizing automatically.

Let's review subledger transactions that are generated in the Product Receipt and Invoice steps.

Product Receipt

Open the **Purchase order** form with our order. Open the **Voucher transactions** form for Product Receipt by clicking **Receive > Journals > Product receipt > Vouchers**.

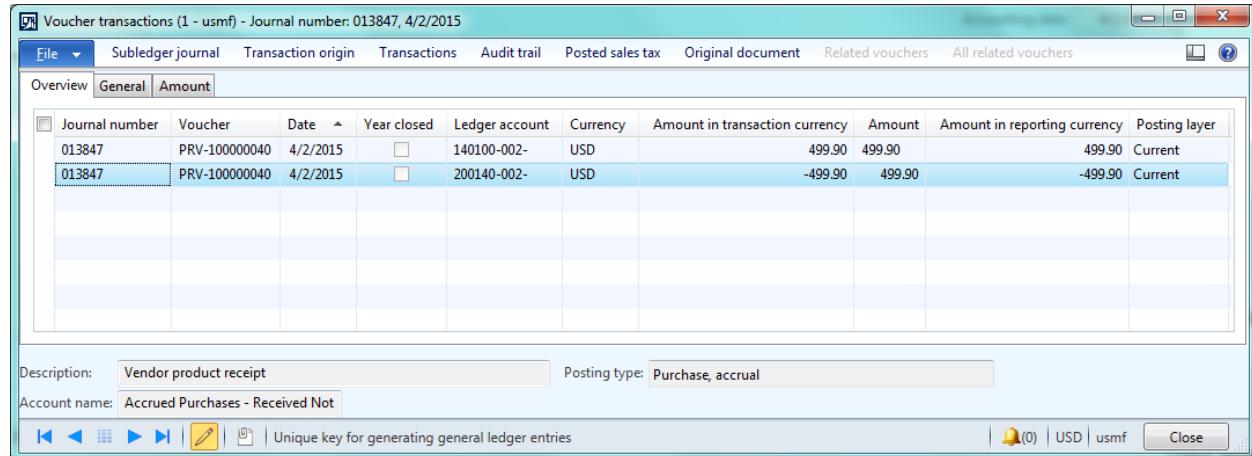


Figure 3.22 Voucher transactions form (Product Receipt)

In the **Voucher transactions** form, the general ledger transactions are shown.

3. Purchase

In the **Voucher transactions** form, the **Subledger journal** button is available. Click it. The **Subledger journal** form opens.

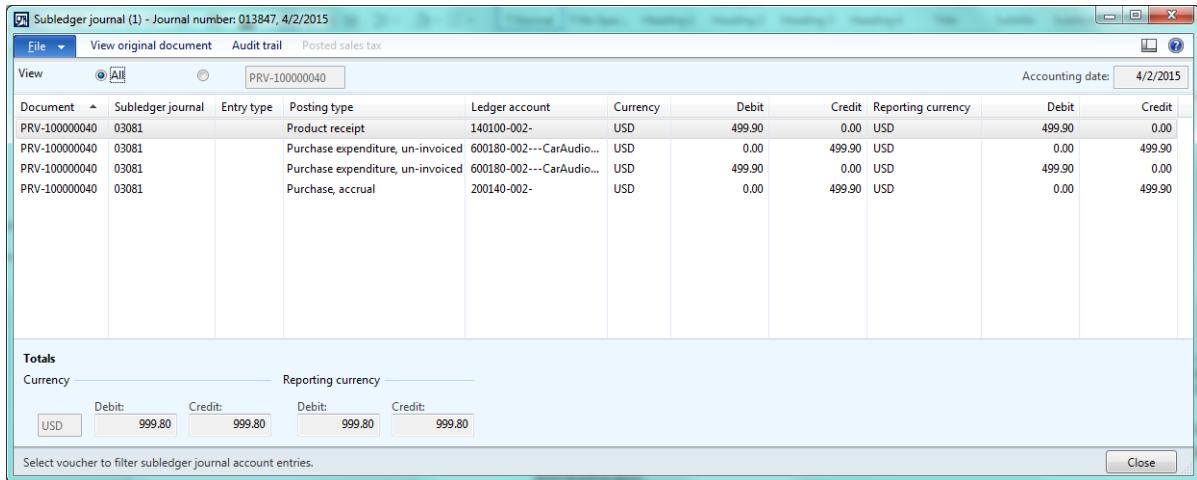


Figure 3.23 Subledger journal form (Product Receipt)

We can see that the number of subledger transactions is bigger than the number of ledger transaction. It is one more improvement in the Microsoft Dynamics AX 2012 for financials.

We assumed that the Product receipt step is posted to the following accounts:

Inventory (140100 Product receipt)		Accounts payable (200140 Purchase, accrual)	
Debit	Credit	Debit	Credit
\$499.90			\$499.90

But Dynamics AX 2012 use a bit complicated approach:

Inventory (140100 Product receipt)		Expense (Profit&Loss account) (600180 Purchase expenditure, un-inv.)	
Debit	Credit	Debit	Credit
\$499.90			\$499.90
Accounts payable (200140 Purchase, accrual)		Expense (Profit&Loss account) (600180 Purchase expenditure, un-inv.)	
Debit	Credit	Debit	Credit
	\$499.90		\$499.90

3. Purchase

In this case the Inventory and Accounts payable accounts are not linked by the double entry procedure. This means that it is possible to record one amount to the Inventory account and another amount to the Accounts payable account. For example:

Inventory		Expense (Profit&Loss account)	
Debit	Credit	Debit	Credit
<u>\$500</u>			\$500
Accounts payable		Expense (Profit&Loss account)	
Debit	Credit	Debit	Credit
	<u>\$499.90</u>		\$499.90

As I understand this simplifies the life of Financial people when an item is entered to the Inventory account by one amount. Then, the item is returned to the Vendor (for some reason) and entered to the Inventory account with another amount. In this case it is easier to adjust the Expense account rather than the Inventory or Accounts payable accounts.

Note that in common cases the Inventory and Accounts payable accounts are balanced in this step.

Note that when subledger journal entries are transferred to the ledger journal entries, they are grouped. As a result, we have only 2 lines in the **Voucher transactions** form.

Invoice

Open the **Purchase order** form with our order. Open the **Voucher transactions** form for the invoice by clicking **Invoice > Journals > Invoice > Vouchers**.

Journal number	Voucher	Date	Year closed	Ledger account	Currency	Amount in transaction currency	Amount	Amount in reporting currency	Posting layer
013848	PIV-110000541	4/2/2015		200100-002-	USD	-499.90	499.90	-499.90	Current
013848	PIV-110000541	4/2/2015		140100-002-	USD	499.90	499.90	499.90	Current
013848	PIV-110000541	4/2/2015		140100-002-	USD	-499.90	499.90	-499.90	Current
013848	PIV-110000541	4/2/2015		200140-002-	USD	499.90	499.90	499.90	Current
013848	PIV-110000541	4/2/2015		600180-002---CarAudio...	USD	0.00	0.00	0.00	Current

Description: Vendor invoice
Account name: Raw Materials Receipts
Posting type: Purchase expenditure for product
Unique key for generating general ledger entries
Bell icon (0) | USD | usmf | Close

Figure 3.24 Voucher transactions form (Invoice)

In the **Voucher transactions** form, the general ledger transactions are shown.

3. Purchase

To review the subledger journal entries, click the **Subledger journal** button. The **Subledger journal** form opens.

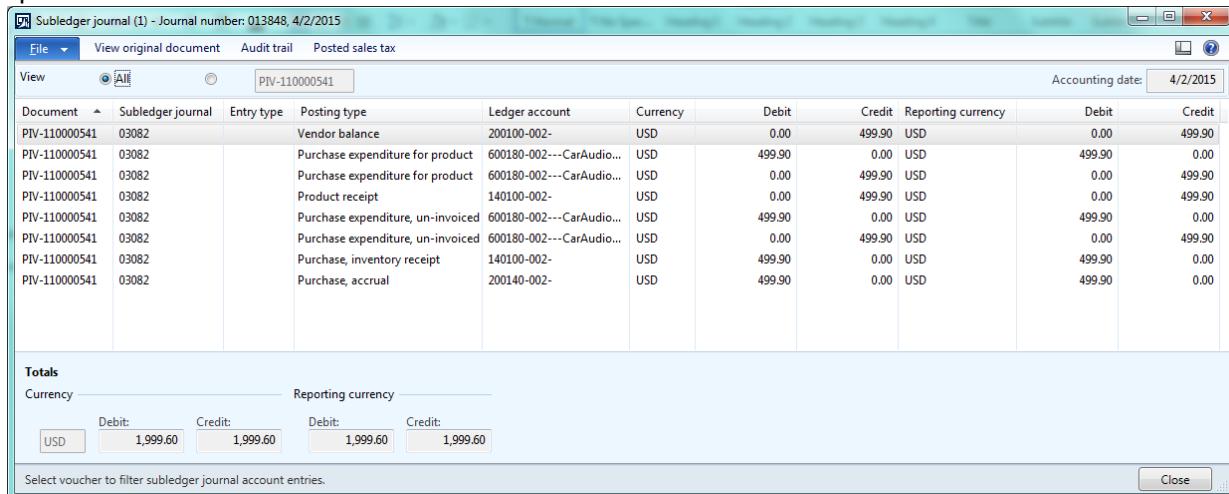


Figure 3.25 Subledger journal form (Invoice)

We can see that the number of subledger transactions is bigger than the number of ledger transaction. The reason here is the same as for the Product Receipt. In Dynamics AX 2012, the Inventory and Accounts payable accounts are not linked by the double entry procedure. This means that it is possible to record one amount to the Inventory account and another amount to the Accounts payable account.

The Dynamics AX 2012 generates the following sub ledger transactions for the Invoice step:

Debit	Credit	Debit	Credit	
Inventory un-invoiced (140100 Product receipt)		Expense (Profit&Loss account) (600180 Purchase expenditure, un-invoiced)		Reverse the amount from product receipt step
\$499.90		\$499.90		
Accounts payable not invoiced (200140 Purchase, accrual)		Expense (Profit&Loss account) (600180 Purchase expenditure, un-invoiced)		
\$499.90			\$499.90	
Inventory (140100 Purchase, inventory receipt)		Expense (Profit&Loss account) (600180 Purchase expenditure for product)		
\$499.90			\$499.90	
Accounts payable (200100 Vendor balance)		Expense (Profit&Loss account) (600180 Purchase expenditure for product)		
\$499.90		\$499.90		

3. Purchase

In common cases the Inventory and Accounts payable accounts are balanced in this step.

When subledger journal entries are transferred to the ledger journal entries they are grouped. As a result we have 5 lines in the **Voucher transactions** form. One lines with zero amount is shown. Frankly speaking it is difficult to explain why it is shown.

You can find more info about this accounting improvement (purchase expenditure) in the [“Accounting for stocked items on product receipts and vendor invoices”](#) white paper.

Posting Profiles

How does Microsoft Dynamics AX know what accounts should be used instead of the Inventory and Accounts Payable accounts in different operations?

For example, why does Microsoft Dynamics AX use the 200100 account as the Accounts Payable during the Invoice posting, and the 200140 account as the Accounts Payable un-invoiced during the Product receipt posting?

All information about accounts is stored in posting profiles. Microsoft Dynamics AX has a customer, vendor, and inventory posting profiles.

Vendor Posting Profile

The vendor posting profile answers the question what account should be used for a specific vendor.

Let's find the vendor posting profile that is used in our demo data. Go to **Accounts payable > Setup > Accounts payable parameters**. The **Accounts payable parameters** form opens. Go to the **Ledger and sales tax** tab, the **Posting** field group has the **Posting profile** field. In our case, the vendor posting profile is "GEN".

3. Purchase

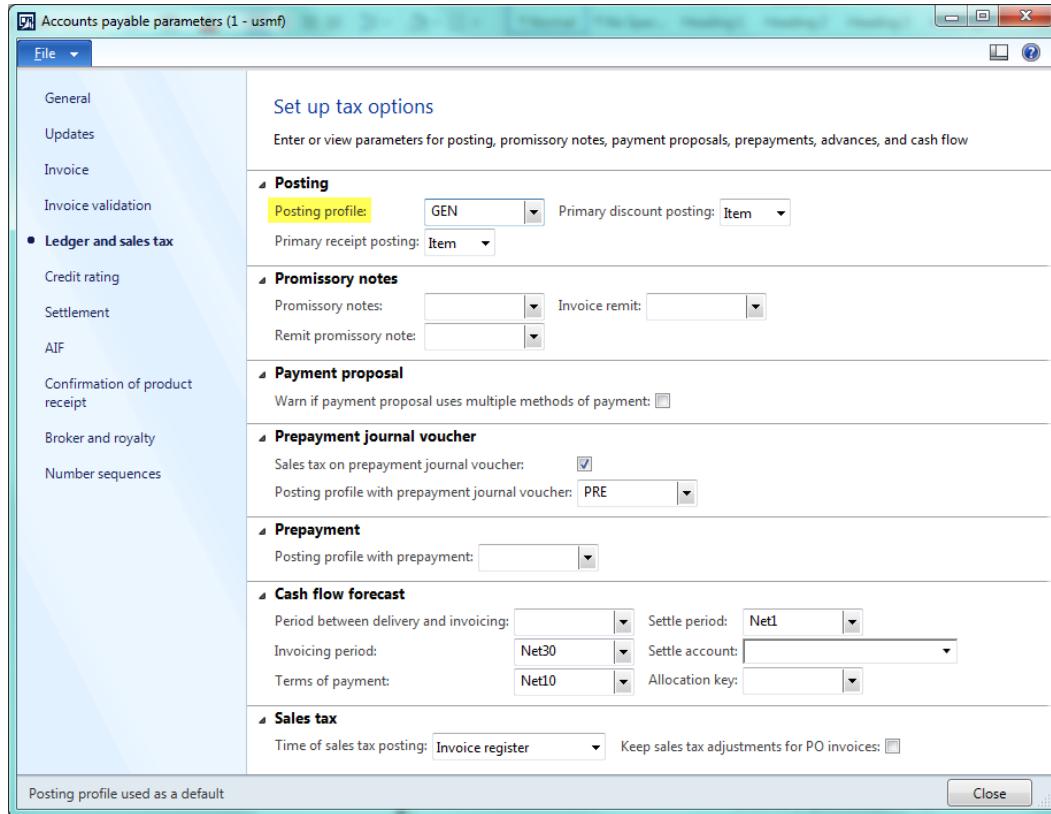


Figure 3.26 Accounts payable parameters form

Let's check what setup the "GEN" vendor posting profile has. We hope to find the 200100 and 200140 accounts because they are used in our transactions instead of the Accounts Payable accounts.

Go to **Accounts payable > Setup > Vendor posting profiles**. The **Vendor posting profiles** form opens. Select the "GEN" posting profile and go to the **Setup** fast tab.

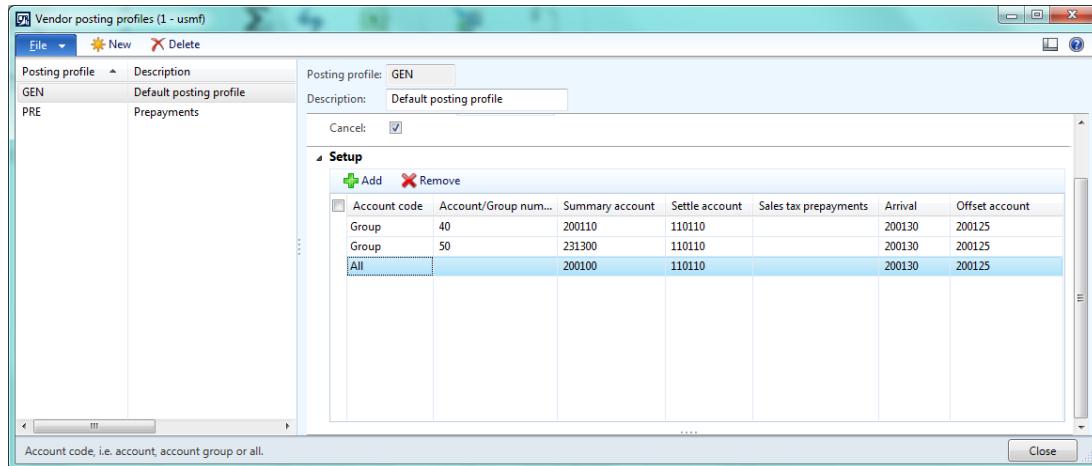


Figure 3.27 Vendor posting profile form

3. Purchase

We can see that there are three kinds of setup – one for the vendor that belongs to the “40”(Other vendors) vendor group, another to the “50” (Intercompany vendors) vendor group, and the last one for all vendors. We should find out to what vendor group the US-104 vendor belongs.

Go to **Accounts payable > Common > Vendors > All Vendors**. The **All vendors** list page opens. Filter by the US-104 vendor account.

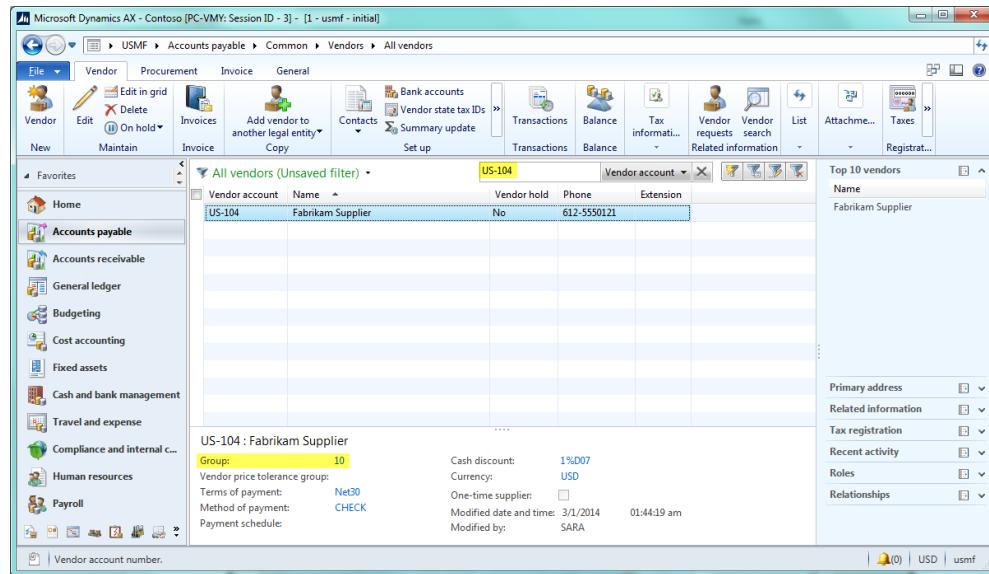


Figure 3.28 All vendors list page

We can see that the US-104 vendor belongs to the 10 (Parts vendors) group. Since the “GEN” profile doesn’t have an individual setup for the “10” vendor group, the setup for all vendors is used.

Return to the **Vendor posting profile** form. On the **Setup** tab, we can see that for all vendors, the 200100 account should be used as Accounts Payable. We make sure that during the invoice posting, the 200100 account was used as Accounts Payable.

By the way we can see that the setup doesn’t have the 200140 account. This account is used in the product receipt step as the Accounts Payable un-invoiced (in the Invoice step, it is only reversed, i.e. the account is taken from the Product receipt step). The Microsoft Dynamics AX architects decided to place the setup for the Accounts Payable un-invoiced in the inventory posting profile.

Inventory Posting Profile

One inventory posting profile exists per company. But, it can contain different setups for different items or item groups.

Let’s find out the item group that the M0013 item belongs to.

Go to **Product information management > Common > Released products**. The **Released products** list page opens, find the M0013 item, double-click it > the **Released product details** form opens > go to the

3. Purchase

Manage costs fast tab. On the **Manage costs** fast tab, find the **Item group** field. The M0013 item belongs to the *CarAudioRM* (Car Audio Raw Materials) group.

The screenshot shows the 'Released product details' window for item M0013, Subwoofer. The 'Manage costs' tab is selected. In the 'Posting' section, the 'Item group' is set to 'CarAudioRM'. The 'Costing' section shows 'Cost group: M1'. The 'ABC classification' section has all fields set to 'None'. The right side of the screen displays related product variants, product change cases, and assortments.

Figure 3.29 Released product details form, Manage costs fast tab

Let's look at the inventory posting profile. We hope to find the 140100 account because it is used as the Inventory un-invoiced and Inventory accounts. And, also the 200140 account because it is used as the Accounts payable un-invoiced account.

Go to **Inventory management > Setup > Posting > Posting**. The **Posting** form opens, go to the **Purchase order** tab.

3. Purchase

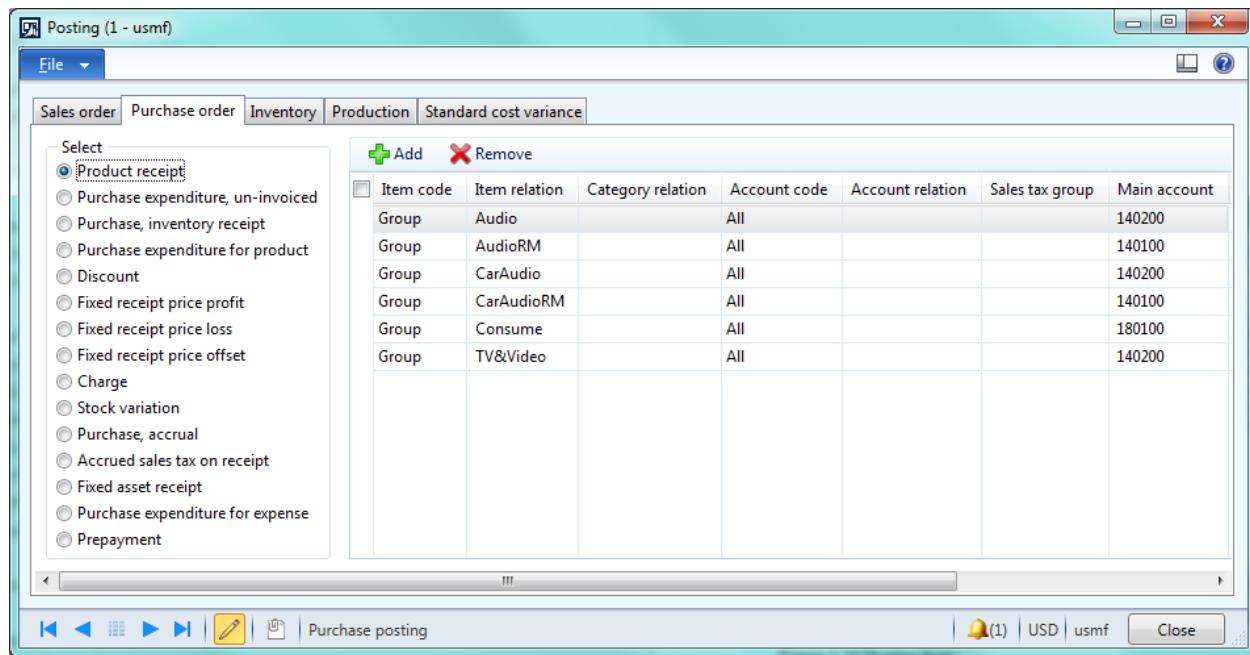


Figure 3.30 Posting form

During the Product receipt step, the accounts from the following setups are used:

- *Product receipt*. This setup is used for the Inventory un-invoiced accounts.
- *Purchase, accrual*. This setup is used for the Accounts payable un-invoiced accounts.

During the Invoice step, the account from the following setup is used:

- *Purchase, inventory receipt*. This setup is used for the Inventory accounts.

Let's review all these setups.

Select the **Product receipt** radio button. This setup is used for the Inventory un-invoiced account. There are several setup lines for different item groups.

We can see that the *CarAudioRM* item group uses the 140100 account. We make sure that for the M0013 item, the 140100 account is used as the Inventory un-invoiced account.

3. Purchase

The **Posting** form looks as follows:

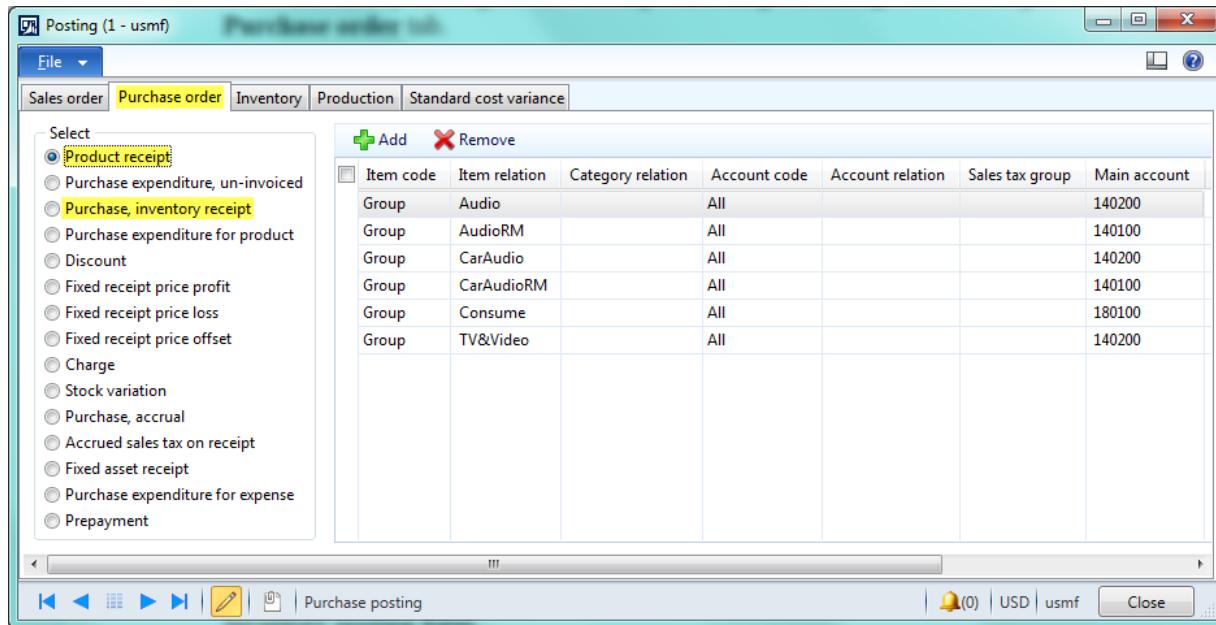


Figure 3.31 Posting form, Product receipt

Select the **Purchase, accrual** radio button. The grid contains the setup for the Accounts payable un-invoiced accounts. We can see that for the M0013 item, the 200140 account is used as the Accounts payable un-invoiced account.

The **Posting** form looks as follows:

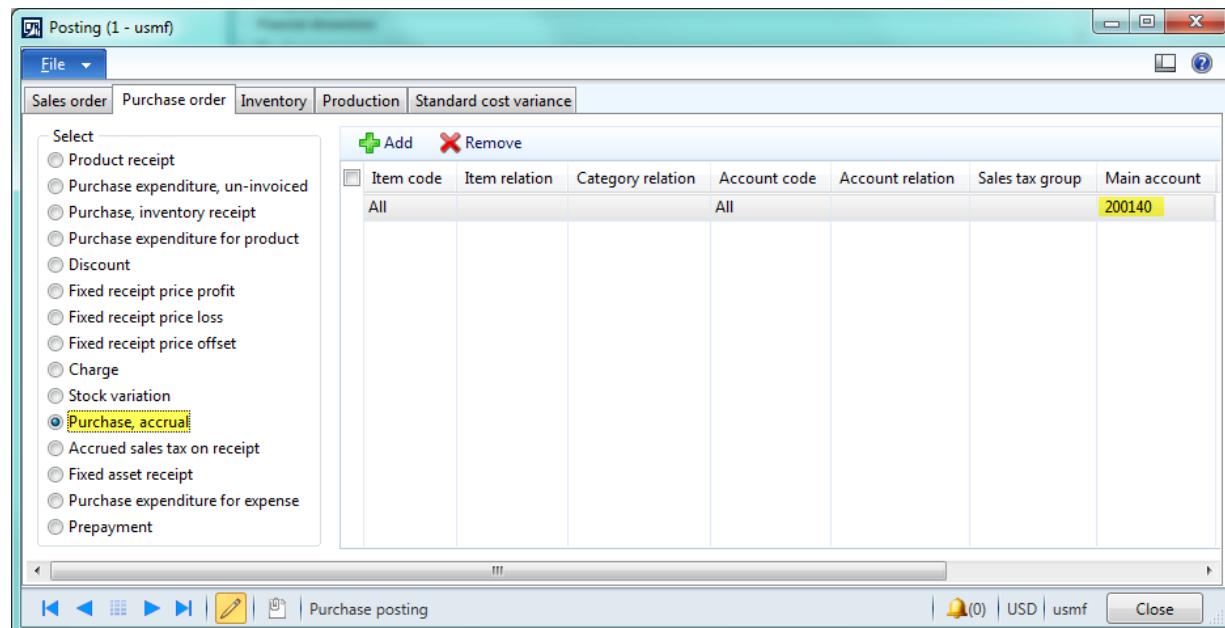


Figure 3.32 Posting form, Purchase, accrual

3. Purchase

Select the **Purchase, inventory receipt** radio button. The setup for the Inventory accounts becomes available. Find the setup for the “CarAudioRM” items. Make sure that for the M0013 item, the 140100 account is used as the Inventory account.

The **Posting** form looks as follows:

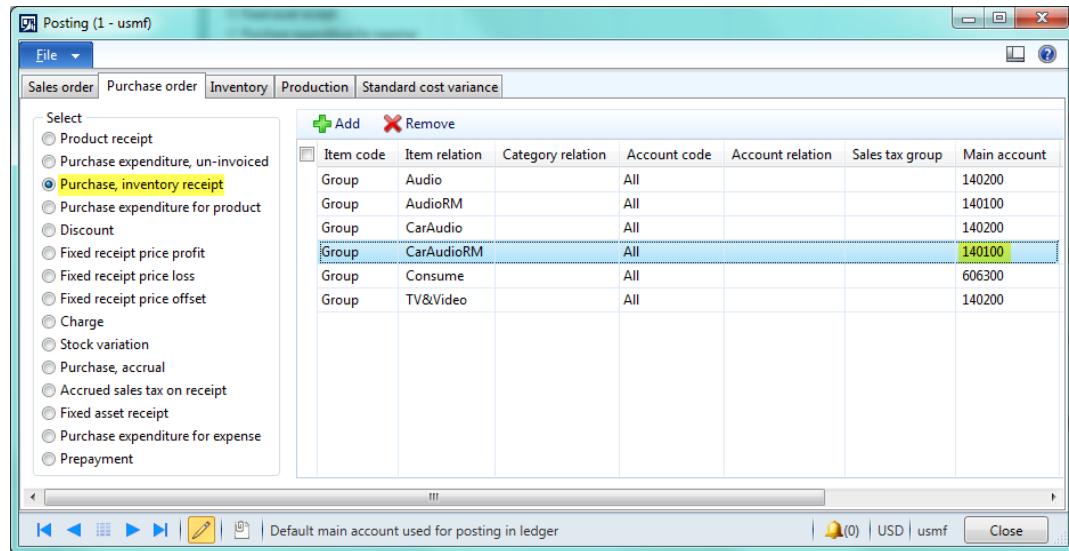


Figure 3.33 Posting form, Purchase, inventory receipt

We make sure that an inventory posting profile is used to identify general ledger accounts during the Product receipt and Invoice steps.

System Accounts

Besides the customer, vendor, and inventory posting profiles, Microsoft Dynamics AX has the setup for the system accounts.

System accounts setup is available under **General ledger > Setup > Posting > Accounts for automatic transactions**.

3. Purchase

The screenshot shows a list of accounts for automatic transactions. The columns are 'Posting type', 'Main account', and 'Name'. The 'Posting type' column contains various transaction types like 'Penny difference in reporting currency', 'Error account', 'Year-end result', etc. The 'Main account' column lists corresponding account numbers such as 618160, 999999, 300160, etc. The 'Name' column provides a descriptive name for each entry.

Posting type	Main account	Name
Penny difference in reporting currency	618160	Rounding Difference
Error account	999999	Error Account
Penny difference in accounting currency	618160	Rounding Difference
Year-end result	300160	Retained Earnings
Cash discount	403300	Customer Cash Discounts Taken
Balance account for consolidation differences	801200	Gain & Loss - Revaluation
Profit and loss account for consolidation diff...	801200	Gain & Loss - Revaluation
Customer cash discount	403300	Customer Cash Discounts Taken
Customer invoice discount	403160	Customer Invoice Discounts
Vendor cash discount	520200	Vendor Cash Discounts Taken
Vendor invoice discount	520100	Vendor Invoice Discounts
Order, freight	600120	Freight/Transportation In
Order fee	403150	Miscellaneous Charges
Order invoice rounding	618160	Rounding Difference
Vendor invoice rounding-off	618160	Rounding Difference
Purchase, fixed receipt price profit	510400	Fixed Receipt Price Inventory Adjustme...
Interunit - debit	133500	Interunit Receivable
Interunit - credit	231500	Interunit Payable

Figure 3.34 Accounts for automatic transactions form

Sales Tax Posting Profile

Accounts setup for sales tax posting is available under **General ledger > Setup > Sales tax > Ledger posting groups**.

The screenshot shows the 'Ledger posting groups' form. On the left is a list of ledger posting groups, with 'CA_State' selected. The main area displays the details for 'CA_State'. It shows the 'Description' as 'California State Tax'. Under the 'General' section, there are fields for 'Sales tax payable', 'Use tax payable', and 'Settlement account', each with a dropdown menu showing account numbers. On the right, under 'Cash discount posting', there are fields for 'Vendor cash discount' and 'Customer cash discount', also with dropdown menus.

Ledger posting group	Description
CA_State	California State Tax
CH_City	Chicago City Tax
CH_Cnty	Chicago County Tax
CK_Cnty	Cooke County Tax
CO_State	Colorado State Tax
DC_State	Washington DC Tax
FAR_City	Fargo City Tax
FL_State	Florida State Tax
GA_State	Georgia State
GEN	Generic
IA_State	Iowa State Tax
ID_State	Idaho State Tax
IL_State	Illinois State Tax
LA_City	LA City Tax
MA_State	Massachusetts State T...
MD_State	Maryland State Tax
MI_State	Michigan State Tax

Figure 3.35 Ledger posting groups form

Sales taxes are used during the sales process. So we will learn it in detail in the Sales training lesson.

Vendor Invoice

Imagine the following situation – the vendor sends us an Invoice for some service. We should record this information to the general and vendor ledgers. But, we don't have the item number for this service. In this case, we can't use the **Purchase order** form. You can answer that we can use the general journal, because this operation does not generate an inventory transaction. And, you will be right. The general journal can be used to post the Invoice from the vendor if an item transaction is not required. But, for convenience in Microsoft Dynamics AX, the Invoice journal is available. The Invoice journal is used for posting vendor invoices when the purchased items or services are not recorded to the Inventory ledger.

We assume that the vendor sends us an Invoice for \$20 for some service. The Accountant analyzes the received Invoice and enters the following transaction for this operation:

Accounts payable		Service Expense	
Debit	Credit	Debit	Credit
	\$20	\$20	

Accounts payable is the Liabilities account, the amount on this account increases, so the Credit part is used (Credit is “bad” for the company). The Expense is also the Liabilities and the amount is also increased but the Debit part is used. It is because the increase of the Expense is “good” for the company. In this case, the net income decreases, as we know that the net income is the company's liability and should be returned to the Owners.

We should record this information in the Invoice journal, post the Invoice, and analyze the results.

1. Open the **Invoice Journal** form by clicking **Accounts payable > Journals > Invoices > Invoice journal**. The **Invoice journal** form opens.
2. Create a new line. Select “APInvoice” in the **Name** field.
3. Click the **Lines** button. The **Journal voucher** form opens.
4. In the **Account** field, select the US-104 vendor and fill in \$20 in the **Credit** field.
5. Fill in the Invoice number that is printed on the document. For example, fill in the “Invoice journal 1” in the **Invoice** field.
6. The Accountant decides to use the 803200 (Extraordinary expense) account for the Sales Expense. Fill in 803200 in the **Offset account** field. Note that the 002 business unit is populated automatically (it is taken from the vendor financial dimensions).

3. Purchase

The screenshot shows the Microsoft Dynamics AX Journal voucher form. At the top, it displays a balance of -20.00 and a total credit of 20.00, indicating a balanced transaction. The journal type is set to 'Vendor invoice recording'. The main grid shows a single row for an invoice journal entry dated 6/17/2015, with a debit of 20.00 to 'US-104 Invoice journal 1' and a credit of 20.00 to '803200-002---'. Below the grid, sections for 'Invoice', 'Sales tax', and 'Document' are visible. The 'Invoice' section includes fields for terms of payment ('Net30'), due date ('7/17/2015'), and cash discount ('1%D07'). The 'Sales tax' section shows no tax applied. The 'Document' section shows the document number as 100.

Figure 3.36 Journal voucher form

Pay attention to the following information:

- We have used different account types in one transaction (the **Account type** and **Offset account type** fields).
- The **Terms of payment** field defines the terms of payment, i.e. when the company should pay to the vendor. In our case, the term of payment is Net30 (during 30 days). Microsoft Dynamics AX automatically defines the Due date. This information is taken from the vendor.
- The **Cash discount** field defines the cash discount. In our case, the cash discount is 1%D07 (1% discount for 7 days). If the company pays during the first 7 days, it receives the 1% discount. In the next training lesson, we will pay this Invoice and check whether the cash discount is applied. This information is taken from the vendor.

Since the transaction is balanced, i.e. Debit part = Credit part, we can validate and post the journal.

1. In the **Journal voucher** form, click the **Validate > Validate** button. The “Journal is Ok” message appears.
2. Click the **Post > Post** button. The “Number of vouchers posted to the journal: 1” message appears. It means that the journal is posted.

3. Purchase

Let's check the general ledger transaction that was generated. In the **Journal voucher** form, click the **Inquiries > Voucher** button. The **Voucher transactions** form opens.

The screenshot shows the 'Voucher transactions' window with the journal number 013851 and date 6/17/2015. The table displays two rows of data:

Journal number	Voucher	Date	Year closed	Ledger account	Currency	Amount in transaction currency	Amount	Amount in reporting currency	Posting layer
013851	APIN000002	6/17/2015		803200-002---	USD	20.00	20.00	20.00	Current
013851	APIN000002	6/17/2015		200100-002-	USD	-20.00	20.00	-20.00	Current

Description: Posting type: Vendor balance
Account name: Accounts Payable - Domestic

Figure 3.37 Voucher transactions form

Note that the Subledger journal buttons is disabled. Like general journal, subledger vouchers are not generated for the Vendor invoice.

We make sure that the 200100 controlling account (Accounts Payable) was credited for \$20 and the 803200 account (Services Expense) was debited.

Let's check whether the vendor transaction was generated. In the **Voucher transaction** form, click the **Transaction origin** button to view all transactions for all ledgers. The **Transaction origin** form opens.

The screenshot shows the 'Transaction origin' window for the Vendor module. The table displays three rows of data:

Module	Voucher	Date	Number	Text	Currency	Amount in transaction currency	Amount	Dimensions	Number
Ledger	APIN000002	6/17/2015	200100-002-		USD	-20.00	-20.00		
Ledger	APIN000002	6/17/2015	803200-002---		USD	20.00	20.00		
Vendor	APIN000002	6/17/2015	US-104		USD	-20.00	-20.00		

Name: Fabrikam Supplier
Table: Vendor transactions

Figure 3.38 Transaction origin form

We can see that the Vendor transaction is created. Go to the **Vendors form (Accounts payable > Common > Vendors > All vendors)**, find the US-104 vendor and click the **Transactions** button to make sure that the transaction exists.

3. Purchase

Figure 3.39 Vendor transactions form

Usually the company doesn't trust the employees who work in the purchase department, because the purchase agents can increase the price of the purchased items. For this purpose, the Invoice register and the Invoice approval journals are available. The Invoice register journal is used by all purchase managers. The Invoice approval journal is used by the senior purchase manager.

Let's create and post one more Invoice for \$20 for some vendor service:

1. Go to **Accounts Payable > Journals > Invoices > Invoice register**. The **Invoice register** form opens.
2. Create a new line. Select "APInvReg" in the **Name** field.
3. Click the **Lines** button. The **Journal voucher** form opens.
4. It is similar to the previous form. In the **Account** field, select the US-104 vendor.
5. Fill in the invoice number. For example "Invoice reg & appr 1".
6. Fill in 20 in the **Credit** field.
7. There is no offset account. Click the **Validate > Validate** button. The "Employee to approve the line is not specified" message appears. Fill in the **Approved by** field.

3. Purchase

The screenshot shows the 'Journal voucher' window. At the top, it displays the journal number (00476) and type (Invoice register). Below the header, there's a summary table with columns for Balance, Total debit, Total credit, and Budget check results. The main area contains a table with columns for Date, Voucher, Account, Invoice, Description, Debit, Credit, Sales tax group, Item sales tax group, and Transfer. One row is selected, showing 6/17/2015, APIR000025, US-104, Invoice reg & appr1, 20.00, No-Tax, AU/VI. Below this table are three groups of fields: Invoice (Approved by: 00001, Invoice payment release date: 6/17/2015, Release date comment: , Terms of payment: Net30, Due date: 7/17/2015, Payment ID: , Tax exempt number: , Purchase order:), Payment (Method of payment: CHECK, Payment specification: , Currency: USD, Exchange rate: 1.0000, Secondary exchange rate: 0.0000, Cross rate: 1.0000, Calculation method: USD - USD), and Sales tax (Calculated sales tax amount: 0.00, Actual sales tax amount: 0.00, Cash discount: 1%D07, Cash discount date: 6/24/2015, Cash discount amount: -0.20, Third-party bank:). At the bottom, there are navigation buttons (Back, Forward, etc.) and a status bar.

Figure 3.40 Journal voucher form

8. Click the **Validate > Validate** button again. The journal is valid now.
9. Click the **Post > Post** button. The “Voucher is posted and transferred to the pool” message appears.

Check what general ledger transaction was created. In the **Journal voucher** form, click the **Inquiries > Voucher** button. The **Voucher transactions** form opens.

The screenshot shows the 'Voucher transactions' window. At the top, it displays the journal number (013852) and date (6/17/2015). Below the header, there's a summary table with columns for Subledger journal, Transaction origin, Transactions, Audit trail, Posted sales tax, Original document, Related vouchers, and All related vouchers. The main area contains a table with columns for Journal number, Voucher, Date, Year closed, Ledger account, Currency, Amount in transaction currency, Amount, Amount in reporting currency, and Posting layer. Two rows are visible: one for a debit of -20.00 and one for a credit of 20.00. At the bottom, there are fields for Description (Accounts Payable - Offset Invoice), Posting type (Ledger journal), and Account name (Accounts Payable - Offset Invoice), along with navigation buttons (Back, Forward, etc.) and a status bar.

Figure 3.41 Voucher transactions form

3. Purchase

The following accounts were used: 200125 was Debited and 200130 was Credited. 200130 is the “Invoice pending approval” account. This account belongs to Accounts payable. 200125 is the “Offset Invoice pending approval” account. This account belongs to the Accounts payable accounts. This is the trick when two accounts from one category are used. It helps post the intermediate values. From the accounting equation point of view nothing is changed, because the transaction has the following view:

Accounts payable		Accounts payable	
Debit	Credit	Debit	Credit
	\$20	\$20	

Let's check the other transactions from the other ledgers. In the **Voucher transactions** form, click the **Transaction origin** button. The **Transaction origin** form opens.

The screenshot shows the 'Transaction origin' form for module 'Vendor, US-104'. The main grid displays three rows of data:

Module	Voucher	Date	Number	Text	Currency	Amount in transaction currency	Amount	Dimensions	Number
Ledger	APIR000025	6/17/2015	200125-002-		USD	20.00	20.00		
Ledger	APIR000025	6/17/2015	200130-002-		USD	-20.00	-20.00		

Below the grid, there are fields for 'Name' (Fabrikam Supplier) and 'Table' (Vendor transactions). At the bottom, there are navigation buttons and application modules.

Figure 3.42 Transaction origin form

We can see that the Vendor transaction was created.

The Senior Purchase Manager works with the Invoice approval journal:

1. Go to **Accounts Payable > Journals > Invoices > Invoice approval journal**. The **Invoice approval journal** form opens.
2. Create a new line. Select “APInvApp” in the **Name** field.
3. Click the **Lines** button. The **Journal voucher** form opens.
4. Click the **Find vouchers** button. The **Find vouchers** form opens. The form contains the voucher that was posted in the Invoice registration journal.

3. Purchase

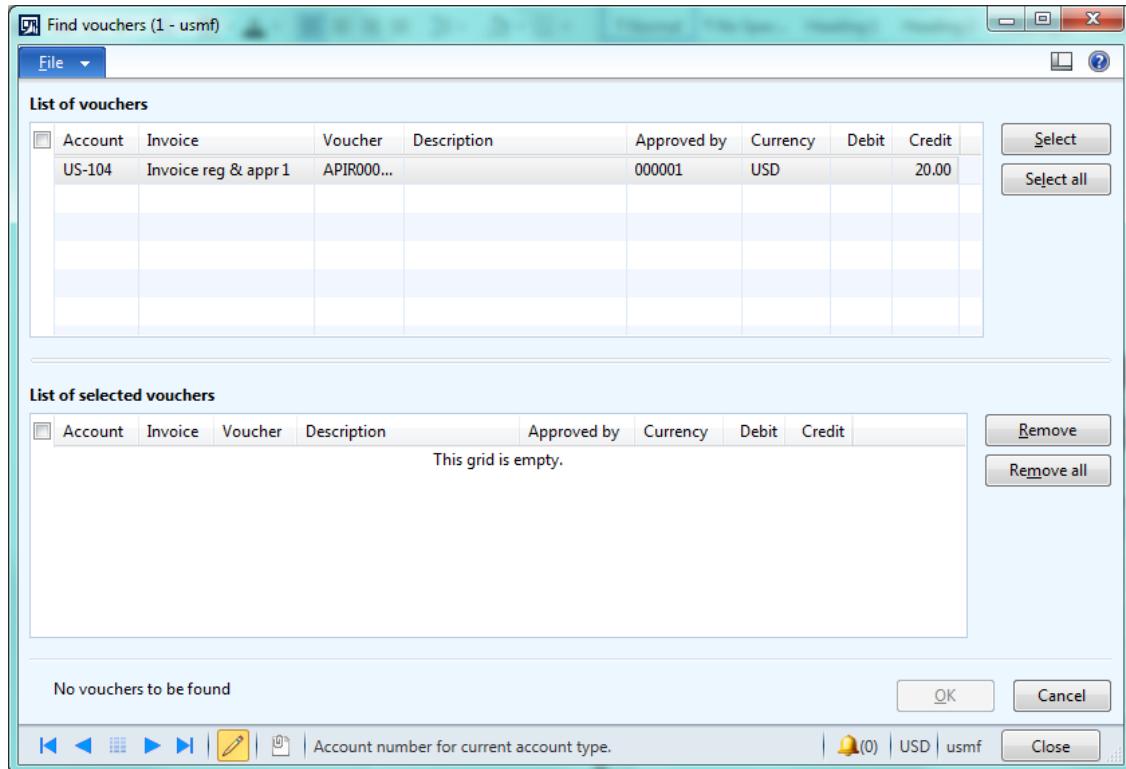


Figure 3.43 Find vouchers form

5. Click the **Select** button and then click **OK**.
6. The **Journal voucher** form will look as follows:

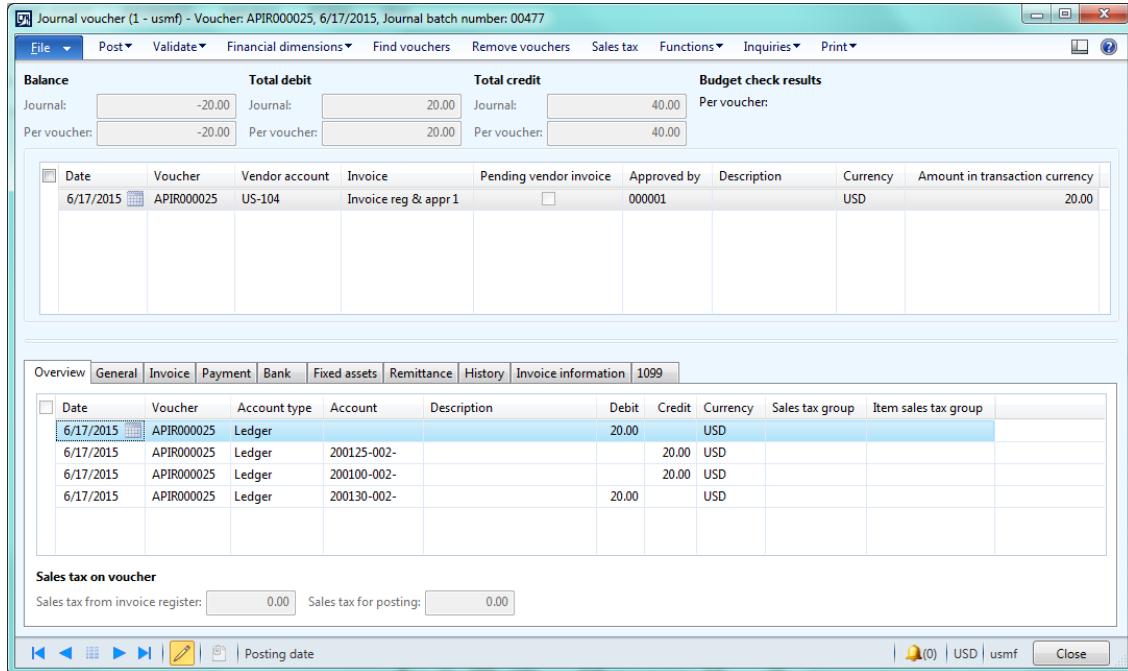


Figure 3.44 Journal voucher form

3. Purchase

The 200125 and 200130 accounts were used in the invoice registration posting, we can see that these accounts will be reversed. So, after the posting, the total amount (Credit – Debit) will equal zero. The 200100 (Accounts payable) account will be credited for \$20. The Senior Purchase Manager checks the amounts and specifies the offset account. We have specified 803200 (Extraordinary expense) as the offset account. Fill in 803200-002 in the **Account** field.

7. Click the **Validate > Validate** button. The “Journal is OK” message appears.
8. Click the **Post > Post** button. The journal will be posted.
9. Click the **Inquiries > Voucher** button to check the general ledger transaction that was generated.

The screenshot shows the 'Voucher transactions' window. At the top, it displays 'Voucher transactions (1 - usmf) - Journal number: 013853, 6/17/2015'. Below this is a toolbar with buttons for File, Subledger journal, Transaction origin, Transactions, Audit trail, Posted sales tax, Original document, Related vouchers, and All related vouchers. The main area contains a table with columns: Journal number, Voucher, Date, Year closed, Ledger account, Currency, Amount in transaction currency, Amount, Amount in reporting currency, and Posting layer. The table lists several rows of transactions, with the last row (013853) being highlighted. Below the table, there are fields for Description (set to 'Vendor balance'), Posting type (set to 'Vendor balance'), Account name (set to 'Accounts Payable - Domestic'), and a note about Unique key for generating general ledger entries. At the bottom right, there are buttons for Close, Help, and a notification icon.

Figure 3.45 Voucher transactions form

We can see that the same voucher number is used for the invoice registration journal and the invoice approval journal, because the general ledger transactions from both journals are available.

10. Click the **Transaction origin** button to see all transactions for all ledgers.

The screenshot shows the 'Transaction origin' window. At the top, it displays 'Transaction origin (1 - usmf) - Module: Vendor, US-104'. Below this is a toolbar with buttons for File, Overview, General, and Financial dimensions. The main area contains a table with columns: Module, Voucher, Date, Number, Text, Currency, Amount in transaction currency, Amount, Dimensions, and Number. The table lists several rows of transaction details, with the last row (Vendor APIR00025) being highlighted. Below the table, there are fields for Name (set to 'Fabrikam Supplier') and Table (set to 'Vendor transactions'). At the bottom right, there are buttons for Close, Help, and a notification icon.

Figure 3.46 Transaction origin form

As a result, one vendor transaction was generated, i.e. the vendor balance was changed. Balances of the 200100 and 803200 accounts are changed. Balances of the 200125 and 200130 accounts remain

3. Purchase

unchanged. The same result was when the Invoice was posted in one step with the help of the Invoice journal.

Only one question is left. Why were the 200130 (as Invoice pending approval), 200125 (as Invoice pending approval offset), and 200100 (as Accounts payable) accounts used?

All these accounts are set up in the vendor posting profile under **Accounts payable > Setup > Vendor posting profiles**. We have already defined that “GEN” is used as default and the US-104 vendor belongs to the 10 (Parts vendors) vendor group. Go to the **Setup** tab:

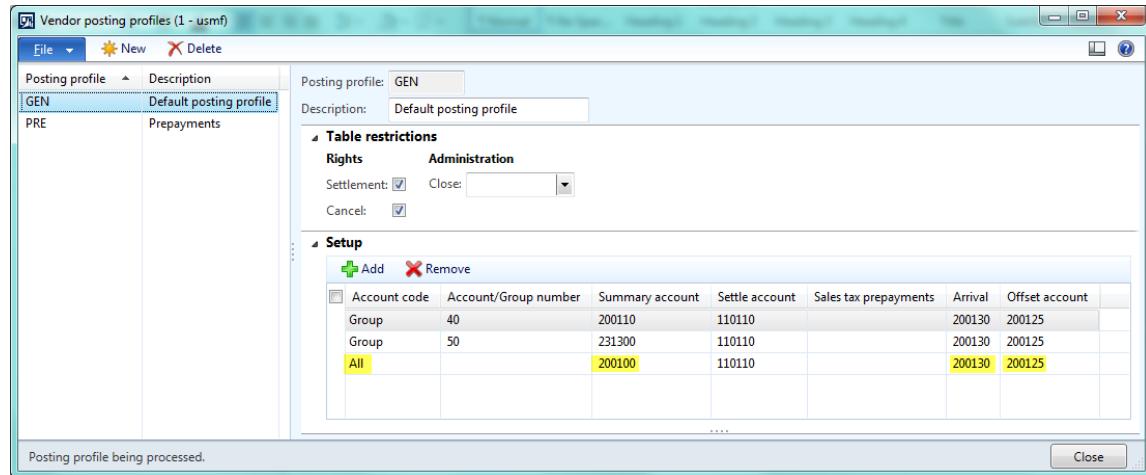


Figure 3.47 Vendor posting profiles

For all vendors (except vendors from the 40 and 50 vendor groups), the 200100 account is used as Accounts payable (or the summary), the 200130 account – as Invoice pending approval, and 200125 – as Offset Invoice pending approval.

Summary

In this training lesson we have studied the following:

- What the purchase business process is, what steps it includes
- What a purchase order is
- What are the Confirmation, Arrival and Registration, Product receipt, Invoice, and Finalize purchase order steps
- How the generated for the purchase order general ledger and subledger transactions look like
- How the generated for the purchase order subledger journal transactions look like
- What a posting profiles is. How vendor and inventory posting profiles look like
- What a vendor invoice is. Went through the Registration and approval steps, reviewed general ledger and subledger transactions that are generated.

In the next training lesson, we will pay for the delivered items and services, i.e. we will study the payment process.

4. Paying a vendor

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Introduction

In this training lesson, we will study the payment process.

In the previous lesson, we entered several purchases from the US-104 vendor with the help of general journal, purchase order, and vendor invoice. In this training lesson we will pay for these purchases.

Payment is a standalone process that does not influence the company profit or loss. This is because the company recognizes the profit or loss when an invoice is posted. After the invoice posting, the posted amount is recorded as the liabilities. The payment process is used to pay the vendor what the company owes.

The payment process generates the following transaction:

Bank		Accounts payable	
Debit	Credit	Debit	Credit
	\$Amount	\$Amount	

Remember in the Basic concepts lesson, we have studied that if the Assets increase, the Debit part is used, and if they decrease, the Credit part is used. For the Liabilities is vice versa. But, Debit is always “good” and Credit is always “bad” for the company.

The Bank account is the Assets account that contains the amount of money that the company has in the bank. The money in the bank decrease, so the Credit part is used. In other words, when the money decrease, it is “bad” for the company.

The Accounts payable is the Liabilities account that contains the amounts of money that the company owes to others. The Accounts payable amount decreases, so the Debit part is used. In other words, when debts decrease, it is “good” for the company.

4. Paying a vendor

Payment Parameters

The main payment parameters are:

- Method of payment. The company can pay for the delivered goods or services in different ways: by checks, electronic payments, cash, promissory notes, etc. This is the method of payment.
- Terms of payment. The terms of payment are used to define the due date (the last date when the company should pay to the vendor). If the company doesn't pay the vendor before or on the due date, the vendor sends the collection letter. We will learn collection letters in the next training lesson when we sell items to the customer, and the customer does not pay.
- Cash discount. The Cash discount is used to encourage the company to pay vendor as quickly as possible.

The desirable method of payment, terms of payment, cash discount, and other payment parameters are set per vendor under **Accounts payable > Common > Vendors > All vendors > double-click specific vendor > Payment** fast tab.

The US-104 vendor has the following payment parameters:

The screenshot shows the Microsoft Dynamics AX 2012 Vendor form for vendor US-104, Fabrikam Supplier. The form is divided into several sections:

- General Tab:** Shows basic information like vendor name (US-104 : Fabrikam Supplier), address (789 Eighth Street, Minneapolis, MN 55425, USA), and related info.
- Payment Tab:** Contains fields for payment terms, method, type, specification, schedule, and discount. The 'Terms of payment' field is highlighted as Net30, and the 'Method of payment' field is highlighted as CHECK.
- Notification to the central bank:** Fields for central bank purpose code and purpose text.
- Financial dimensions:** Fields for Tax 1099, Retail, and Financial dimensions.
- Buttons:** Standard Windows-style buttons for Save, Cancel, and Close.

Figure 4.1 Vendors form

4. Paying a vendor

As we can see the US-104 vendor has the CHECK method of payment, Net30 terms of payment, and 1%D07 cash discount.

Let's review details of these parameters.

The list of methods of payments is located under **Accounts payable > Setup > Payment > Methods of payment**.

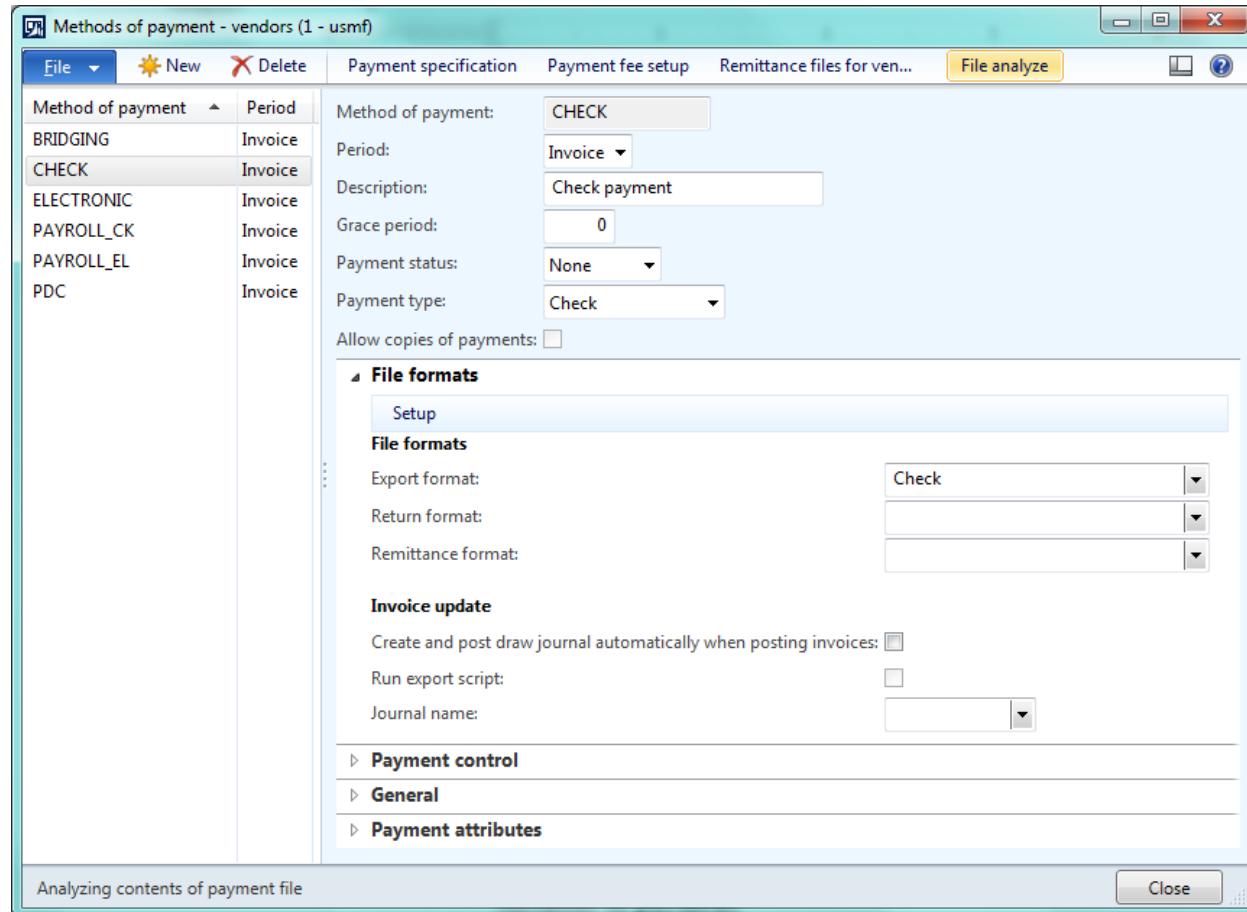


Figure 4.2 Methods of payment form

The "CHECK" method of payment has the following setup – the check format.

The terms of payments are set up under **Accounts payable > Setup > Payment > Terms of payment**.

4. Paying a vendor

Terms of payment	Description
Cash	Cash
COD	Cash on delivery
Month+15	Month end + 15 days
Net1	Net 1 day
Net10	Net 10 days
Net15	Net 15 days
Net30	Net 30 days
Net45	Net 45 days
Sch_5M	Equal payment schedule over 5 months
Sch_6M	Declining payment schedule over 6 months

Setup

Administration

Payment method: Net
Cash payment:
Months: 0
Days: 30
Payment schedule:
Payment day:
Default terms of payment:

Ledger posting

Cash:

Specify code for terms of payment for subsequent recognition

Close

Figure 4.3 Terms of payment form

The “Net30” terms of payment has the following setup – the due date (the last date when the company should pay the vendor) is the current date + 30 days.

The cash discount is set up under **Accounts payable > Setup > Payment > Cash discounts**.

Cash discount	Description
0.5%D10	0.5% 10 days
0.5%D30	0.5% 30 days
1%D07	1% 7 days
2%D07	2% 7 days
2%D10	2% 10 days
2%D15	2% 15 days
2%D30	2% 30 days
2%D60	2% 60 days
4%D10	4% 10 days
4%D20	4% 20 days

Setup

Discount principle

Net/Current: Net
Months: 0
Days: 7
Discount percentage: 1.00

Accounts receivable

Main account for customer discounts: 403300

Accounts payable

Discount offset accounts: Use Main account for vendor discounts
Main account for vendor discounts: 520200

Cash discount code for subsequent approval.

Close

Figure 4.4 Cash discounts form

4. Paying a vendor

The 1%D07 cash discount has the following setup – the discount for 1% is applied if the company pays the vendor during 7 days.

Since we didn't change default vendor payment parameters when posting vendor purchases to the system in the previous lesson, the vendor purchase transactions have the same set of payment parameters: CASH, Net30, 1%D07.

If we take a look at vendor transactions (by clicking the **Transactions** button in the **Vendors** form), we make sure that all transactions have the CHECK method of payment, due date is calculated according to the Net30 payment term, Cash discount date is calculated according to the 1%D07 cash discount.

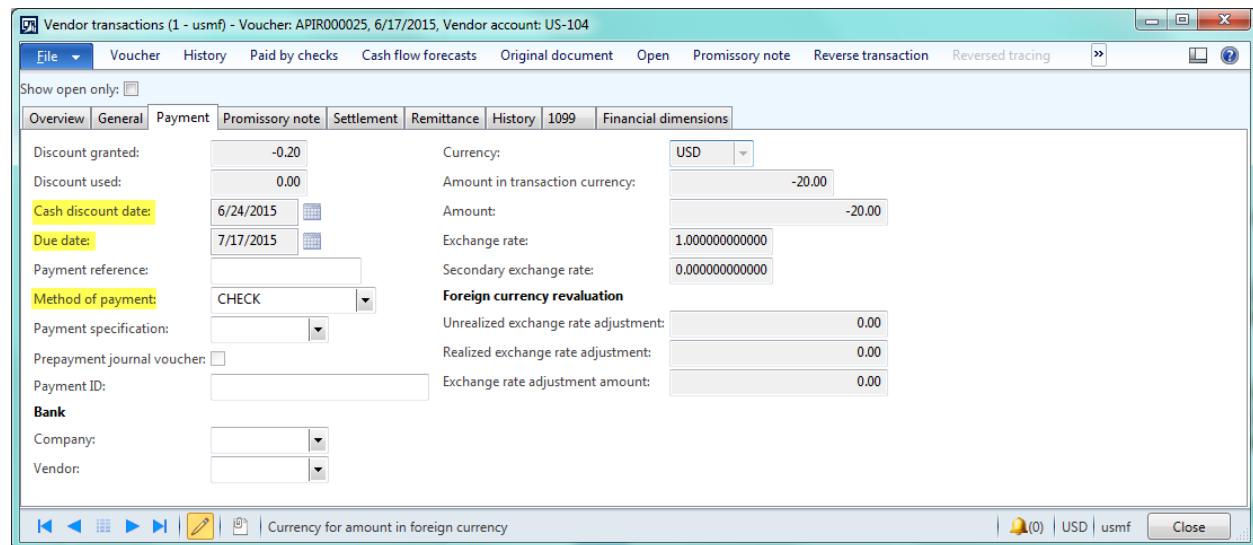


Figure 4.5 Vendor transactions form

Let's pay the vendor.

Payment

The Payment Manager performs the following steps (the payment process):

1. Finds what invoices should be paid on basis of due dates or cash discount dates.
2. Creates payments in the payment journal.
3. Generates a payment document: a check, a file for electronic payment, a promissory note, etc.
4. Sends the payment document to the vendor.
5. Receives an answer from the vendor.
6. Records in the system that the company has to pay the vendor, i.e. posts the payment.

Let's go through all these steps in Microsoft Dynamics AX.

1. Go to **Accounts payable > Journals > Payments > Payment journal**. The **Payment journal** form opens.
2. Create a new line and select "VendPay" in the **Name** field. Save the line.

4. Paying a vendor

3. Click the **Lines** button. The **Journal voucher** form opens.
4. Microsoft Dynamics AX allows automatically creating payments on basis of unpaid invoices. Click the **Payment proposal > Create payment proposal** button in the **Journal voucher** form. The **Vendor payment proposal** form opens. Select “Due date and cash discount” in the **Proposal type** field. Click **OK**.
5. The **Vendor payment proposal** form opens.

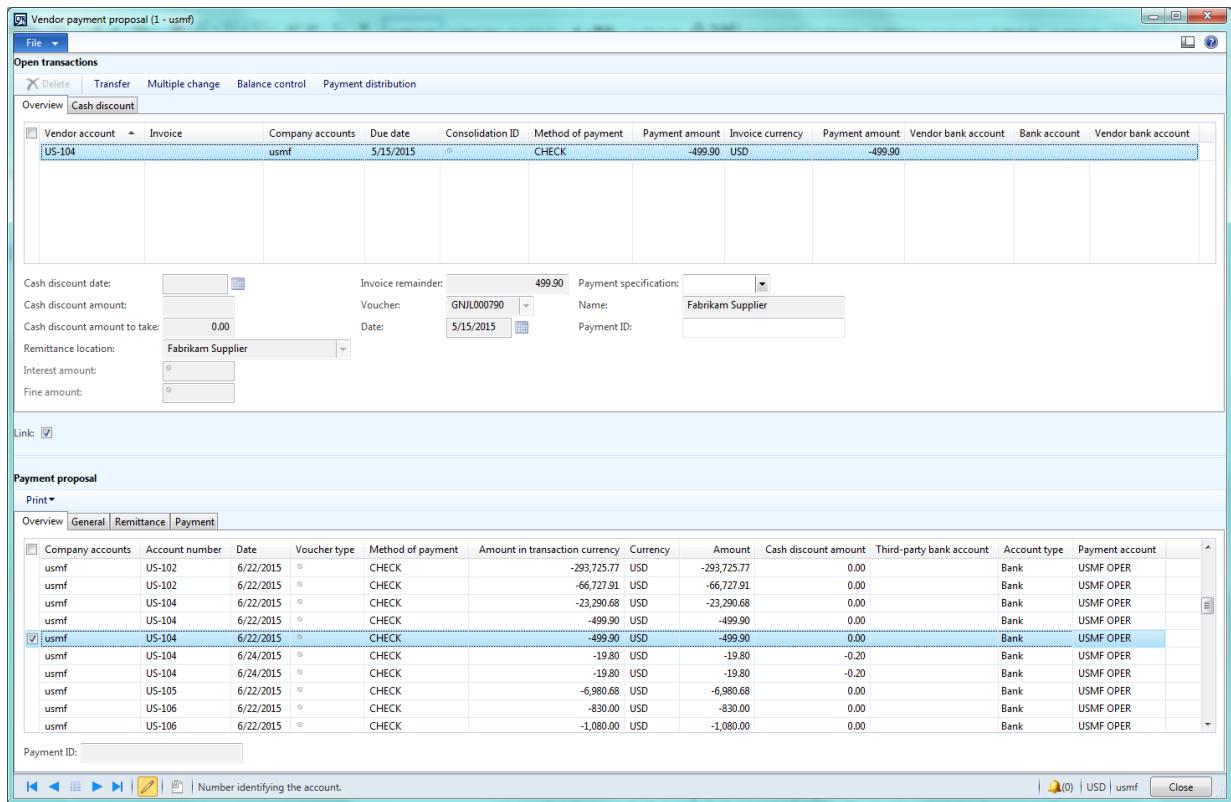


Figure 4.6 Vendor payment proposal form

The **Payment proposal** pane contains the payments that are proposed to be paid by the company. The **Open transactions** pane contains the invoice for which the payment was proposed.

If we select another payment in the **Payment proposal** pane, the information in the **Open transactions** pane changes.

To view all invoices for which payments were suggested, clear the **Link** check box. We can see that there are all invoices that were posted in the previous training lessons and a number of other ones:

4. Paying a vendor

Let's recall invoices that were generated in the scope of this training:

- “Invoice 1” (was generated with the help of the **Purchase order** form)
- Open transaction with empty invoice – the invoice was generated from the General journal
- “Invoice journal 1” (was generated with the help of the Invoice journal)
- “Invoice reg & appr 1” (was generated with the help of the Invoice registration and approval journals).

Leave all the above invoices in the **Open transactions** pane and delete the rest of transactions from the grid (Alt+F9).

We can see that Microsoft Dynamics AX suggests to pay these invoices later on the last day when the cash discount is valid.

The screenshot shows the 'Vendor payment proposal (1 - usmf)' window. The 'Open transactions' pane lists three invoices for vendor US-104: 'Invoice 1', 'Invoice journal 1', and 'Invoice reg & appr 1'. The 'Payment proposal' pane shows a grid of payment details for these invoices, including columns for Company account, Account number, Date, Voucher type, Method of payment, Amount in transaction currency, Currency, Amount, Cash discount amount, Third-party bank account, Account type, and Payment account. The 'Cash discount amount' column is highlighted in yellow.

Figure 4.7 Vendor payment proposal form

Let's assume that the Company decides to pay today for the “Invoice journal 1” invoice. Delete all open transactions except the one with the “Invoice journal 1” invoice from the **Open transactions** pane.

6. Click the **Transfer** button. The **Transfer payment proposal** box appears. Click **OK**.

4. Paying a vendor

7. The **Journal voucher** form looks as follows:

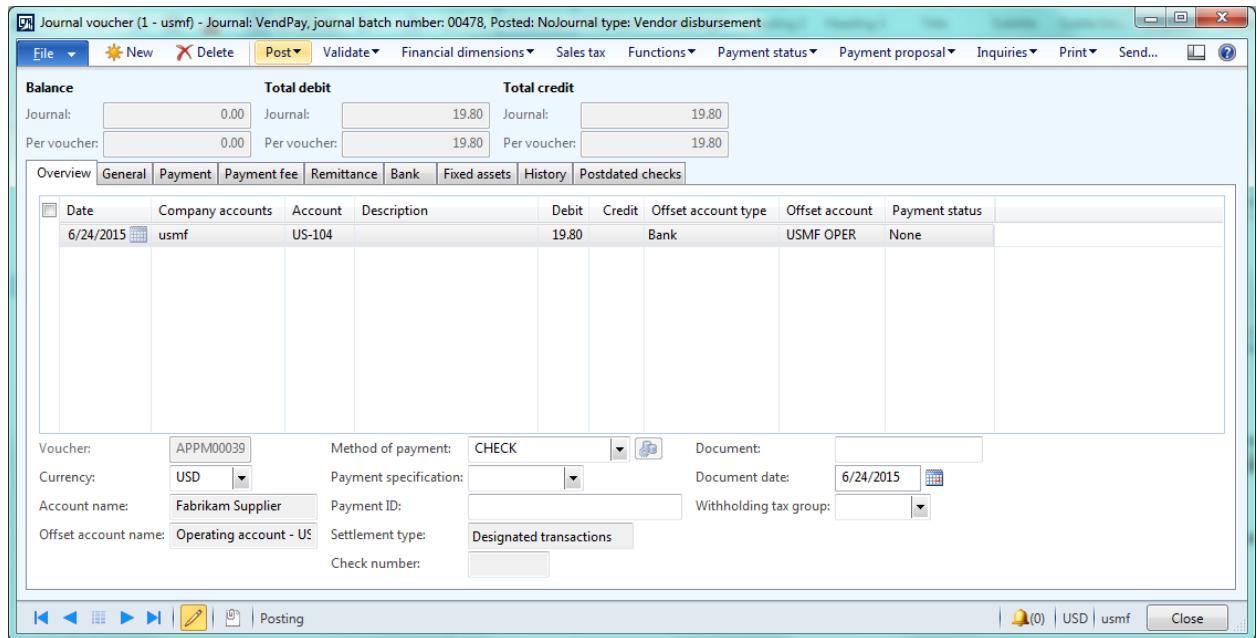


Figure 4.8 Journal voucher form

We can see that one payment line is created.

The **Currency** and **Method of payments** fields are filled in automatically from the invoice.

The **Offset account** field is also populated automatically from the method of payment. The USMF OPER bank account is taken from the method of payment under **Accounts payable > Setup > Payment > Methods of payment** > find USMF OPER > **General** fast tab > **Posting** field group > **Payment account** field.

The “US-104” vendor account is debited (for the Liabilities, it means – decreased). The “USMF OPER” bank account is credited (for the Assets, it means – decreased). As a result the following transactions are generated:

- One vendor transaction for the US-104 vendor
- One bank transaction for the USMF OPER bank account
- Two general ledger transactions for the controlling accounts

The US-104 vendor has the 200100 general ledger controlling account (set up in the vendor posting profile).

Note that for the bank account, the controlling account is set up under **Cash and bank management > Common > Bank Accounts** > find the “USMF OPER” bank account > **Main account** field.

4. Paying a vendor

In our demo data, the controlling account for the bank account is 110110 (Bank account – USD). (This account belongs to the CASH&CASH EQUIVALENTS and Asset accounts).

8. When the payment proposal is used, Microsoft Dynamics AX automatically settles payments and invoices. This is required because the company should know which exactly invoices were paid. To view the settlement, click the **Function > Settlement** button. The **Cancel settlement** box appears, click **NO**. The **Settle open transactions** form appears. This form contains all “open” invoices (i.e. unpaid invoices). We can see that the “Invoice journal 1” invoice is marked, i.e. settled with the payment line. Note that we can manually change the settlement.

Is marked	Mark	Full settlement	Use cash discount	Voucher	Account	Company accounts	Date	Due date	Invoice	Note ID	Sequence number	Status	Remittance...	Amount	Currency	Cross rate	Amount to settle
<input checked="" type="checkbox"/>	<input type="radio"/>	Normal	PIV-110000...	US-104	usmf		11/30/2010	12/30/2012	AP-0009	0		Invoiced		23,290.68	USD	####	-23,290.68
<input type="checkbox"/>	<input checked="" type="radio"/>	Normal	PIV-110000...	US-104	usmf		4/2/2015	5/2/2015	Invoice 1	0		Invoiced		499.90	USD	####	-499.90
<input type="checkbox"/>	<input type="radio"/>	Normal	GNJL000790	US-104	usmf		5/15/2015	5/15/2015		0		Invoiced		499.90	USD	####	-499.90
<input checked="" type="checkbox"/>	<input type="radio"/>	Normal	APIN000002	US-104	usmf		6/17/2015	7/17/2015	Invoice journal 1	0		Invoiced		20.00	USD	####	-19.80
<input type="checkbox"/>	<input type="radio"/>	Normal	APIR000025	US-104	usmf		6/17/2015	7/17/2015	Invoice reg & ap...	0		Invoiced		20.00	USD	####	-19.80

Cash discount date: Cash discount amount to take: 0.00
 Cash discount amount: 0.00 Cash discount amount to take in USD: 0.00
 Discount amount in USD: 0.00 Full settlement cash discount:
 Use cash discount: Normal Full settlement cash discount in USD:
 Cash discount taken: 0.00 Interest amount:
 Cash discount taken in USD: 0.00 Fine amount: Description: Alternative cash discount account:

Figure 4.9 Settle open transactions form

9. The Payment Manager checks all payment details. Since all information is correct, a payment check can be generated. In the **Journal voucher** form, click the **Functions > Generate payments** button. The **Generate payments** form opens. Select “CHECK” in the **Method of payment** field, “USMF OPER” in the **Bank account** field, and then select the **Show format dialog** check box. Click **OK**.

<input checked="" type="radio"/> Payment method	Journal lines	
Method of payment: <input type="text"/> CHECK	Account type: <input type="text"/> Vendor	<input type="button"/> Select
<input type="radio"/> Export format	Offset account type: <input type="text"/>	<input type="button"/> Dialog
Export format: <input type="text"/>	Method of payment: <input type="text"/>	
<input type="radio"/> Export payment using service	Payment specification: <input type="text"/>	
Payment format: <input type="text"/>	Payment status: <input type="text"/> None, Rejected	
Selection	Bank transaction type: <input type="text"/>	
Bank account: <input type="text"/> USMF OPER	Bank account: <input type="text"/>	
Show format dialog: <input checked="" type="checkbox"/>	<input type="button"/> OK <input type="button"/> Cancel	

Show the dialog of the payment format before generating payments?

Figure 4.10 Generate payments form

4. Paying a vendor

10. The **Payment by check** form opens.

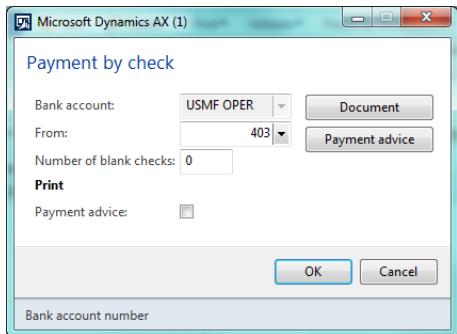


Figure 4.11 Payment by check form

11. Print the check to the screen. Make sure that the SSRS is running. By default, checks are printed to the Printer but we will change this setup to Screen by clicking the **Document** button. The **Print destination settings** form opens. Select *Screen* and click **OK**. In the **Payment by check** form, click **OK**.
12. The check is shown.

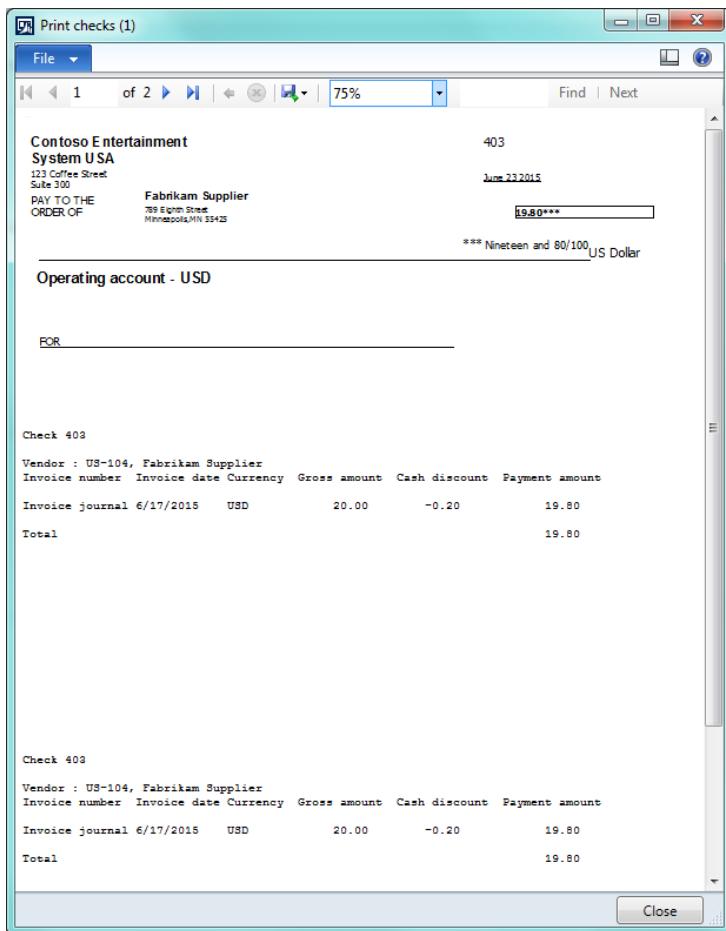


Figure 4.12 Print checks form

4. Paying a vendor

13. Return to the **Journal voucher** form. The value of the **Payment status** field is changed from *None* to *Sent*. It means that the payment is sent to the Vendor (checks, money, electronic transfer, etc.) but not yet received by the vendor.
14. For convenience, all sent payments are displayed in a separate journal under **Accounts payable > Journals > Payments > Payment transfer**. In this case, the Payment Manager can send all necessary payments during the day and then register the received status at the end of the day.

The screenshot shows the 'Payment transfer' form in Microsoft Dynamics AX. The title bar indicates it's for journal batch number 00478, APPM000393. The main area has tabs for Overview, General, and Payment fee. The Overview tab displays a grid of payment details:

Date	Account	Account name	Journal batch number	Voucher	Amount	Currency	Exchange rate	Payment status
6/24/2015	US-104	Fabrikam Supplier	00478	APPM000393	19.80	USD	1.0000	Sent

Below the grid are several input fields:

- Payment reference: 403
- Offset account: USMF OPER
- Method of payment: CHECK
- Payment specification: (dropdown)
- Payment ID: (dropdown)
- Release date: (calendar icon)

At the bottom are navigation icons (back, forward, search, etc.) and a status bar indicating the current account type is usmf.

Figure 4.13 Payment transfer form

We assume that the Payment Manager calls the vendor to ensure that the check is received.

If the electronic payment method is used, the return file is generated when the vendor receives the payment. In this case, the return file is loaded with the help of the **Return file-Vendor** button, validated, and the status is changed to Received automatically.

In our case, we change the payment status from *Sent* to *Received* manually. Click the **Payment status > Received** button. The payment status is changed to *Received*. Note that this step is optional.

15. Close the **Payment transfer** form and return to the **Journal voucher** form (click F5 to refresh data). Make sure that the payment status is *Received*. Since the payment is received, the Payment Manager posts the payment. Click the **Post > Post** button. The voucher is posted successfully.

4. Paying a vendor

Posting Results

Let's analyze the posting results. The general ledger, vendor, and bank transactions should be created.

In the previous paragraph, we have found out that the 110110 ledger account is the controlling account for the USMF OPER bank account and the 200100 ledger account is the controlling account for the US-104 vendor account.

We assume to find the following transactions.

General ledger:

110110 (Bank)		200100 (Accounts payable)	
Debit	Credit	Debit	Credit
	19.80	19.80	

Subledgers (the Vendor and the Bank ledgers):

USMF OPER (Bank account)		US-104 (Vendor)	
Debit	Credit	Debit	Credit
	19.80	19.80	

In the **Journal** voucher form, click the **Inquiries > Voucher** button. The **Voucher transactions** form opens. This form contains the general ledger transactions.

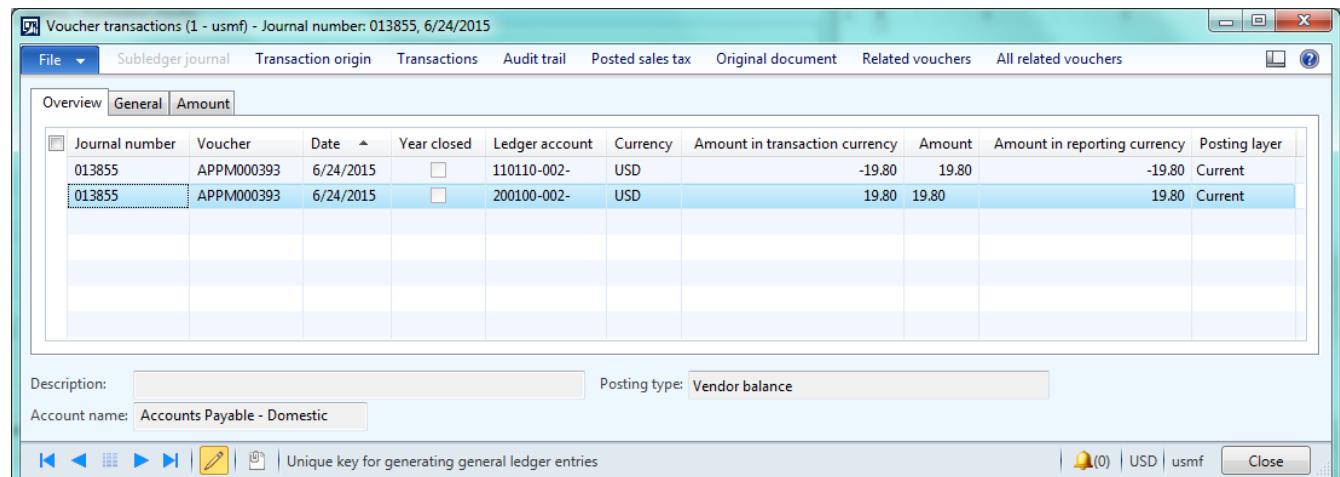


Figure 4.14 Voucher transactions form

4. Paying a vendor

Click the **Transaction origin** button to view all transactions for all ledgers. We can see that except ledger transactions one vendor and one bank transactions are generated.

The screenshot shows a Microsoft Dynamics AX application window titled "Transaction origin (1 - usmf) - Module: Bank, USMF OPER". The window has tabs at the top: "Overview" (selected), "General", and "Financial dimensions". Below the tabs is a table with the following data:

Module	Voucher	Date	Number	Text	Currency	Amount in transaction currency	Amount	Dimensions	Number
Ledger	APPM000393	6/24/2015	200100-002-		USD	19.80	19.80		
Ledger	APPM000393	6/24/2015	110110-002-		USD	-19.80	-19.80		
Vendor	APPM000393	6/24/2015	US-104		USD	19.80	19.80		
Bank	APPM000393	6/24/2015	USMF OPER	403	USD	-19.80	-19.80		

Below the table, there are two input fields: "Name: Operating account - USD" and "Table: Bank transactions". At the bottom are standard Windows-style navigation buttons (Back, Forward, Home, etc.) and application-specific buttons like "Application modules", a bell icon, and "Close".

Figure 4.15 Transaction origin form

Let's analyze the general ledger transactions. Return to the **Voucher transactions** form. The 200100 account is the controlling account for the US-104 vendor. The 110110 account is the controlling account for the USMF OPER bank account. We make sure that the general ledger transaction looks as follows:

Cash & Cash equivalents (110110)		Accounts payable (211100)	
Debit	Credit	Debit	Credit
	\$19.80		\$19.80

What about \$0.2? If you remember when we have made a purchase, the sum of \$20 was recorded to the Credit part of the 200100 account, but after the payment, only \$19.80 was recorded to the Debit part. So the balance for the 200100 account is \$0.2. It means that the company owes \$0.2 to the vendor. But this is not true because the company receives the cash discount. The cash discount should generate the following transaction:

Sales		Accounts payable (200100)	
Debit	Credit	Debit	Credit
	\$0.2		\$0.2

The Accounts payable account is decreased (since it is the Liabilities account, the Debit part is used). The Sales account is used because the company pays less for the purchased items. This item can be sold or used in production, as a result the company receives more profit, because the cost of item is less than it was assumed. The Sales account is increased, because the company saves the money and their profit increases. All the company's profit should be returned to the Company Owners. The Sales account is like the Liabilities, so the Credit part is used.

4. Paying a vendor

This transaction was generated. In the **Voucher transactions** form, click the **Related vouchers** button. The **Related ledger transaction vouchers** form opens. Click the **Voucher** button. The **Voucher transactions** form opens.

The screenshot shows the 'Voucher transactions' window with the journal number '013854' and date '6/24/2015'. There are two rows in the grid:

Journal number	Voucher	Date	Year closed	Ledger account	Currency	Amount in transaction currency	Amount	Amount in reporting currency	Posting layer
013854	140000364	6/24/2015	<input type="checkbox"/>	520200-002---	USD	-0.20	0.20	-0.20	Current
013854	140000364	6/24/2015	<input type="checkbox"/>	200100-002-	USD	0.20	0.20	0.20	Current

Below the grid, there are fields for 'Description' (empty), 'Posting type' (Vendor balance), 'Account name' (Accounts Payable - Domestic), and a note about unique keys. The bottom right corner shows a bell icon with '(0)', USD, usmf, and a Close button.

Figure 4.16 Voucher transactions form

We can see the following transaction:

520200		200100	
Debit	Credit	Debit	Credit
	0.2	0.2	

The 211100 account is the vendor controlling account.

If we go to the **Main accounts** form, we find that the 520200 account has the "Vendor Cash Discounts Taken" name and belongs to the Sales (Profit) accounts.

You can ask why the 520200 account was used as the Sales account. The ledger account for this operation is set up in the **Cash discounts** form located under **Accounts payable > Setup > Payment > Cash discounts** > find the "1%D07" cash discount > **Setup** fast tab > **Main account for vendor discounts** field.

With the help of these two vouchers, the 200100 ledger account contains the correct value. In other words, the company does not owe the vendor \$0.2 for the "Invoice journal 1" invoice.

Check the 200100 account transactions under **General ledger > Common > Main accounts** > find 200100 ledger > **Posted** button.

4. Paying a vendor

The screenshot shows the 'Account number 200100 (1 - usmf) - Main account: 200100, Accounts Payable - Domestic' transactions list. The table displays various vendor invoices and their payment status. A red box highlights the last two rows, which represent the payment of an invoice.

Journal number	Voucher	Date	Year closed	Type	Currency	Amount in transaction currency	Amount	Amount in reporting currency
012234	PIV-110000530	12/31/2012		Operating	USD	-654.00	654.00	-654.00
012234	PIV-110000530	12/31/2012		Operating	USD	-749.00	749.00	-749.00
012234	PIV-110000530	12/31/2012		Operating	USD	-86.00	86.00	-86.00
012234	PIV-110000530	12/31/2012		Operating	USD	-48.00	48.00	-48.00
012234	PIV-110000530	12/31/2012		Operating	USD	-134.00	134.00	-134.00
013848	PIV-110000541	4/2/2015		Operating	USD	-499.90	499.90	-499.90
013849	GNJL000791	5/12/2015		Operating	USD	-499.90	499.90	-499.90
013850	GNJL000790	5/15/2015		Operating	USD	-499.90	499.90	-499.90
013851	APIN000002	6/17/2015		Operating	USD	-20.00	20.00	-20.00
013853	APIR000025	6/17/2015		Operating	USD	-20.00	20.00	-20.00
013854	140000364	6/24/2015		Operating	USD	0.20	0.20	0.20
013855	APPM000393	6/24/2015		Operating	USD	19.80	19.80	19.80

Ledger account: 200100 - 002 - Account name: Accounts Payable - Domestic
Description:

◀◀ ▶▶ | [Pencil] | [Print] | Unique key for generating general ledger entries | (0) | USD | usmf | Close

Figure 4.17 Account transactions form

So we make sure that the invoice for \$20 is paid with the cash discount (\$19.80) and the accounts payable account contains the correct value.

Now, we can check the vendor transactions to make sure that the company doesn't owe for the "Invoice journal 1" invoice in the Vendor ledger. Go to **Accounts payable > Common > Vendors > All vendors**. The **Vendors** form opens. Find the US-104 vendor and click the **Transactions** button. The **Vendor transactions** form opens.

The screenshot shows the 'Vendor transactions (1 - usmf) - Voucher: APPM000393, 6/24/2015, Vendor account: US-104' list. The table displays various vendor invoices and their payment status. A red box highlights the last two rows, which represent the payment of an invoice.

Voucher	Date	Invoice	Note ID	Sequence number	Status	Remittance number	Amount in transaction currency	Balance	Currency
PIV-110000229	7/1/2011	FAP-001		0	Invoiced		62,000.00	0.00	USD
PIV-110000230	1/1/2012	FAP-002		0	Invoiced		40,200.00	0.00	USD
APPM000102	1/13/2012			0	Invoiced		62,000.00	0.00	USD
APPM000103	2/29/2012			0	Invoiced		40,200.00	0.00	USD
PIV-110000008	11/30/2012	AP-0009		0	Invoiced		23,290.68	-23,290.68	USD
PIV-110000541	4/2/2015	Invoice 1		0	Invoiced		499.90	-499.90	USD
GNJL000790	5/15/2015			0	Invoiced		499.90	-499.90	USD
APIN000002	6/17/2015	Invoice journal 1		0	Invoiced		20.00	0.00	USD
APIR000025	6/17/2015	Invoice reg & app...		0	Invoiced		20.00	-20.00	USD
140000364	6/24/2015			0	None		0.20	0.00	USD
APPM000393	6/24/2015			0	Invoiced		19.80	0.00	USD

Description: Amount: Balance:
19.80 0.00

◀◀ ▶▶ | [Pencil] | [Print] | Show open transactions only. | (0) | USD | usmf | Close

Figure 4.18 Vendor transactions form

4. Paying a vendor

The first four transactions are generated from the purchase order, general journal, invoice journal, and invoice approval journal correspondingly. The transaction with the sum of \$19.80 was generated when the payment journal was posted. The last transaction was generated for the cash discount. So we make sure that after the payment the vendor account was debited for $\$19.8 + \$0.2 = \$20$. In the **Vendor transactions** form, we can see that the “Invoice journal 1” transaction has the zero balance.

If we create the payment journal again and run the payment proposal, the “Invoice journal 1” invoice isn’t shown. That is because this invoice was closed (i.e. paid). Microsoft Dynamics AX knows what invoice was paid based on the settlement.

If we select the **Show open only** check box in the **Vendor transactions** form, the “Invoice journal 1” and the payment with the discount lines disappear.

Settlement

The user can make the settlement manually. For example, the payment line can be created manually (without the payment proposal) and posted. In this case, the settlement is not created.

To review all open (not settled) vendor transactions on the **All vendors** list page, go to the **Invoice** tab, click the **Settle open transactions** button. The **Settle open transactions** form opens. To settle the transactions, select the **Mark** check box and click the **Update** button. We can’t settle the invoice transactions because there have been no payments.

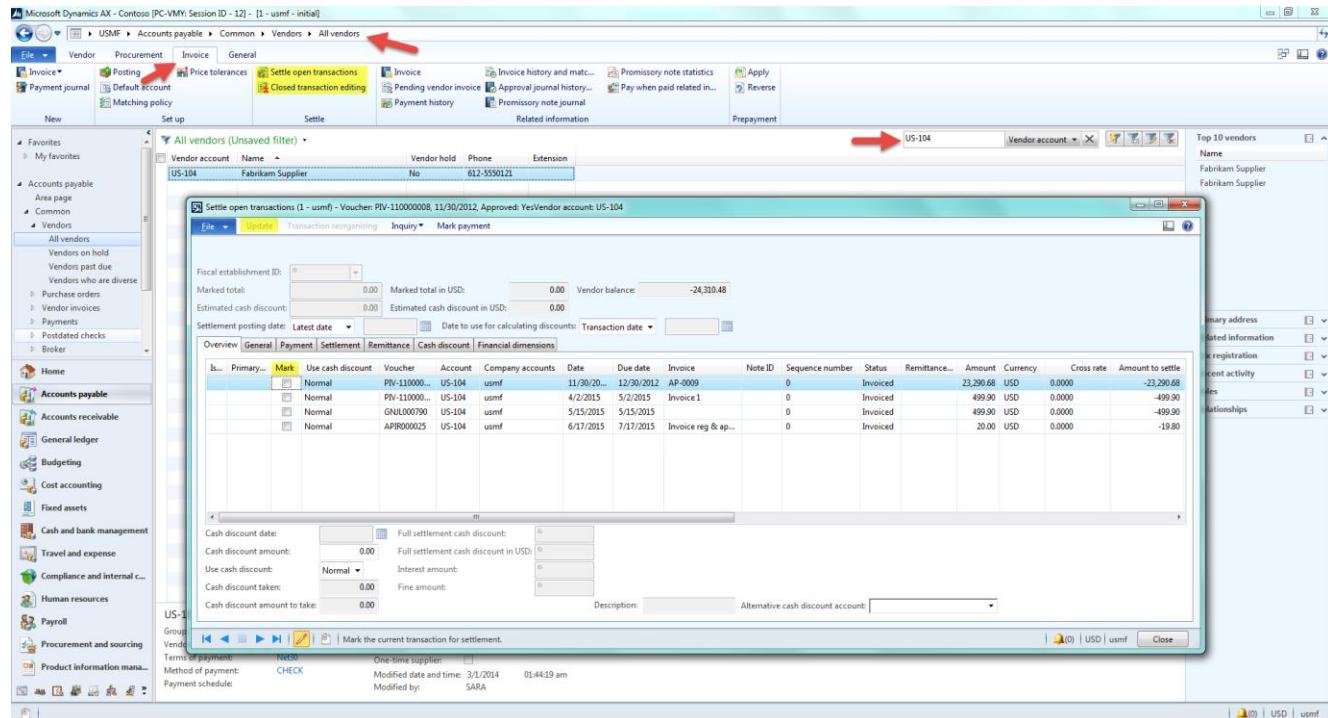


Figure 4.19 Settle open transactions form

4. Paying a vendor

Let's assume that the Payment Manager made a mistake and the payment was made for the "Invoice reg & appr 1" invoice. Since the Payment Manager settled the payment against the "Invoice journal 1" invoice, He or She should reverse this settlement and make a new one between the payment and the "Invoice reg & appr1" invoice. Let's do this.

On the **All vendors** list page, click the **Invoice** tab > **Closed transaction editing** button. The **Closed transaction editing in several currencies** form opens.

Is marked	Mark	Voucher	Account	Company accounts	Date	Due date	Invoice	Amount	Currency
	<input type="checkbox"/>	PIV-110000...	US-104	usmf	7/1/2011	7/31/2011	FAP-001	-62,000.00	USD
	<input type="checkbox"/>	PIV-110000...	US-104	usmf	1/1/2012	1/31/2012	FAP-002	-40,200.00	USD
	<input type="checkbox"/>	APPM000102	US-104	usmf	1/13/2012	7/31/2011		62,000.00	USD
	<input type="checkbox"/>	APPM000103	US-104	usmf	2/29/2012	1/31/2012		40,200.00	USD
	<input type="checkbox"/>	APIN000002	US-104	usmf	6/17/2015	7/17/2015	Invoice journal 1	-20.00	USD
	<input checked="" type="checkbox"/>	APPM000393	US-104	usmf	6/24/2015	7/17/2015		19.80	USD

Figure 4.20 Closed transaction editing in several currencies form

Note that this form doesn't contain the vendor transaction for \$0.2 that was generated for the cash discount. Select the **Mark** check box for "Invoice journal 1". The **Mark** check box for the payment is selected automatically. Click the **Reverse** button. The settlement is reversed and both transactions disappear from the form. Now, these transactions are open. Close the form.

As a result, the transactions appeared in the **Settle open transactions** form and a new voucher with the reversed cash discount transactions was generated. On the **All vendors** list page, click the **Transactions** button to verify this. The **Vendor transactions** form looks as follows:

4. Paying a vendor

The screenshot shows the 'Vendor transactions' window. At the top, there's a menu bar with options like File, Voucher, History, Paid by checks, Cash flow forecasts, Original document, Open, Invoices, Reverse transaction, and Reversed tracing. Below the menu is a toolbar with buttons for Show open only, Overview, General, Payment, Promissory note, Settlement, Remittance, History, 1099, and Financial dimensions. The main area is a grid table with columns: Voucher, Date, Invoice, Note ID, Sequence number, Status, Remittance number, Amount in transaction currency, Balance, and Currency. The grid contains several rows of transaction data. At the bottom of the grid, there are fields for Description, Amount (set to 19.80), and Balance (set to 19.80). Below the grid is a toolbar with navigation icons (back, forward, search) and buttons for Show open transactions only, a bell icon (0 notifications), USD, usmf, and Close.

Figure 4.21 Vendor transactions form

It means that the system removes the cash discount, because Microsoft Dynamics AX doesn't know for which invoice the payment is created. If the payment is created for the old invoice that was posted 1 month ago, then the cash discount is not applied. When we create a new settlement between the payment and the "Invoice reg & appr 1" invoice, the cash discount is applied again because the invoice and the payment date are in cash discount interval.

Make a new settlement. In the **All vendors** list page, click the **Invoice** tab > **Settle open transactions** button. The **Settle open transactions** form opens. Make a new settlement – select the **Mark** check box in "Invoice reg & appr 1" and payment line.

The screenshot shows the 'Settle open transactions' window. At the top, there's a menu bar with options like File, Update, Transaction reorganizing, Inquiry, and Mark payment. Below the menu is a toolbar with buttons for Use Selected date option or click Mark payment to identify the settlement date and calculate discounts, Fiscal establishment ID, Marked total, Marked total in USD, Vendor balance, Estimated cash discount, Estimated cash discount in USD, Settlement posting date (set to latest date), Date to use for calculating discounts (set to Transaction date), and a search icon. The main area is a grid table with columns: Is..., Primary..., Mark, Use cash discount, Voucher, Account, Company accounts, Date, Due date, Invoice, Note ID, Sequence..., Status, Remittance..., Amount, Currency, Cross rate, and Amount to settle. The grid contains several rows of transaction data. In the 'Mark' column, the last two rows have the checkmark box checked. At the bottom of the grid, there are fields for Cash discount date, Cash discount amount (set to 0.00), Full settlement cash discount (with a dropdown arrow), Interest amount (with a dropdown arrow), Cash discount taken (set to 0.00), Fine amount (with a dropdown arrow), Description, Alternative cash discount account, and a toolbar with navigation icons, a bell icon (0 notifications), USD, usmf, and Close.

Figure 4.22 Settle open transactions form

4. Paying a vendor

Note that the **Marked total** amount is zero. Click the **Update** button. The new settlement is created. As a result, the transactions disappear from the **Settle open transactions** form. Make sure that the transactions appear in the **Closed transaction editing** form.

If we click the **Transactions** button on the **All vendors** list page, the **Vendor transaction** form looks as follows:

The screenshot shows the Microsoft Dynamics AX 'Vendor transactions' window. The title bar reads 'Vendor transactions (1 - usmf) - Voucher: APPM000393, 6/24/2015, Vendor account: US-104'. The menu bar includes File, Voucher, History, Paid by checks, Cash flow forecasts, Original document, Open, Invoices, Reverse transaction, Reversed tracing, and Help. Below the menu is a toolbar with icons for New, Open, Save, Print, and Close. A 'Show open only' checkbox is checked. The main area has tabs: Overview, General, Payment, Promissory note, Settlement, Remittance, History, 1099, and Financial dimensions. The Settlement tab is selected, showing a grid of transactions. The grid columns are: Voucher, Date, Invoice, Note ID, Sequence number, Status, Remittance number, Amount in transaction currency, Balance, and Currency. The grid rows show various vendor transactions, including PIV-110000229, PIV-110000230, APPM000102, APPM000103, PIV-110000008, PIV-110000541, GNJL000790, APIN000002, APIR000025, 140000364, 140000365, 140000366, and APPM000393. The last row, APPM000393, is highlighted with yellow. At the bottom of the grid, there are fields for Description, Amount (19.80), and Balance (0.00). The status bar at the bottom right shows a bell icon (0), USD, usmf, and Close.

Figure 4.23 Vendor transactions form

When the discount amount is applied or reversed, the vendor transactions are generated. Note that the general ledger transaction is also generated. To view this transaction, select the 140000366 voucher and click the **Voucher** button in the **Vendor transactions** form.

When the payment is created and posted, Microsoft Dynamics AX automatically settles it to some invoice.

The automatic settlement can be disabled under **Accounts payable > Setup > Accounts payable parameters > Settlement tab > Settlement field group > Automatic settlement** field.

If the invoice amount is greater than the payment amount, the vendor invoice transaction is split to two parts. One of these parts becomes settled, the other does not. It means that the invoice is partially paid.

Try it yourself. We have an invoice for the sum of \$499.90. Create the payment for \$200 and make sure that the vendor invoice transaction is split to \$299.90 and \$200. And the last one is closed.

Summary

In this training lesson, we have studied the following:

1. The payment process which includes the following:
 - o Finding invoices
 - o Creating payments
 - o Sending the money or the money equivalent to the vendor
 - o Receiving the notification from the vendor
 - o Posting the payment
2. Analyses of how the payment is posted in the system (i.e. the payment results).
3. The open and closed vendor transactions.

In the next training lesson, we will go through the sales process.

5. Sales

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5. Sales

Demo Data

For training purposes, the Microsoft demo data for DAX 2012 is used. You can find more information about demo data [here](#).

In current tutorial we work with the USMF (Contoso Entertainment System USA) company.

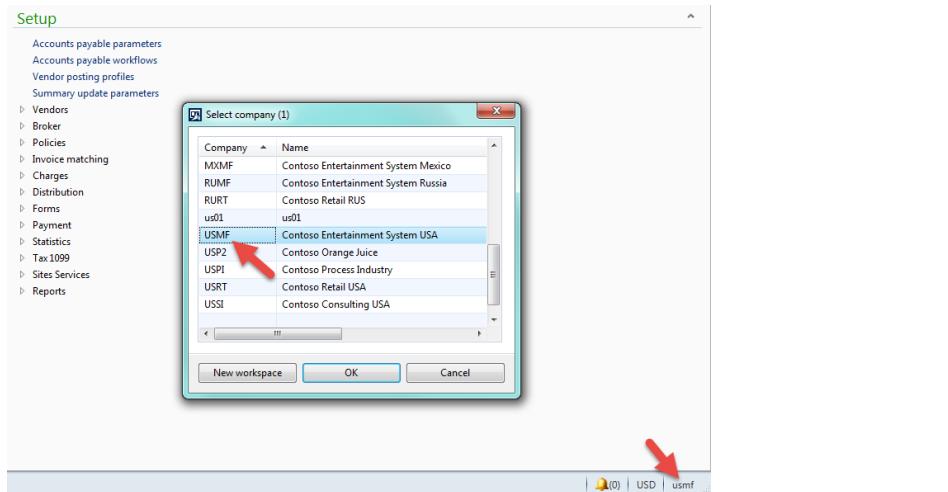


Figure 5.1 Select company form

Introduction

In this training lesson, we study in detail the sales process. Let's begin.

The company business cycle can be described in the following way:

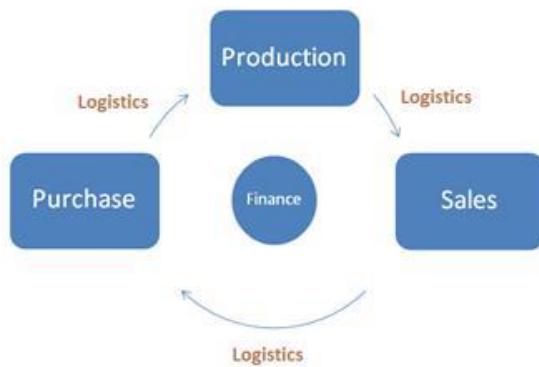


Figure 5.2 Company business cycle

5. Sales

What is the first step in this cycle? As you may know, the first step in business is finding a Customer and signing a contract. A lot of companies are launched after the contract is signed with the found Customer. So, the first step in the business cycle is Sales, all other steps serve the Sales step.

You can find good explanation of this business process in the [technet](#). Below you can see the sales business process that is covered by the Dynamics AX application.

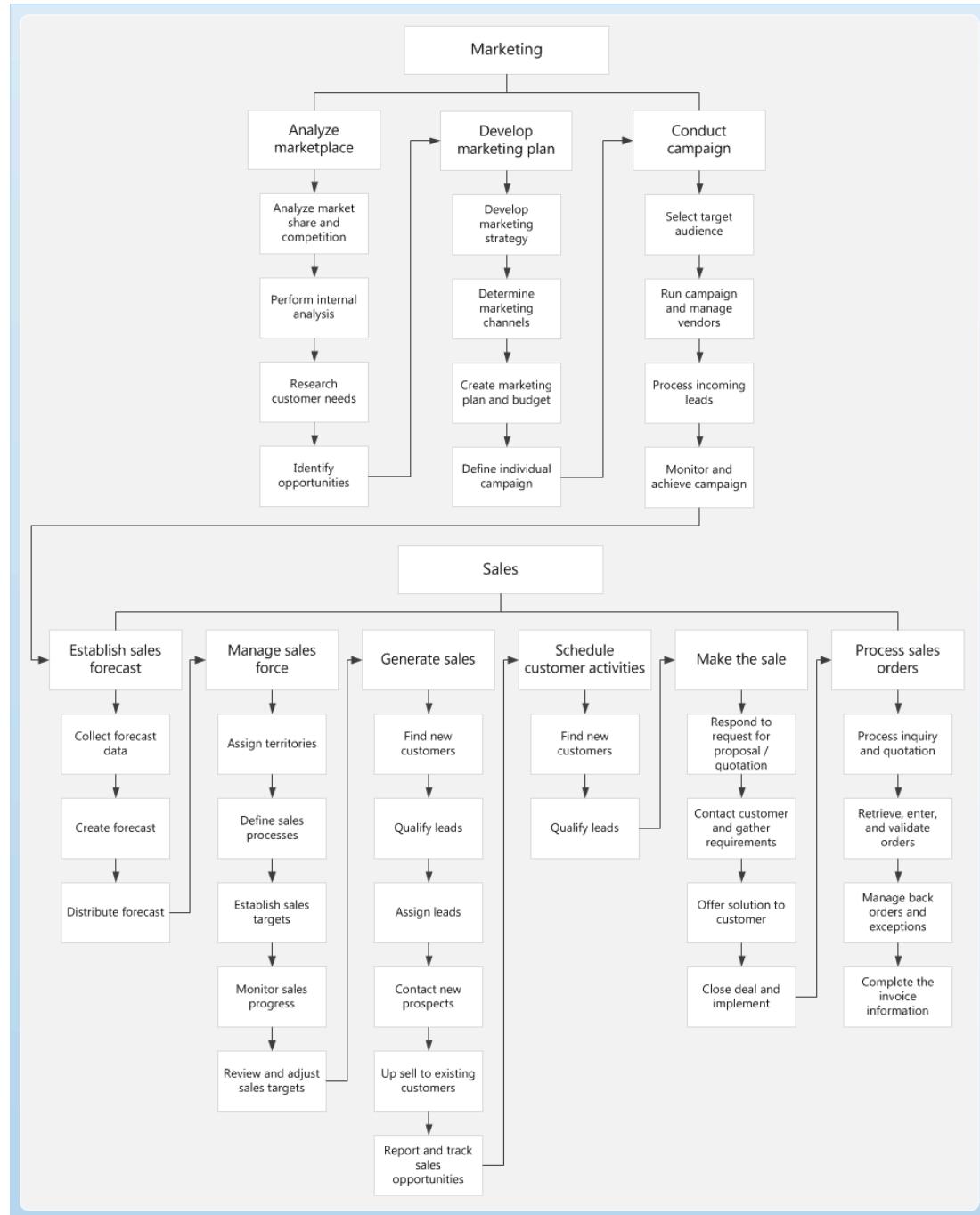


Figure 5.3 Sales business process

5. Sales

As you can see there are a lot of activities around finding a Customer. The last **Make a sales** and **Process sales orders** steps are about entering sales orders in the system.

From the financial point of view only the **Process sales orders** step is important. Other steps do not affect company ledger accounts (in other words, other steps do not have money equivalent and are not tracked by the financial team) except expenses for marketing.

For example, the company profit does not depend on the number of leads or forecast data. The profit depends on the number of sales orders only.

We are studying financials so in this lesson, we are looking in detail at the **Process sales orders** business step.

Sales Order

Let's assume that the Sales Manager finds a Customer who wants to buy 10 items of T0002 (Projector Television) for the price of \$3 750. Let's go through the sales steps and analyze the results.

In Microsoft Dynamics AX, **Sales quotation** is used to implement the "Make the sale" step and **Sales order** is used to implement the "Process sales orders" steps.

The Sales order has the following status fields (you can find it following the path: **Sales order** form > **Sales order** button group > **Header view** button > **General** fast tab > **Status** field group):

- **Status** field: Open order > (Canceled) > Delivered > Invoiced
- **Document status** field: None > Quotation > Confirmation > Picking list > Packing slip > Invoice

Note there is no **Approval status** as in a Sales order.

Status	
Status:	Open order
Deadline:	2/13/2014
Document status:	None
Quality order status:	
Do not process:	<input type="checkbox"/>

Figure 5.4 Sales order status

The **Status** field contains the status that is financially tracked. When a sales order status is changed, this is reflected in the general ledger accounts.

The **Document status** field contains status that show the document printed to (and sent) to the customer.

The Sales order covers the following steps:

- Make a sales order
 - Place items on order (create sales order)
 - Status = Open order
 - Document status = None > Quotation
 - Confirmation
 - Status = Open order
 - Document status = Confirmation
- Process sales order
 - Picking and shipment
 - Status = Open order
 - Document status = Picking list
 - Packing slip
 - Status = **Delivered**
 - Document status = Packing slip
 - Invoice
 - Status = **Invoiced**
 - Document status = Invoice

As you can see, from the financial point of view only the **Packing slip** and **Invoice** steps are of interest for us, because only in these steps the Status is changed (i.e. the event is recorded to the general ledger accounts).

We will go through these steps with attention to the financial results. To know more about the **Picking and shipment step**, please read the Trade and Logistics training.

Quotation (Creating a Sales Order)

First of all, the Sales Manager finds a Customer. There are a lot of techniques to do this: exhibition, email spam, advertisements, etc. For these purposes, Microsoft Dynamics AX provides the **Sales and marketing** module.

If you open the **Sales and marketing** module in Microsoft Dynamics AX, you can find the **Sales quotation** form. A Sales quotation is created when the Sales Manager makes a proposal to the business relation (a possible customer). The sales quotation can either be canceled or confirmed.

A Quotation is used to record the possible Sales order and the Customer. If the sales quotation is confirmed, the sales order is created on basis of the confirmed quotation and the customer record is created on basis of business relation. The **Quotation confirmation** step is used to record in the system that the customer agrees to make an order.

The quotation step is optional. The Sales Manager can create a sales order without a quotation. The Quotation step does not generate any financial transaction.

5. Sales

To create a sales quotation, do the following:

1. Go to **Sales and marketing > Common > Sales Quotation > All quotations**. The **All quotations** list page opens.
2. Create a new quotation by clicking the **Sales quotation** button. The **Create quotation** form opens. Select, for example, the “000006” (Cherry Company) value in the **Prospect** field. Click **OK**.
3. The quotation header is created.
4. Create a new line with the following values:
 - Item = T0002
 - Quantity = 10
5. Save the line.

The **Quotation** form looks as follows:

The screenshot shows the Microsoft Dynamics AX Sales Quotation form (1 - usmf). The window title is "Sales quotation (1 - usmf) - Quotation: 000008, Cherry Company, Quotation type: Sales quotation". The toolbar includes buttons for New, Edit, Delete, Header view, Line view, From all, Totals, Attachments, and View. The main area displays the quotation header for Prospect 000006 - Cherry Company. It shows delivery address details: Name (Cherry Company), Delivery address (Cherry Company), and Address (0009 Lake Shore Drive, Cody, WY 82414, USA). The header also includes delivery date fields (Requested receipt date: 7/7/2015, Requested ship date: 7/7/2015) and discount information (Total discount %: 0.00). The "Lines" section contains a single line item for Variant T0002 (ProjectorTelevision) with a quantity of 10.00, delivered to Site 21 at Warehouse 21. The unit price is 3,750.00, and the estimated margin % is 41.33. The net amount is 37,500.00. The status bar at the bottom indicates "0.00" and "Category from the sales category hierarchy".

Figure 5.5 Sales quotation form

Note that the **Site**, **Warehouse**, **Unit**, and **Unit price** fields are automatically filled in. The values for the **Site**, **Warehouse**, and **Unit** fields are filled in by analogy with the purchase line. In the Purchase lesson, you can find how these values are filled out.

The **Unit price** field contains the value of 3 750. How does Microsoft Dynamics AX know the price?

If we go to the **Released products** form under **Product information management > Common > Released products** > find the T0002 item and double-click it > **Sell** fast tab > **Base sales price** field group, we see that the sales price is 2 999.

5. Sales

The sales price is taken from the trade agreement (the **Released product details** form > **Sell** menu button > **View trade agreements** button). The **View trade agreements** form opens. We can see that the price is \$3 750.

Figure 5.6 View trade agreements form

Confirm the sales quotation taking the following:

1. Now the Sales Manager prints the quotation and sends it to the possible customer. In the **Sales quotation** form, click the **Quotation > Send quotation** button. The **Send quotation** form opens. Select the **Print Quotation** check box, click the **Options** button, and select the **Screen** option, click **OK**. Click **OK** in the **Send quotation** form. The “1 quotation(s) updated to status Sent” message appears. The quotation is printed and can be sent to the possible customer.
2. When the Sales Manager receives a positive answer, the business relation should turn to the customer and the quotation should turn to the sales order. In the **Sales quotation** form, click the **Follow up > Convert to customer** button. The **Customer account number** form opens, enter, for example, the 000500 number for the new customer. Fill in 000500 in the **Customer account** field, and click **OK**.
3. The **Customers** form with the new 000500 (Cherry Company) customer record opens. All customer information is transferred from business relation. So, we make sure that the new customer record is created.
4. Now, the Sales Manager clicks the **Follow up > Confirm** button in the **Sales quotation** form. The **Confirm quotation** form opens. The confirmation document can be printed and then sent to the customer (select the **Print confirmation** check box and set the **Screen** option). Click **OK**. The Confirmation document is shown and the sales order is created. The “1 quotation(s) updated to status Confirmed” message appears.

A new sales order is generated from the sales quotation. In the **Sales quotation** form, click the **General > Sales orders** button. The **Sales order** form opens. You could also go to the **Accounts receivable > Common > Sales Orders > All sales orders** and find the new sales order.

5. Sales

We make sure that the sales order is created from the quotation:

Figure 5.7 Sales order form

Let's check the quotation confirmation posting results. In the **Sales order** form, click the **Sell > Journals > Quotation confirmation** button. The **Quotation confirmation** form opens.

Figure 5.8 Quotation confirmation form

5. Sales

We can see that a new journal has been created with one line. This step has no influence on accounts, because from the financial point of view nothing has changed. No general ledger or sub-ledger transactions have been created.

The **Quotation confirmation** form doesn't have the **Vouchers** button. As you remember a voucher is used to group all transactions generated for one operation. Since the **Quotation confirmation** form doesn't have the **Vouchers** button, the quotation confirmation operation never generates transactions.

We have completed the first Create order step. The sales order status is the following (**Sales order** form > **Sales order** menu button > **Show** > **Header view** button > **General** fast tab > **Status** field group):

- Status = Open order
- Document status = None

Status

Status:	Open order
Deadline:	2/13/2014
Document status:	None
Quality order status:	
Do not process:	<input type="checkbox"/>

Figure 5.9 Sales order status

Sales Order Confirmation

The sales order confirmation step is similar to the quotation confirmation step. It is optional and can be omitted. The confirmation step is used to record in the system that the customer receives the sales order document and confirms its details (quantity, configuration, price, delivery terms, payment terms, etc.).

The Sales Manager clicks the **Sell > Generate > Sales order confirmation** button in the **Sales order** form. The **Confirm sales order** form opens. Select the **Print confirmation** check box. To print the confirmation to the screen, click the **Printer setup > Confirmation** button and select the *Screen* option, click **OK**. In the **Confirm sales order** form, click **OK**. The Confirmation document is printed. The Sales Manager sends this document to the customer. If the customer asks to change some details, this step can be repeated.

To view the posting results, click the **Sell > Journals > Sales order confirmation** button in the **Sales order** form. The **Sales order confirmation** form opens.

5. Sales

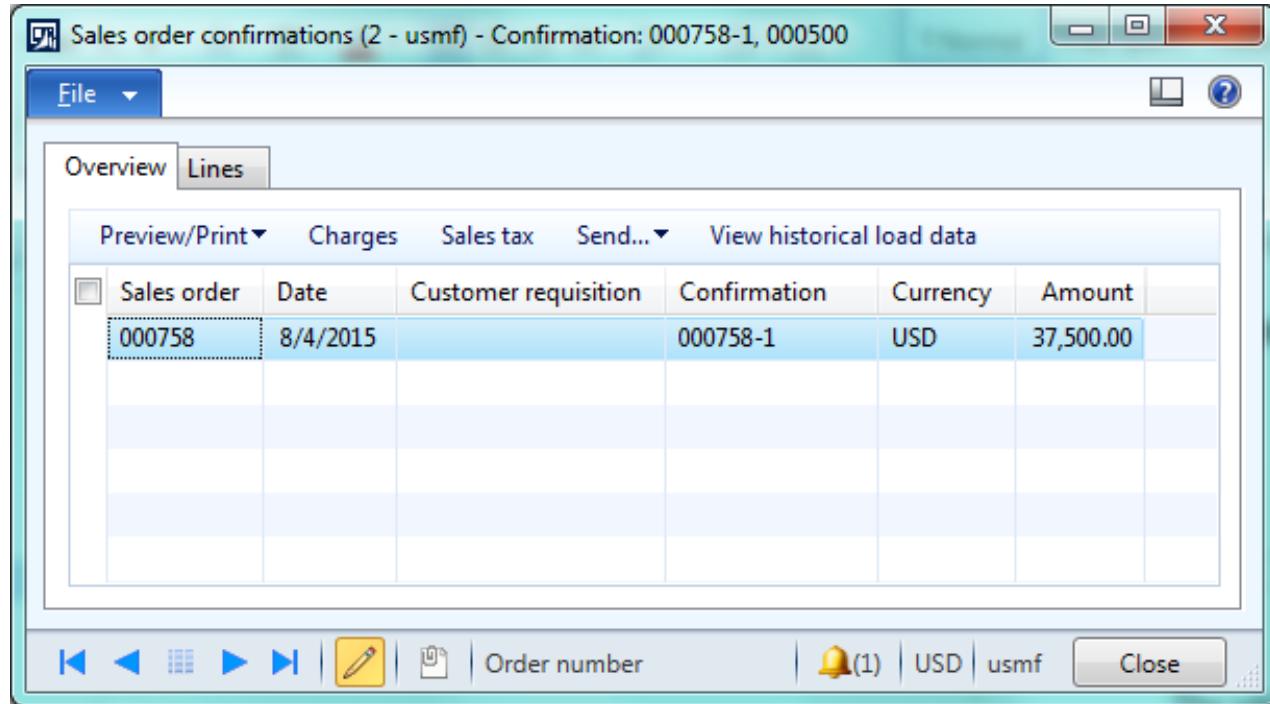


Figure 5.10 Sales order confirmations form

We can see that the journal has been created. The confirmation step has no influence on accounts, because from the financial point of view nothing has changed.

The **Sales order confirmations** form doesn't have the **Vouchers** button. The confirmation operation never generates transactions.

The sales order status is the following (**Sales order** form > **Sales order** menu button > **Show** > **Header view** button > **General** fast tab > **Status** field group):

- Status = Open order
- Document status = Confirmation

Status

Status: Open order
Deadline: 2/13/2014
Document status: Confirmation
Quality order status:
Do not process:

Figure 5.11 Sales order status

Picking and Shipment

Now, the items should go through the following process:

1. Being picked from the warehouse location.
2. Being transported from the warehouse location to the outbound location.
3. Being loaded to the truck.
4. Being shipped in the truck.

These steps are described in details in the Trade and Logistics training. From the financial point of view, nothing has changed because the items still remain the company property, i.e. the Inventory account has not changed.

The flow of picking and shipment steps depend on the item setup. In our case, the flow is the following:

1. The Sales Manager prints the picking list and sends this document to the Warehouse worker.
2. The Warehouse Worker picks the items and notifies the Sales Manager about this. The Sales Manager posts the picking list registration form.
3. The Warehouse Worker transports items from the warehouse location to the outbound location, loads the items to the truck, and the Driver ships the items. The truck steps are omitted.

Note that in our case, we have only the picking step.

The comprehensive flow (with transporting the items to the outbound location, loading them into the truck, and shipping them) depends on the following parameters:

- The **Item model** group has the **Picking requirements** check box selected.
- The **Storage dimension** group has the **Location** and **Pallet** dimensions active.

Let's perform the picking step:

1. In the **Sales order** form, click the **Pick and Pack > Generate > Picking list** button. The **Posting picking list** form opens. To print the picking list to the screen, select the **Print picking list** check box, click the **Printer setup > Picking list** button, select the **Screen** option, and click **OK**. In the **Posting picking list** form, click **OK**. The picking list is printed. The Sales Manager sends the picking list to the Warehouse Worker.
2. When the Warehouse Worker picks all items, he or she notifies the Sales Manager. The Sales Manager registers the picking list. In the **Sales order** form, click the **Pick and Pack > Generate > Picking list registration** button. The **Picking list registration** form opens.

5. Sales

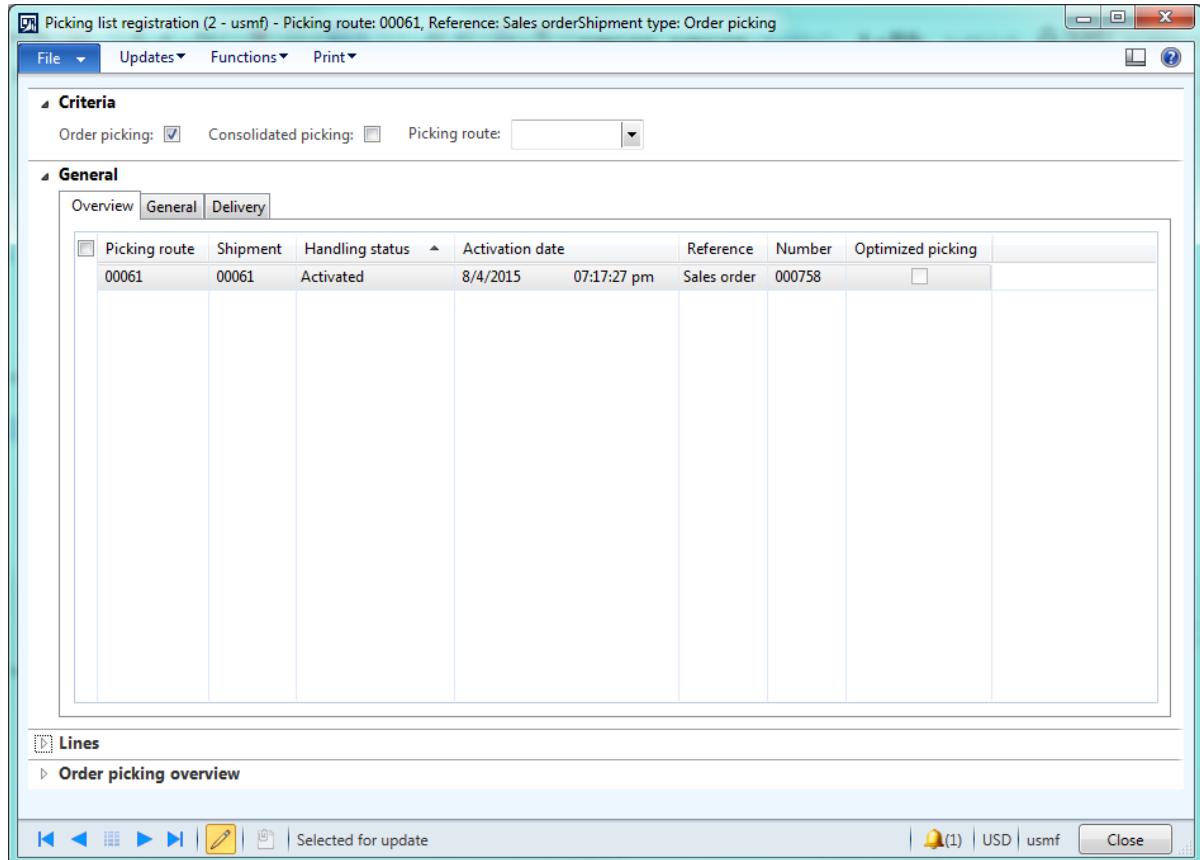


Figure 5.12 Picking list registration form

3. Click the **Updates > Update all** button. The value of the **Handling status** field is changed from *Activated* to *Completed*.

Let's check the picking list posting results. In the **Sales order** form, click the **Pick and Pack > Journals > Picking list** button. The **Picking list** form opens.

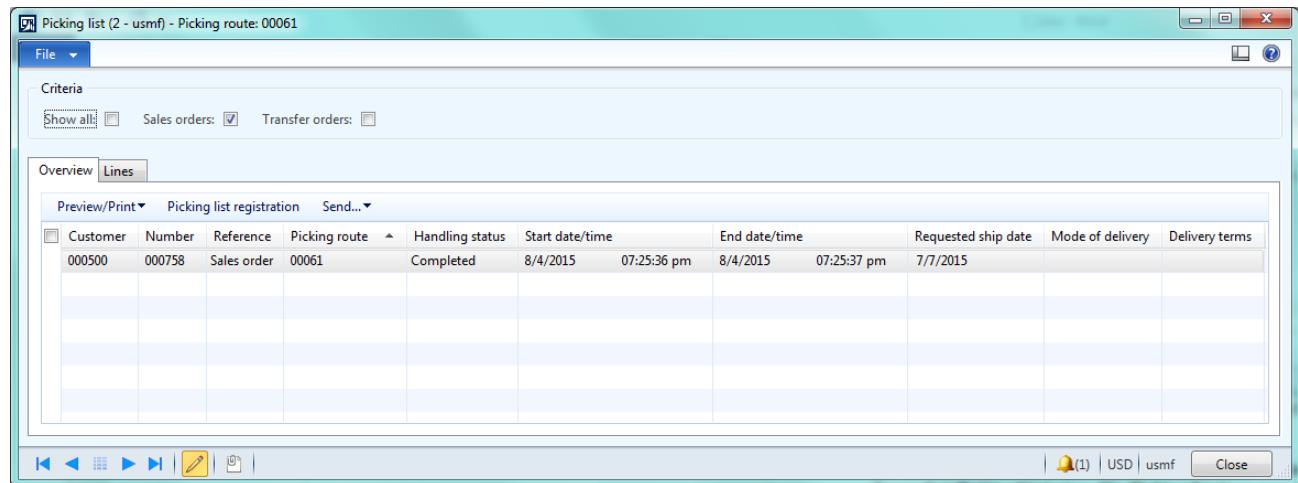


Figure 5.13 Picking list form

5. Sales

We can see that a new journal has been created. This step has no influence on the company accounts, because from the financial point of view, nothing has changed.

The **Picking list** form doesn't have the **Vouchers** button. The Picking list operation never generates transactions.

Note that neither the journal header nor the lines have information about the prices (the item price or the total order price). It is because this step is not related to the financial one. The company hides some info (the prices and the customer information) from the Warehouse Workers.

The sales order status is the following (**Sales order** form > **Sales order** menu button > **Show > Header view** button > **General** fast tab > **Status** field group):

- Status = Open order
- Document status = Picking list

Status

Status:	Open order
Deadline:	2/13/2014
Document status:	Picking list
Quality order status:	
Do not process:	<input type="checkbox"/>

Figure 5.14 Sales order status

Packing Slip

Overview

This step is similar to the Product receipt step in the purchase process. A packing slip document is a guarantee that the customer receives the items. This step is used to record in the system that the item was delivered to the customer and the customer confirms all details (no items have been broken, the item quantity and configuration are the same, etc.). Note that in this step the customer does not confirm paying for the delivered items.

In Dynamics AX 2012 three options for posting this step to general ledger are available:

- No ledger posting. In this case the Packing slip step is not recorded to the general ledger.
- Post physical inventory. In this case the item cost is deducted from the inventory account and added to the Accounts payable un-invoiced account.
In this case the following transactions are generated:

5. Sales

Accounts receivable (un-invoiced)		Inventory	
Debit	Credit	Debit	Credit
\$22 000			\$22 000

- Post to deferred revenue account. In this case item cost is deducted from the inventory account and item price is added to the Accounts payable un-invoiced account.
- In this case the following transactions are generated:

Deferred COGS (P&L account)		Inventory	
Debit	Credit	Debit	Credit
\$22 000			\$22 000
Accounts receivable (un-invoiced)		Accrued Sales (P&L account)	
Debit	Credit	Debit	Credit
\$37 500			\$37 500

As usually the company creates a separate general ledger account (accounts payable) for the items to be delivered to the customer, but for those that were not yet invoiced - Accounts receivable (un-invoiced).

The **Post physical inventory** and **Post to Deferred Revenue Account on Sales Delivery** check boxes from **Item model group** are used to set up general ledger posting for the Packing slip step:

- No ledger posting. In this case the **Post physical inventory** check box is cleared.
- Post physical inventory. In this case the **Post physical inventory** check box is selected and the **Post to Deferred Revenue Account on Sales Delivery** check box is cleared.
- Post to deferred revenue account. In this case the **Post physical inventory** check box is selected and the **Post to Deferred Revenue Account on Sales Delivery** check box is cleared.

Find the item model group for the T0002 item (**Product information management > Common > Released products** > find T0002 item and double-click it > **General** fast tab > **Administration** field group > **Item model group** field).

The T0002 item has the “STD” inventory model group.

Find the configuration of the “STD” inventory model group under **Inventory management > Setup > Inventory > Item model groups** > find “STD” > **Setup** fast tab > **Ledger integration** field group > **Post physical inventory** check box.

We can see that for the T0002 item, the packing slip step generates general ledger transactions.

5. Sales

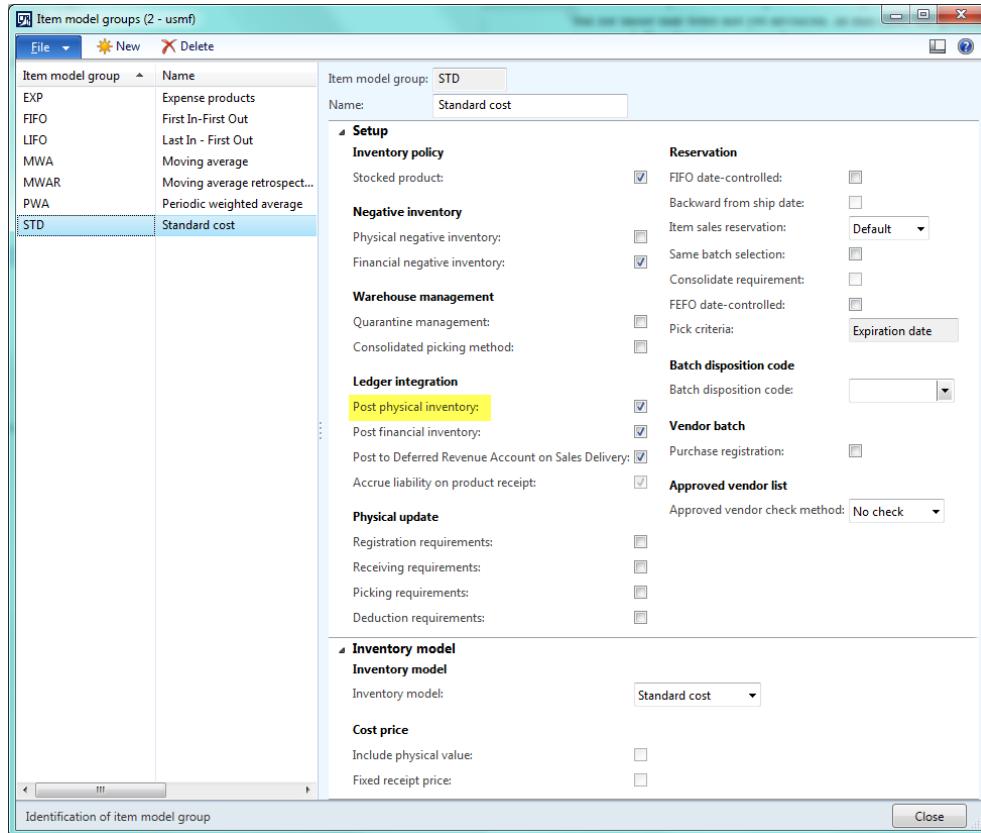


Figure 5.15 Item model group form

Since both the **Post physical inventory** and **Post to Deferred Revenue Account on Sales Delivery** check boxes are selected, the transaction looks as follows:

Deferred COGS (P&L account)		Inventory	
Debit	Credit	Debit	Credit
\$22 000			\$22 000
Accounts receivable (un-invoiced)		Accrued Sales (P&L account)	
Debit	Credit	Debit	Credit
\$37 500			\$37 500

The Inventory account contains the cost of items in stock. Since the items are delivered to the customer, the total cost of items in stock is decreased. So the Credit part is used. Credit part is “bad” for the company because the asset is decreased.

5. Sales

The Deferred COGS account is the Profit and Loss account. The cost of goods sold decreases the net revenue, and as a result the company returns less money to shareholders. So it is “good” for the company. That is why the debit part is used.

On the other hand, the customer receives the item, so the price of the item is recorded to the Account receivable (un-invoiced) account. Account receivable is the company asset. Account receivable is increased (it is “good” for the company), so the debit part is used.

The Accrued Sales account is the Profit and Loss account. The sales increases the net revenue which should be returned by the company to shareholders. So it is “bad” for the company and the credit part is used.

From the purchase training lesson, we can find that the item cost is \$2 200 (**Product information management > Common > Released products** > T0002 product > double-click > **Manage costs** fast tab > **Price** field).

The item price is taken from the sales line.

Post a Packing Slip

Let's post the packing slip.

In the **Sales order** form, click the **Pick and Pack > Generate > Packing slip** button. The **Packing slip posting** form opens. Note that you can print the packing slip document to the Screen by selecting the **Print packing slip** check box, clicking the **Printer setup > Packing slip** button, selecting **Screen**, and clicking **OK**. Click **OK**.

The packing slip document is printed to the screen. Note that this document doesn't have the item price. It contains information about the item configuration and quantity.

Check Posting Result

Let's check the posting results.

In the **Sales order** form, click the **Pick and Pack > Journals > Packing slip** button. The **Packing slip journal** form opens. We can see that the journal has been created.

5. Sales

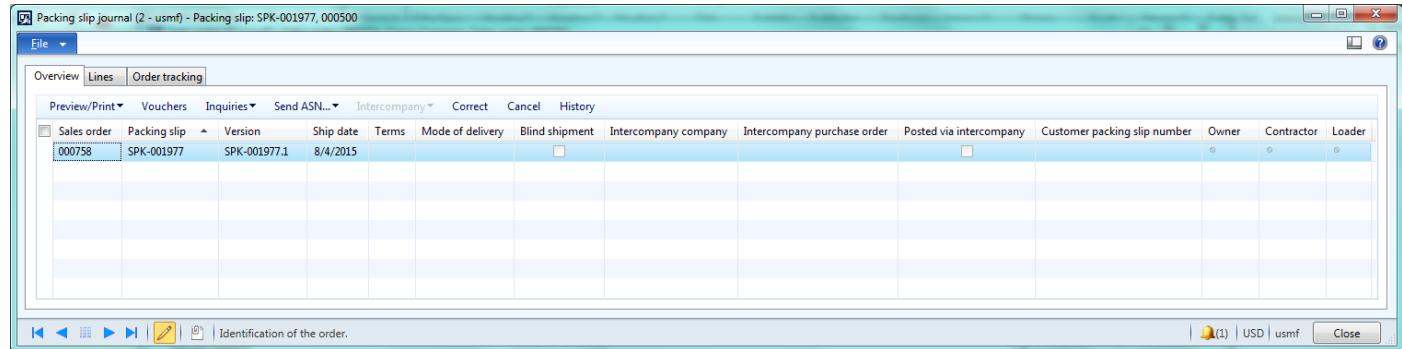


Figure 5.16 Packing slip journal form

The **Packing slip journal** form has the **Vouchers** button. So, this step can generate the general ledger transactions. The voucher is used to group all transactions that were generated.

Click the **Vouchers** button. The **Voucher transactions** form opens. We can see that several transactions have been generated.

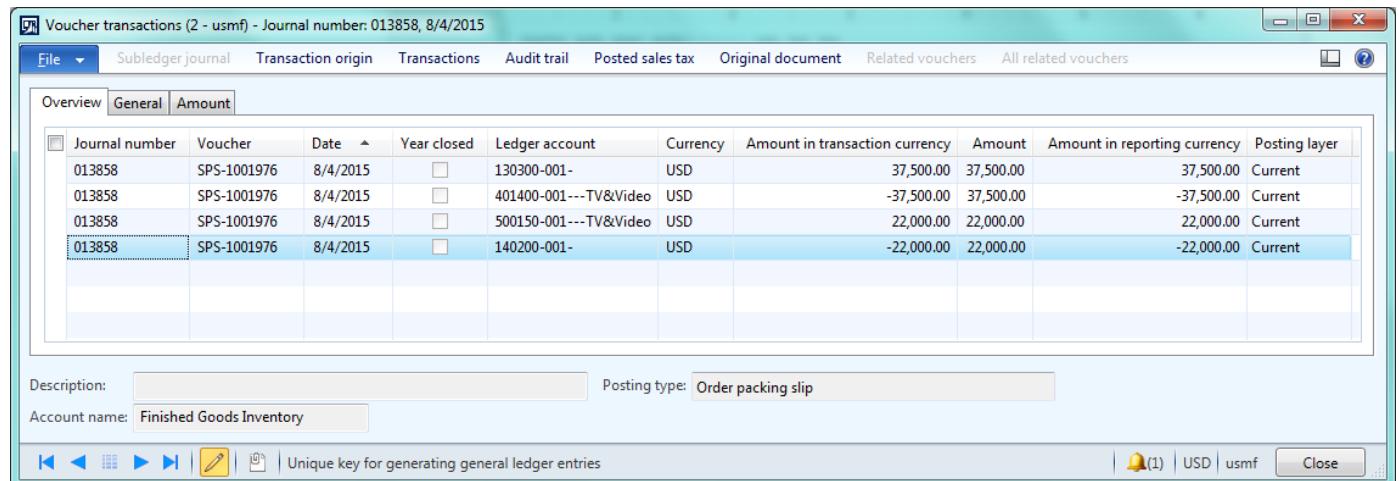


Figure 5.17 Voucher transactions form

Find the information about these accounts. Go to **General ledger > Common > Main accounts**. The **Main accounts** list page opens. Find the 500150 account. This account has the “Deferred COGS” name and belongs to the Profit and Loss accounts.

Review the rest of ledger accounts.

In Microsoft Dynamics AX, negative amount is used to show that it is the credit part, and the positive amount is used to show that it is the debit part. So, we make sure that the generated transactions look as follows:

5. Sales

500150 (Deferred COGS)		140200 (Inventory)	
Debit	Credit	Debit	Credit
\$22 000			\$22 000
130300 (Accounts receivable un-invoiced)		401400 (Accrued Sales)	
Debit	Credit	Debit	Credit
\$37 500			\$37 500

Let's check all transactions that were generated for all ledgers. In the **Voucher transactions** form, click the **Transaction origin** button. The **Transaction origin** form opens.

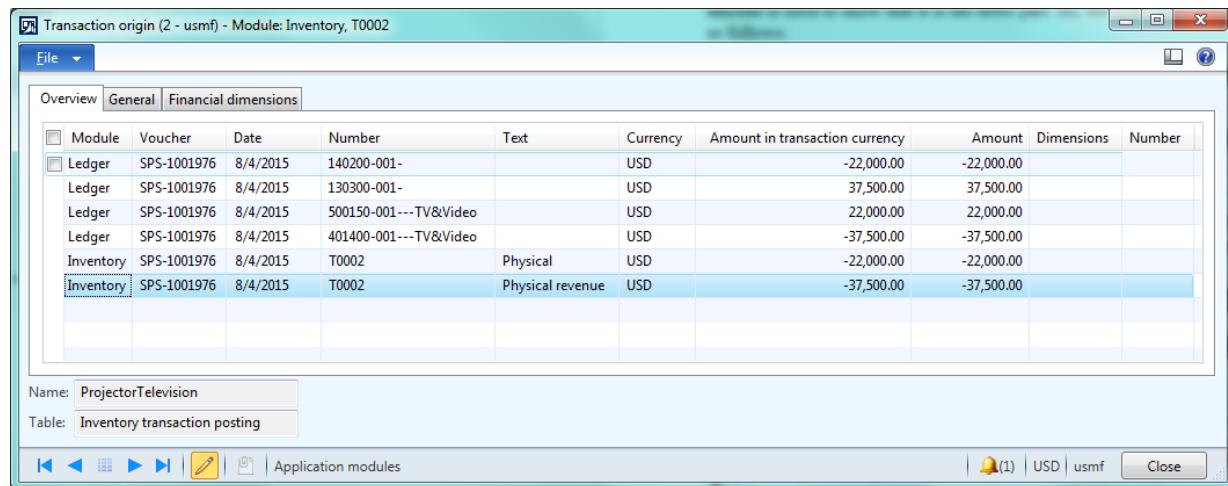


Figure 5.18 Transaction origin form

We can see that except the ledger transactions, two inventory transactions have also been generated.

The sales order status is the following (**Sales order** form > **Sales order** menu button > **Show** > **Header view** button > **General** fast tab > **Status** field group):

- Status = Delivered
- Document status = Packing slip

Status

Status: **Delivered**
 Deadline: **8/6/2015**
 Document status: **Packing slip**
 Quality order status:
 Do not process:

Figure 5.19 Sales order status

Invoice

Overview

The Invoice is the last and the main step in the sales process. The company can set up the sales flow with only one Invoice step. In this case, all previous steps (Quotation, Confirmation, Picking, Packing slip) are optional and can be omitted. The Invoice step is used to record in the system that the customer receives the Invoice document and confirms to pay for delivered goods.

In the Basic concept training lesson, we have already discussed the transactions that will be generated for the sales operation. They are:

Account receivable		Sales	
Debit	Credit	Debit	Credit
\$37 500			\$37 500
Inventory		Cost of goods sold	
Debit	Credit	Debit	Credit
	\$22 000	\$22 000	

Account receivable is the asset account, the debit part is used because this asset is increased. The amount that should be paid by the customer is \$3 750 (the item price) * 10 (the item quantity), i.e. \$37 500.

The Sales account is what the company owes to the Owners; in other words, it is like the liabilities, this money should be returned to the company owners. So when it increases it is “bad” for the company and the credit part is used.

Inventory is the asset account, the credit part is used because this asset decreases. Inventory is decreased by the item cost, i.e. by \$22 000.

Cost of goods sold reduces the profit, in other words, reduces the debt for owners. So, this account is like the asset, since Cost of goods sold has increased, the debit part is used.

Remember that in the Basic concept training lesson we have studied that the Sales and COGS (Cost of goods sold) accounts are the Profit and Loss accounts. The sum of the profit and loss accounts is the company's profit (if the amount is positive) or loss (if the amount is negative). The profit and loss accounts answer the question whether the company is profitable.

Since during the Packing slip step general ledger transactions were generated, they should be reversed.

5. Sales

As we have learned the Packing slip step can be recorded to the general ledger with the help of different transactions. In our case during Invoice posting the reverse packing slip transactions have the following view:

Deferred COGS		Inventory	
Debit	Credit	Debit	Credit
	\$22 000	\$22 000	
Accounts receivable un-invoiced		Accrued Sales	
Debit	Credit	Debit	Credit
	\$37 500	\$37 500	

As you can see the same accounts and amounts as in Packing slip are used. Note that when in the Packing slip Debit is used, in reverse posting Credit is used and vice versa. Reversing is posting the same amount to the same account but to another account part.

For example, after the reverse the Accrued Sales balance is zero (Debit – Credit):

Accrued Sales		
Debit	Credit	
	\$37 500	Packing slip step
\$37 500		Invoice step (Reverse transaction)
Total = 0		

Post an Invoice

Let's post the invoice.

In the **Sales order** form, click the **Invoice > Generate > Invoice** button. The **Posting invoice** form opens. Note that you can print the invoice document to the Screen by selecting the **Print invoice** check box, clicking the **Printer setup > Invoice** button, selecting *Screen*, and clicking **OK**. Click **OK**.

The invoice document is printed to the screen.

Check Posting Result

Let's check the posting results.

5. Sales

In the **Sales order** form, click the **Invoice > Journals > Invoice** button. The **Invoice journal** form opens. We can see that the invoice journal is created for \$37 500.

The screenshot shows the 'Invoice journal' window with a single row of data. The row details a sales order from 8/13/2015, invoice CIV-000716, and voucher INV-10000715. The amount is listed as 37,500.00. The currency is USD. There are tabs for Overview, Lines, Preview/Print, Voucher, Subledger journal, Totals, Charges, Transactions, Posted sales tax, Commission, Shipments, Bill of lading, and Intercompany. The status bar at the bottom shows the order number, currency, and a close button.

Figure 5.20 Invoice journal form

The **Invoice** form has the **Voucher** button. So, this step generates general ledger transactions. The voucher is used to group all transactions that were generated.

Click the **Voucher** button. The **Voucher transactions** form opens. We can see that the transactions have been generated.

The screenshot shows the 'Voucher transactions' window for journal number 013861 on 8/13/2015. The table lists various ledger account movements, some of which are checked. The columns include Journal number, Voucher, Date, Year closed, Ledger account, Currency, Amount in transaction currency, Amount, Amount in reporting currency, and Posting layer. A description field is set to 'Sales order revenue'. The status bar at the bottom shows the account name, posting type, and a close button.

Figure 5.21 Voucher transactions form

I have marked the lines that were generated to record the Invoice operation. The unmarked lines were generated for reversing the Packing slip operation.

Find the information about these accounts. Go to **General ledger > Common > Main accounts**. The **Main accounts** list page opens. Find the 130100 account. This account has the "Accounts Receivable - Domestic" name and belongs to the Account receivable accounts.

Review the rest of ledger accounts.

5. Sales

In **Microsoft Dynamics AX**, negative amount is used to show that this is the credit part, and the positive amount is used to show that this is the debit part. So, we make sure that the generated transactions look as follows:

130100 (Account receivable)		401100 (Sales)	
Debit	Credit	Debit	Credit
\$37 500			\$37 500
140200 (Inventory)		500100 (Cost of goods sold)	
Debit	Credit	Debit	Credit
	\$22 000	\$22 000	
500150 (Deferred COGS)		140200 (Inventory)	
Debit	Credit	Debit	Credit
	\$22 000	\$22 000	
130300 (Accounts receivable un-invoiced)		401400 (Accrued Sales)	
Debit	Credit	Debit	Credit
	\$37 500	\$37 500	

Let's check all transactions that were generated for all ledgers. In the **Voucher transactions** form, click the **Transaction origin** button. The **Transaction origin** form opens.

The screenshot shows the 'Transaction origin' form window. At the top, there are tabs for 'Overview', 'General', and 'Financial dimensions'. The main area is a grid table with columns: Module, Voucher, Date, Number, Text, Currency, Amount in transaction currency, Amount, Dimensions, and Number. The grid contains several rows of transaction data, mostly ledger entries, with some customer and inventory transactions interspersed. Below the grid, there are two input fields: 'Name:' containing 'ProjectorTelevision' and 'Table:' containing 'Inventory transaction posting'. At the bottom of the form, there is a toolbar with icons for navigation (back, forward, search) and application modules, along with status indicators for notifications, currency (USD), and module (usmf).

Module	Voucher	Date	Number	Text	Currency	Amount in transaction currency	Amount	Dimensions	Number
Ledger	INV-10000715	8/13/2015	140200-001-		USD	22,000.00	22,000.00		
Ledger	INV-10000715	8/13/2015	140200-001-		USD	-22,000.00	-22,000.00		
Ledger	INV-10000715	8/13/2015	130300-001-		USD	-37,500.00	-37,500.00		
Ledger	INV-10000715	8/13/2015	401100-001---TV&Video		USD	-37,500.00	-37,500.00		
Ledger	INV-10000715	8/13/2015	500150-001---TV&Video		USD	-22,000.00	-22,000.00		
Ledger	INV-10000715	8/13/2015	401400-001---TV&Video		USD	37,500.00	37,500.00		
Ledger	INV-10000715	8/13/2015	500100-001---TV&Video		USD	22,000.00	22,000.00		
Ledger	INV-10000715	8/13/2015	130100--		USD	37,500.00	37,500.00		
Customer	INV-10000715	8/13/2015	000500		USD	37,500.00	37,500.00		
Inventory	INV-10000715	8/13/2015	T002	Financial	USD	-22,000.00	-22,000.00		

Figure 5.22 Transaction origin form

We can see that except the ledger transactions, one inventory and customer transaction have also been generated.

5. Sales

We have studied that the General ledger, for example 130100 (Account receivable) account contains the amount that should be paid to our company, but the information about the Customer who should pay is not available.

For this purpose, the Customer ledger is used. The Customer ledger consists of customer accounts. A Customer account contains information about the customer details.

In the same way, the Inventory ledger is used to manage what item was sold, and its quantity.

Let's find the general ledger transaction that was generated for the 130100 general ledger account.

Go to **General ledger > Common > Main accounts** > find the 130100 account > **Posted** button. The transactions form opens.

We can see that the last transaction is the transaction that was generated during the invoice posting (because the voucher number is INV-10000715). Note that the transaction doesn't have the information about the customer.

Journal number	Voucher	Date	Year closed	Type	Currency	Amount in transaction currency	Amount	Amount in reporting currency
004480	180000111	11/3/2013		Operating	USD	176.48	176.48	176.48
004481	180000112	11/5/2013		Operating	USD	272.78	272.78	272.78
004482	180000113	11/11/2013		Operating	USD	300.26	300.26	300.26
004483	180000114	11/17/2013		Operating	USD	369.03	369.03	369.03
004493	180000115	12/3/2013		Operating	USD	86.81	86.81	86.81
004494	180000116	12/3/2013		Operating	USD	180.00	180.00	180.00
004495	180000117	12/5/2013		Operating	USD	278.24	278.24	278.24
004496	180000118	12/11/2013		Operating	USD	306.26	306.26	306.26
004497	180000119	12/17/2013		Operating	USD	376.41	376.41	376.41
013861	INV-10000715	8/13/2015		Operating	USD	37,500.00	37,500.00	37,500.00

Figure 5.23 Account number form

Let's check the customer transaction that was generated for the 000500 customer account.

Go to **Accounts receivable > Common > Customers > All customers** > find the 000500 customer > **Transactions** button.

The **Customer transactions** form opens. We can see the customer transaction that has been generated during the invoice posting.

5. Sales

The screenshot shows the 'Customer transactions' window. The title bar indicates: 'Customer transactions (1 - usmf) - Voucher: INV-10000715, 8/13/2015, Customer account: 000500'. The menu bar includes: File, Voucher, History, Payment management, Cash flow forecasts, Original document, Cancel payment, Open, Bill of exchange, Reverse transaction, and Help. A toolbar below the menu has buttons for Show open only, Overview, General, Payment, Bill of exchange, Settlement, Collections, History, and Financial dimensions. The main area displays a table with columns: Voucher, Transaction type, Date, Invoice, Bill ID, Sequence number, Status, Remittance number, Amount in transaction currency, Balance, and Currency. One row is visible: INV-10000715, Sales order, 8/13/2015, CIV-000716, 0, None, 37,500.00, 37,500.00, USD. Below the table are fields for Description (empty), Amount (37,500.00), and Balance (37,500.00). The bottom of the window features navigation icons (back, forward, search, etc.), a status bar with a bell icon (1), USD, usmf, and a Close button.

Figure 5.24 Customer transactions form

Let's check the item transaction that was generated for the T0002 item account.

Go to **Product information management > Common > Released products** > find the T0002 item > **Manage inventory** button group > **Transactions** button.

The last transaction with the *Sold* status has been generated during the invoice posting.

The screenshot shows the 'Inventory transactions' window. The title bar indicates: 'Inventory transactions (1 - usmf) - Financial date: 8/13/2015, Yes, Lot ID: 012301Item number: T0002'. The menu bar includes: File, Inventory, Ledger, Functions, and Configuration details. A toolbar below the menu has buttons for Overview, General, Update, Ledger, Reference, Other, Financial dimensions - financial, Financial dimensions - physical, and Inventory dimensions. The main area displays a table with columns: Site, Warehouse, Location, Physical date, Financial date, Reference, Number, Receipt, Issue, CW quantity, CW unit, Quantity, and Cost amount. Numerous rows are listed, all with Site 2, Warehouse 21, and Reference 'Sales order'. The last row is highlighted in yellow: Site 2, Warehouse 21, Location empty, Physical date 8/4/2015, Financial date 8/13/2015, Reference Sales order, Number 000758, Receipt empty, Issue Sold, CW quantity empty, CW unit empty, Quantity -10.00, Cost amount -22,000.00. Below the table are navigation icons, a filter bar 'Filter transactions based on the reference type', and a status bar with a bell icon (1), USD, usmf, and a Close button.

Figure 5.25 Inventory transactions form

5. Sales

The sales order status is the following (**Sales order** form > **Sales order** menu button > **Show > Header view** button > **General** fast tab > **Status** field group):

- Status = Invoiced
- Document status = Invoice

Status

Status:	Invoiced
Deadline:	8/6/2015
Document status:	Invoice
Quality order status:	
Do not process:	<input type="checkbox"/>

Figure 5.26 Sales order status

Posting Profile

How does Microsoft Dynamics AX know what accounts should be used instead of the Inventory, COGS, Sales, and Accounts Receivable accounts in different operations?

For example, why does Microsoft Dynamics AX use the 130100 account as Accounts Receivable during the Invoice posting, and the 130300 account as the Accounts Receivable un-invoiced during the Packing slip posting?

All information about accounts is stored in posting profiles. Microsoft Dynamics AX has customer, vendor, and inventory posting profiles.

Posting profiles are used to set up the controlling account (the general ledger account) for specific entities: customer, vendor, and item; for specific operations: packing slip, invoice etc.

Customer Posting Profile

In the Invoice step the Account receivable account is used. The Account receivable account is the controlling account for the customer. It is set up in the customer posting profile.

The customer posting profile is set up per company. But it can contain different setups for different customers or customer groups.

Let's find out to which customer group the 000500 (Cherry Company) customer belongs.

The customer group is set up in the **Customers** form. Go to **Accounts receivable > Common > Customers > All customers** > find the 000500 customer and double-click it > **General** fast tab > **Customer group** field.

5. Sales

We can see that the 000500 customer belongs to the 80 (Other customers) customer group.

The screenshot shows the 'Customer' form in Dynamics AX. The 'General' tab is selected. The 'Customer group:' field is highlighted with a yellow background. Other fields visible include Account (000500), Record type (Organization), Name (Cherry Company), Search name (Cherry Company), and Classification group (not explicitly shown). A 'Change party association' button is also present.

Figure 5.27 Customer group field

Let's find what customer posting profile is used in our demo data.

Go to **Accounts receivable > Setup > Parameters**. The **Accounts receivable parameters** form opens. Go to the **Ledger and sales tax** tab, the **General** fast tab. The **Posting profile** field contains the customer posting profile that is used in the system.

The screenshot shows the 'Accounts receivable parameters' form. The 'General' tab is selected. Under the 'Posting' section, the 'Posting profile' dropdown is highlighted with a yellow background and contains the value 'GEN'. Other fields in this section include 'Primary consumption transaction' (Item), 'Primary discount posting' (Item), 'Default dimension hierarchy' (Item, Customer, Catalog), and 'Enable date of VAT register changing' (checkbox). The left sidebar lists various parameters under the 'Ledger and sales tax' category, such as Settlement, Direct debit, Credit card, Collections, Credit rating, Prices, AIF, Inventory dimensions, Rebate program, Margin alerts, and Number sequences. A note at the bottom asks if item consumption should primarily follow accounts receivable or product.

Figure 5.28 Accounts receivable parameters form

In our demo data, the GEN customer posting profile is used.

5. Sales

To view the configuration of the customer posting profile, go to **Accounts receivable > Setup > Customer posting profiles**. The **Customer posting profile** form opens. Select the GEN posting profile and go to the **Setup** fast tab.

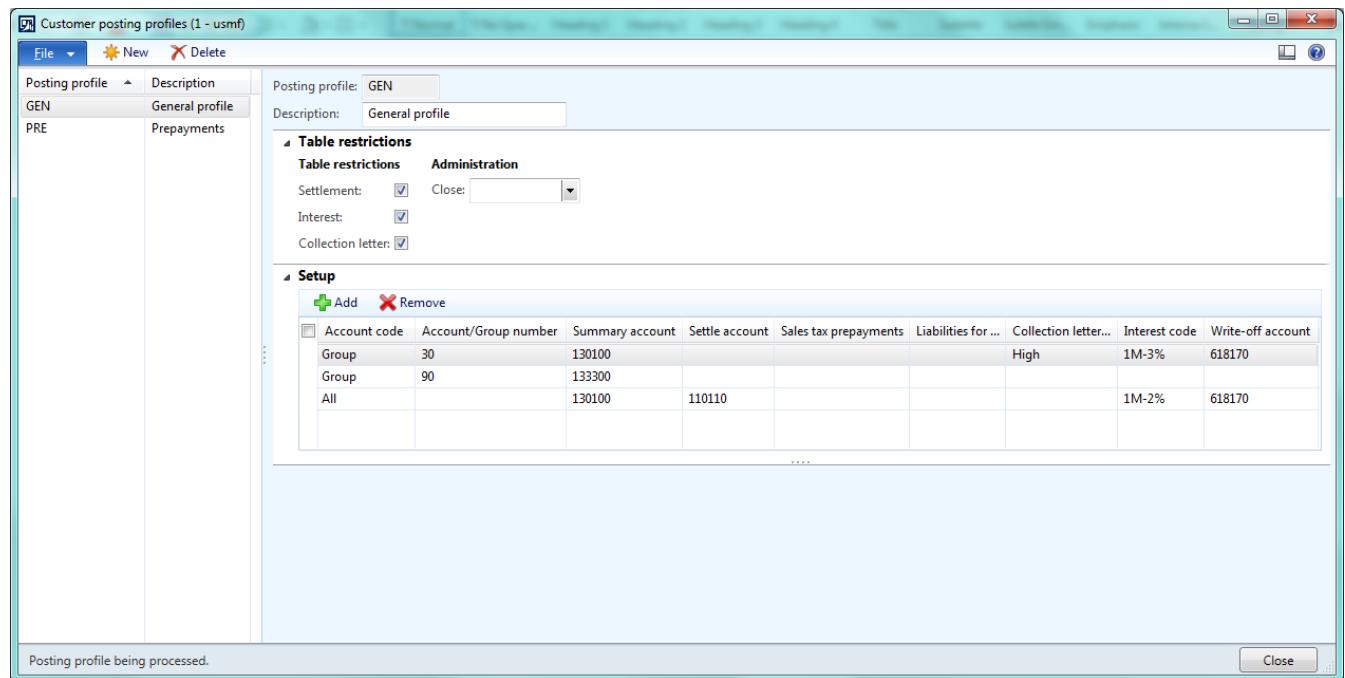


Figure 5.29 Customer posting profile form

We can see that three configurations are available. There is no configuration for the 80 customer group. So, the configuration for all customers is used.

The **Summary account** field contains the account that is used as the Account receivable account. In our case, the 130100 account is used as the Account receivable account.

We make sure that during the invoice posting, the 130100 account is used as the Accounts receivable account.

Inventory Posting Profile

One inventory posting profile exists per company. But, it can contain different setups for different items or item groups.

Let's find out to which item group the T0002 item belongs. Open the **Released product details** form (**Product information management > Common > Released products** > find the T0002 item and double click it >) and find the **Item group** field under the **Manage costs** fast tab.

5. Sales

The T0002 item belongs to the “TV&Video” item group.

Manage costs

Posting	Prices
Item group: TV&Video	Price unit: 1.00
	Price quantity: 1.00
Costing	Unit: ea
Cost group:	Price: 2,200.00
Use cost price by variant: <input type="checkbox"/>	
Price update	Charges
Latest cost price: <input type="checkbox"/>	Price charges: 0.00
Date of price: 1/1/2009	Incl. in unit price: <input checked="" type="checkbox"/>
	ABC classification
	Value: None
	Margin: None
	Revenue: None
	Carrying cost: None

Figure 5.30 Item group field

Let's find what inventory posting profile is used in our demo data.

Open the **Posting** form which contains inventory posting profile. Go to **Inventory management > Setup > Posting > Posting**. The **Posting** form opens.

The screenshot shows the Microsoft Dynamics AX Posting form. The title bar reads "Posting (1 - usmf)". The main area has tabs: Sales order (selected), Purchase order, Inventory, Production, and Standard cost variance. On the left, there is a "Select" dropdown menu with various options like Packing slip, Issue, Consumption, Revenue, etc., with "Packing slip" selected. To the right is a table titled "Posting" with columns: Item code, Item relation, Category relation, Account code, Account relation, Sales tax group, and Main account. The table contains five rows corresponding to the item group TV&Video. At the bottom, there are navigation icons (back, forward, search, etc.) and buttons for Post sales, Close, and a notification bell icon.

Item code	Item relation	Category relation	Account code	Account relation	Sales tax group	Main account
Group	Audio		All			140200
Group	AudioRM		All			140100
Group	CarAudio		All			140200
Group	CarAudioRM		All			140100
Group	TV&Video		All			140200

Figure 5.31 Posting form

5. Sales

During the Packing slip step, the accounts from the following setups are used:

- *Packing slip*. This setup is used for the Inventory account.
- *Packing slip offset*. This setup is used for the Deferred COGS account.
- *Deferred revenue on delivery*. This setup is used for the Accrued sales account.
- *Deferred revenue offset on delivery*. This setup is used for the Account receivable un-invoiced account.

During the Invoice step, the accounts from the following setups are used:

- *Issue*. This setup is used for the Inventory account.
- *Consumption*. This setup is used for the Cost of goods sold (COGS) account.
- *Revenue*. This setup is used for the Sales account.

Let's review all these setups.

The **Sales order** tab is shown by default. The **Packing slip** radio button is selected by default. Find the settings for the “TV&Video” item group.

The Packing slip configuration is used for the Inventory account. We can see that for the “TV&Video” item group, the 140200 general ledger account is used as Inventory account.

The **Posting** form looks as follows:

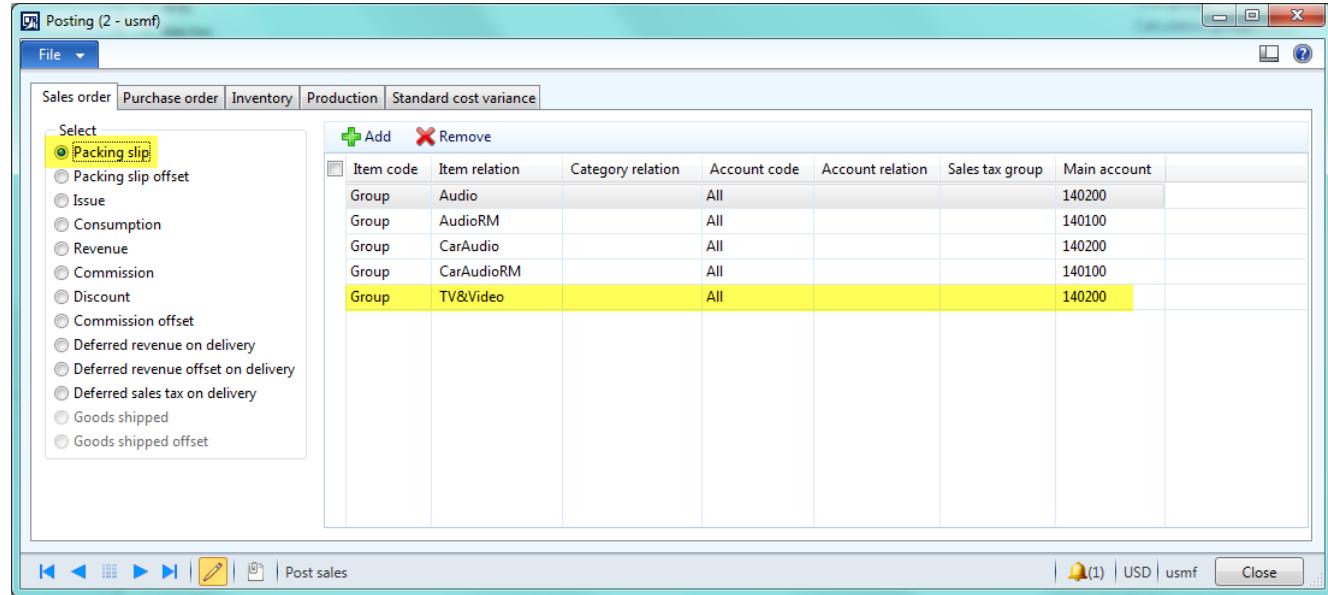


Figure 5.32 Posting form, Packing slip

Select the **Packing slip offset** radio button. This setup is used for Deferred COGS account. We can see that for all items, the 500150 general ledger account is used as Deferred COGS account.

5. Sales

The **Posting** form looks as follows:

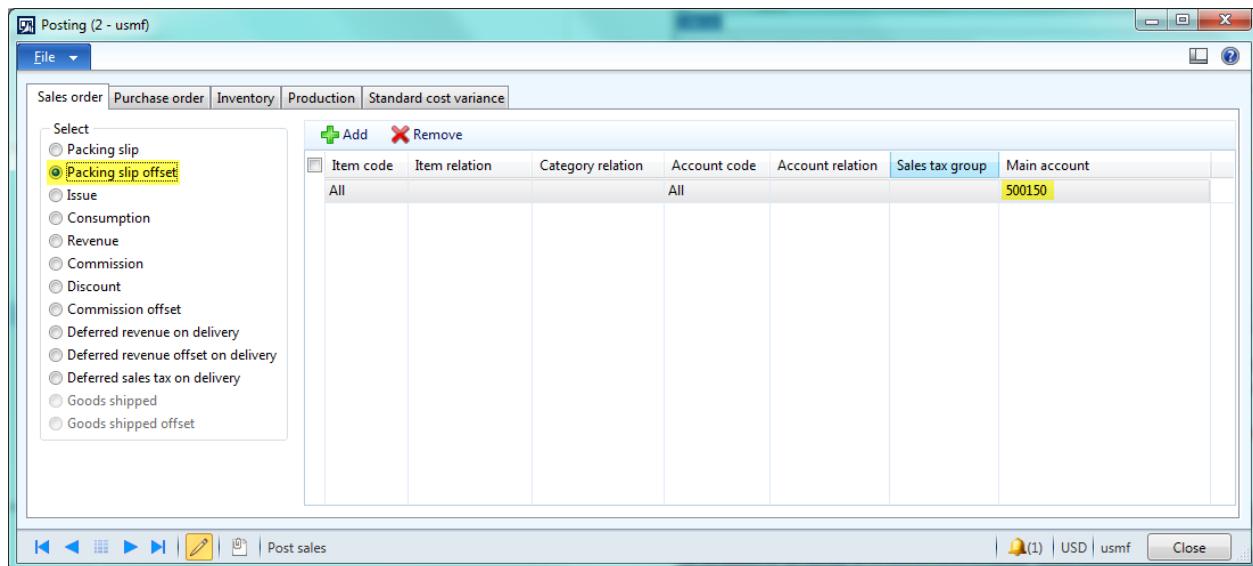


Figure 5.33 Posting form, Packing slip offset

Select the **Deferred revenue on delivery** radio button. This setup is used for the Accrued sales account. We can see that for all items, the 401400 general ledger account is used as the Accrued sales account.

The **Posting** form looks as follows:

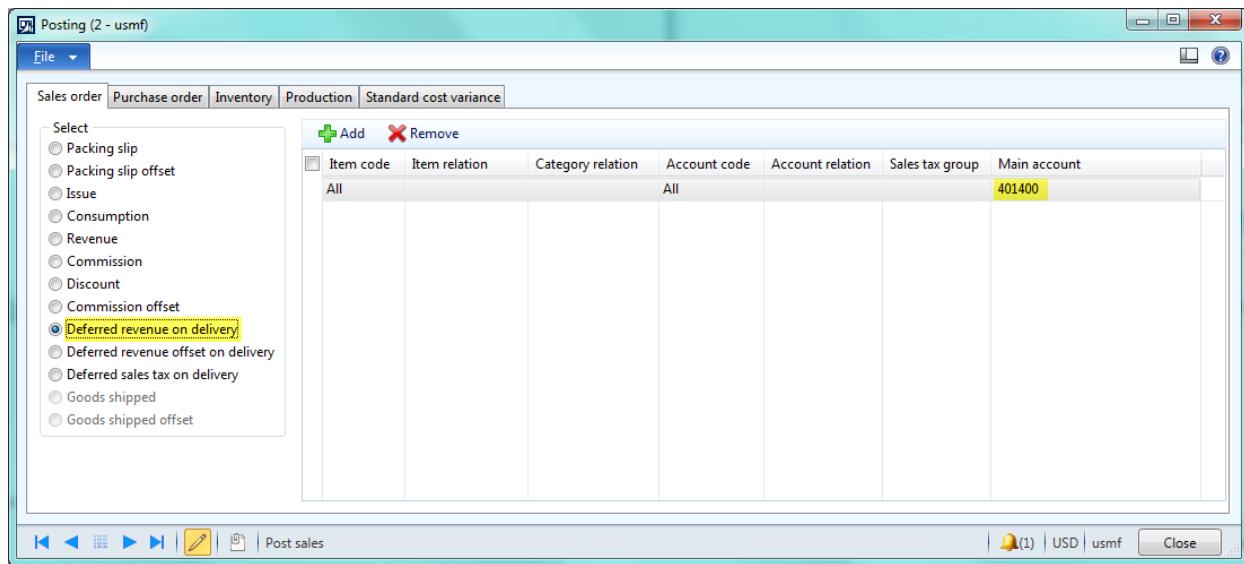


Figure 5.34 Posting form, Deferred revenue on delivery

Select the **Deferred revenue offset on delivery** radio button. This setup is used for the Account receivable un-invoiced account. We can see that for all items, the 130300 general ledger account is used as the Account receivable un-invoiced account.

5. Sales

The **Posting** form looks as follows:

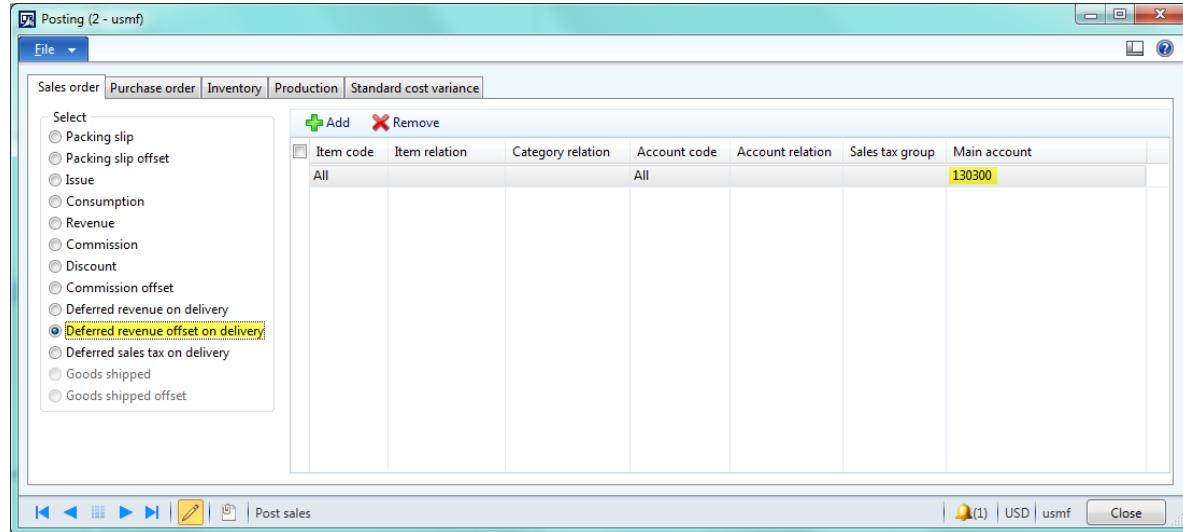


Figure 5.35 Posting form, Deferred revenue offset on delivery

Select the **Issue** radio button. This setup is used for the Inventory account. We can see that for the “TV&Video” item group, the 140200 general ledger account is used as the Inventory account.

The **Posting** form looks as follows:

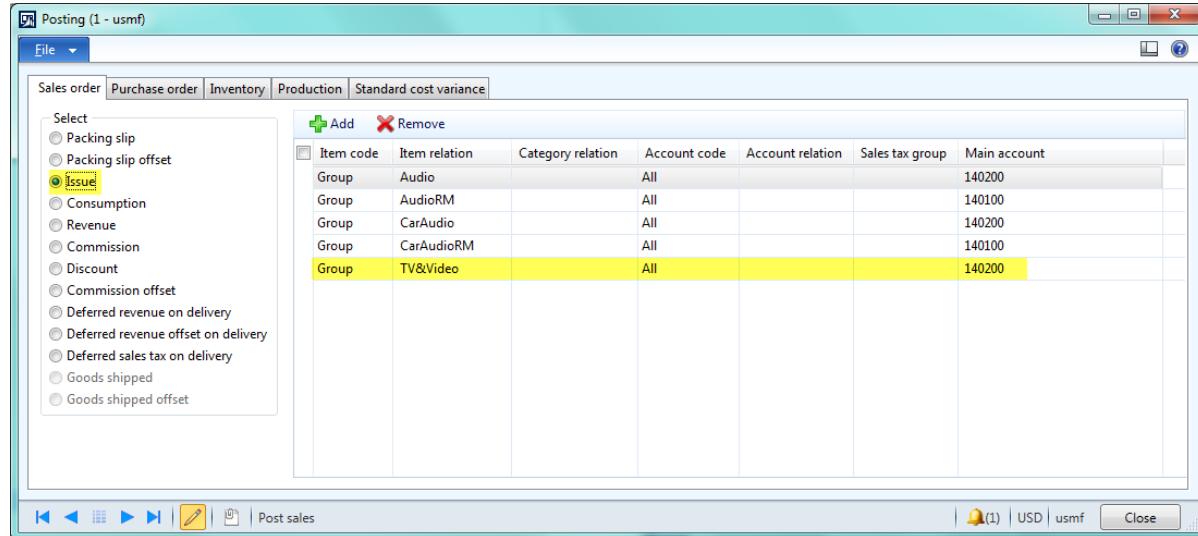


Figure 5.36 Posting form, Issue

Select the **Revenue** radio button. This setup is used for the Sales account. We can see that setup can be created not only per item group but also per customer group. The Cherry Company customer belongs to the 80 (Other customer) customer group. A separate setup for the “80” customer group does not exist,

5. Sales

so setup for All customer groups is used. The 401100 general ledger account is used as the Sales account.

The **Posting** form looks as follows:

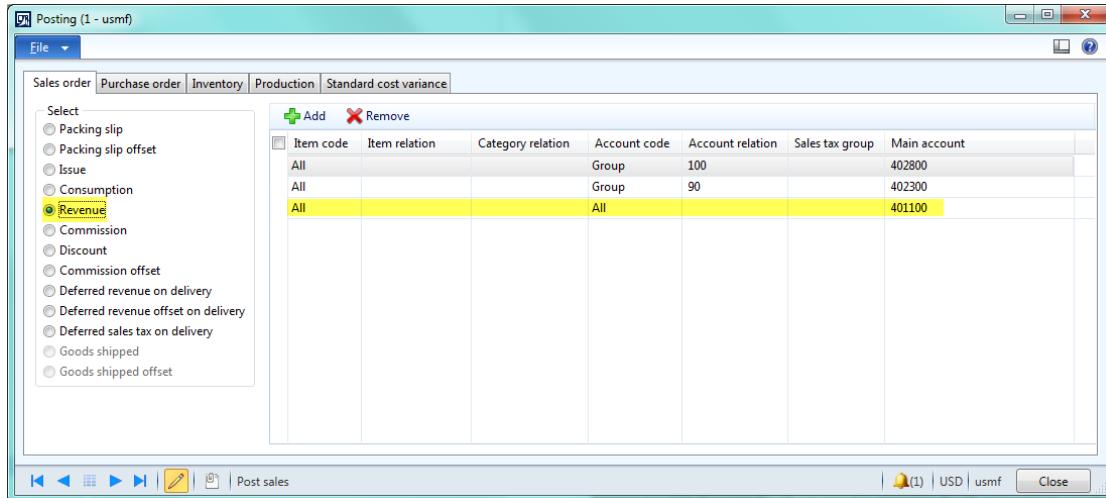


Figure 5.37 Posting form, Revenue

Select the **Consumption** radio button. This setup is used for the Cost of goods sold account. We can see that for the “TV&Video” item group, the 500100 general ledger account is used as Cost of goods sold account.

The **Posting** form looks as follows:

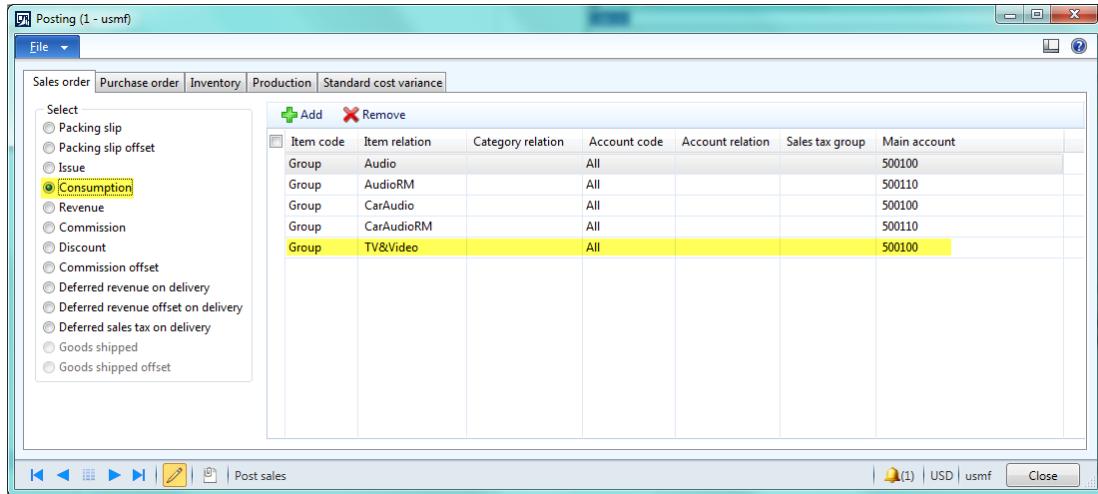


Figure 5.38 Posting form, Consumption

We make sure that the inventory posting profile is used to identify general ledger accounts during the Packing slip and Invoice steps.

Free Text Invoice

The company can sell something that is not a company registered product or service. For example, the company sells the item T0002 (Projector television). The truck driver delivers the items to the customer, but the customer asks the driver to lift the item to the 27th floor. The customer promises to pay \$75 for this service. When the driver comes back to the office, he notifies the Sales Manager about this service. How will the Sales Manager register this money in the system?

If we look at the **Sales order** form, we see that there is not ability to create a sales line without the item number, so this form is not appropriate.

In Microsoft Dynamics AX, the **Free text invoice** form is used to post the invoice for anything that the company owns and sells to the customer that is not inventory-related.

When the invoice is posted for not inventory-related items, the following transaction is generated:

Accounts receivable		Sales	
Debit	Credit	Debit	Credit
\$75			\$75

Account receivable is the asset account. Account receivable is increased, so the Debit part is used. The Debit means “good” for the company.

The Sales account is the Profit&Loss account and is similar to the company liability account. Because the Sales account increases, the company income that should be paid to the owners also increases. The Credit part is used, credit means “bad” for the company.

Post a Free Text Invoice

Let's create and post the invoice for \$75 for the 000500 (Cherry Company) customer.

1. Go to **Accounts receivable > Common > Free Text Invoices > All free text invoices**. The **All free text invoices** list page opens.
2. Create a new free text invoice by clicking the **Free text invoice** button and selecting the 000500 customer in the **Customer account** field.
3. Go to the **Invoice lines** fast tab. The main account for the Sales account is set up manually. We will use the 401300 account. It is the Sales account and has the “Other Revenues” name.
4. In the **Main account** field, select the 401300 account.
5. Enter 75 in the **Amount** field.
6. Let's select the Sales tax group to analyze how sales tax is calculated. In the **Sales tax group** field, select the CA (California) sales tax group.

5. Sales

7. Save the line. The **Free text invoice** form has the following view:

Figure 5.39 Free text invoice form

8. Note that the **Sales tax group** and **Item sales tax** group are set up. Common sales tax codes apply to the invoice amount (i.e. increase the invoice amount). Let's check whether the sales tax is applied. Click the **Invoice** button group > **Sales tax**. The **Sales tax transactions** form opens. We can see that the sales tax groups have one common sales tax code that is applied. The total sales tax amount is 5.44. So, if we leave this setup, $75+5.44=80.44$ is posted to the Account receivable account.

Sales tax code	Quantity	Amount origin	Adjusted amount origin	Percent	Calculated sales tax amount	Actual sales tax amount	Override calculated sales tax	Sales tax direction	Exempt	Sales tax payable
AV_CAST	0.00	75.00	0.00	7.25000	5.44	5.44	<input type="checkbox"/>		<input type="checkbox"/>	

Figure 5.40 Sales tax transactions form

9. The Sales Manager posts the invoice by clicking the **Invoice** button group > **Post** button in the **Free text invoice** form. The **Post free text invoice** form opens. Select the **Print invoice** check box. Click the **Printer setup** > **Invoice** button, select the **Screen** option, and close the form. Click **OK** in the **Post free text invoice** form. The invoice is posted and printed.

5. Sales

Check Posting Results

Let's analyze the posting results. In the **Free text invoice** form, click the **Invoice button group > Invoice journal** button. We can see that the invoice journal is created for the \$80.44 amount.

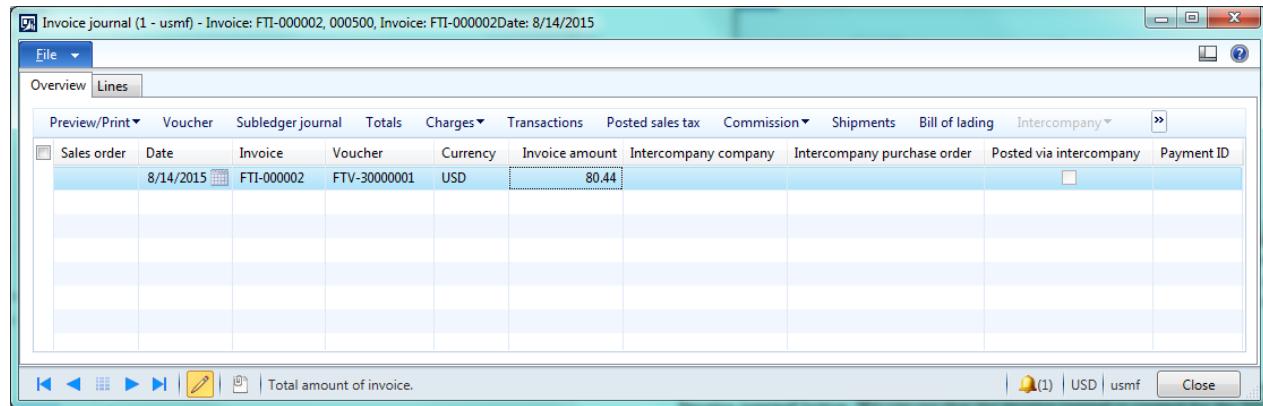


Figure 5.41 Invoice journal form

Click the **Voucher** button to view the generated general ledger transactions. The **Voucher transactions** form opens.

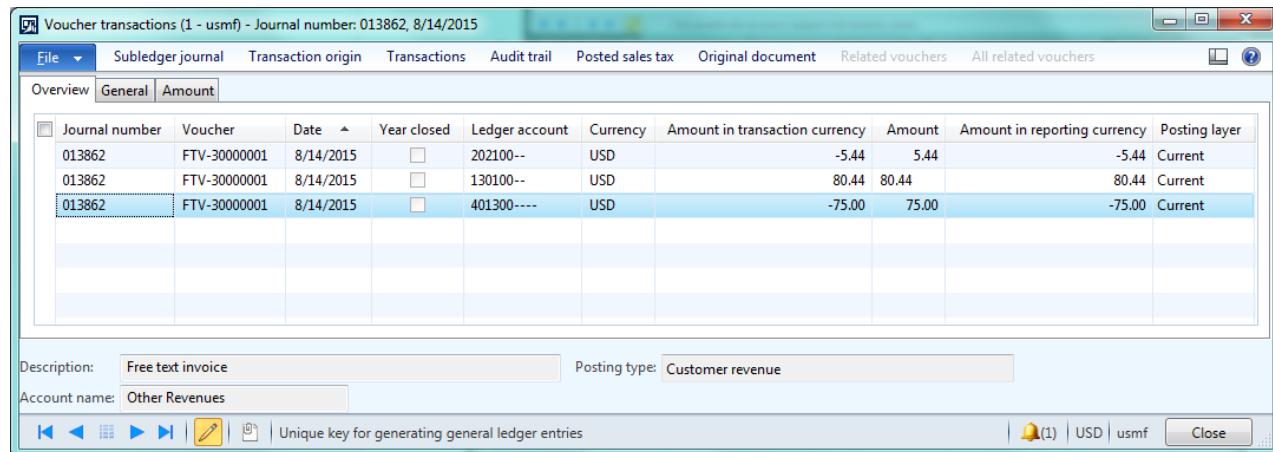


Figure 5.42 Voucher transactions form

The 130100 account is taken from the customer posting profile. This account belongs to the Account receivable accounts.

The 202100 account is taken from the sales tax posting profile. This account belongs to the Accounts payable accounts.

The 401300 account was entered manually in the **Free text invoice** form. This account belongs to the Sales accounts.

5. Sales

Click the **Transaction origin** button to view all transactions for all ledgers. The **Transaction origin** form opens.

The screenshot shows the 'Transaction origin' form window. At the top, there's a toolbar with a 'File' dropdown and other standard icons. Below the toolbar is a navigation bar with tabs: 'Overview' (selected), 'General', and 'Financial dimensions'. The main area is a grid table with the following columns: Module, Voucher, Date, Number, Text, Currency, Amount in transaction currency, Amount, Dimensions, and Number. The grid contains several rows of transaction data:

Module	Voucher	Date	Number	Text	Currency	Amount in transaction currency	Amount	Dimensions	Number
Ledger	FTV-30000001	8/14/2015	401300----	Free text invoice	USD	-75.00	-75.00		
Ledger	FTV-30000001	8/14/2015	130100--	Free text invoice	USD	80.44	80.44		
Ledger	FTV-30000001	8/14/2015	202100--	Free text invoice	USD	-5.44	-5.44		
Customer	FTV-30000001	8/14/2015	000500		USD	80.44	80.44		
Sales tax	FTV-30000001	8/14/2015	202100--	Sales tax	USD	-5.44	-5.44		

Below the grid, there are two text input fields: 'Name:' containing 'California State - Retail Prod' and 'Table:' containing 'Posted sales tax'. At the bottom of the form are various navigation buttons (back, forward, search, etc.) and a toolbar with icons for application modules and system status (bell icon, USD, usmf, Close).

Figure 5.43 Transaction origin form

We can see that the customer transaction and sales tax transaction have been created.

Summary

In the Sales training lesson, we have studied the following:

- What the sales process is, what steps it includes
- What the sales order is
- What the sales order Creation, Confirmation, Picking and Shipment, Packing slip, Invoice steps are
- What general ledger and subledger transactions are generated for the sales order
- What subledger journal transactions are generated for the sales order
- What the posting profiles is. How customer and inventory posting profiles are set up
- What the Free text invoice is, how it can be posted. What general ledger and subledger transactions are generated during free text invoice posting.

6. Sales taxes

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Introduction

As you know all business instances must collect and pay taxes to tax authorities, because it is the main income of any country.

Taxes influence the amount to be paid, i.e. they influence general ledger transactions.

There are two main approaches (taxation rules) that are used by governments to calculate taxes: Sales Tax and Value Added Tax. For example the United States use the Sales tax approach and Ukraine uses the Value Added Tax approach.

The following setup is used to control which approach is used in Dynamics AX: **General ledger > Setup > General ledger parameters > Sales tax** menu tab > **Apply U.S. taxation rules** check box. If it is selected, the Sales Tax approach is used; otherwise the Value Added Tax approach is used.

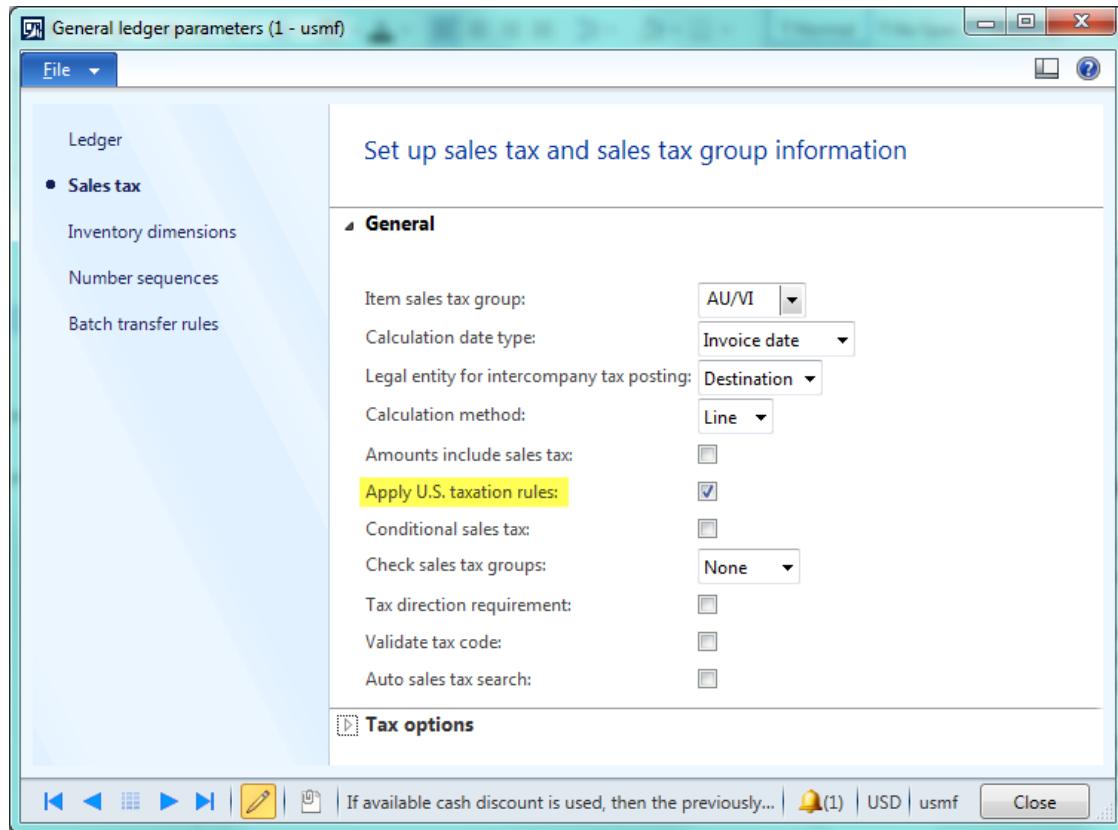


Figure 6.1 General ledger parameters

As you can see in our demo data the Sales Tax approach is used.

The Sales Tax approach uses the sales taxes and the use taxes. While the Value Added Tax approach uses the value added taxes.

6. Sales taxes

Sales Tax (On Sale)

Sales taxes can be included or not included in the price. But in any case, the general ledger transactions have the same view. Sales tax included in a price just increase a company revenue (i.e. amount in the Sales account)

For example, the company sales pens for 100\$, and the sales tax is \$20.

The company includes sales tax in the price. The ledger transactions look as follows:

Ledger account	Debit	Credit
Accounts receivable	\$120	
Sales		\$100
Sales tax payable		\$20

If the company doesn't include sales tax in the price. The ledger transactions look as follows:

Ledger account	Debit	Credit
Accounts receivable	\$100	
Sales		\$80
Sales tax payable		\$20

The company pays 20\$ to the tax authorities.

Sales Tax (On Purchase)

During a purchase, sales taxes are used for the VAT taxation rule (see the definition below). But, they can also be used for the sales taxes taxation rules (the U.S. taxation rules).

In this case, sales taxes are treated as additional expenses. They always increase the purchase price. Such taxes are not paid to the sales tax authorities (and excluded from the U.S. sales tax report).

For example, the company purchases pens for 100\$, and the sales tax is \$20.

The ledger transactions look as follows:

Ledger account	Debit	Credit
Accounts payable		\$120
Expense	\$120	

The company does not pay to the tax authorities.

Use Taxes

Sometimes taxes are applied to purchases.

These taxes are called the Use Taxes. Use taxes should be paid by the company not the vendor.

Use taxes never increase the purchase price. A Vendor can even not know about the use taxes paid by the purchaser.

For example, a company purchases pens for 70\$ on the Internet from an out-of-state vendor. The vendor charges 70\$ with no tax. The company may still owe taxes to the sales tax authorities in its own state.

For example the use tax is 5\$. The ledger transactions look as follows:

Ledger account	Debit	Credit
Accounts payable		70
Expense	75	
Use tax payable		5

The company pays 5\$ to the tax authorities.

Value Added Taxes (VAT)

In some countries, sales taxes are applied not per sales amount but per the “value added” amount. These taxes are called value added taxes (VAT).

This means when a company sells a product, the government returns all taxes that the company pays when the product is purchased (if it is a reseller company), or when the product is produced (if it is a production company).

For example, VAT is 10%. To calculate the value added tax amount, the following approach is used.

When a company purchases pens for 50\$, it records in the system that the VAT amount is 5\$. When the company sells pens for 80\$, it records in the system that the VAT amount is 8\$. The company pays only the difference, i.e. $8\$ - 5\$ = 3\$$ to the tax authorities.

If you calculate the company profit $80\$ - 50\$ = 30\$$ and apply the tax percent, you receive the same amount: $30\$ * 10\% = 3\$$. That is why this tax is called the valued added tax.

6. Sales taxes

When the company purchases, the ledger transactions look as follows:

Ledger account	Debit	Credit
Accounts payable		50
Expense	45	
Sales tax receivable	5	

When the company sells, the ledger transactions look as follows:

Ledger account	Debit	Credit
Accounts receivable	80	
Sales		72
Sales tax payable		8

The company pays the difference between the sales tax payable and the sales tax receivable, i.e. 3\$ to the tax authorities.

Pay Taxes

The company pays the tax authorities at the end of the period. The period can be one month, a quarter, or a year depending on the country's legislation.

The tax authorities are similar to a vendor. In other words, the company pays for nothing to a special vendor (the tax authorities).

The payment process has the following flow:

- A company prints the sales tax payment report and sends it to the tax authorities, i.e. confirms the sales tax amounts to pay (a vendor invoice transaction is generated).
- A company makes the payment to the tax authorities (a vendor payment transaction is generated and settled with a vendor invoice transaction).

The first step generates the following general ledger transaction:

Sales tax payable		Accounts payable (or Sales tax payable, un-invoiced)	
Debit	Credit	Debit	Credit
\$ tax amount			\$ tax amount

If the authorities have a related vendor account, the Account payable account is used, if no – the Sales tax payable, un-invoice account is used.

The Sales tax payable account is the liability account, since the amount is decreased, the Debit part is used. The Account payable account is also the liability account, since the amount is increased, the Credit part is used.

6. Sales taxes

The Sales tax and Vendor transactions are also generated. The sales tax transaction decreases the sales tax account. The vendor transaction increases the vendor account. As a result, the sales tax total amount becomes zero (it was increased during sales), the vendor account is increased.

The second step is the payment, the following transaction is generated:

Cash or cash equivalents		Accounts payable (or Sales tax payable, un-invoiced)	
Debit	Credit	Debit	Credit
	\$ tax amount	\$ tax amount	

The Cash account is the asset account, since the cash is decreased, the Credit part is used. The Account payable account is the liability account, since the amount is decreased, the Debit part is used.

The second step is used to create a vendor transaction that decreases the vendor account, as a result, the vendor account becomes zero.

Microsoft Dynamics AX also uses the two-steps payment for the tax authorities. The first step generates an invoice transaction for the vendor, the second step generates the payment transaction for the vendor. These transactions are settled, i.e. the vendor balance becomes zero.

That is, we purchase nothing from this vendor and pay for it. =) Of course we understand that we pay taxes to serve the country.

Sales Tax Ledger

As you may remember, the General ledger consists of ledger accounts and ledger transactions.

The Sales tax ledger is a subledger. The Sales tax ledger contains the sale tax codes instead of ledger accounts. In other words, the “chart of accounts” for the Sales tax ledger account is a list of tax codes.

Each sales tax code has a corresponding ledger account in the general ledger. This ledger account is called a controlling account.

The Controlling account is the ledger account that is assigned the sales tax code with the help of a posting profile.

When the company sells items, the sales tax transaction and corresponding general ledger transaction are created.

The sales tax codes balances are summed and compared with their controlling accounts to ensure accuracy as part of the process of preparing a trial balance.

6. Sales taxes

Sales Tax Codes

The chart of account for the Sales tax ledger, i.e. the sales tax codes are located under **General ledger > Setup > Sales tax > Sales tax codes**:

The screenshot shows the 'Sales tax codes' form in Microsoft Dynamics AX 2012 R3. On the left, a list of sales tax codes is displayed, including AV_CAST, AV_CHCITY, AV_CKCTY, AV_COST, AV_DCST, AV_FARCITY, AV_FLST, AV_GAST, AV_IAST, AV_IDST, AV_ILST, AV_KGCTY, AV_LACITY, AV_MAST, AV_MDST, AV_MIST, AV_MNST, AV_NDRSL, AV_NDSERV, AV_NDST, AV_NJST, AV_NVST, AV_NYST, AV_OHST, AV_ORCNTY, AV_ORST, AV_PAST, AV_TNST, AV_TXST, and AV_WAST. The row for 'AV_CAS' is selected. On the right, detailed configuration options are shown for the selected code:

- General**:
 - Currency: USD
 - Packing duty: Sort code: []
 - Conditional sales tax: Payment sales tax code: []
 - Invoicing: Print: Print code: []
- References**:
 - Settlement period: CA
 - Negative sales tax percentage: CA_State
 - Ledger posting group: Negative sales tax percentage: []
- Calculation**:
 - Calculation parameters:
 - Origin: Percentage of net amount
 - Marginal base: Net amount of invoice balance
 - Calculation method: Whole amount
 - Sales tax on sales tax: []
 - Unit: []
 - Round-off:
 - Round-off: 0.00
 - Rounding form: Normal
 - Duty:
 - Packing duty: []
 - Calculate before sales tax: []
- Report setup**:
 - []
- Report setup - credit note**:
 - []

Figure 6.2 Sales tax codes

The sales tax transactions are accessible by clicking the **Inquiries > Posted sales tax** button in the **Sales tax codes** form.

6. Sales taxes

Voucher	Date	Source	Sales tax code	Sales tax direction	Transaction currency	Amount origin	Calculated sales tax amount	Actual sales tax amount
INV-10000668	11/30/2012	Sales order	AV_CAST	Sales tax payable	USD	-14,500.00	-1,051.25	-1,051.25
INV-10000668	11/30/2012	Sales order	AV_CAST	Sales tax payable	USD	-9,600.00	-696.00	-696.00
INV-10000667	11/30/2012	Sales order	AV_CAST	Sales tax payable	USD	-15,750.00	-1,141.87	-1,141.87
INV-10000667	11/30/2012	Sales order	AV_CAST	Sales tax payable	USD	-66,470.00	-4,819.08	-4,819.08
INV-10000667	11/30/2012	Sales order	AV_CAST	Sales tax payable	USD	-131,250.00	-9,515.62	-9,515.62
INV-10000667	11/30/2012	Sales order	AV_CAST	Sales tax payable	USD	-20,300.00	-1,471.75	-1,471.75
INV-10000667	11/30/2012	Sales order	AV_CAST	Sales tax payable	USD	-38,000.00	-2,755.00	-2,755.00
INV-10000667	11/30/2012	Sales order	AV_CAST	Sales tax payable	USD	-4,620.00	-334.95	-334.95
INV-10000667	11/30/2012	Sales order	AV_CAST	Sales tax payable	USD	-14,000.00	-1,015.00	-1,015.00
INV-10000667	11/30/2012	Sales order	AV_CAST	Sales tax payable	USD	-9,120.00	-661.20	-661.20
INV-10000714	12/27/2012	Sales order	AV_CAST	Sales tax payable	USD	-42,480.00	-3,079.80	-3,079.80
FTV-30000001	8/14/2015	Free text in...	AV_CAST	Sales tax payable	USD	-75.00	-5.44	-5.44

Figure 6.3 Posted sales tax

The **Total actual sales tax amount** field contains the sales tax balance.

The main parameters of a sales tax code are:

- Tax percent
- Settlement period
- Ledger posting group

Tax percent is specified here: click the **Values** button in the **Sales tax codes** form.

From date	To date	Minimum limit	Upper limit	Value
		0.00	0.00	7.25000

Figure 6.4 Tax values

6. Sales taxes

Settlement Period

The *settlement period* contains the following setup: the sales tax authorities and terms of payment. I.e. it is used to define which authorities and when taxes are collected.

The settlement periods are set up under **General ledger > Setup > Sales taxes > Sales tax settlement periods**.

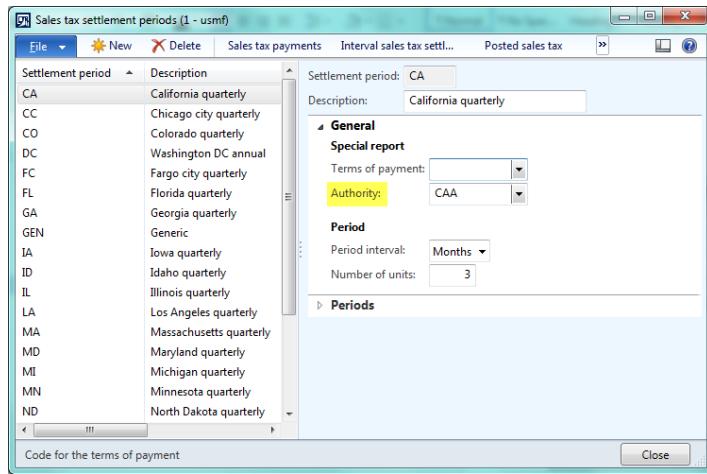


Figure 6.5 Sales tax settlement periods

Ledger Posting Group

The *ledger posting group* is the sales tax posting profile. It contains the general ledger controlling accounts for the tax operation.

The ledger posting group is set up under **General ledger > Setup > Sales taxes > Ledger posting groups**.

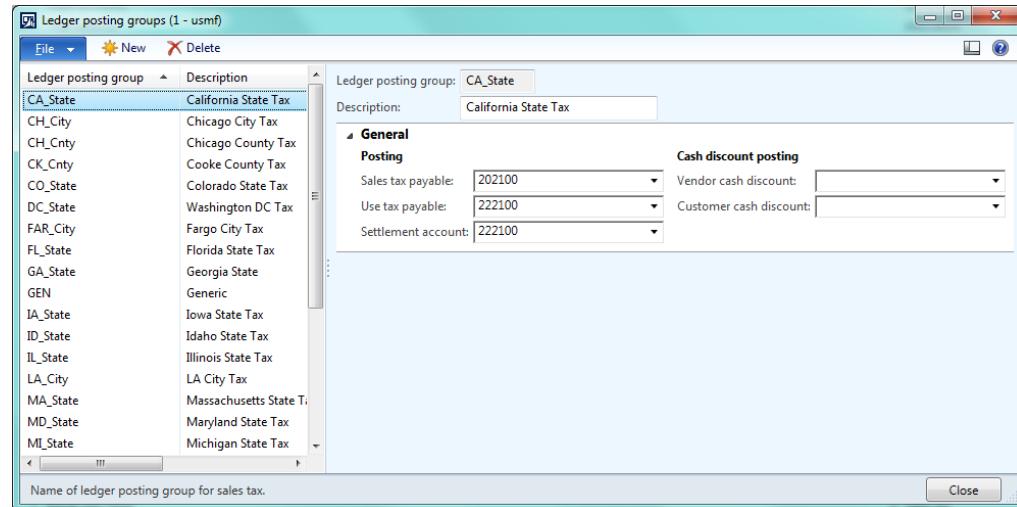


Figure 6.6 Ledger posting groups

6. Sales taxes

The sales tax payable ledger account is used when sales taxes are posted (it occurs during the sales process).

The use tax payable ledger account is used when use taxes are posted (it occurs during the purchase process).

The settlement account is used when a company pays taxes to the authorities.

Note that the sale sales tax code can be used as a sales tax (during the sales process), or a use tax (during the purchase process), or a value added tax (during the sales and the purchase processes if the company uses the Value Added Tax approach).

Sales Tax Parameters

There is no separate Sales tax module in Dynamics AX. The sales tax entities (sales tax subledger, posting profile, authorities, tax groups, etc.) are set up in the **General ledger** module.

So the so-called “sales tax module” parameters are set up in the **General ledger parameters** form:
General ledger > Setup > General ledger parameters > Sales tax menu tab.

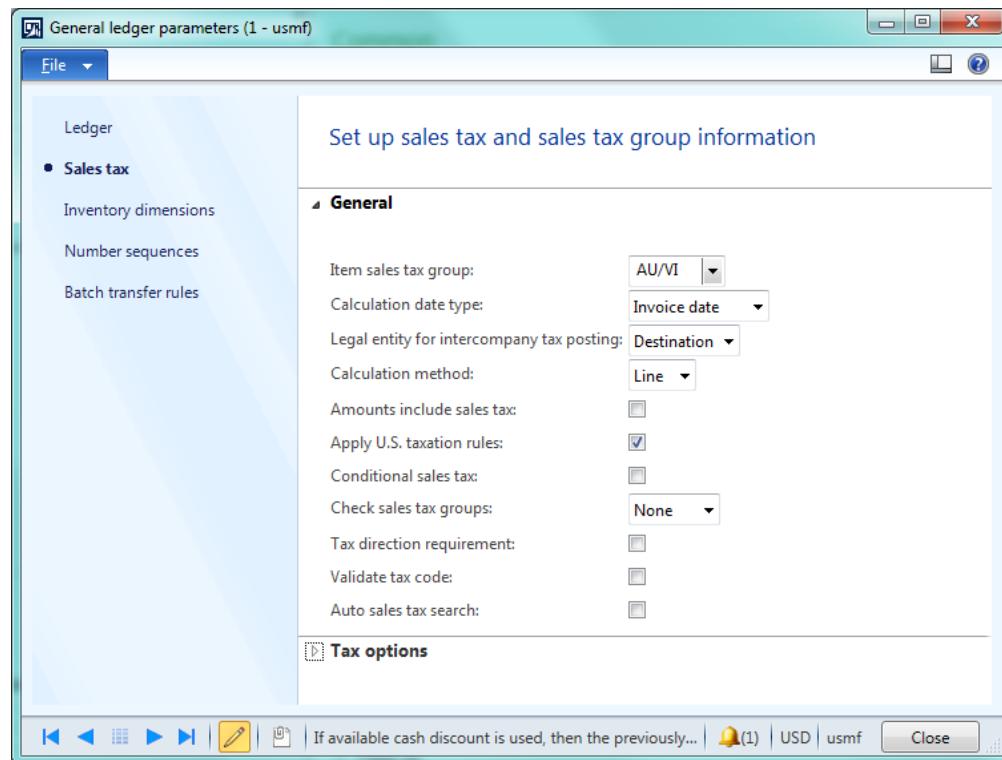


Figure 6.7 General ledger parameters

Tax Groups

The sales taxes are grouped in the tax groups. One sales tax code can belong to two or more tax groups.

In Microsoft Dynamics AX, two types of tax groups are available:

- Sales tax group
- Item sales tax group

These groups are set up under **General ledger > Setup > Sales tax > Sales tax groups** and **Item sales tax groups**.

In both forms, the **Setup** tab contains the list of sales tax codes that are included in the group.

When a company sells products or makes purchases, both groups are specified in the document (i.e. in the purchase order, sales order, vendor invoice, free text invoice, general journal, etc.).

Only the sales tax codes that are assigned for both groups (the sales tax group and the item sales tax group) are applied for the document.

Sales Tax Group

Each state or country has its own tax rules, as a result, customers that live in different states or countries can have different sets of sales tax codes.

That is why a sales tax group is set up per:

- Customer
- Vendor
- Main account

A sales tax group is assigned to a customer in the **Customers** form: **Accounts receivable > Common > Customers > All customers** > double-click required customer > **Customers** form > **Invoice and delivery** fast tab > **Sales tax** field group.

6. Sales taxes

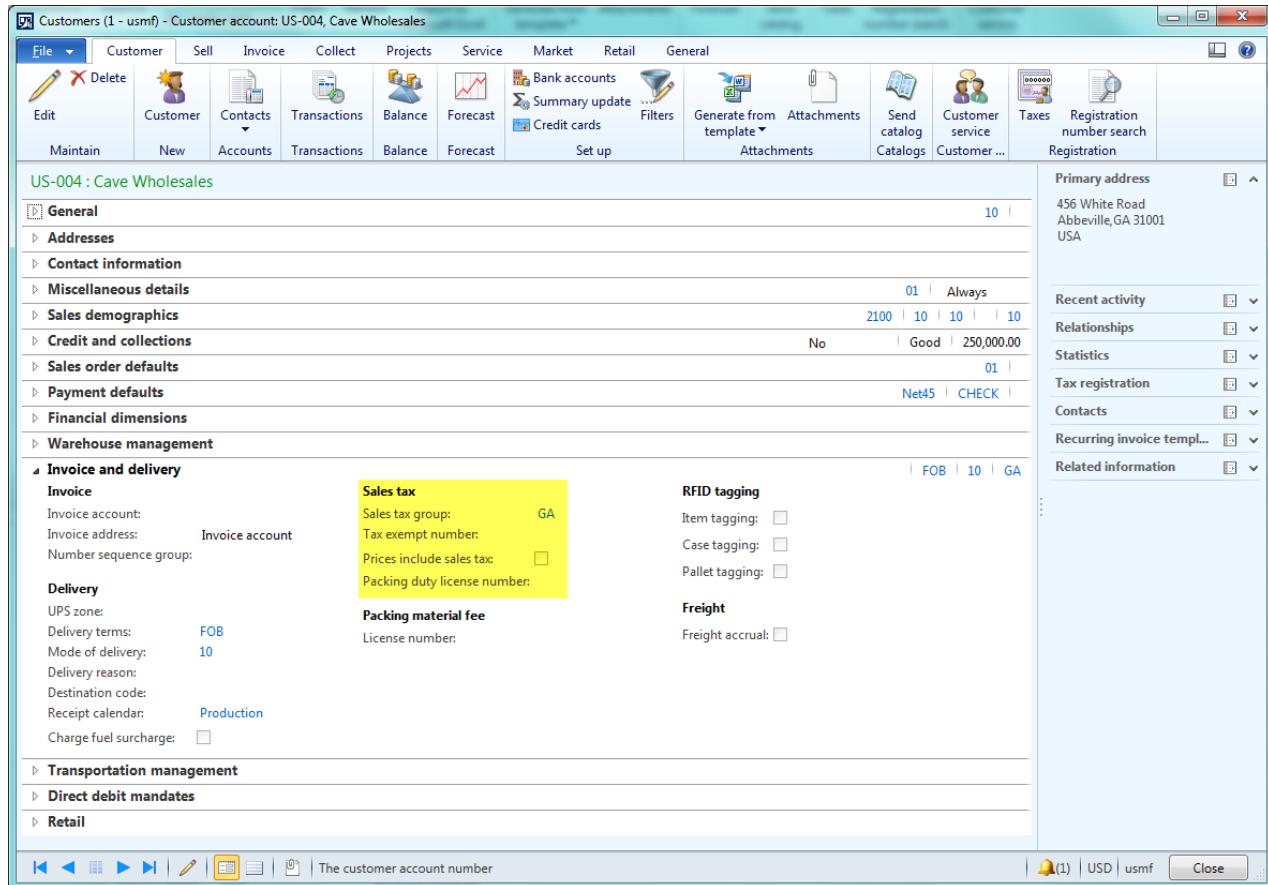


Figure 6.8 Customers

A sales tax group is assigned to a vendor in the **Vendors** form: **Accounts payable > Common > Vendors > All vendors** > double-click required vendor > **Vendor** form opens > **Invoice and delivery** fast tab > **Sales tax** field group.

A sales tax group is assigned to a main account in the **Main accounts** form: **General ledger > Common > Main accounts** > double-click required main account, for example, 500600 > **Main accounts** form opens > select the **Companies** value in the **Select the level of main account to display** field > **Sales tax** field group.

6. Sales taxes

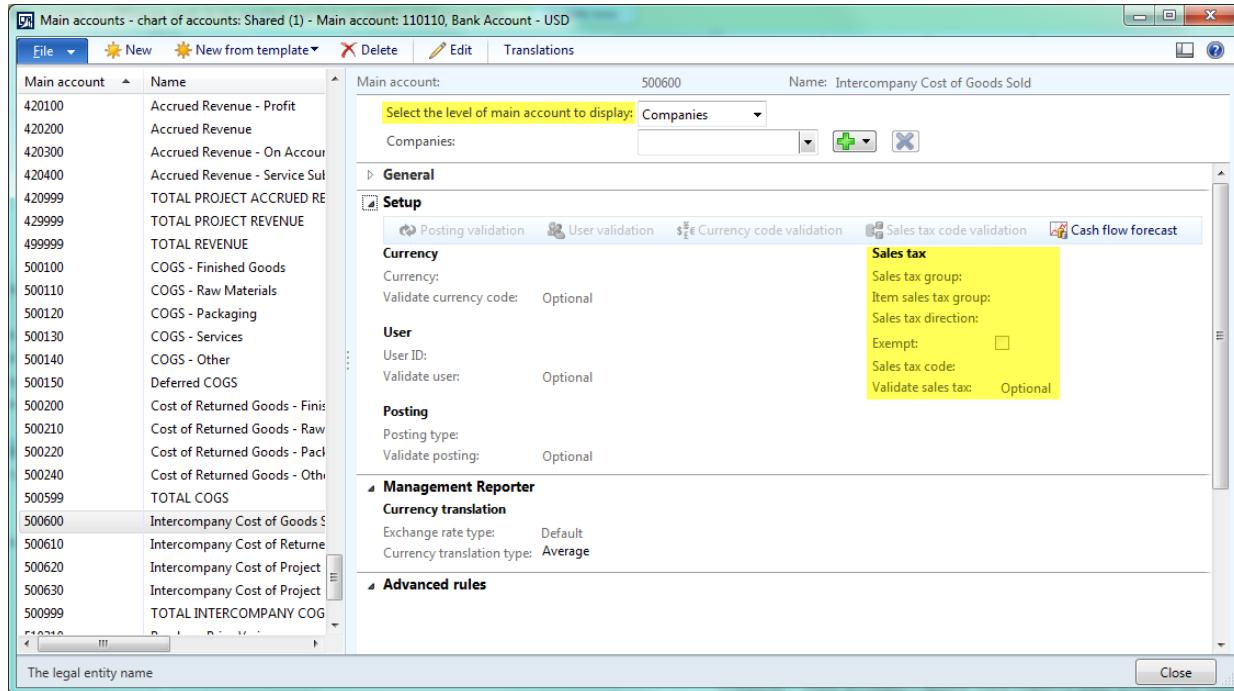


Figure 6.9 Main accounts

Item Sales Tax Group

Since items can be sold (or purchased) to customers from different states or countries, items can have different sets of sales tax codes.

The item sales tax group is set up per:

- Legal entity
- Item
- Main account

Default item sales tax group per entire legal entity is set up in the sales tax parameters: **General ledger > Setup > General ledger parameters > Sales tax** menu tab.

6. Sales taxes

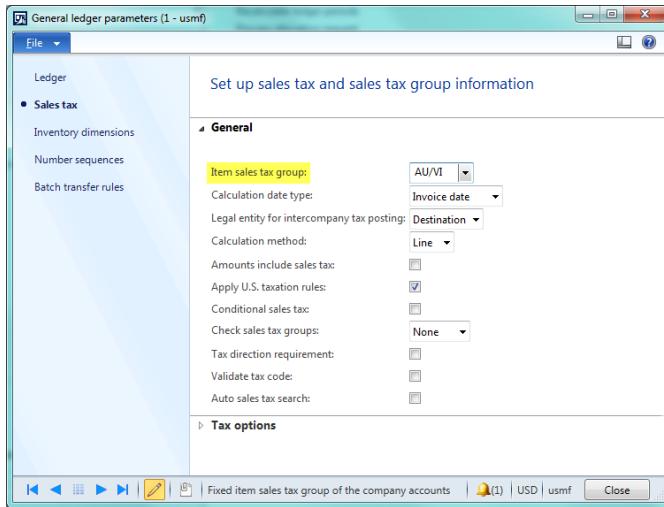


Figure 6.10 General ledger parameters

Note that in our demo data the AU/VI item sales tax group is set up as a default one per legal entity.

Item sales tax groups are assigned to an item in the **Released product details** form: **Product information management > Common > Released products >** double-click required product **> Purchase/Sell fast tab > Taxation field group > Item sales tax group field.**

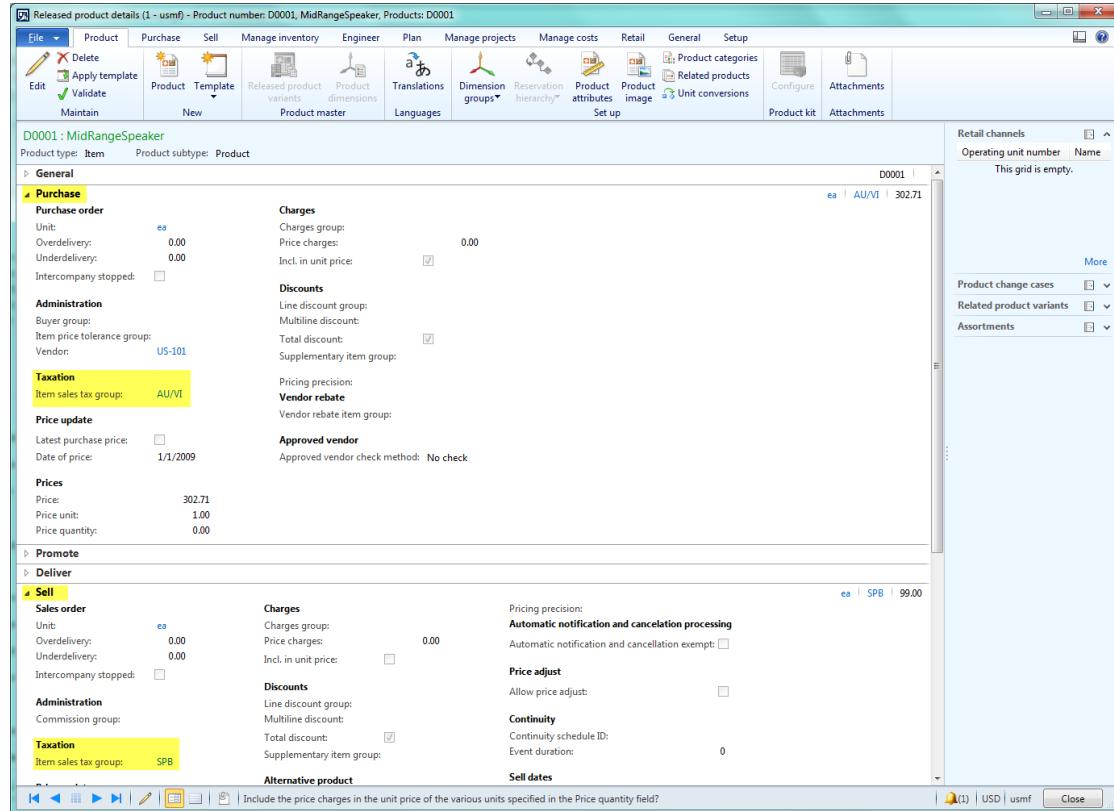


Figure 6.11 Released product details

6. Sales taxes

Note that two item sales tax groups are assigned for the Item: one for the purchase and the other for the sales processes.

The item sales tax group is assigned to the main account in the **Main accounts** form: **General ledger > Common > Main accounts** > double-click required main account, for example 500600 > **Main accounts** form opens > select the *Companies* value in the **Select the level of main account to display** field > **Sales tax** field group.

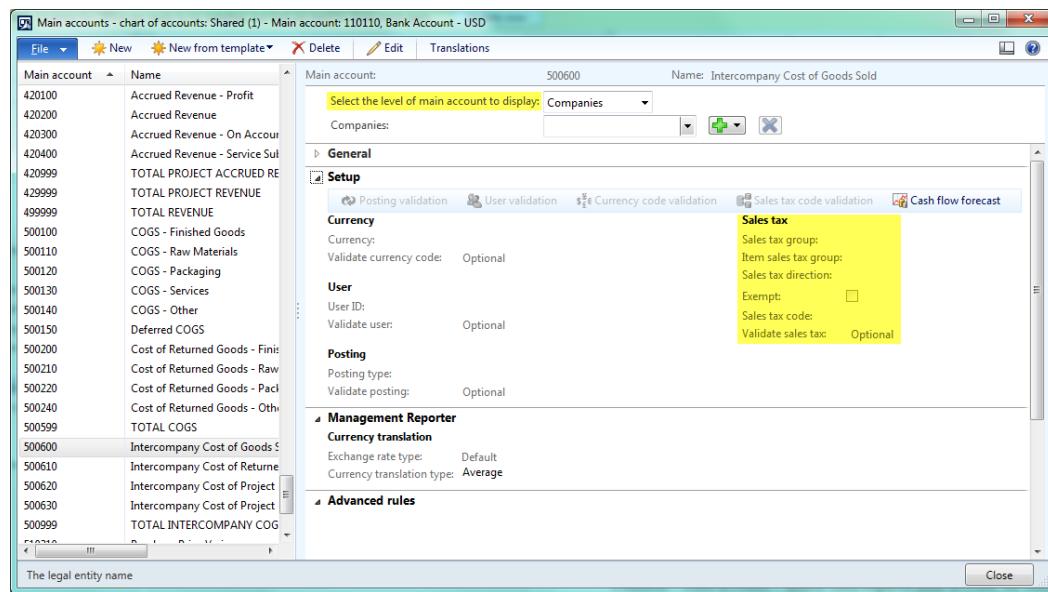


Figure 6.12 Main accounts

Tax Authority

Tax authorities receive the tax payment and tax report from the company. Tax authorities determine when and where the company pays its taxes. Tax authorities are generally used in the tax payment process.

Tax authorities are assigned with a vendor. In other words, the company pays such vendor for the government services.

In Microsoft Dynamics AX, tax authorities are set up under **General ledger > Setup > Sales taxes > Sales taxes authorities**. The **Authority** form looks as follows:

6. Sales taxes

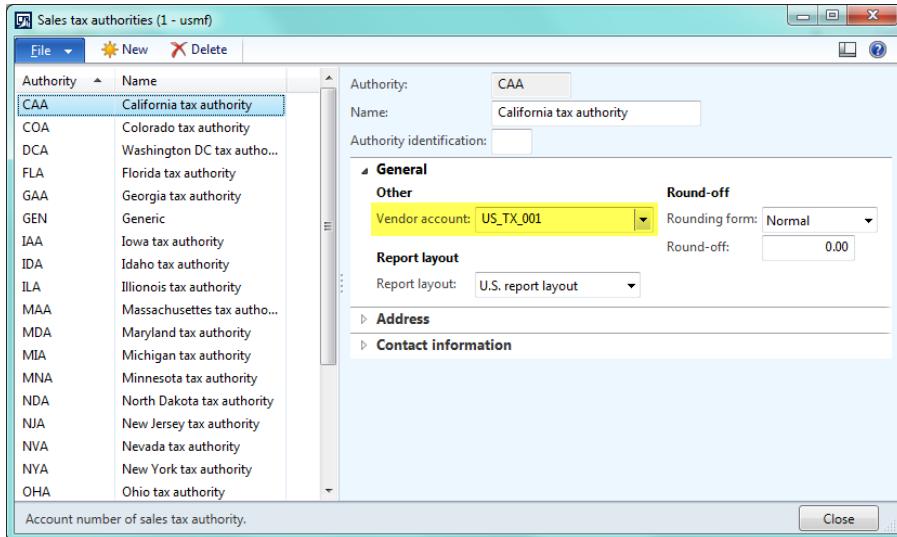


Figure 6.13 Sales tax authorities

We can see that in our demo data the **US_TX_001** vendor account is assigned to the CAA tax authorities, so the tax authorities are handled as a vendor in the system.

The payment periods for each tax authorities are set up under **General ledger > Setup > Sales taxes > Sales tax settlement periods**. The **Sales tax settlement periods** form looks as follows:

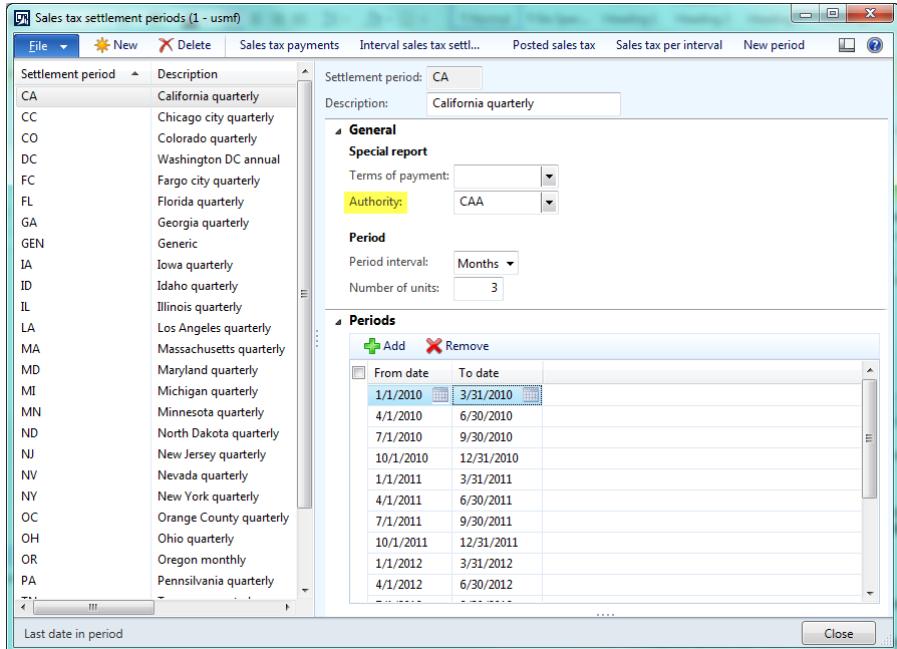


Figure 6.14 Sales tax settlement periods

Each sales tax code is assigned to the sales tax authorities through the sales tax settlement period. So each tax is assigned to only one tax authroities.

6. Sales taxes

Sales tax codes are set up under: **General ledger > Setup > Sales tax > Sales tax codes.**

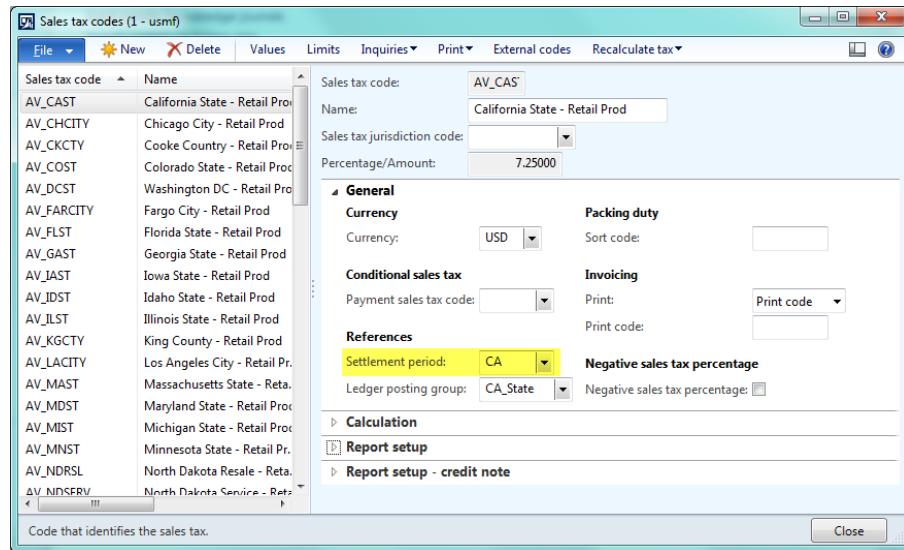


Figure 6.15 Sales tax codes

Microsoft Dynamics AX uses the two-step payment for the tax authorities:

- Company prints the sales tax payment report and sends it to the tax authorities (a vendor invoice transaction is generated).
- Company makes a payment to the tax authorities (a vendor payment transaction is generated and settled with the vendor invoice transaction).

We will go through the payment process later in this lesson.

Example 1 – Free Text Invoice, Sales Tax

In this paragraph, we will do the following: create a free text invoice, set up taxes for it, post the invoice, and analyze the result.

Create Free Text Invoice

Let's create an invoice for \$32 for the 000500 (Cherry Company) customer.

1. Go to **Accounts receivable > Common > Free Text Invoices > All free text invoices**. The **All free text invoices** list page opens.
2. Create a new free text invoice by clicking the **Free text invoice** button and selecting the **000500** customer in the **Customer account** field.
3. Go to the **Invoice lines** fast tab. The main account for the Sales account is set up manually. We use the 401300 account. It is the Sales account and has the “Other Revenues” name.
4. In the **Main account** field, select the **401300** account.
5. Enter 32 in the **Amount** field.

6. Sales taxes

6. In the **Sales tax group** field, select the CA (California) sales tax group.
7. Make sure that **Item sales tax group** is filled in automatically with the AU/VI value. It is because the AU/VI item sales tax group is a default one per legal entity (set up in the **General ledger parameters** form).
8. Save the line. The **Free text invoice** form has the following view:

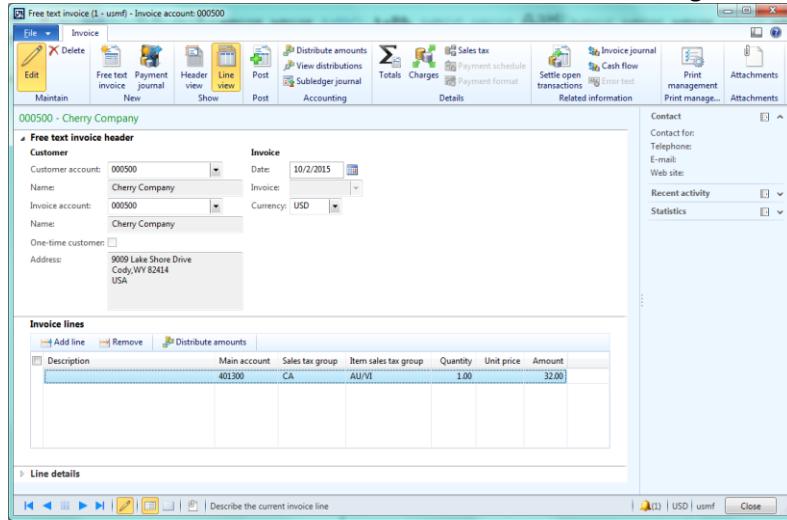


Figure 6.16 Free text invoice

Note that the **Sales tax group** and **Item sales tax** group are set up. The common sales tax codes will apply to the invoice amount (i.e. increase the invoice amount or decrease company revenue, depend on Sales tax included in a price parameter).

Sales Tax Codes

Let's find what sales tax codes are included in the CA sales tax group and the AU/VI item sales tax group.

Open the **Sales tax groups** form: **General ledger > Setup > Sales tax > Sales tax groups** > find the CA sales tax group > **Setup** fast tab).

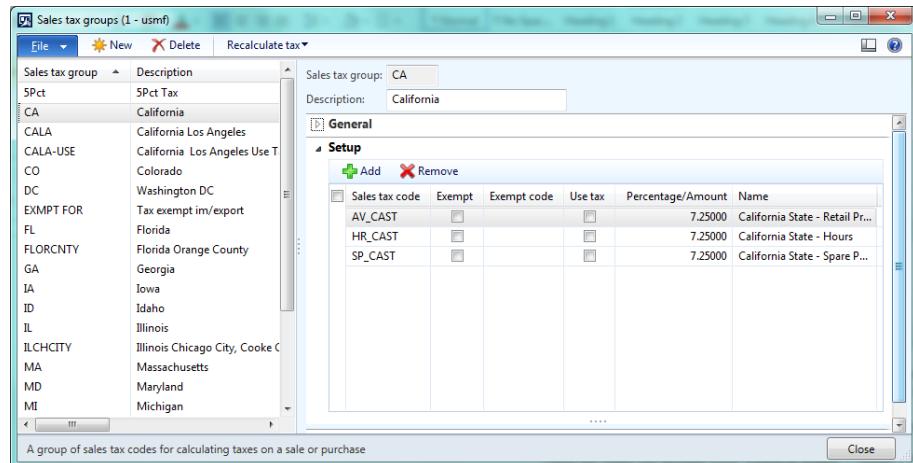


Figure 6.17 Sales tax groups

6. Sales taxes

We can see that three sales tax codes are included: *AV_CAST*, *HR_CAST*, and *SP_CAST*.

Open the **Item sales tax groups** form: **General ledger > Setup > Sales tax > Item sales tax groups** > find the *AU/VI* item sales tax group > **Setup** fast tab > filter the **Sales tax code** field by *AV_CAST*, *HR_CAST*, *SP_CAST* value.

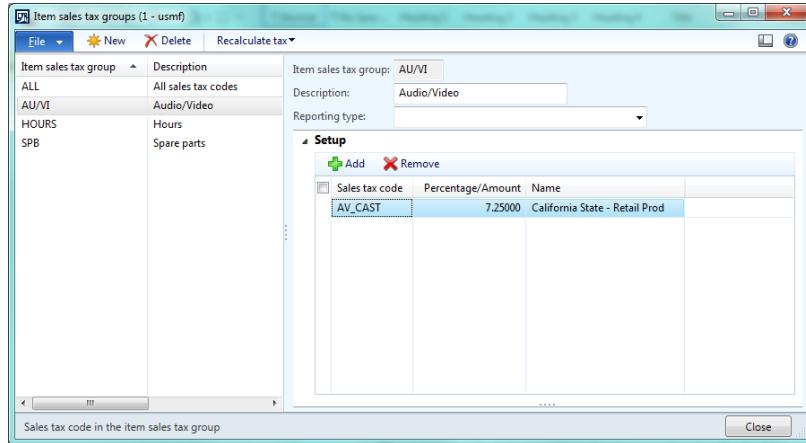


Figure 6.18 Item sales tax groups

We can see that the common sales tax code for both groups is *AV_CAST*.

This code is applied to our free text invoice. Let's find the sales tax amount that is applied to our free text invoice.

Open the **Sales tax code** form: **General ledger > Setup > Sales taxes > Sales tax codes** > find the *AV_CAST* sales tax code.

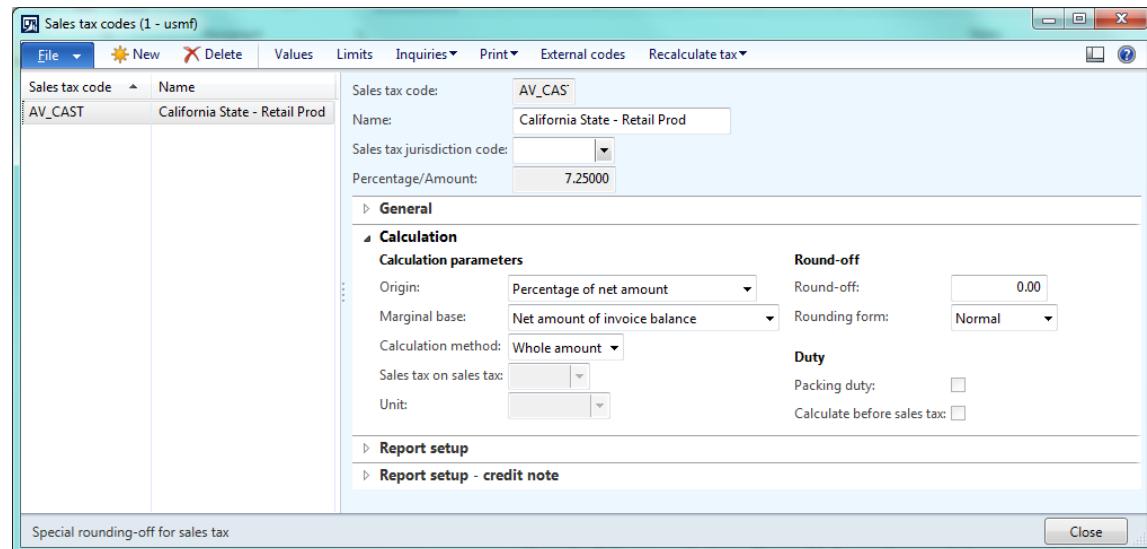


Figure 6.19 Sales tax codes

6. Sales taxes

The **Origin** field contains the basis for calculation. In our case, it is percentage of the net amount. To view the percentage, click the **Values** button. The **Values** form opens.

The screenshot shows the 'Values' form window. The title bar reads 'Values (1 - usmf) - Sales tax code: AV_CAST, 7,25000, Sale...'. The menu bar includes 'File', 'New', 'Delete', and other standard options. Below the menu is a toolbar with icons for edit, save, and close. The main area has tabs for 'Overview' and 'General'. A table displays one row of data:

From date	To date	Minimum limit	Upper limit	Value
		0.00	0.00	7.25000

At the bottom of the form are buttons for edit, save, and close, along with status information: 'First date of validity for...', '(1)', 'USD', 'usmf', and 'Close'.

Figure 6.20 Tax values

So the sales tax for our free text invoice is calculated in the following way: $32\$ \text{ (net amount)} * 7.25\% = 2.32\$$.

Post Free Text Invoice

In Dynamics AX a user can preview tax transactions before the actual posting occurs.

Return to the **Free text invoice** form and click the **Sales tax** button. The **Sales tax transactions** form opens.

The screenshot shows the 'Sales tax transactions' form window. The title bar reads 'Sales tax transactions (1 - usmf) - Invoice account: 000500'. The menu bar includes 'File' and 'Distribute amounts'. Below the menu is a toolbar with icons for edit, save, and close. The main area has tabs for 'Overview', 'General', and 'Adjustment'. A table displays data for a single row:

Sales tax code	Quantity	Amount origin	Adjusted amount origin	Percent	Calculated sales tax amount	Actual sales tax amount	Override calculated sales tax	Sales tax direction	Exempt
AV_CAST	0.00	32.00	0.00	7.25000	2.32	2.32	<input type="checkbox"/>	Sales tax payable	<input type="checkbox"/>

At the bottom of the form are buttons for edit, save, and close, along with status information: 'Total actual sales tax amount, displayed in the transaction currency', '(1)', 'USD', 'usmf', and 'Close'.

Figure 6.21 Sales tax transactions

This form contains information about the sales taxes that are applied during the invoice posting. We make sure that the AV_CAST sales tax is used. The origin amount is the net amount of \$32 and the sales tax amount is **2.32\$**.

6. Sales taxes

Note that in Microsoft Dynamics AX, the user can manually adjust the sales tax amount. It is useful when a company receives an invoice in which the sales tax amount differs from what Microsoft Dynamics AX calculates automatically. To make the sales tax amounts match the invoices, the Sales Manager goes to the **Adjustment** tab, enters the new value in the **Actual sales tax amount** field, and clicks the **Apply** button. It should be done before posting the invoice.

Let's check whether the sales tax is applied.

Note that the free text invoice doesn't have the **Prices include sales tax** parameter for United States configuration. So the tax amount is always increase the total free text invoice amount.

Post the invoice by clicking the **Invoice** button group > **Post** button in the **Free text invoice** form. The **Post free text invoice** form opens. Select the **Print invoice** check box. Click the **Printer setup > Invoice** button, select the **Screen** option, and close the form. Click **OK** in the **Post free text invoice** form. The invoice is posted and printed.

Contoso Entertainment System USA 123 Coffee Street Suite 300 Redmond, WA 98052 USA	Telephone Fax Giro Tax registration number 1234123400 Our tax exempt number Enterprise number					
Invoice						
Cherry Company 9009 Lake Shore Drive Cody, WY 82414 USA Contact Packing duty license number	Number FTI-000003 Date 10/2/2015 Page 1 of 1 Your reference Our reference Tim Litton Payment Net 10 days Invoice account 000500					
Description	Quantity					
	1.00					
	Unit price					
	0.00					
	Amount					
	32.00					
	Print code					
<hr/>						
Sales subtotal						
amount	Total discount	Total charges	Sales tax	Round-off	Currency	Total
32.00	0.00	0.00	2.32	0.00	USD	34.32
Payment per	10/12/2015					

Figure 6.22 Invoice report

We can see that the total invoice amount includes sales tax.

6. Sales taxes

Check Posting Results

Let's analyze the posting results. In the **Free text invoice** form, click the **Invoice button group > Invoice journal** button. We can see that the invoice journal is created for the \$34.32 amount.

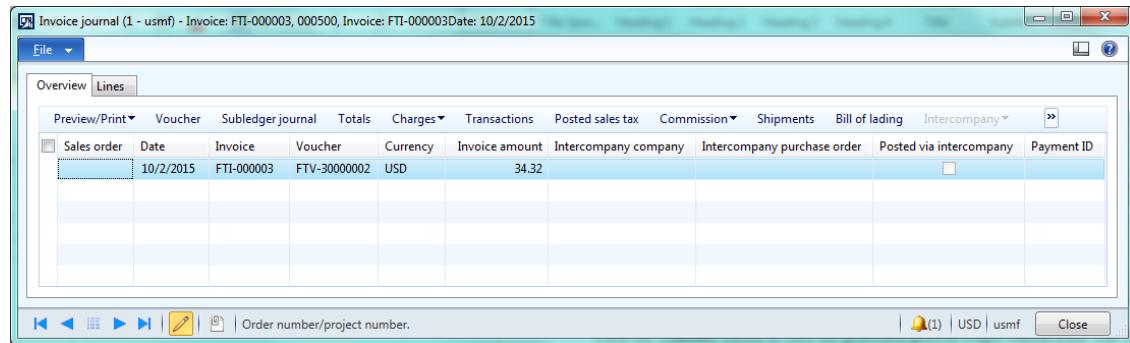


Figure 6.23 Invoice journal

Click the **Voucher** button to view the generated general ledger transactions. The **Voucher transactions** form opens.

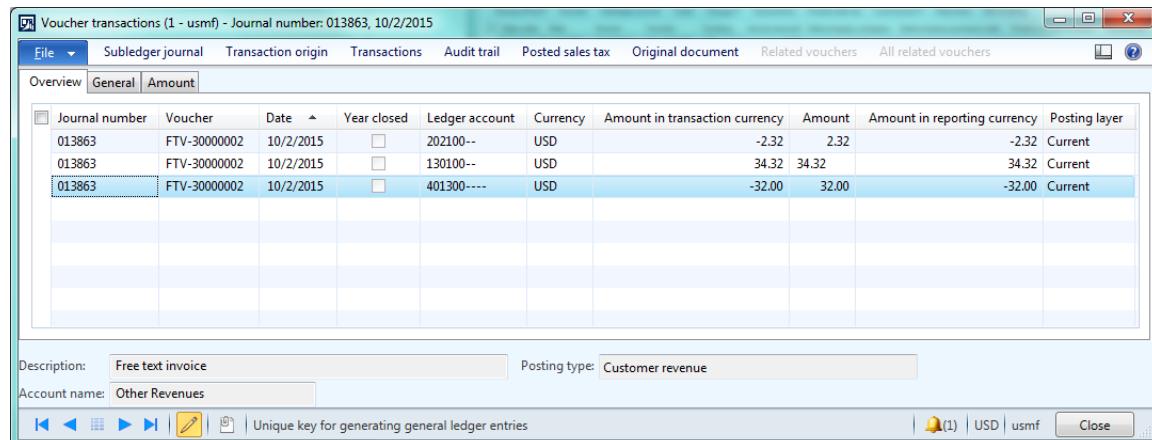


Figure 6.24 Voucher transactions

The 130100 account is taken from the customer posting profile. This account belongs to the Accounts receivable accounts.

The 202100 account is taken from the sales tax posting profile. This account belongs to the Accounts payable accounts.

The 401300 account was entered manually in the **Free text invoice** form. This account belongs to the Sales accounts.

We make sure that the posted transaction has the same view as we discussed in the Introduction chapter:

6. Sales taxes

Ledger account	Debit	Credit
Accounts receivable	34.32	
Sales		32
Sales tax payable		2.32

Click the **Transaction origin** button to view all transactions for all ledgers. The **Transaction origin** form opens.

The screenshot shows the 'Transaction origin' window with the title bar 'Transaction origin (1 - usmf) - Module: Sales tax, 202100--'. The window has tabs at the top: 'File', 'Overview', 'General', and 'Financial dimensions'. The 'General' tab is selected, displaying a grid of transaction details. The columns include Module, Voucher, Date, Number, Text, Currency, Amount in transaction currency, Amount, Dimensions, and Number. The data shows various ledger entries and a sales tax entry. Below the grid, there are fields for 'Name' (California State - Retail Prod) and 'Table' (Posted sales tax). At the bottom, there are navigation icons (back, forward, search, etc.) and application modules.

Figure 6.25 Transaction origin

We can see that the customer transaction and sales tax transaction have been created.

We can also review the sales tax transactions from the sales tax ledger, i.e. from the sales tax codes.

Open the **Sales tax codes** form: **General ledger > Setup > Sales tax > Sales tax codes**.

Find the **AV_CAST** tax code and click **Inquiries > Posted sales tax** button. The **Posted sales tax** form opens.

The screenshot shows the 'Posted sales tax' window with the title bar 'Posted sales tax (1 - usmf) - Voucher: FTV-30000002, 10/2/2015, Sales tax code: AV_CAST'. The window has tabs at the top: 'File', 'Voucher', and 'Subledger journal entries'. The 'Voucher' tab is selected, displaying a grid of transaction details. The columns include Voucher, Date, Source, Sales tax code, Sales tax direction, Transaction currency, Amount origin, Calculated sales tax amount, and Actual sales tax amount. The data shows multiple entries for different sales orders and invoices, with the total actual sales tax amount listed as -1,181,551.73. Below the grid, there are fields for 'Total actual sales tax amount' and 'Transaction date'. At the bottom, there are navigation icons and application modules.

Figure 6.26 Posted sales tax

6. Sales taxes

Example 2 – Vendor Invoice, Use Tax

In this paragraph we will do the following: create a vendor invoice, set up use taxes for it, post the invoice, and analyze the results.

Create Vendor Invoice

We assume that the US-104 vendor sends us an Invoice for \$20 for some service. This service requires a use tax for some specific amount.

1. Open the **Invoice Journal** form by clicking **Accounts payable > Journals > Invoices > Invoice journal**. The **Invoice journal** form opens.
2. Create a new line. Select “APInvoice” in the **Name** field.
3. Click the **Lines** button. The **Journal voucher** form opens.
4. In the **Account** field, select the US-104 vendor and fill in \$20 in the **Credit** field.
5. Fill in the Invoice number that is printed in the document. For example, fill in the “Invoice with use tax” in the **Invoice** field.
6. The Accountant decides to use the 803200 (Extraordinary expense) account for the Sales Expense. Fill in 803200 in the **Offset account** field. Note that the 002 business unit is populated automatically (it is taken from the vendor financial dimensions).
7. In the **Sales tax group** field, select the *CALA-USE* (California Los Angeles Use Tax) sales tax group.
8. In the **Item sales tax group** field, select the *SPB* (Spare parts) item sales tax group.
9. Save the line. The **Journal voucher** form has the following view:

Figure 6.27 Journal voucher form

Note that the **Sales tax group** and **Item sales tax** groups are set up. The common sales tax codes apply to the invoice amount.

6. Sales taxes

Sales Tax Codes

To review the common sales tax codes and the calculated tax amounts, click the **Sales tax** button. The **Sales tax transactions** form opens.

The screenshot shows the 'Sales tax transactions' window. At the top, it displays 'Total calculated sales tax amount: 1.65' and 'Total actual sales tax amount: 1.65'. Below this are three tabs: 'Overview' (selected), 'General', and 'Adjustment'. The main area is a grid table with columns: Sales tax code, Quantity, Amount origin, Adjusted amount origin, Percent, Calculated sales tax amount, Actual sales tax amount, Override calculated sales tax, Sales tax direction, and Exempt. Two rows are visible:

Sales tax code	Quantity	Amount origin	Adjusted amount origin	Percent	Calculated sales tax amount	Actual sales tax amount	Override calculated sales tax	Sales tax direction	Exempt
SP_CAST	0.00	20.00	0.00	7.25000	1.45	1.45	<input type="checkbox"/>	Use tax	<input type="checkbox"/>
SP_LACITY	0.00	20.00	0.00	1.00000	0.20	0.20	<input type="checkbox"/>	Use tax	<input type="checkbox"/>

At the bottom, there are navigation icons (back, forward, search, etc.), a status message 'Code that identifies the sales tax.', and system status indicators.

Figure 6.28 Sales tax transactions

This form contains the information about the taxes that apply during the invoice posting.

Post and Check Results

Post the invoice by clicking the **Post** button group > **Post** button in the **Journal voucher** form. The “Number of vouchers posted to the journal: 1” message appears. It means that the journal is posted.

Let's analyze the posting results. In the **Journal voucher** form, click the **Inquiries > Voucher** button. The **Voucher Transactions** form opens.

The screenshot shows the 'Voucher transactions' window. At the top, it displays 'Journal number: 013864, 10/20/2015'. Below this are three tabs: 'File' (selected), 'Subledger journal', 'Transaction origin', 'Transactions', 'Audit trail', 'Posted sales tax', 'Original document', 'Related vouchers', and 'All related vouchers'. The main area is a grid table with columns: Journal number, Voucher, Date, Year closed, Ledger account, Currency, Amount in transaction currency, Amount, Amount in reporting currency, and Posting layer. Several rows are listed:

Journal number	Voucher	Date	Year closed	Ledger account	Currency	Amount in transaction currency	Amount	Amount in reporting currency	Posting layer
013864	APIN000003	10/20/2015	<input type="checkbox"/>	222100-002-	USD	-0.20	0.20	-0.20	Current
013864	APIN000003	10/20/2015	<input type="checkbox"/>	222100-002-	USD	-1.45	1.45	-1.45	Current
013864	APIN000003	10/20/2015	<input type="checkbox"/>	803200-002---	USD	20.00	20.00	20.00	Current
013864	APIN000003	10/20/2015	<input type="checkbox"/>	803200-002---	USD	0.20	0.20	0.20	Current
013864	APIN000003	10/20/2015	<input type="checkbox"/>	803200-002---	USD	1.45	1.45	1.45	Current
013864	APIN000003	10/20/2015	<input type="checkbox"/>	200100-002-	USD	-20.00	20.00	-20.00	Current

At the bottom, there are fields for 'Description:' (Accounts Payable - Domestic), 'Posting type:' (Vendor balance), 'Account name:' (Accounts Payable - Domestic), and system status indicators.

Figure 6.29 Voucher transactions

6. Sales taxes

The 200100 account is taken from the vendor posting profile. This account belongs to the Accounts payable accounts.

The 222100 account is taken from the sales tax posting profile. This account belongs to the Accounts payable accounts.

The 803200 account was entered manually as an offset account. This account belongs to the Expenses accounts.

The same offset account 803200 is used as the offset account for the use tax.

We make sure that the posted transaction has the same view as we discussed in the Introduction chapter:

Ledger account	Debit	Credit
Accounts payable		20
Expenses	20	
Expenses	1.65	
Sales tax payable		1.65

Note that the use tax never influences the invoice amount.

Click the **Transaction origin** button to view all transactions for all ledgers. The **Transaction origin** form opens.

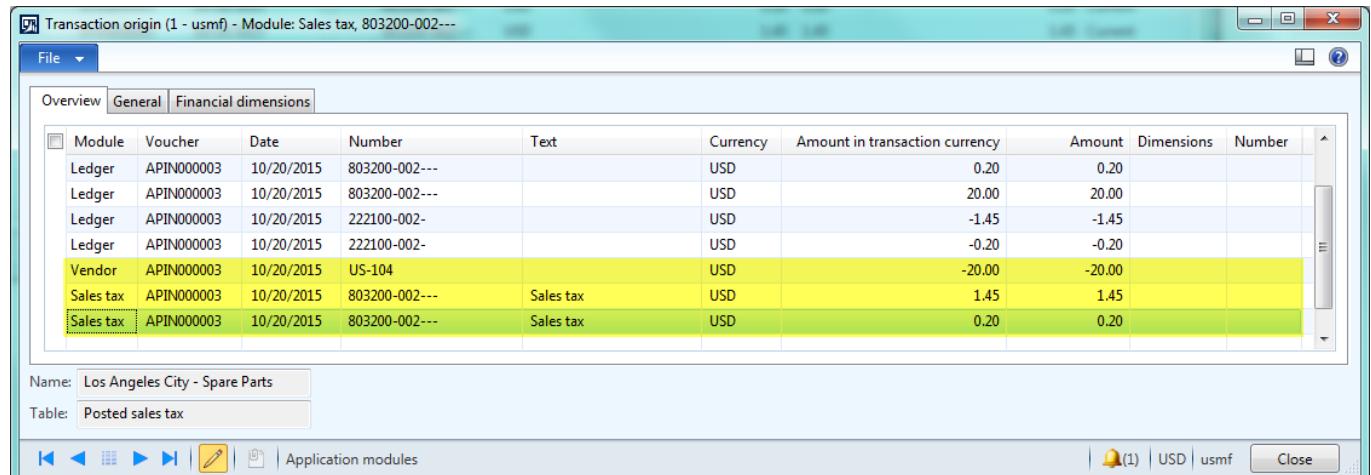


Figure 6.30 Transaction origin

We can see that the vendor transaction and the sales tax transaction have been created.

We can also review sales tax transactions from the sales tax ledger, i.e. from the sales tax codes.

6. Sales taxes

Open the **Sales tax codes** form: **General ledger > Setup > Sales tax > Sales tax codes**.

Find the **SP_CAST** tax code and click **Inquiries > Posted sales tax** button. The **Posted sales tax** form opens.

Voucher	Date	Source	Sales tax code	Sales tax direction	Transaction currency	Amount origin	Calculated sales tax amount	Actual sales tax amount
INV-10000581	9/17/2012	Sales order	SP_CAST	Sales tax payable	USD	-26,000.00	-1,885.00	-1,885.00
INV-10000582	9/17/2012	Sales order	SP_CAST	Sales tax payable	USD	-3,885.00	-281.66	-281.66
INV-10000582	9/17/2012	Sales order	SP_CAST	Sales tax payable	USD	-29,000.00	-2,102.50	-2,102.50
INV-10000638	10/15/2012	Sales order	SP_CAST	Sales tax payable	USD	-4,181.00	-303.12	-303.12
INV-10000638	10/15/2012	Sales order	SP_CAST	Sales tax payable	USD	-28,500.00	-2,066.25	-2,066.25
INV-10000639	10/15/2012	Sales order	SP_CAST	Sales tax payable	USD	-4,181.00	-303.12	-303.12
INV-10000639	10/15/2012	Sales order	SP_CAST	Sales tax payable	USD	-31,000.00	-2,247.50	-2,247.50
INV-10000667	11/30/2012	Sales order	SP_CAST	Sales tax payable	USD	-4,329.00	-313.85	-313.85
INV-10000667	11/30/2012	Sales order	SP_CAST	Sales tax payable	USD	-29,000.00	-2,102.50	-2,102.50
INV-10000668	11/30/2012	Sales order	SP_CAST	Sales tax payable	USD	-4,329.00	-313.85	-313.85
INV-10000668	11/30/2012	Sales order	SP_CAST	Sales tax payable	USD	-32,000.00	-2,320.00	-2,320.00
APIN00003	10/20/2015	Voucher	SP_CAST	Use tax	USD	20.00	1.45	1.45

Figure 6.31 Posted sales tax

Example 3 – Payment to Tax Authorities

The company pays to the tax authorities at the end of the financial period. The period can be one month, a quarter, or a year depending on the country's legislation.

The tax authorities are similar to a vendor.

The payment process has the following flow:

- Company prints a sales tax payment report and sends it to the tax authorities (a vendor invoice transaction is generated).
- Company makes a payment to the tax authorities (a vendor payment transaction is generated and settled with the vendor invoice transaction).

Let's pay the taxes. In the previous two examples we have posted \$2.32 as a sales tax (during the sales) and \$1.65 as a use tax (during the purchase).

Settlement Period

First of all, we should find what settlement period is used for these taxes. The settlement period is used during the tax calculation and contains all information about the posted and paid taxes.

6. Sales taxes

In the previous two examples we have used the following sales tax codes:

- The *AV_CAST* tax was used in the Free text invoice
- The *SP_CAST* and *SP_LACITY* tax was used in the Vendor invoice

Let's find to which settlement period these tax codes are assigned. By the way, we already know that a tax code is assigned to the tax authorities through the settlement period. So, we can also define to which tax authorities these taxes are assigned.

Review the sales tax settlement periods for all mentioned tax codes under: **General ledger > Setup > Sales tax > Sales tax codes > General fast tab > Settlement period** field.

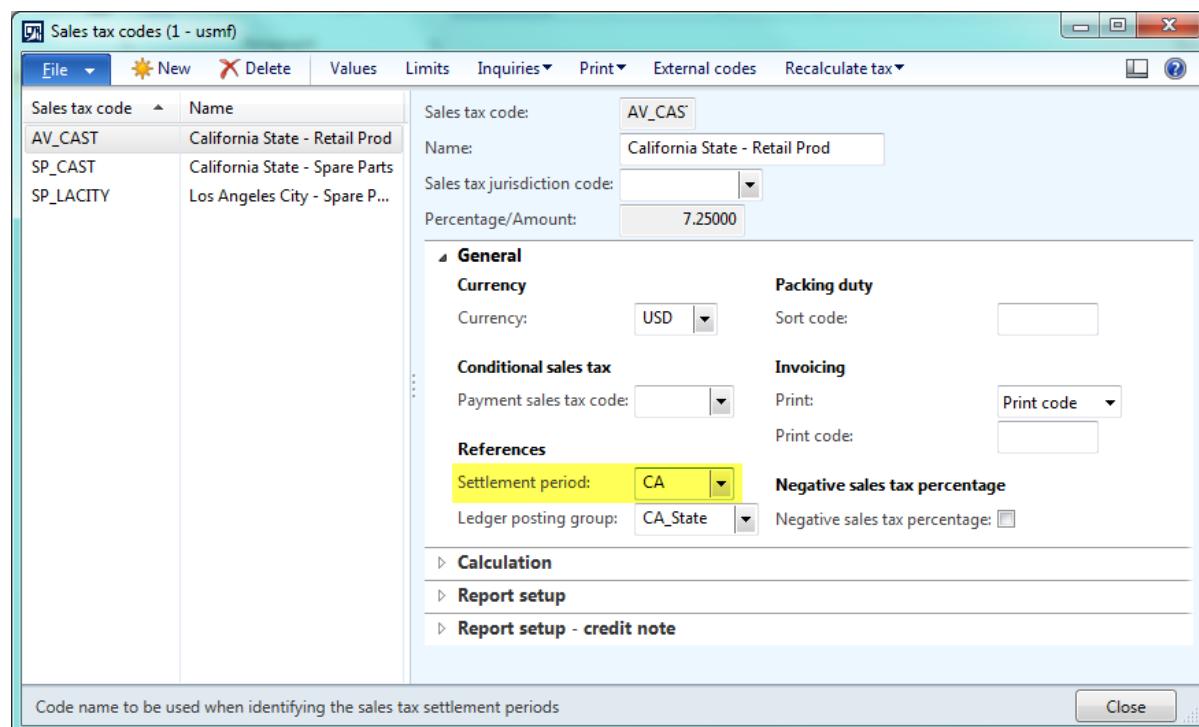


Figure 6.32 Sales tax codes

The *AV_CAST*, *SP_CAST* and *SP_LACITY* tax codes have the *CA* settlement period.

The settlement periods are set up under **General ledger > Setup > Sales taxes > Sales tax settlement periods**.

6. Sales taxes

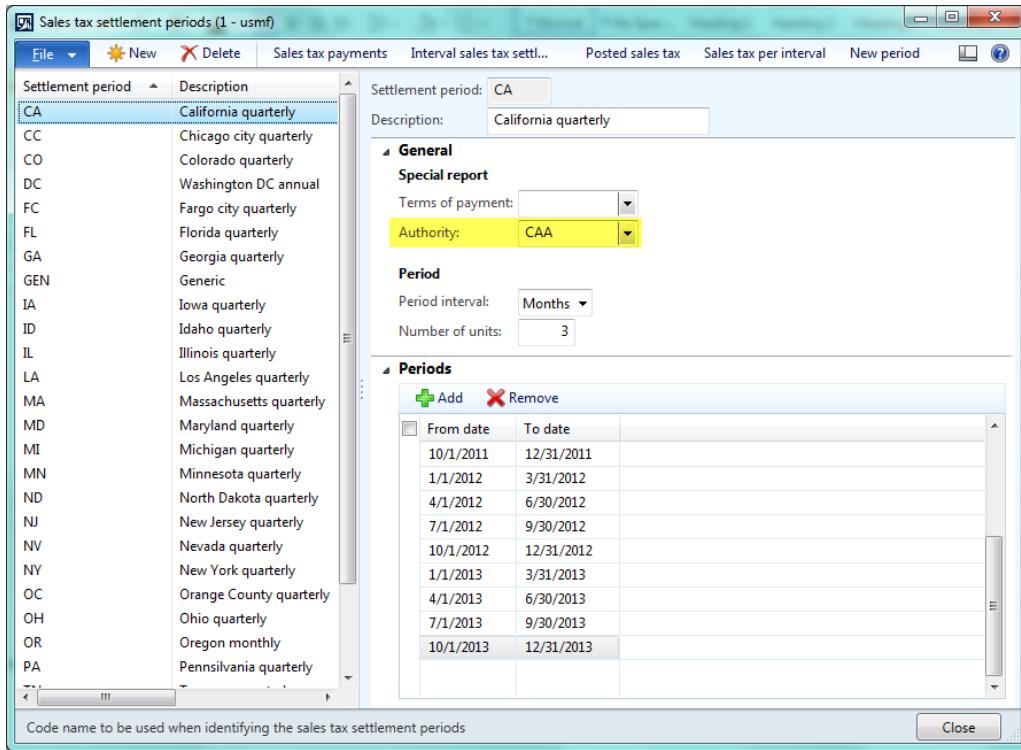


Figure 6.33 Sales tax settlement periods

The settlement period is assigned to the CAA tax authorities.

Make sure that the CA settlement period has the information about the posted sales tax. Click the **Posted sales tax** button. The **Sales tax transactions** form opens. We make sure that there are three sales tax transactions for \$3.97.

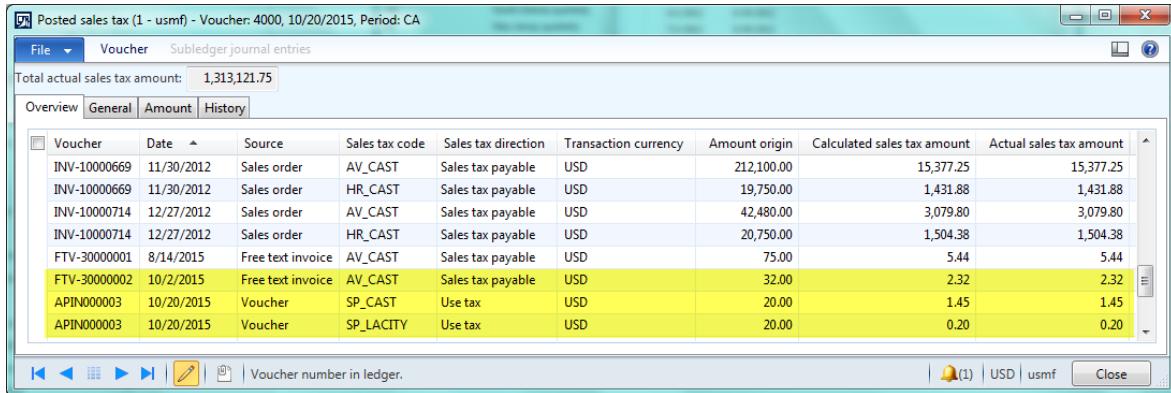


Figure 6.34 Posted sales tax

The settlement period should also have a period in which taxes are posted.

I have posted the Free text invoice and the Vendor invoice in October, 2015. So this period should be covered.

6. Sales taxes

We can see that this settlement period does not cover October, 2015.

Before running the **Sales tax payment** report, we should set up the new period for the settlement period:

1. In the **Periods** fast tab, click the **Add** button.
2. Fill **10/1/2015** in the **From date** field and **10/31/2015** in the **To date** field.

The **Periods** fast tab has the following view:

Periods			
		+ Add	- Remove
From date	To date		
1/1/2012	3/31/2012		
4/1/2012	6/30/2012		
7/1/2012	9/30/2012		
10/1/2012	12/31/2012		
1/1/2013	3/31/2013		
4/1/2013	6/30/2013		
7/1/2013	9/30/2013		
10/1/2013	12/31/2013		
10/1/2015	10/31/2015		

Figure 6.35 Periods

Now, we can perform the first step in the tax payment process.

Confirm Sales Taxes - Print the Sales Tax Payment Report and Send to the Tax Authorities

Now, we can perform the first step in the tax payment process.

Let's generate the sales tax payment report for the CA settlement period.

1. Go to the **General ledger > Periodic > Sales tax payments > Sales tax payments**. The **Sales tax payment** dialog opens.
2. Select the **CA** settlement period in the **Settlement period** field.
3. Fill in **10/1/2015** in the **From date** field.

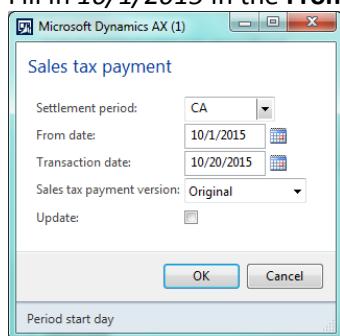


Figure 6.36 Sales tax payment

4. Click **OK**. The report is printed.

6. Sales taxes

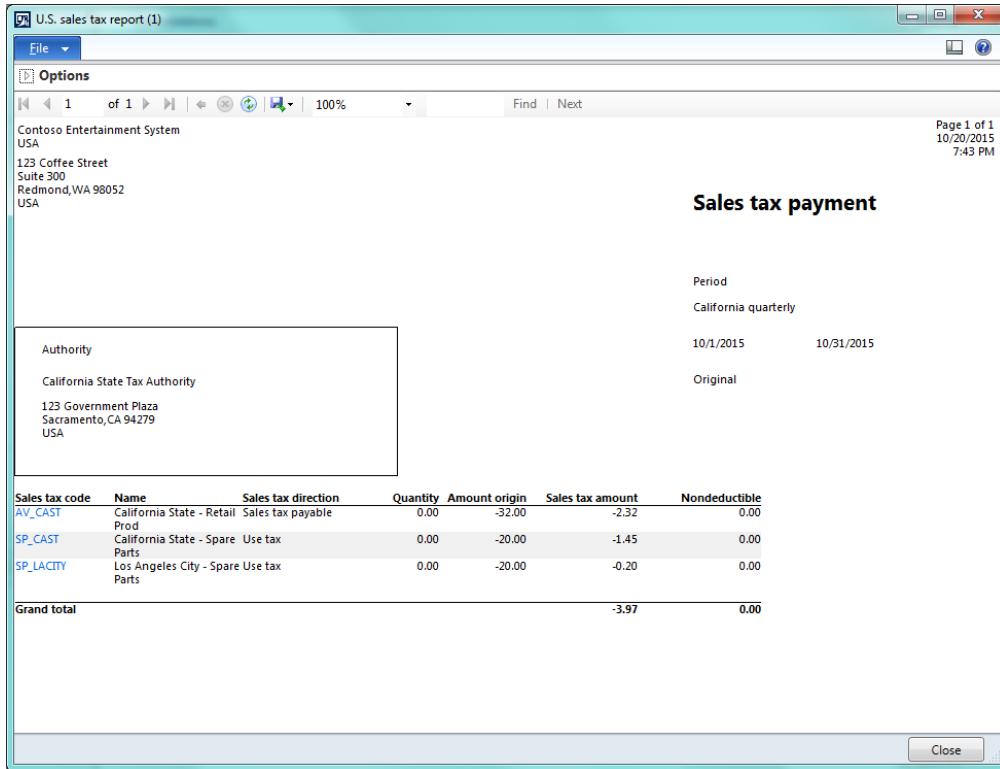


Figure 6.37 Sales tax payment report

As we can see, the company should pay to the tax authorities sales tax that was posted in the Free text invoice and the use tax that was posted in the Vendor invoice. The total amount that should be paid to the tax authorities is 3.97\$.

Then, the Accountant reviews the **Sales tax payment** report and if there are no errors He or She sends this report to the tax authorities.

By sending this report to the tax authorities, the company confirms that this amount is paid to the tax authorities. Since the money status is changed, this operation should be recorded to the general ledger.

As we discussed earlier, the following general ledger transaction should be generated:

Sales tax payable		Accounts payable (or Sales tax payable, un-invoiced)	
Debit	Credit	Debit	Credit
\$ tax amount			\$ tax amount

To confirm the sales tax amount to pay the Accountant, do the following:

1. Go to **General ledger > Periodic > Sales tax payments > Sales tax payments**. The **Sales tax payment** dialog opens.
2. Select the CA settlement period in the **Settlement period** field.
3. Fill in **10/1/2015** in the **From date** field.

6. Sales taxes

4. Select the **Update** check box and click **OK**.

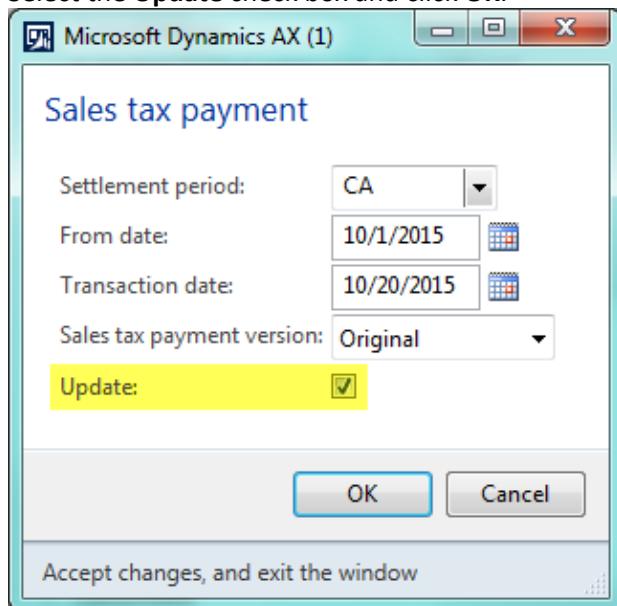


Figure 6.38 Sales tax payment

The report is printed and posted.

Let's check the posting results. Open the **Sales tax settlement periods** form (**General ledger > Setup > Sales tax > Sales tax settlement periods**) and find the CA settlement period.

Click the **Sales tax payments** button. The **Sales tax payments** form opens. This form contains the payments to the authorities for the period. We can see that the payment is created.

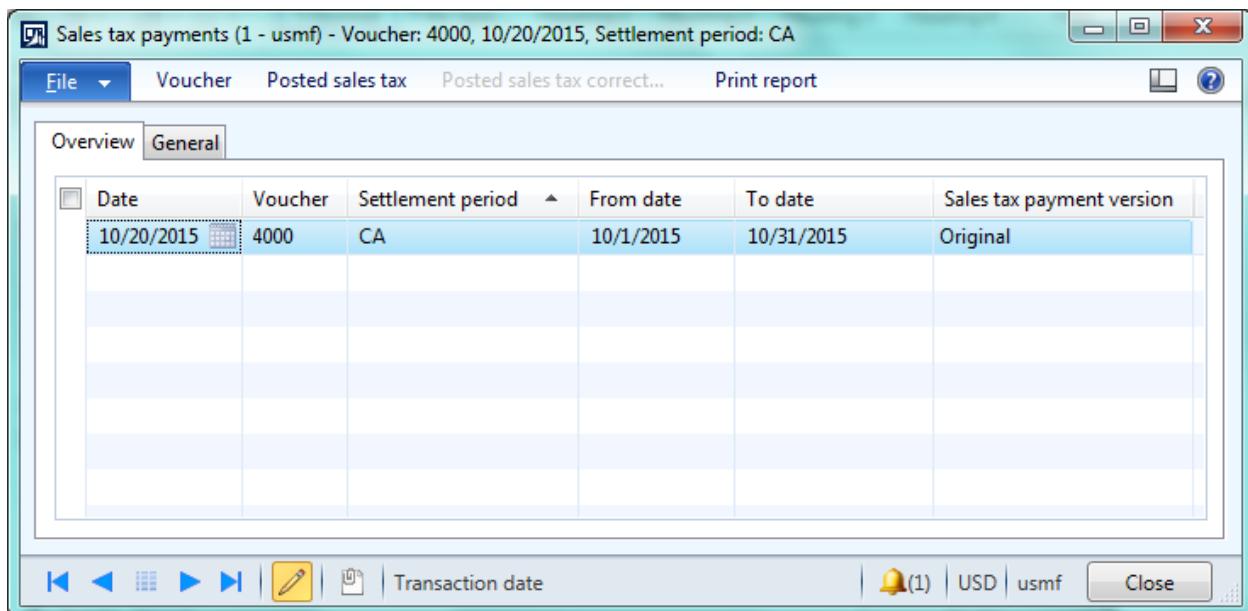


Figure 6.39 Sales tax payments

6. Sales taxes

Click the **Voucher** button to view the general ledger transactions. The **Voucher transaction** form looks as follows.

The screenshot shows the 'Voucher transactions' window with the following details:

- Toolbar:** File, Subledger journal, Transaction origin, Transactions, Audit trail, Posted sales tax, Original document, Related vouchers, All related vouchers.
- Overview Tab:** Selected.
- General Tab:** Selected.
- Amount Tab:** Available.
- Table:** Displays a list of journal entries with columns: Journal number, Voucher, Date, Year closed, Ledger account, Currency, Amount in transaction currency, Amount, Amount in reporting currency, and Posting layer. The last row (Journal number 013865) is selected.
- Search Fields:** Description, Account name (Accounts Payable - Domestic), Posting type (Vendor balance).
- Buttons:** Back, Forward, Search, Unique key for generating general ledger entries, Bell icon (1), USD, usmf, Close.

Figure 6.40 Voucher transactions

If we get more information about these accounts in the **Main accounts** form, we find that:

- 222100 and 202100 are the tax payable accounts (the use tax and the sales tax correspondingly).
- 221100 is the accounts payable account.

Note that when the Free text invoice and the Vendor invoice were posted, the same 222100 and 202100 accounts were used for the sales and use taxes.

So, we make sure that the transaction has the same view as we assume (in Microsoft Dynamics AX, negative amount is the credit part amount, while the positive amount is the Debit part amount):

Sales tax and use tax payable		Accounts payable	
Debit	Credit	Debit	Credit
\$1.65			\$1.65
\$2.32			\$2.32

After this step, the 222100 and 202100 balances become zero. Accounts payable account is increased.

If we click the **Origin** button, we see that the sales tax transaction and the vendor transaction are created:

6. Sales taxes

The screenshot shows the 'Transaction origin' window for module 'Vendor' with ID 'US_TX_001'. The grid displays various transactions, with the last row ('Vendor 4000') highlighted in green. The bottom status bar shows 'Name: California State Tax Authority' and 'Table: Vendor transactions'.

Module	Voucher	Date	Number	Text	Currency	Amount in transaction currency	Amount	Dimensions	Number
Ledger	4000	10/20/2015	200100-002-		USD	-1.65	-1.65		
Ledger	4000	10/20/2015	200100--		USD	-2.32	-2.32		
Ledger	4000	10/20/2015	202100--		USD	2.32	2.32		
Ledger	4000	10/20/2015	222100-002-		USD	1.65	1.65		
Sales tax	4000	10/20/2015	202100--	Sales tax payment	USD	2.32	2.32		
Sales tax	4000	10/20/2015		Sales tax payment	USD	-1.45	-1.45		
Sales tax	4000	10/20/2015		Sales tax payment	USD	-0.20	-0.20		
Vendor	4000	10/20/2015	US_TX_001	Sales tax payment	USD	-3.97	-3.97		

Figure 6.41 Transaction origin

The **US_TX_001** vendor account is taken from the tax authorities setup (**General ledger > Setup > Sales taxes > Sales taxes authorities**).

Close the **Transaction origin** and **Sales tax payments** forms. Click the **Posted sales tax** button in the **Sales tax settlement periods** form. We can see that the sales tax total amount is zero. It means that we record in the system that we pay the sales tax. But in the general ledger, we simply transfer the money from the sale tax payable account to the accounts payable account, i.e. from one liability account to another liability account.

The screenshot shows the 'Posted sales tax' window for voucher '4000' on '10/20/2015'. The grid lists sales tax entries, with the last few rows ('4000') highlighted in green. The bottom status bar shows 'Total actual sales tax amount: 1,313.121.75'.

Voucher	Date	Source	Sales tax code	Sales tax direction	Transaction currency	Amount origin	Calculated sales tax amount	Actual sales tax amount
INV-10000668	11/30/2012	Sales order	AV_CAST	Sales tax payable	USD	15,750.00	1,141.87	1,141.87
INV-10000669	11/30/2012	Sales order	AV_CAST	Sales tax payable	USD	212,100.00	15,377.25	15,377.25
INV-10000669	11/30/2012	Sales order	HR_CAST	Sales tax payable	USD	19,750.00	1,431.88	1,431.88
INV-10000714	12/27/2012	Sales order	AV_CAST	Sales tax payable	USD	42,480.00	3,079.80	3,079.80
INV-10000714	12/27/2012	Sales order	HR_CAST	Sales tax payable	USD	20,750.00	1,504.38	1,504.38
FTV-30000001	8/14/2015	Free text invoice	AV_CAST	Sales tax payable	USD	75.00	5.44	5.44
FTV-30000002	10/2/2015	Free text invoice	AV_CAST	Sales tax payable	USD	32.00	2.32	2.32
APIN000003	10/20/2015	Voucher	SP_CAST	Use tax	USD	20.00	1.45	1.45
APIN000003	10/20/2015	Voucher	SP_LACITY	Use tax	USD	20.00	0.20	0.20
4000	10/20/2015	Sales tax	AV_CAST	Sales tax payable	USD	-32.00	-2.32	-2.32
4000	10/20/2015	Sales tax	SP_CAST	Use tax	USD	-20.00	-1.45	-1.45
4000	10/20/2015	Sales tax	SP_LACITY	Use tax	USD	-20.00	-0.20	-0.20

Figure 6.42 Posted sales tax

In this step, we confirm the taxes to pay. Now, we can perform the second step – pay taxes to the tax authorities.

6. Sales taxes

Paying to Tax Authorities

The tax authorities are a vendor, so the vendor payment process is used to pay taxes to the tax authorities.

The vendor payment process is described in detail in the **Paying a Vendor** lesson.

The payment journal is used to post in the system that a payment to the tax authorities occurs. We assume that the company pays by check.

Note that any vendor payment feature can be used: payment proposal, electronic payment, payment cash discount, etc.

In our examples we use the CA tax authorities that are assigned with the US_TX_001 vendor account (**General ledger > Setup > Sales taxes > Sales taxes authorities**).

Let's create and post a payment journal.

16. Create a payment journal. Go to **Accounts payable > Journals > Payments > Payment journal**.
The **Payment journal** form opens.
17. Create a new line and select "VendPay" in the **Name** field. Save the line.
18. Click the **Lines** button. The **Journal voucher** form opens.
19. Click the **Payment proposal > Create payment proposal** button in the **Journal voucher** form.
The **Vendor payment proposal** form opens.
 - Select "Due date and cash discount" in the **Proposal type** field.
 - Set the **US_TX_001** value in the **Vendor account** field (click the **Select** button).
 - Click **OK**.
20. The **Vendor payment proposal** form opens.

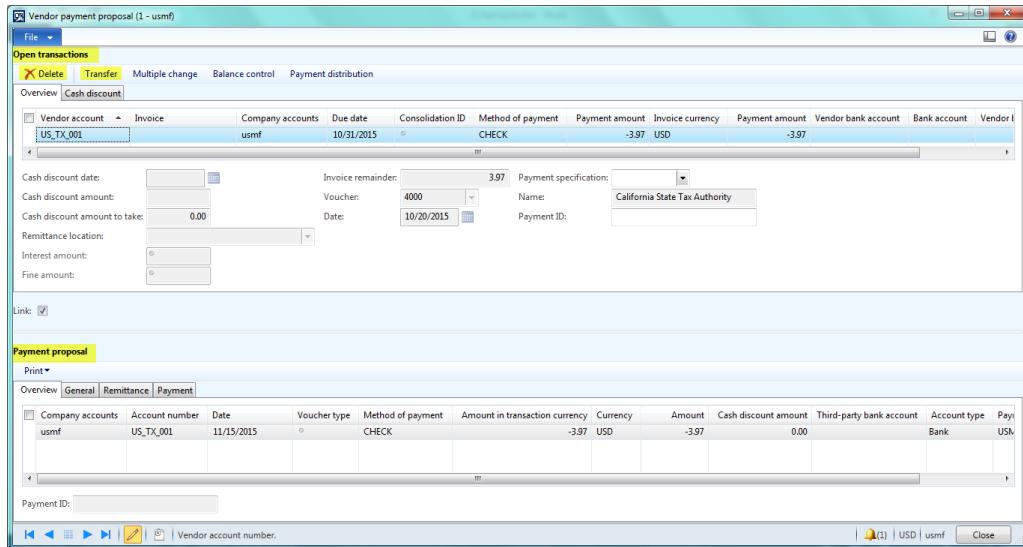


Figure 6.43 Vendor payment proposal

6. Sales taxes

The **Payment proposal** pane contains the payments that are proposed to be paid by the company. The **Open transactions** pane contains the invoice for which the payment was proposed.

21. Make sure that the **Open transactions** pane contains only one required line (if not – make sure to manually delete the rest of lines). Click the **Transfer** button. The **Transfer payment proposal** box appears. Click **OK**.
22. The **Journal voucher** form looks as follows:

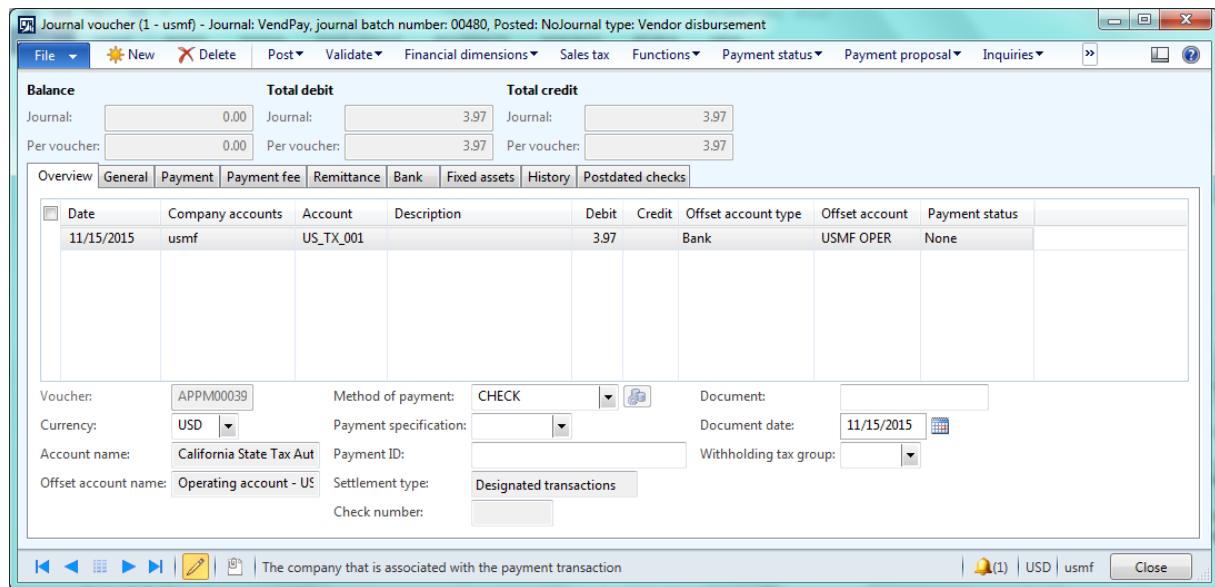


Figure 6.44 Journal voucher

If you experienced difficulties with the **Payment proposal** form, you can create the above mentioned payment line manually.

Note the payment line is settled with the invoice line. If you create a payment line manually, you should settle it with the invoice line through the **Functions > Settlement** button. This is required because the company should know which exactly invoices were paid.

23. The Payment Manager checks all payment details. Since all information is correct, a payment check can be generated. In the **Journal voucher** form, click the **Functions > Generate payments** button. The **Generate payments** form opens. Select "CHECK" in the **Method of payment** field, "USMF OPER" in the **Bank account** field, and then select the **Show format dialog** check box. Click **OK**.

6. Sales taxes

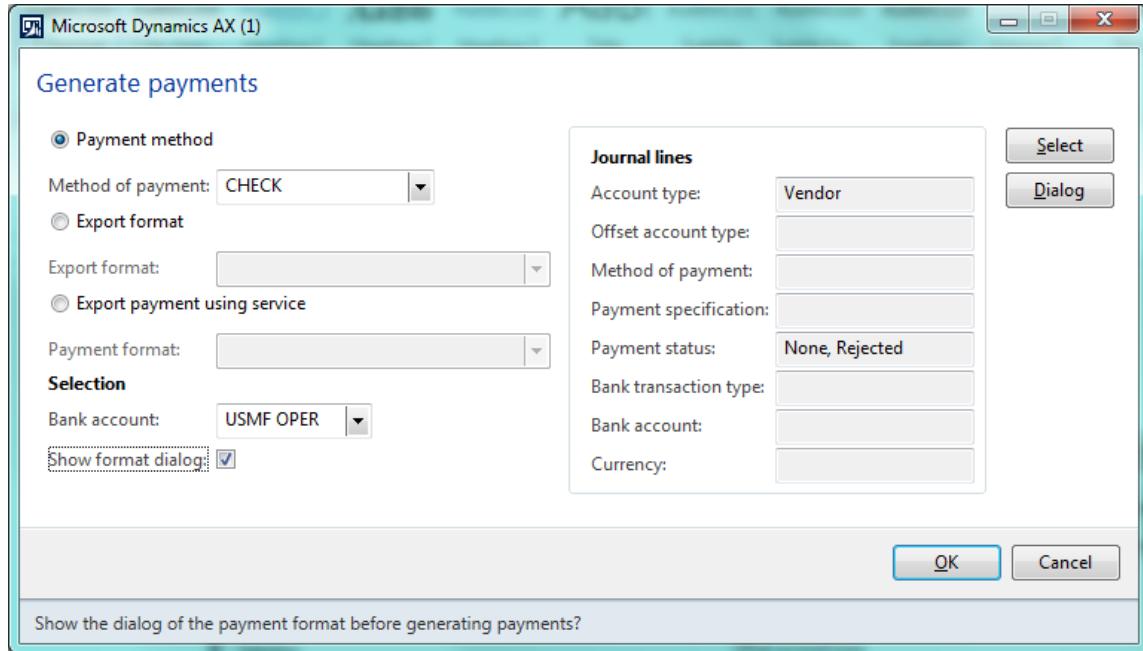


Figure 6.45 Generate payments form

24. The **Payment by check** form opens.

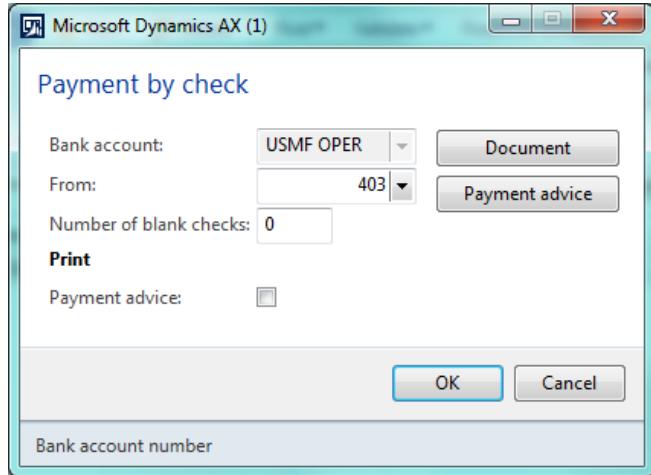


Figure 6.46 Payment by check form

25. Print the check to the screen. Make sure that the SSRS is running. By default, checks are printed to the Printer but we can change this setup to Screen by clicking the **Document** button. The **Print destination settings** form opens. Select *Screen* and click **OK**. In the **Payment by check** form, click **OK**. The check is printed and assigned to the payment line (**Journal voucher** form > **Bank** tab > click F5 to refresh data > **Payment reference** field).
26. We assume that the Payment Manager calls the tax authorities to ensure that the check is received.
27. Post the payment. Click the **Post > Post** button. The voucher is posted successfully.

6. Sales taxes

Let's check the posting results. In the **Journal voucher** form, click the **Inquiries > Voucher** button. The **Voucher transactions** form opens.

The screenshot shows the 'Voucher transactions' window with the following details:

- Header:** Journal number (1 - usmf) - Journal number: 013866, 11/15/2015
- Toolbar:** File, Subledger journal, Transaction origin, Transactions, Audit trail, Posted sales tax, Original document, Related vouchers, All related vouchers, Help.
- Table:** A grid showing transaction details. The first row has a checkbox, Journal number (013866), Voucher (APPM000394), Date (11/15/2015), Year closed (unchecked), Ledger account (110110-001-), Currency (USD), Amount in transaction currency (-3.97), Amount (3.97), Amount in reporting currency (-3.97), and Posting layer (Current). The second row has a checkbox, Journal number (013866), Voucher (APPM000394), Date (11/15/2015), Year closed (unchecked), Ledger account (200100-001-), Currency (USD), Amount in transaction currency (3.97), Amount (3.97), Amount in reporting currency (3.97), and Posting layer (Current).
- Buttons:** Description, Posting type: Vendor balance, Account name: Accounts Payable - Domestic, Back, Forward, Print, Unique key for generating general ledger entries, Bell icon (1), USD, usmf, Close.

Figure 6.47 Voucher transactions

If we get more information about these accounts in the **Main accounts** form, we find that:

- 200100 is the accounts payable account. It is taken from the vendor posting profile.
- 110110 is the cash or cash equivalents account. It is taken from the bank posting profile (The USMF OPER bank account was used).

As we discussed earlier, during this step the following general ledger transaction should be generated:

Cash or cash equivalents		Accounts payable (or Sales tax payable, un-invoiced)	
Debit	Credit	Debit	Credit
	\$ tax amount	\$ tax amount	

We make sure that the transaction is generated:

110110 (Cash or cash equivalents)		200100 (Accounts payable)	
Debit	Credit	Debit	Credit
	\$3.97	\$3.97	

To view all transactions, click the **Origin** button. The **Transaction origin** form opens.

6. Sales taxes

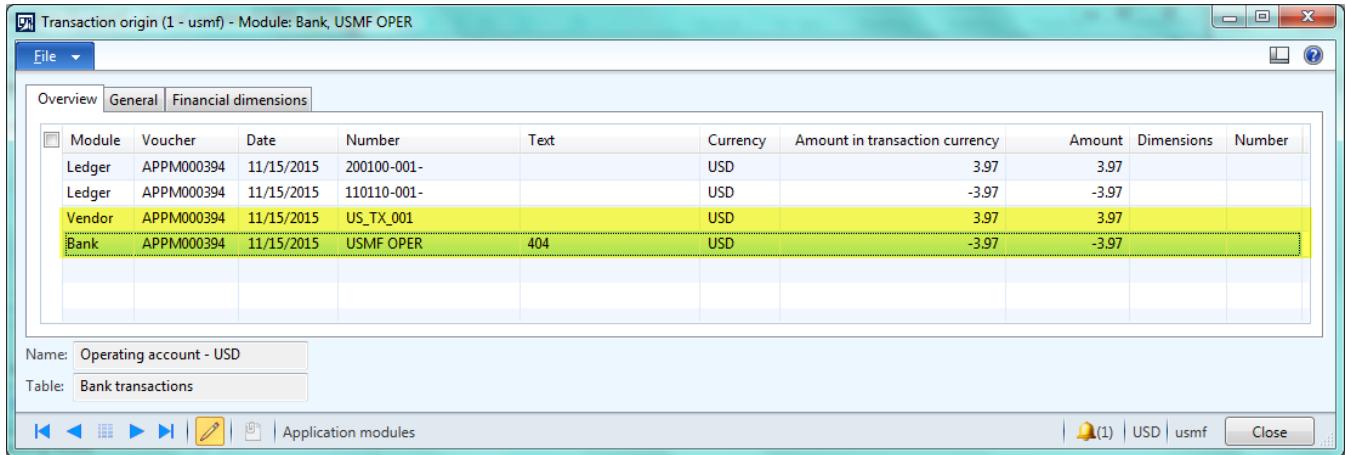


Figure 6.48 Transaction origin

We can see that a vendor transaction and a bank transaction are generated.

Let's check whether the vendor transactions are settled, i.e. the system records that we pay the taxes for the current period.

The first step generates a sales tax invoice transaction for \$3.97, the second step generates the payment for -\$3.91. These transactions should be settled.

Go to the **Vendors** form (**Accounts payable > Common > Vendors > All vendors**) > find the **US_TX_001** vendor > click the **Transactions** button.

The **Transactions** form looks as follows.

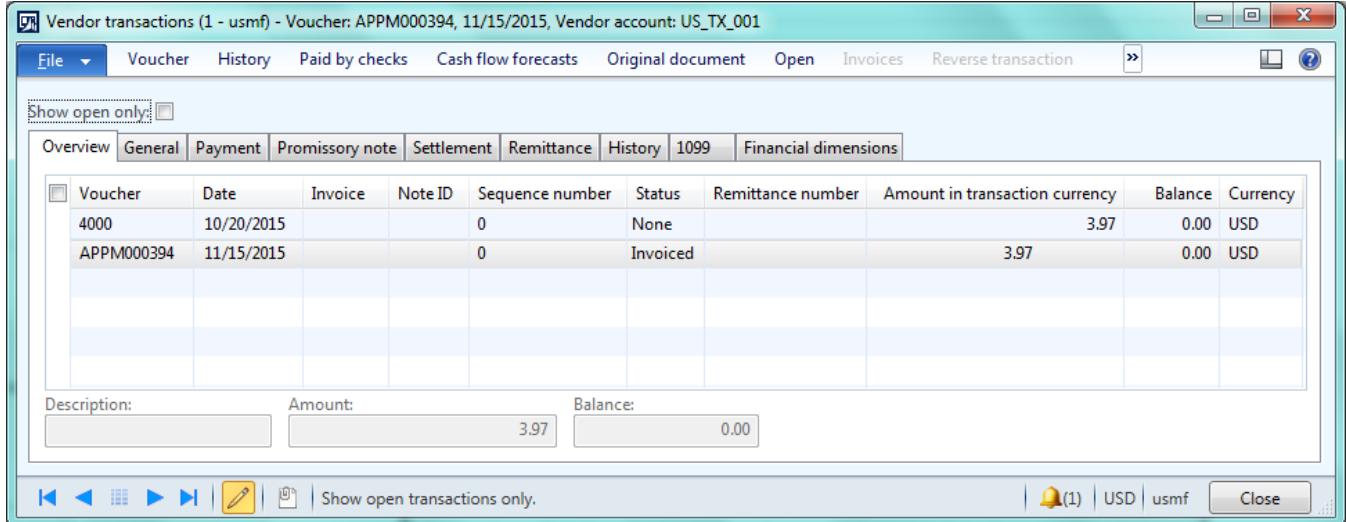


Figure 6.49 Vendor transactions

6. Sales taxes

We can see that two transactions are available. Go to the **Settlement** tab, the **Settled amount in standard currency** field is filled in, so the line is settled.

To make sure click the **Invoice > Closed transaction editing** button in the **Vendors** form. The **Closed transaction editing in several currencies** form opens.

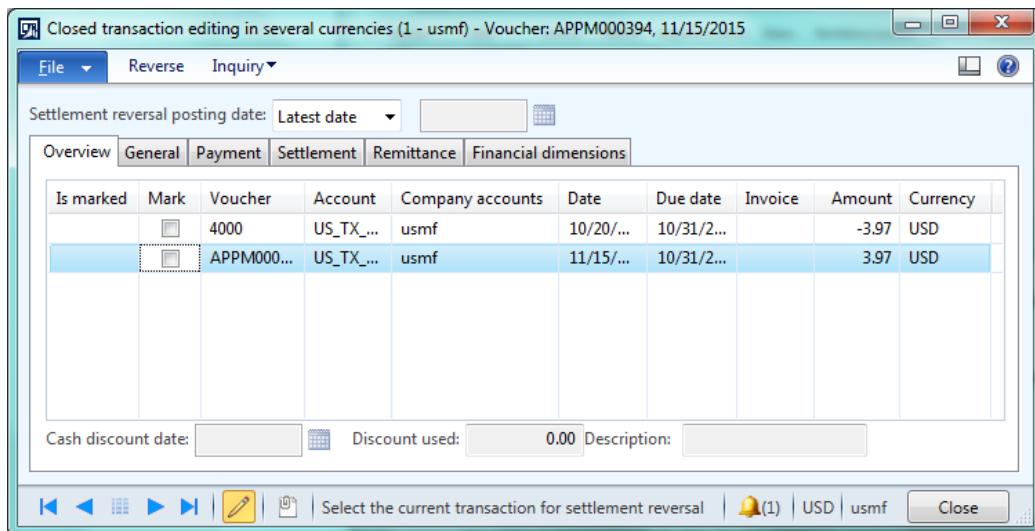


Figure 6.50 Closed transaction editing in several currencies

We record in the system that the sales tax payment to tax authorities has been performed for a certain period.

Note that if the tax authorities don't have the vendor account, the following transaction must be created and posted manually in the general journal (**General ledger > Journals > General journal**):

Cash or cash equivalents		Sales tax payable, un-invoiced	
Debit	Credit	Debit	Credit
	\$3.97	\$3.97	

Summary

In this training lesson, we have studied the following:

- What the Sales tax, Use tax, Value added tax are
- How to pay taxes to tax authorities:
 - Confirm taxes to pay
 - Pay taxes

In the next training lesson, we will go through the customer payment process.

7. Payments from customer

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Process and Post Payment.....	188
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Introduction

In this training lesson, we will study the customer payment process.

In the Sales lesson we entered a free text invoice for the 000500 Cherry Company customer. In this training lesson, we enter a customer payment for this invoice.

The Customer payment process is similar to the Vendor payment process.

The Payment Manager performs the following steps:

1. Creates a payment journal with payment lines.
2. Settles the payment lines with the invoice.
3. Performs the steps required to process and confirm the payment. These steps depend on the payment method. If it is cash, this step is skipped. If the payment method is direct withdrawal from the customer bank account, the following steps are possible:
 - o Generating the payment file and sending it to the bank.
 - o Receiving a notification from the bank where the payment occurs.
4. Posting the payment journal.

Customer payment is a standalone process that does not influence the company profit or loss. This is because the company recognizes the profit or loss when an invoice is posted. After the invoice is posted, the posted amount is recorded as assets. So, payment posting only moves the amount from one asset account (Accounts receivable) to another asset account (Bank).

The payment process generates the following transaction:

Bank		Accounts receivable	
Debit	Credit	Debit	Credit
\$Amount			\$Amount

Remember in the Basic concepts lesson, we have studied that if the Assets increase, the Debit part is used, and if they decrease, the Credit part is used.

The Bank account is the Assets account that contains the amount of money that the company has in the bank. The money in the bank increases, so the Debit part is used.

The Accounts receivable account is the Asset account that contains the amounts of money that the customers must pay to the company. The Accounts receivable decreases, so the Credit part is used.

7. Payments from customer

Payment Parameters

The main payment parameters are:

- **Method of payment.** A customer can pay for the delivered goods or services in different ways: by checks, electronic payments, cash, promissory notes, etc. This is the method of payment.
- **Terms of payment.** The terms of payment is used to define the due date (the last date when the customer should pay to the company).
If the customer doesn't pay before or on the due date, the company creates and sends a collection letter.
- **Cash discount.** The Cash discount is used to encourage the customer to pay as quickly as possible.

The desirable method of payment, terms of payment, cash discount, and other payment parameters are set per Customer under **Accounts receivable > Common > Customers > All customers** > double-click the 000500 Cherry Company customer > **Payment details** fast tab.

The 000500 customer has the following payment parameters:

The screenshot shows the Microsoft Dynamics AX 2012 Customers form for customer 000500: Cherry Company. The Payment tab is selected. The Payment section shows 'Terms of payment: Net10' and 'Cash discount:'. The Payment terms base days section shows 'Bank account:' and 'Allow on account:'. The Notifications section shows 'Central bank purpose code:' and 'Notes:'. The Check holds section shows 'Threshold amount: 0.00'.

Figure 7.1 Customers form

As we can see, the 000500 customer does not have the method of payment and the cash discount. The terms of payment is Net10.

7. Payments from customer

Let's review the details of the terms of payment parameter.

The terms of payments are set up under **Accounts receivable > Setup > Payment > Terms of payment**.

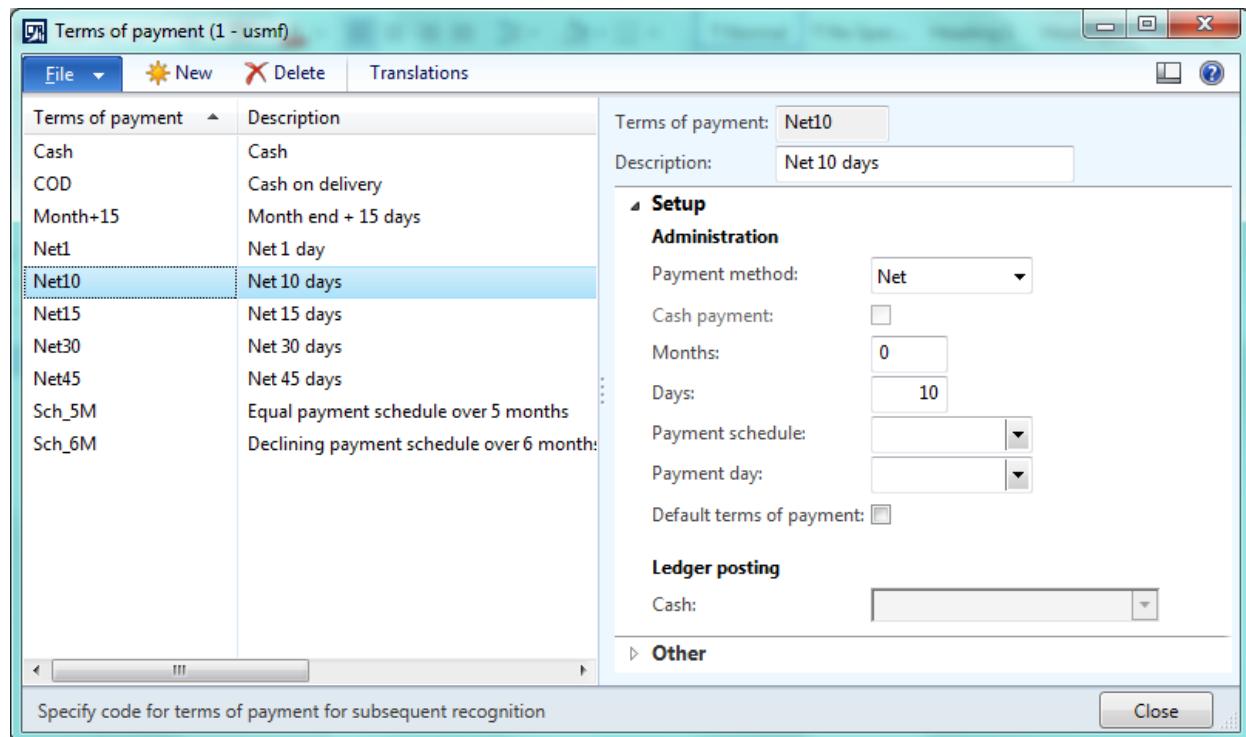


Figure 7.2 Terms of payment form

The “Net10” terms of payment has the following setup – the due date (the last date when the customer should pay) is the current date + 10 days.

Each customer transaction has the payment parameters and post and due dates.

Since we didn't change the default customer payment parameters when posting the free text invoice to the system in the Sales lesson, the customer transaction has the same set of payment parameters: Net10.

If you don't have or don't remember the free text invoice posted during the Sales lesson, you can create and post a free text invoice for some customer yourself and use this data in this training.

Let's find the customer transaction generated for the free text invoice. Open the **All customer** list page (**Accounts receivable > Common > Customers > All customers**) > find the 000500 Cherry Company customer). Open the customer transactions by clicking the **Transactions** button.

7. Payments from customer

The screenshot shows the 'Customer transactions' window with the 'Overview' tab selected. The table displays three rows of transaction data:

Voucher	Transaction type	Date	Invoice	Bill ID	Sequence number	Status	Remittance number	Amount in transaction currency	Balance	Currency
INV-10000715	Sales order	8/13/2015	CIV-000716		0	None		37,500.00	37,500.00	USD
FTV-30000001	Customer	8/14/2015	FTI-000002		0	None		80.44	80.44	USD
FTV-30000002	Customer	10/2/2015	FTI-000003		0	None		34.32	34.32	USD

Description: Amount: Balance: 80.44 80.44

Buttons at the bottom: Back, Forward, Print, Edit, Save, Cancel, Voucher number that the transaction is attached to, Bell icon (1), USD, usmf, Close.

Figure 7.3 Customer transactions form

In my case, the free text invoice was posted on 8/14/2015 that is why the customer transaction was generated on 8/14/2015.

Go to the **Payment** tab.

The screenshot shows the 'Customer transactions' window with the 'Payment' tab selected. The form contains several sections and fields:

- Payment** section:
 - Discount granted: 0.00
 - Discount used: 0.00
 - Cash discount date: 8/24/2015
 - Due date: 8/24/2015
 - Deadline: (dropdown menu)
 - Method of payment: (dropdown menu)
 - Payment specification: (dropdown menu)
 - Payment reference: (dropdown menu)
 - Payment: Net
 - Prepayment journal voucher: (checkbox)
 - Payment ID: (text input)
 - Direct debit mandate ID: (dropdown menu)
- Payment management** section:
 - Payment step identification: (dropdown menu)
 - Previous payment step ID: (dropdown menu)
 - Reporting batch: (dropdown menu)
- Bank** section:
 - Company: (dropdown menu)
 - Customer: (dropdown menu)
- Foreign currency revaluation** section:
 - Unrealized exchange rate adjustment: 0.00
 - Realized exchange rate adjustment: 0.00
 - Exchange rate adjustment amount: 0.00
 - Currency: USD
 - Amount in transaction currency: 80.44
 - Amount: 80.44
 - Exchange rate: 1.000000000000
 - Secondary exchange rate: 0.000000000000

Cash discount granted when payment is made before a given date.

Buttons at the bottom: Back, Forward, Print, Edit, Save, Cancel, Bell icon (1), USD, usmf, Close.

Figure 7.4 Customer transactions form, Payment tab

As we can see the **Due date** field contains the 8/24/2015 date. The transaction was posted on 8/14/2015, the due date was 8/24/2015. So, we make sure that the Net10 terms of payment was used.

Create a Payment Journal with Lines

We assume that the 000500 Cherry Company customer pays 80\$. The free text invoice was for 80.44\$.

Let's create a payment journal:

- Go to **Accounts receivable > Journals > Payments > Payment journal**. The **Payment journal** form opens.
- Create a new line and select *CustPay* in the **Name** field.

The payment line can be created in several ways:

- With the help of the **Enter customer payments** form (**Payment journal** form > **Enter customer payments** button).
- By clicking the **Lines** button in the **Payment journal** form.
- With the help of the **Payment proposal** feature: **Payment journal** form > **Lines** button > **Payment proposal > Create payment proposal**.
- With the help of the **Import payment** feature: **Payment journal** form > **Lines** button > **Functions > Import payments**. This method is used when a company receives a lot of payments via files. In this case it is impossible to create all payment lines manually. The Sales Manager specifies the path to the file and starts the import. The payment lines are created automatically. As usual, standard Microsoft Dynamics AX doesn't have the class that parses the payment file, so this class is created by developers, assigned to the payment method, and used during the import.

In all cases we can create and settle the payment with an invoice.

Let's create a payment line by clicking the **Lines** button:

- Click the **Lines** button. The **Journal voucher** form opens.
- Select the *000500* customer in the **Account** field.
- Set *80\$* in the **Credit** field
- Select the *USMF OPER* bank account in the **Offset account** field.

7. Payments from customer

The **Journal voucher** form has the following view:

The screenshot shows the Microsoft Dynamics AX Journal voucher form. At the top, it displays a balance of -80.00 and a total credit of 80.00. Below this, a table lists a single payment line: Date 11/20/2015, Company accounts usmf, Account 000500, Invoice ARPM00077, Description Cherry Company, Debit 80.00, Credit 0.00, and Payment status None. The form also includes fields for Voucher, Currency (USD), Account name (Cherry Company), Offset account name (Operating account - US), Method of payment, Payment specification, Payment reference, Document, Document date, Release date, and Settlement type (Open transactions). The bottom of the screen shows standard Windows-style navigation buttons (Back, Forward, Home, etc.) and a status bar with a bell icon, USD, usmf, and Close.

Figure 7.5 Journal voucher form

Settle Payment with Invoice

Microsoft Dynamics AX has several features that help settle a payment with an invoice:

- The **Invoice** field
- The **Edit customer payments** form
- The **Settle open transactions** form

Note that if you have used the **Journal voucher > Payment proposal > Create payment proposal** form to create a payment line, the payment line is settled with an invoice automatically.

Let's check that we haven't settled the payment with an invoice yet.

In the **Journal voucher** form, click the **Functions > Settlement** button. The **Settle open transactions** form opens.

This form contains open (not paid) invoices.

7. Payments from customer

The screenshot shows the 'Settle open transactions' window. At the top, it displays summary information: Marked total: -80.00, Marked total in USD: -80.00, Customer balance: 37,614.76, Estimated cash discount: 0.00, Estimated cash discount in USD: 0.00, and Transferred: -80.00. The transferred amount is also shown in USD. Below this is a navigation bar with tabs: Overview, General, Payment, Settlement, Cash discount, Collections, and Financial dimensions. The 'General' tab is selected. The main area contains a table of transactions:

Is marked	Mark	Use cash discount	Voucher	Account	Company...	Date	Due date	Deadline	Invoice	Amount in transaction currency	Currency	Amount to settle
<input type="checkbox"/>	Normal		INV-10000715	000500	usmf	8/13/2015	8/13/2015		CTV-000716	37,500.00	USD	37,500.00
<input checked="" type="checkbox"/>	Normal		FTI-00000001	000500	usmf	8/14/2015	8/24/2015	FTI-000002		80.44	USD	80.44
<input type="checkbox"/>	Normal		FTI-00000002	000500	usmf	10/2/2015	10/12/2015	FTI-000003		34.32	USD	34.32

Below the table are several input fields:

- Cash discount date: [date] Cash discount amount to take: 0.00
- Cash discount amount: 0.00 Cash discount amount to take in USD: 0.00
- Discount amount in USD: 0.00 Full settlement cash discount: [radio button]
- Use cash discount: Normal Cash discount taken: 0.00 Full settlement cash discount in USD: [radio button]
- Cash discount taken: 0.00 Interest amount: [radio button]
- Cash discount taken in USD: 0.00 Fine amount: [radio button]
- Description: [text box] Alternative cash discount account: [dropdown]

At the bottom are standard window controls: Back, Forward, Save, Print, Close, and Help.

Figure 7.6 Settle open transactions form

As we can see, the free text invoice for 80.44\$ is not settled with a payment line.

We can settle it in this form by selecting the **Mark** check box. But let's settle the payment with the invoice with the help of the **Invoice** field.

Return to the **Journal voucher** form and look up the **Invoice** field. Find the invoice for the 80.44 amount and select it. The “The total amount of marked transactions is different from the journal amount. Change journal amount” warning box appears. Click **No**.

The **Journal voucher** form has the following view:

The screenshot shows the 'Journal voucher' window. At the top, it displays the journal number: Journal: 00481, Posted: No, Journal type: Customer payment. Below this is a 'Balance' section with fields for Journal and Per voucher. The main area contains a table of payment lines:

Total debit		Total credit	
Journal:	0.00	Journal:	80.00
Per voucher:	0.00	Per voucher:	80.00
Voucher:	ARPM00077	Method of payment:	[dropdown]
Currency:	USD	Payment specification:	[dropdown]
Account name:	Cherry Company	Payment reference:	[text box]
Offset account name:	Operating account - US	Settlement type:	Designated transactions

Below the table are fields for Document date and Release date. At the bottom are standard window controls: Back, Forward, Save, Print, Close, and Help.

Figure 7.7 Journal voucher form

7. Payments from customer

Let's check that the settlement has been created.

In the **Journal voucher** form, click the **Functions > Settlement** button. The “Marked transactions exist. Remove them?” box appears. Click **No**. The **Settle open transactions** form opens.

The screenshot shows the 'Settle open transactions' dialog box. At the top, there are several input fields: 'Marked total:' (0.44), 'Estimated cash discount:' (0.00), 'Transferred:' (-80.00), 'Marked total in USD:' (0.44), 'Estimated cash discount in USD:' (0.00), 'Transferred in USD:' (-80.00), 'Customer balance:' (37,614.76), and 'Payment proposal:' (checkbox). Below these are tabs for 'Overview', 'General', 'Payment', 'Settlement', 'Cash discount', 'Collections', and 'Financial dimensions'. The 'Settlement' tab is selected. A table lists transactions with columns: Is marked, Mark, Use cash discount, Voucher, Account, Company..., Date, Due date, Deadline, Invoice, Amount in transaction currency, Currency, and Amount to settle. The first row (FTV-30000001) has 'Is marked' checked and 'Mark' set to 'Normal'. In the 'Settlement' section below, there are fields for 'Cash discount date', 'Cash discount amount', 'Discount amount in USD', 'Use cash discount', 'Cash discount taken', 'Cash discount taken in USD', 'Cash discount amount to take', 'Cash discount amount to take in USD', 'Full settlement cash discount', 'Full settlement cash discount in USD', 'Interest amount', 'Fine amount', 'Description', and 'Alternative cash discount account'. A status message at the bottom says 'Transaction is already marked for settlement.'

Figure 7.8 Settle open transactions form

As we can see the invoice for 80.44\$ is marked, i.e. settled with the payment line.

When we post the payment journal, the customer transaction for the payment is generated and settled with the customer transaction for the invoice.

Process and Post Payment

Unfortunately, the demo data doesn't have export file formats for the payment. So, we will omit the payment processing steps.

The classes that create and parse the files for the electronic payment are set up per method of payment (**Accounts receivable > Setup > Payments > Methods of payment > File formats** fast tab.)

If your environment has an export file format for the payment, the payment processing flow is the following.

The Payment Manager clicks the **Functions > Generate payments** button in the **Journal voucher** form. As a result, the payment file is created. It is also possible to use a web service, in this case the file is generated and sent to the bank.

7. Payments from customer

The **Payment status** (in the **Journal voucher** form) changes from *None* to *Sent*.

Then the Payment Manager uses the **Payment transfer** form to receive the response file from the bank (**Accounts receivable > Journals > Payments > Payment transfers.**) The bank sends the file with the information if the payment occurs. The Sales Manager clicks the **Return file – Customer** button to retrieve this file. Microsoft Dynamics AX analyzes the file and changes **Payment status** from *Sent* to *Received*.

All above steps are optional. They are used to confirm that the payment occurs. They can be omitted if the Payment Manager can confirm somehow that the money is paid.

We assume that the customer pays in cash for the invoice.

The Sales Manager receives the cash for the invoice.

To post this payment, the Sales Manager returns to the **Journal voucher** form.

In the **Journal voucher** form, click the **Validate > Validate** button. The “Journal is OK” message appears.

Click the **Post > Post** button.

The “0.44 for voucher FTV-30000001 in company usmf will be posted as an overpayment or underpayment” message appears. We will learn what underpayment is a bit later in this lesson.

The “Number of vouchers posted to the ledger is 2” message appears, it means that the payments are posted.

Posting Results

From the training introduction we know that the general ledger transaction generated for payment posting has the following view:

Bank		Accounts receivable	
Debit	Credit	Debit	Credit
\$80			\$80

This transaction transfers the amount from one asset account to another asset account.

The Accounts receivable account is the asset account. The customer makes the payment, so this account is decreased, because the customer's liability is decreased as well. If the asset is decreased, it means “bad” for the company, so the Credit part is used.

7. Payments from customer

The Bank account is also the asset account. This account is increased. If the asset is increased, it means “good” for the company, so the Debit part is used.

When posting the payment journal, the *000500 Cherry Company* customer and the *USMF OPER* bank account were used.

Let's check that transactions are generated for the customer and bank subledger accounts.

Go to **Accounts receivable > Common > Customers > All customers** > find the *000500 Cherry Company* customer > **Transactions** button. The **Customer transactions** form opens.

The screenshot shows the 'Customer transactions' window. At the top, there are tabs: Voucher, History, Payment management (selected), Cash flow forecasts, Original document, Cancel payment, Open, Invoices, and Reverse transaction. Below the tabs is a 'Show open only' checkbox. The main area has tabs: Overview, General, Payment, Bill of exchange, Settlement, Collections, History, and Financial dimensions. The General tab is selected. A table lists transactions:

Voucher	Transaction type	Date	Invoice	Bill ID	Sequence number	Status	Remittance number	Amount in transaction currency	Balance	Currency
INV-10000715	Sales order	8/13/2015	CIV-000716		0	None		37,500.00	37,500.00	USD
FTV-30000001	Customer	8/14/2015	FTI-000002		0	None		80.44	0.00	USD
FTV-30000002	Customer	10/2/2015	FTI-000003		0	None		34.32	34.32	USD
ARP-80000002	Penny difference	11/20/2015			0	None		0.44	0.00	USD
ARPM00071	Payment	11/20/2015			0	None		80.00	0.00	USD

Below the table, there are fields for Description, Amount (-80.00), and Balance (0.00). At the bottom, there are navigation icons (back, forward, search) and buttons for Show open transactions only, Close, and a notification icon (1).

Figure 7.9 Customer transactions form

We can see that the customer transaction for \$80 was generated. Also, we can see that the customer transaction from \$0.44 was generated. This transaction generated automatically to settle the \$80.44 invoice customer transaction. This is underpayment, i.e. when we allow the customer to pay less than needed (usually it is not more than \$1).

Go to **Cash and bank management > Common > Bank accounts** > find the *USMF OPER* bank account > **Transactions** button. The **Bank transactions** form opens.

7. Payments from customer

The screenshot shows the 'Bank transactions' window in Microsoft Dynamics AX. The title bar indicates the bank account is USMF OPER. The main area displays a grid of transactions. The columns include Date, Voucher number, Bank transaction type, Payment reference, Deposit slip, Check numb..., Currency, Amount in transaction currency, Amount, and Reconciled. A row for November 20, 2015, with Voucher number ARPM000771 and Amount \$80.00, is highlighted with a yellow background.

Date	Voucher number	Bank transaction type	Payment reference	Deposit slip	Check numb...	Currency	Amount in transaction currency	Amount	Reconciled
12/31/2012	GNJL000038					USD	-4,587.50	-4,587.50	
12/31/2012	GNJL000038					USD	-4,587.50	-4,587.50	
12/31/2012	GNJL000038					USD	-4,587.50	-4,587.50	
12/31/2012	GNJL000038					USD	-4,587.50	-4,587.50	
12/31/2012	GNJL000038					USD	-6,881.25	-6,881.25	
12/31/2012	GNJL000038					USD	-6,881.25	-6,881.25	
12/31/2012	GNJL000038					USD	-6,881.25	-6,881.25	
12/31/2012	GNJL000038					USD	-6,881.25	-6,881.25	
12/31/2012	GNJL000038					USD	-6,881.25	-6,881.25	
6/24/2015	APPM000393	03	403		403	USD		-19.80	-19.80
11/15/2015	APPM000394	03	404		404	USD		-3.97	-3.97
11/20/2015	ARPM000771					USD		80.00	80.00

Figure 7.10 Bank transactions form

We can see that the bank transaction for \$80 was generated.

As we know, each subledger account has a controlling account. The Controlling account is a general ledger account.

In our case, the Customer controlling account is used as an Accounts receivable ledger account. The Bank controlling account is used as a Bank ledger account.

The Controlling accounts are set up in the posting profiles. So we should review the customer and bank posting profiles to find out which general ledger accounts are used as the Accounts receivable and Bank general ledger accounts.

Let's find the controlling account for the 000500 Cherry Company customer.

Go to **Accounts receivable > Setup > Accounts receivable parameters > Ledger and sales tax** fast tab.

7. Payments from customer

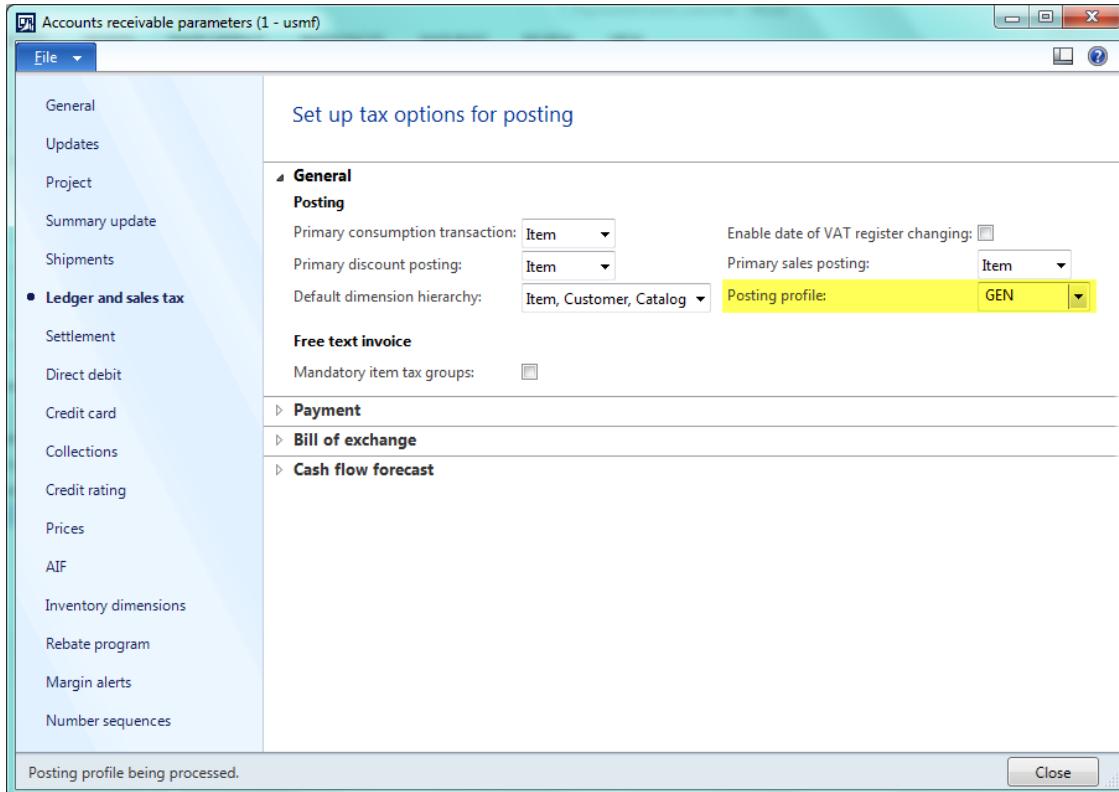


Figure 7.11 Accounts receivable parameters form

The **GEN** customer posting profile is used for the Customer subledger.

Let's review its parameters. Go to **Accounts receivable > Setup > Customer posting profiles**. The **Customer posting profiles** form opens.

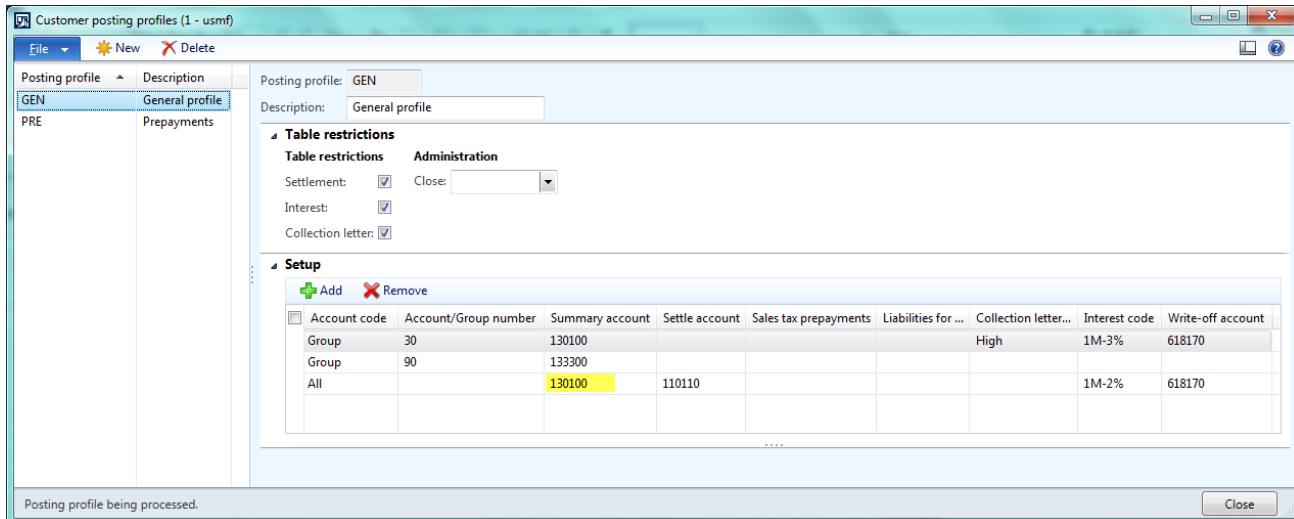


Figure 7.12 Customer posting profiles form

7. Payments from customer

The **000500** Cherry Company customer belongs to the **80** customer group (see the **Customers** form). We can see that this group doesn't have the special setup, so the setup for all groups is used. This setup uses the **130100** general ledger account as a customer controlling account. If we go to the **Main accounts** form (**General ledger > Common > Main accounts**), we see that this account belongs to the asset accounts.

Let's find the controlling account for the *USMF OPER* bank account.

As you may see, the bank module doesn't have the posting profile. The controlling account is specified per each bank account.

Go to **Cash and bank management > Common > Bank accounts** > find the *USMF OPER* bank account > **Main account** field.

Figure 7.13 Bank accounts list page

The bank account uses the **110110** ledger account as the controlling account. If we go to the **Main accounts** form (**General ledger > Common > Main accounts**), we see that this account belongs to the asset accounts.

The general ledger transaction has the following view:

110110 (Bank)		130100 (Accounts receivable)	
Debit	Credit	Debit	Credit
\$80			\$80

Let's find a voucher that is generated during the payment posting and make sure that Microsoft Dynamics AX generates the same transaction.

Open the payment journal posted in this lesson (**Accounts receivable > Journals > Payments > Payment journal**). Click the **Lines** button. In the **Journal voucher** form, click the **Inquiries > Voucher** button. The **Voucher transactions** form opens.

7. Payments from customer

The screenshot shows the 'Voucher transactions' window with the journal number 013868. It displays two rows of transaction details:

Journal number	Voucher	Date	Year closed	Ledger account	Currency	Amount in transaction currency	Amount	Amount in reporting currency	Posting layer
013868	ARPM000771	11/20/2015		130100--	USD	-80.00	80.00	-80.00	Current
013868	ARPM000771	11/20/2015		110110-001-	USD	80.00	80.00	80.00	Current

Below the table, there are fields for 'Description' (empty), 'Posting type' (Bank), 'Account name' (Bank Account - USD), and standard navigation buttons.

Figure 7.14 Voucher transactions form

We make sure that Microsoft Dynamics AX generates the same transaction.

Click the **Transaction origin** button to view the transactions for all ledgers. The **Transaction origin** form opens.

The screenshot shows the 'Transaction origin' window for voucher ARPM000771. It displays four rows of transaction details:

Module	Voucher	Date	Number	Text	Currency	Amount in transaction currency	Amount	Dimensions	Number
Ledger	ARPM000771	11/20/2015	110110-001-		USD	80.00	80.00		
Ledger	ARPM000771	11/20/2015	130100--		USD	-80.00	-80.00		
Customer	ARPM000771	11/20/2015	000500		USD	-80.00	-80.00		
Bank	ARPM000771	11/20/2015	USMF OPER		USD	80.00	80.00		

Below the table, there are fields for 'Name' (Operating account - USD), 'Table' (Bank transactions), and standard navigation buttons.

Figure 7.15 Transaction origin form

We can see that the customer and the bank transactions have been created.

We have settled the payment with the invoice. Let's review that these customer transactions are settled.

Go to **Accounts receivable > Common > Customers > All customers** > find the *000500 Cherry Company* customer > **Collect menu** button > **Settle** button group > **Closed transaction editing** button. The **Closed transaction editing** form opens.

7. Payments from customer

The screenshot shows the 'Closed transaction editing in several currencies' window. The title bar indicates it's for Voucher: FTV-3000001, dated 8/14/2015. The main area contains a table with columns: Is marked, Mark, Voucher, Account, Company accounts, Fiscal establishment ID, Date, Due date, Invoice, Settled currency, and Currency. Two rows are present:

Is marked	Mark	Voucher	Account	Company accounts	Fiscal establishment ID	Date	Due date	Invoice	Settled currency	Currency
	<input type="checkbox"/>	ARPM000771	000500	usmf	<input checked="" type="radio"/>	11/20/2015	11/20/2015		-80.00	USD
	<input checked="" type="checkbox"/>	FTV-3000001	000500	usmf	<input checked="" type="radio"/>	8/14/2015	8/24/2015	FTI-000002	80.44	USD

Below the table, there are fields for Cash discount date (8/24/2015), Discount used (0.00), and Description. At the bottom, there are navigation icons (back, forward, search, etc.) and a status bar showing a bell icon (1), USD, usmf, and Close.

Figure 7.16 Closed transaction editing form

We can see that payment and invoice customer transactions are settled.

Unfortunately the customer transaction for \$0.44 is not shown in this form. But, we have seen that this customer transaction was generated and settled with the invoice customer transaction. This is how the underpayment works.

We can see that the invoice amount is \$80.44. This means that the payment for \$80 was enough to pay for the invoice.

Our demo data has the following over/under payment setup: **Accounts receivable > Setup > Accounts receivable parameters > Settlement** fast tab > **Maximum overpayment or underpayment** field.

7. Payments from customer

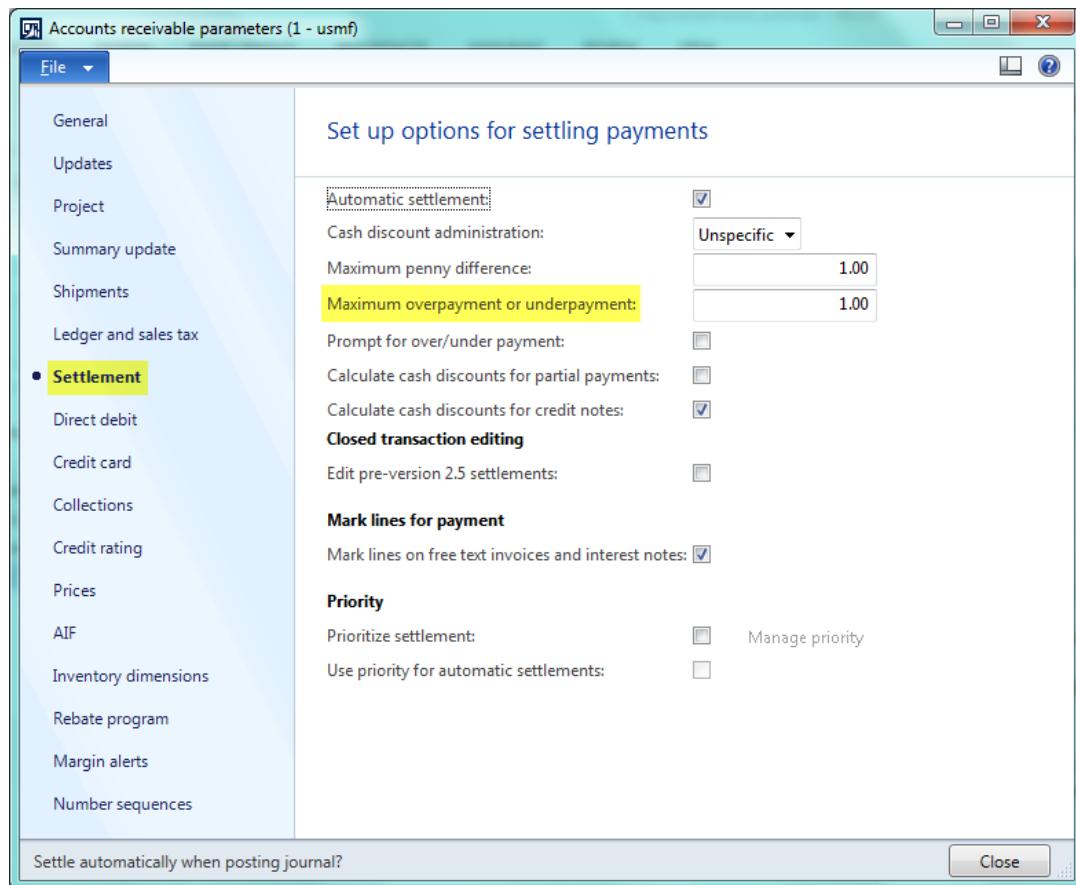


Figure 7.17 Accounts receivable parameters form, Settlement menu tab

If for example the **Maximum overpayment or underpayment** field contains zero, only \$80 from the invoice is settled. This means that the company waits one more payment for \$0.44 from the customer for this invoice.

Summary

In this training lesson we have studied the payment process and analyzed the payment posting results.

The payment process includes the following steps:

4. Creating a payment.
5. Settling the payment with an invoice.
6. Processing the payment:
 - o Generating the payment file and sending it to the bank.
 - o Receiving a notification from the bank.
7. Posting the payment.

The payment posting generates the customer, bank, and general ledgers transactions.

8. Bank reconciliation

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Introduction

Dynamics AX has a Bank subledger that consists of bank accounts. Each bank account can contain related bank transactions. Besides amounts, the bank transaction also contains the bank specific information: check number, payment reference, deposit slip, etc.

A bank itself also has a separate account for the company in its own database to record information when it processes the company's checks, deposits, service charges, and other items.

At the end of each month, the bank usually mails a bank statement to the company. The bank statement lists the activity for the bank account during the previous month as well as the current balance of the bank account.

When the company receives its bank statement, the company should verify that the amounts in the bank statement are consistent and compatible with the amounts in Microsoft Dynamics AX, and vice versa. This process of confirming the amounts in Dynamics AX is referred to as reconciling the bank statement (reconciliation).

The bank statement can look as [follows](#):



CHEQUING ACCOUNT STATEMENT
Page : 1 of 1

		Statement period	Account No.		
		2003-10-09 to 2003-11-08	00005- 123-456-7		
JOHN JONES 1643 DUNDAS ST W APT 27 TORONTO ON M6K 1V2					
Date	Description	Ref.	Withdrawals	Deposits	Balance
2003-10-08	Previous balance				0.55
2003-10-14	Payroll Deposit - HOTEL		694.81		695.36
2003-10-14	Web Bill Payment - MASTERCARD	9685	200.00		495.36
2003-10-16	ATM Withdrawal - INTERAC	3990	21.25		474.11
2003-10-16	Fees - Interac		1.50		472.61
2003-10-20	Interac Purchase - ELECTRONICS	1975	2.99		469.62
2003-10-21	Web Bill Payment - AMEX	3314	300.00		169.62
2003-10-22	ATM Withdrawal - FIRST BANK	0064	100.00		69.62
2003-10-23	Interac Purchase - SUPERMARKET	1559	29.08		40.54
2003-10-24	Interac Refund - ELECTRONICS	1975		2.99	43.53
2003-10-27	Telephone Bill Payment - VISA	2475	6.77		36.76
2003-10-28	Payroll Deposit - HOTEL		694.81		731.57
2003-10-30	Web Funds Transfer - From SAVINGS	2620		50.00	781.57
2003-11-03	Pre-Auth. Payment - INSURANCE		33.55		748.02
2003-11-03	Cheque No. - 409		100.00		648.02
2003-11-06	Mortgage Payment		710.49		-62.47
2003-11-07	Fees - Overdraft		5.00		-67.47
2003-11-08	Fees - Monthly		5.00		-72.47
*** Totals ***			1,515.63	1,442.61	

Figure 8.1 Bank statement

8. Bank reconciliation

Bank Reconciliation

Bank accounts is the “chart of accounts” for the Bank subledger. The bank accounts are listed here: **Cash and bank management > Common > Bank accounts**.

Each bank account can have balance and bank transactions.

During the purchase and sales processes, we worked with the USMF OPER bank account. Let’s review its balance and transactions.

To review the bank account balance, click the **Balance** button on the **Bank accounts** list page. The **Balance** form opens. The total USMF OPER bank account balance is \$ 92702708.05.

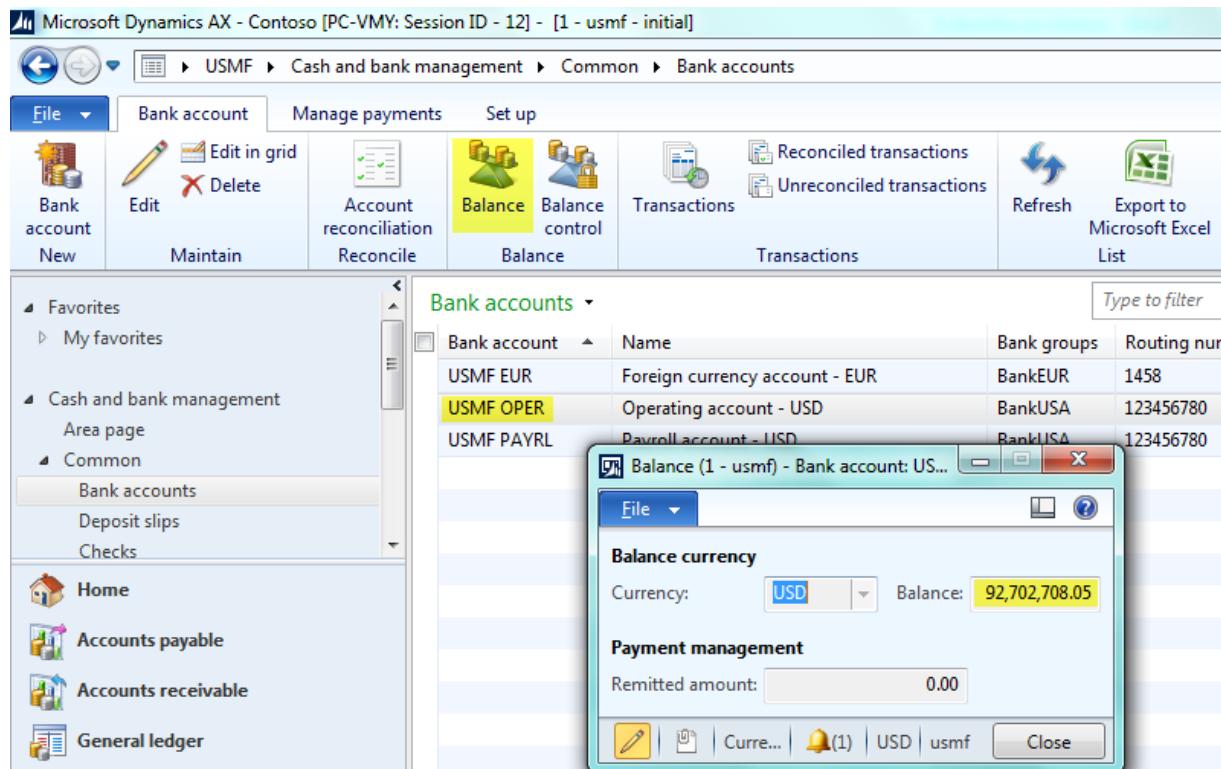


Figure 8.2 Bank account balance

To review bank transactions, click the **Transactions** button on the **Bank accounts** list page. The **Bank transactions** form opens.

8. Bank reconciliation

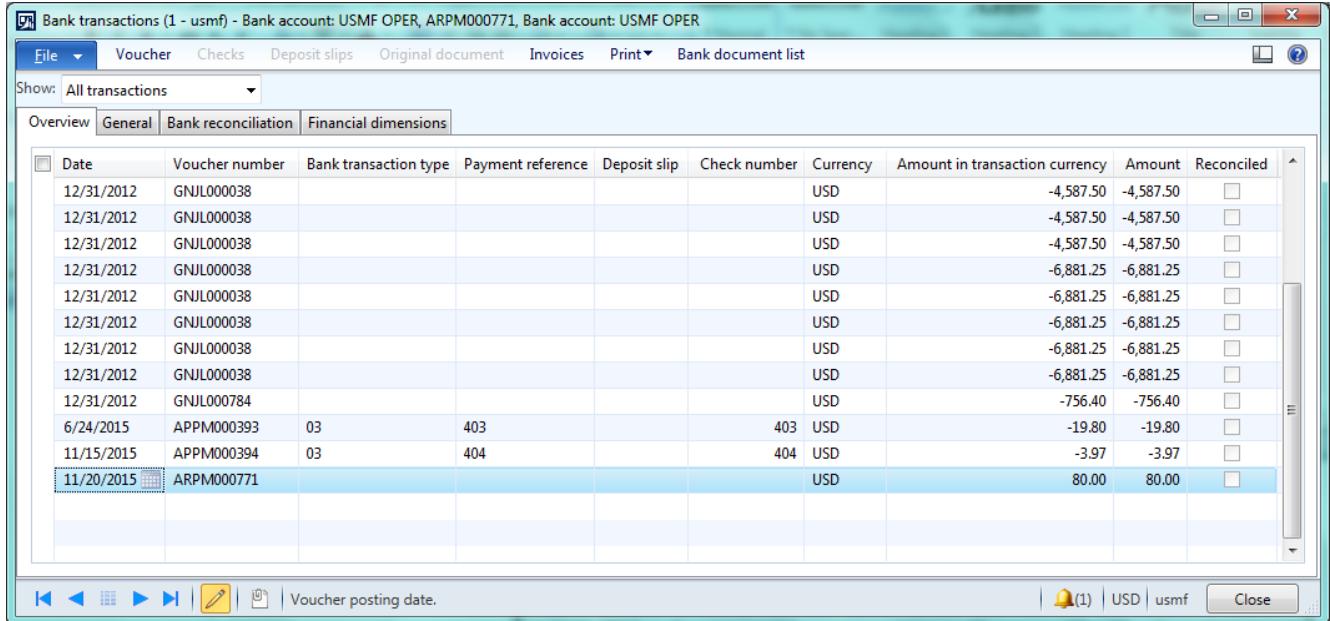


Figure 8.3 Bank account transactions

We can see all transactions for the USMF OPER account. If we select *Unreconciled transactions* in the **Show** field, all not reconciled transactions are shown. In our case, a lot of transactions are not reconciled.

Remember that a customer (or a vendor) open transaction means that an invoice transaction is not settled with a payment transaction.

A bank open transaction means that a Microsoft Dynamics AX bank transaction is not settled with a bank transaction in the bank system.

Let's assume that the check 404 that was sent to the vendor (it is the tax authority) is returned. The check was for \$3.97.

The Cash Manager receives the bank statement for the November, 2015 period from the bank. The bank statement has one transaction for \$80.

As we can see from the Figure 8.3, the bank account has two transactions in November, 2015 in Dynamics AX. One for \$80, another for -\$3.97.

In this case, we should reconcile the first bank transaction in November, 2015 and cancel the second bank transaction (that has the check 404).

8. Bank reconciliation

Let's begin from reconciling the bank account transactions:

- 1) On the **Bank accounts** list page, click the **Reconcile > Account reconciliation** button. The **Bank statement** form opens.
- 2) Create a new line with the following values:
 - a. **Bank statement date** = today
 - b. **Bank statement** = 111 (any number; in real life, the bank statement has a certain ID number)
 - c. **Ending balance** = \$0

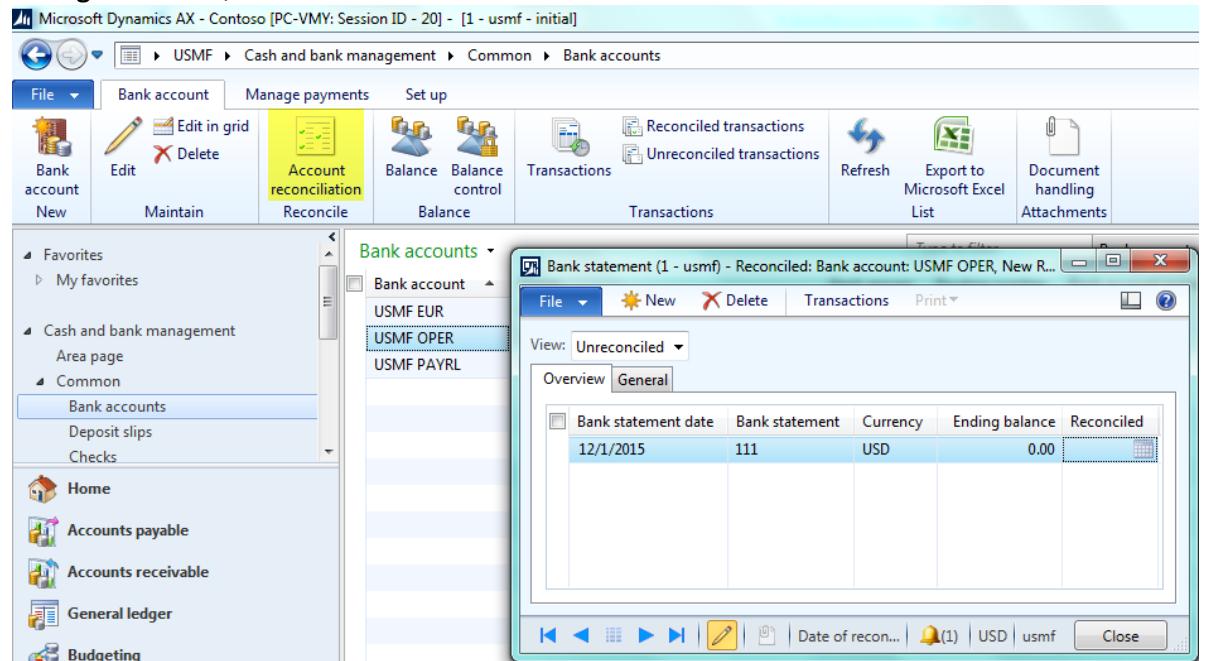


Figure 8.4 Bank statement form

8. Bank reconciliation

- 3) Click the **Transactions** button. The **Account reconciliation** form opens. Copy and save the value from the **Opening balance** field. In my case it contains \$51149494.15.

The screenshot shows the 'Account reconciliation' window for bank account 'USMF OPER' on 12/1/2015. The 'Totals' section at the top displays 'Opening balance: 51,149,494.15', 'Ending balance: 0.00', and 'Unreconciled: -51,149,494.15'. Below this is a table of transactions with columns: Cleared, Bank transaction type, Date, Check number, Deposit slip, Amount in transaction curr..., Correction amount, and Bank amount. The table lists several entries, mostly for December 2012, with amounts ranging from -\$756.40 to -\$91,021.79. At the bottom of the form, there are fields for Main account, Sales tax group, Description, Item sales tax group, and Sales tax amount (set to 0.00). A note below the table states 'This grid is empty.'

Figure 8.5 Account reconciliation form

- 4) Close the **Account reconciliation** form.
 5) We want to reconcile only one transaction for 80\$. So we should modify the **Ending balance** field with $51149494.15 + 80 = 51149574.15$ value.

The screenshot shows the 'Bank statement' window for bank account 'USMF OPER' on 12/1/2015. The 'View' dropdown is set to 'Unreconciled'. The main area contains a table with columns: Bank statement date, Bank statement, Currency, Ending balance, and Reconciled. There is one row of data: '12/1/2015', '111', 'USD', '51,149,574.15', and an empty 'Reconciled' field. The 'Ending balance' cell is highlighted with a blue border.

Figure 8.6 Bank statement form

- 6) Click the **Transaction** button again. The **Account reconciliation** form opens. Select the **Cleared** check box for the transaction with \$80. The cleared transaction means that it is verified with the bank statement.

8. Bank reconciliation

Since the amount in the bank statement and in the cleared transaction is the same, the **Reconcile account** button becomes available.

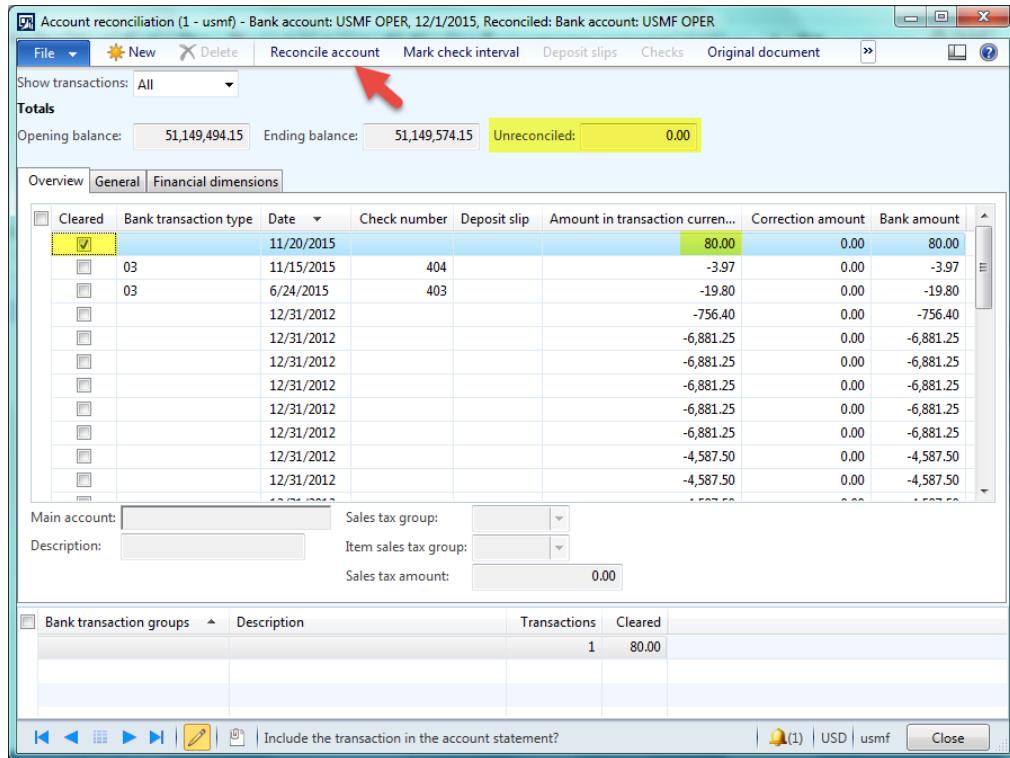


Figure 8.7 Account reconciliation form

- 7) Click the **Reconcile account** button. The bank transactions in Microsoft Dynamics AX are closed.

Let's check the results. On the **Bank accounts** list page, select the USMF OPER bank account and click the **Transactions** button. The **Bank transactions** form opens.

Select the **Reconciled transactions** value in the **Show** field. We can see that our transaction is reconciled.

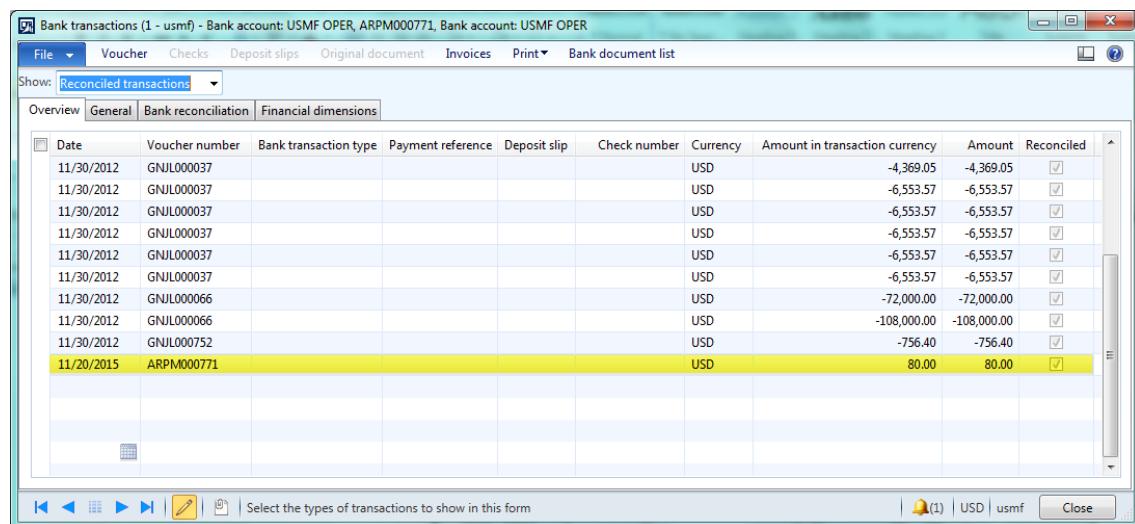


Figure 8.8 Bank transactions

Cancel the Payment

We assumed that the check 404 that was sent to the vendor (in my case it is US_TX_001 - California State Tax Authority) is returned. So, we should find and cancel this payment.

According to the SOX, compliance posted information cannot be changed. So, canceling the payment means that a new payment with reverse amount is created and posted.

The bank transaction from the new payment is reconciled with the bank transaction from the canceled payment.

The vendor transaction from the new payment is settled with the vendor transaction from the canceled payment.

Dynamics AX has features that automatically generate a new payment journal and reconcile bank transactions and settle vendor transactions.

Let's start.

Create a new payment (reversal) journal:

- 1) Go to **Cash and bank management > Common > Checks**. The Checks form opens.

Figure 8.9 Checks form

This form contains the information when the check was paid and to whom it was sent.

Find the check 404. We can see that it was paid to the US_TX_001 vendor.

8. Bank reconciliation

- 2) To reverse the payment, click the **Payment reversal** button. The **Payment reversal** form opens.

Fill in the following values:

- a. Date = today
- b. Reason code = LOST (Payment lost in mail)
- c. Reconcile = checked
- d. Journal name = CheckRev

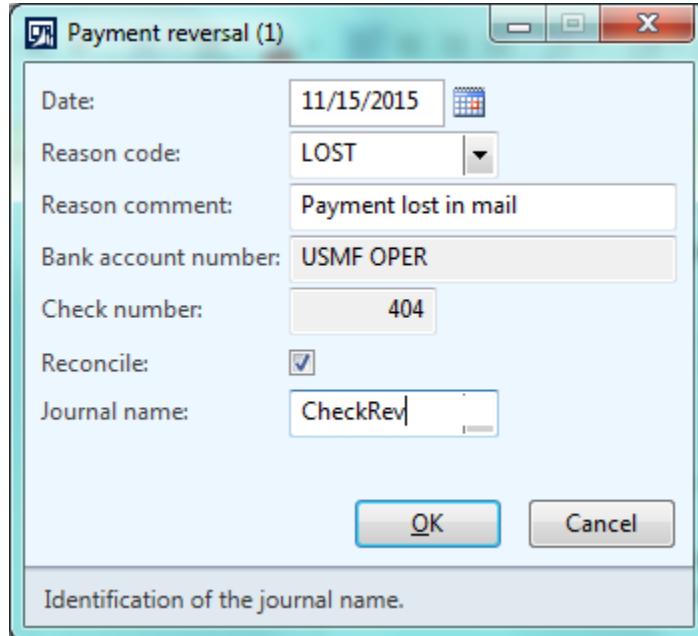


Figure 8.10 Payment reversal form

Click **OK**.

The “Created journal 00482 of type Bank check reversal” message appears. As a result, a new journal is created.

Post the new payment journal, reconcile, and settle the transactions:

- 1) Go to **Cash and bank management > Journals > Check reversals**. The **Check reversals** form opens. We can see that the 00482 journal is created.
- 2) Click the **Lines** button. The **Journal voucher** form opens.

8. Bank reconciliation

The screenshot shows the 'Journal voucher' window with the following details:

- Balance:** Total debit: 0.00; Total credit: 3.97.
- Journal:** Per voucher: 0.00; Per voucher: 3.97.
- Overview:** Date: 11/15/2015, Voucher: BCRV000001, Account type: Vendor, Account: US_TX_001, Description: Canceled: APPM000394, Payment lost in mail.
- Debit:** 3.97, **Credit:** 3.97, **Offset account type:** Bank, **Offset account:** USMF OPER.
- Currency:** USD, **Account name:** California State Tax Aut.
- Bank transaction type:** 09, **Offset account name:** Operating account - US.
- Check number:** 404, **Reason code:** LOST.
- Payment reference:** 404, **Reason comment:** Payment lost in mail.

Figure 8.11 Journal voucher form

We can see that the **US_TX_001** vendor account is credited (i.e. decreased) and the **USMF OPER** bank account is debited (i.e. increased) by \$3.97. I.e. we reverse the payment.

- 3) Click the **Post > Post** button. The journal is posted.

Let's check the posting results. In the **Journal voucher** form, click the **Inquiries > Bank transactions** button. The **Bank transactions** form opens. We can see that the reversal bank transaction for \$3.97 is generated.

The screenshot shows the 'Bank transactions' window with the following details:

- Show:** All transactions.
- Overview:** Date: 11/15/2015, Voucher number: APPM000394, Bank transaction type: 09, Payment reference: 404, Deposit slip: 404, Check number: 404, Currency: USD, Amount in transaction currency: -3.97, Amount: -3.97, Reconciled: checked.

Figure 8.12 Bank transactions form

8. Bank reconciliation

To view the general ledger transactions, click the **Voucher** button. The **Voucher transactions** form opens.

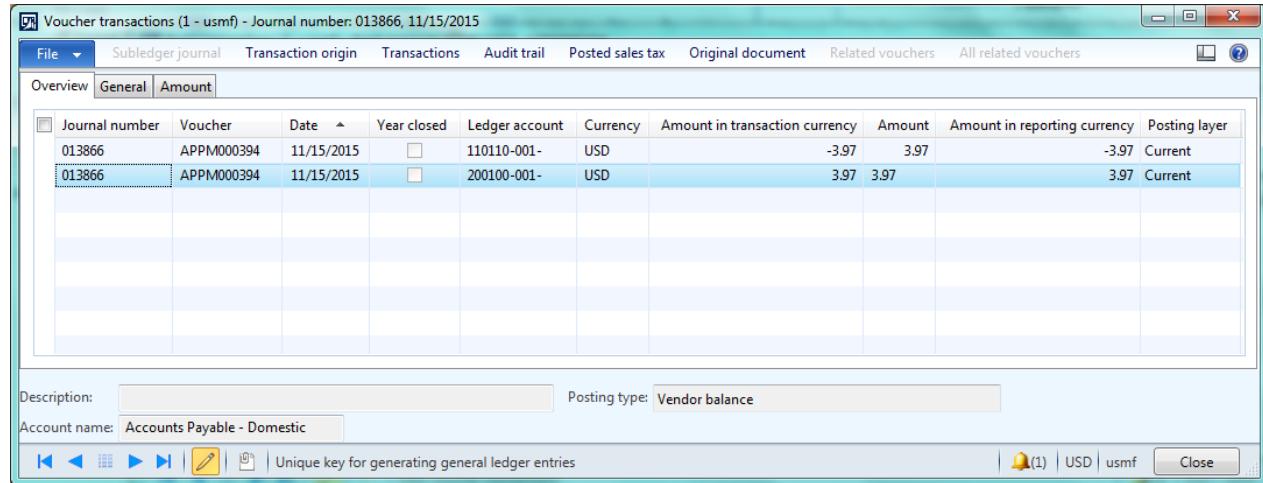


Figure 8.13 Voucher transactions form

We can see that this transaction reverses the transaction generated during the payment (see the **Paying vendor** lesson). The reverse payment transaction looks as follows (compare with the payment):

200100 (Accounts Payable)		110110 (Bank account)	
Debit	Credit	Debit	Credit
\$3.97			\$3.97

To view transactions from all subledgers, click the **Transaction origin** button. The **Transaction origin** form opens.

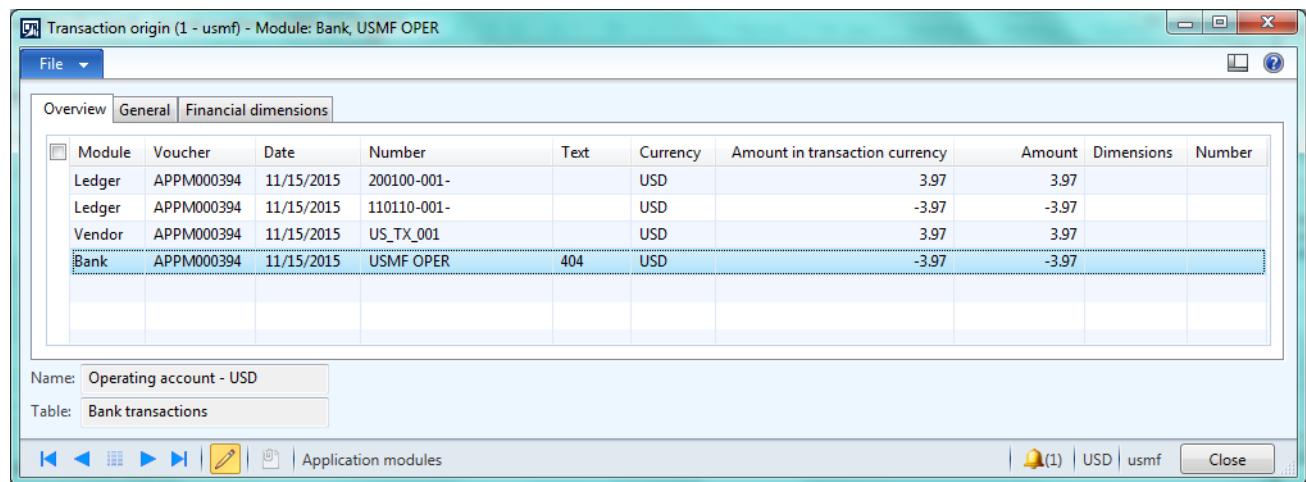


Figure 8.14 Transaction origin form

We can see that the vendor transaction is also generated.

8. Bank reconciliation

Let's review that the bank transactions are reconciled.

Open the **Bank transactions** form (**Cash and bank management > Common > Bank accounts** > find the **USMF OPER** bank account >**Transactions** button).

Select the *Reconciled transactions* value in the **Show** field.

The screenshot shows the 'Bank transactions' window with the following details:

- Title Bar:** Bank transactions (1 - usmf) - Bank account: USMF OPER, APPM000394, Reconciled: YesBank account: USMF OPER
- Menu Bar:** File, Voucher, Checks, Deposit slips, Original document, Invoices, Print, Bank document list
- Show dropdown:** Reconciled transactions
- Tab Bar:** Overview (selected), General, Bank reconciliation, Financial dimensions
- Table:** A grid of transaction details. Key columns include Date, Voucher number, Bank transaction type, Payment reference, Deposit slip, Check number, Currency, Amount in transaction currency, Amount, and Reconciled. Several transactions are highlighted in yellow, indicating they are reconciled.
- Buttons:** Back, Forward, Search, Voucher posting date, Close
- Status Bar:** (1) notifications, USD, usmf

Figure 8.15 Bank transactions form

We can see that both bank transactions are reconciled (without any bank statement).

Let's review that the vendor transactions are settled.

Open the **Vendor transactions** form (**Accounts payable > Common > Vendors > All vendors** > find the **US_TX_001** vendor >**Transactions** button).

The screenshot shows the 'Vendor transactions' window with the following details:

- Title Bar:** Vendor transactions (1 - usmf) - Voucher: BCRV000001, 11/15/2015, Vendor account: US_TX_001
- Menu Bar:** File, Voucher, History, Paid by checks, Cash flow forecasts, Original document, Open, Invoices, Reverse transaction
- Show dropdown:** Show open only
- Tab Bar:** Overview (selected), General, Payment, Promissory note, Settlement, Remittance, History, 1099, Financial dimensions
- Table:** A grid of transaction details. Key columns include Voucher, Date, Invoice, Note ID, Sequence number, Status, Remittance number, Amount in transaction currency, Balance, and Currency. Transactions are listed under three vouchers: 4000, APPM000394, and BCRV000001.
- Buttons:** Back, Forward, Search, Voucher number that the transaction is attached to, Close
- Status Bar:** (1) notifications, USD, usmf

Figure 8.16 Vendor transactions form

8. Bank reconciliation

The first transaction is generated from the sales tax report, the second one from the payment, and the third one from the reverse payment.

Select the **Show open only** check box and make sure that the second and third transactions are settled (they disappear from the form).

Summary

The bank reconciliation process is used to verify bank transactions inside Dynamics AX with bank transactions from the bank.

If a bank transaction is verified, it is marked as reconciled in Dynamics AX.

If some bank transaction is not reconciled, it should be canceled in Dynamics AX.

The payment cancelling process has the following steps:

- 1) User generates a new payment journal by clicking the **Payment reversal** button in the **Checks** form (**Cash and bank management > Common > Checks**).
- 2) User opens the payment reversal journal and posts it. As a result, general ledger, bank, and vendor transactions are generated. The vendor transaction is settled with the canceled vendor transaction. The bank transaction is reconciled with the canceled bank transaction.

9. Collections

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9. Collections

Introduction

In this lesson, we will study the case when the Customer doesn't pay by the due date. Although most customers pay their invoices in time, you must be able to process invoices that are not paid by their due date.

The collection process has the following sequence (can be stopped at any stage, if the customer pays for the items):

1. Reviewing not paid invoices.
2. Sending the customer an account statement.
3. Sending collection letters (one, two, three... etc. with or without fees, it depends on the company policy).
4. Generating and sending interest.
5. Cancelling invoice, creating a Credit memo, or creating a Write off.
6. Applying to the court, selling the client debt to another company, or purchasing the services of the debt recovery firm, etc.

Let's review how these steps can be taken in Microsoft Dynamics AX.

Review Not Paid Invoices

There are several forms that simplify managing of unpaid customer invoices.

Customer pas Due

To review all customers with positive open balance, the **Customer pas due** list page is used: **Accounts receivable > Common > Customers > Customers past due**.

Name	Customer account	Telephone	Extension	Is merged
Contoso Europe	DE-001	01234 56789		
Contoso Retail Los Angeles	US-001	123-555-0		
Forest Wholesales	US-003	123-555-0		
Cave Wholesales	US-004	123-555-0		
Contoso Retail Seattle	US-005	123-555-0		
Contoso Retail Portland	US-006	123-555-0		
Devon Wholesales	US-007	123-555-0		
Sparrow Retail	US-008	123-555-0		
Owl Wholesales	US-009	123-555-0		
Sunset Wholesales	US-010	123-555-0		
Contoso Retail Dallas	US-011	123-555-0		
Contoso Retail New York	US-012	123-555-0		
Pelican Wholesales	US-013	123-555-0		
Grobe Wholesales	US-014	123-555-0		
White Rabbit Chicago	US-015	123-555-0		
Whale Wholesales	US-016	123-555-0		
Turtle Wholesales	US-017	123-555-0		
Contoso Retail Detroit	US-018	123-555-0		
Sunflower Wholesales	US-019	123-555-0		
Dragon Wholesales	US-020	123-555-0		
Other Wholesales	US-021	123-555-0		
Contoso Retail Virginia	US-022	123-555-0		
Shrike Retail	US-023	123-555-0		
Yellow Squash	US-024	123-555-0		
Maple Company	US-025	123-555-0		
Birch Company	US-026	123-555-0		
Contoso Retail Miami	US-028	123-555-0		

Figure 9.1 Customers past due

9. Collections

You could click the **Customer** button tab > **Balance** button to make sure that all customers have a positive balance.

From this form the Collection Manager can:

- Review customer balance
- Review customer transactions (**Customer** button tab > **Transactions** button)
- Review customer open transactions (**Collect** button tab > **Settle open transactions** button)
- Create a payment journal (**Collect** button tab > **Payment journal** button)
- Generate a collection letter (**Collect** button tab > **Collection letters** button)
- Generate an interest (**Collect** button tab > **Calculate interest** button)
- Review collections (**Collect** button tab > **Collections** button). Collections is another representation of the customer open transactions
- Print a statement account (**Collect** button tab > **Statements** button)
- Create a write off journal (**Collect** button tab > **Write off** button)

In the Sales lesson, we have created and posted invoices for the (000500) Cherry Company. As you can see this customer is not listed in this form. But this customer has the positive open balance.

It is because this list page is not updated automatically when a customer transaction is generated (and as a result the customer balance is changed).

To update information on this list page, we should run the following job: **Accounts receivable > Common > Periodic > Collections > Customer aging snapshot**. We will do this a bit later.

9. Collections

Open Customer Invoices

To review all open customer invoices, the **Open customer invoices** list page is used: **Accounts receivable** > **Common** > **Customer invoices** > **Open customer invoices**.

Invoice	Name	Date	Due date	Currency	Invoice amount	Customer account	Interest	Payments	Amount not settled
CIV-000716	Cherry Company	8/13/2015	8/13/20...	USD	37,500.00	000500	0.00	0.00	37,500.00
FTI-000003	Cherry Company	10/2/2013	10/12/2...	USD	34.32	000500	0.00	0.00	34.32
CIV-000667	Contoso Europe	11/7/2012	12/10/2...	USD	382,761.50	000500	0.00	0.00	382,761.50
CIV-000668	Contoso Retail San Diego	11/7/2012	12/10/2...	USD	260,994.00	000500	0.00	0.00	260,994.00
CIV-000669	Contoso Retail Los Ang...	11/7/2012	12/10/2...	USD	360,219.59	000500	0.00	0.00	360,219.59
CIV-000670	Contoso Retail Seattle	10/15/2012	11/29/2...	USD	242,116.88	000500	0.00	202,215.88	40,000.00
CIV-000671	Contoso Retail Portland	11/7/2012	12/10/2...	USD	108,480.00	000500	0.00	0.00	108,480.00
CIV-000672	Contoso Retail Seattle	11/7/2012	12/10/2...	USD	118,024.37	000500	0.00	0.00	118,024.37
CIV-000673	Contoso Retail Portland	11/7/2012	12/10/2...	USD	109,736.00	000500	0.00	0.00	109,736.00
CIV-000674	Contoso Retail Seattle	11/7/2012	12/10/2...	USD	347,702.27	000500	0.00	0.00	347,702.27
CIV-000531	Contoso Retail Portland	7/6/2012	8/30/20...	USD	275,087.37	000500	0.00	0.00	275,087.37
000038	Sparrow Retail	8/5/2012	9/19/20...	USD	202.68	U5-008	0.00	0.00	202.68
CIV-000560	Sparrow Retail	8/15/2012	9/29/20...	USD	276,170.48	U5-008	0.00	0.00	276,170.48
000043	Sparrow Retail	9/5/2012	10/20/20...	USD	206.73	U5-008	0.00	0.00	206.73
CIV-000518	Sparrow Retail	9/16/2012	10/31/20...	USD	9,998.22	U5-008	0.00	0.00	9,998.22
CIV-000589	Sparrow Retail	9/17/2012	11/1/20...	USD	276,170.48	U5-008	0.00	0.00	276,170.48
000048	Sparrow Retail	10/5/2012	11/19/20...	USD	210.87	U5-008	0.00	0.00	210.87
CIV-000646	Sparrow Retail	10/15/2012	11/29/20...	USD	299,095.67	U5-008	0.00	0.00	299,095.67
000053	Sparrow Retail	10/7/2012	12/15/20...	USD	20.00	U5-008	0.00	0.00	20.00
CIV-000675	Sparrow Retail	11/5/2012	12/20/20...	USD	215.09	U5-008	0.00	0.00	215.09
000058	Sparrow Retail	11/9/2012	1/4/20...	USD	306,218.39	U5-008	0.00	0.00	306,218.39
CIV-000716	Sparrow Retail	12/5/2012	1/4/20...	USD	30.00	U5-008	0.00	0.00	30.00
					219.40	U5-008	0.00	0.00	219.40

Detailed View of Invoice CIV-000716:

Product name	Line amount	Tax amount	Withholding tax amount
ProjectorTelevision	37,500.00	0.00	

Figure 9.2 Open customer invoices

As we can see, this form contains open invoices for the (000500) Cherry Company, i.e. it displays the newest information and doesn't require any update jobs.

From this form the Collection Manager can:

- Review customer open transactions (**Customer invoice** button tab > **Settle open transactions** button)
- Create a payment journal (**Customer invoice** button tab > **Payment journal** button)
- Generate a collection letter (**Customer invoice** button tab > **New collection letters** button)
- Generate an interest (**Customer invoice** button tab > **New interest note** button)
- Reprint an invoice (**Invoice** button tab > **Print** menu button > **Selected** button)
- Create a write off journal (**Collect** button tab > **Write off** button)

9. Collections

Collections

To review all customers and their due balance aged by aging periods, the **Collections** list page is used:
Accounts receivable > Common > Collections > Collections.

Name	Customer account	Amount due balance	Net due	Current	30 days	60 days	90 days	180 and over
Birch Company	U5-027	40,537.05	✓	40,537.05	0.00	0.00	0.00	0.00
Cave Retailers	U5-004	208,878.80	✓	208,878.80	0.00	0.00	0.00	0.00
Contoso Lamp	U5-001	382,763.50	✓	382,763.50	0.00	0.00	0.00	0.00
Contoso Retail Chicago	U5-013	232,288.30	✓	232,288.30	0.00	0.00	0.00	0.00
Contoso Retail Dallas	U5-011	690,343.50	✓	690,343.50	0.00	0.00	0.00	0.00
Contoso Retail Detroit	U5-018	232,163.32	✓	232,163.32	0.00	0.00	0.00	0.00
Contoso Retail Los Angeles	U5-002	360,219.50	✓	360,219.50	0.00	0.00	0.00	0.00
Contoso Retail New York	U5-019	33,884.00	✓	33,884.00	0.00	0.00	0.00	0.00
Contoso Retail New York	U5-012	688,200.00	✓	688,200.00	0.00	0.00	0.00	0.00
Contoso Retail Portland	U5-006	218,250.00	✓	218,250.00	0.00	0.00	0.00	0.00
Contoso Retail San Diego	U5-001	356,900.82	✓	356,900.82	0.00	0.00	0.00	0.00
Contoso Retail Seattle	U5-005	118,813.12	✓	118,813.12	0.00	0.00	0.00	0.00
Contoso Retail Tokyo	U5-040	0.00	✓	0.00	0.00	0.00	0.00	0.00
Contoso Retail Virginia	U5-022	131,752.00	✓	131,752.00	0.00	0.00	0.00	0.00
Desert Wholesale	U5-007	347,702.27	✓	347,702.27	0.00	0.00	0.00	0.00
Forest Wholesale	U5-003	104,471.31	✓	104,471.31	0.00	40,000.00	0.00	0.00
Gruber Wholesale	U5-014	173,111.40	✓	173,111.40	0.00	0.00	0.00	0.00
Kite Company	U5-008	98,649.00	✓	98,649.00	0.00	0.00	0.00	0.00
Oak Company	U5-025	99,207.52	✓	99,207.52	0.00	0.00	0.00	0.00
Orchid Shipping	U5-020	153,548.80	✓	153,548.80	0.00	0.00	0.00	0.00
Otter Wholesale	U5-021	72,807.00	✓	72,807.00	0.00	0.00	0.00	0.00
Oak Wholesale	U5-009	643,540.00	✓	643,540.00	0.00	0.00	0.00	0.00
White Wholesale	U5-013	688,132.00	✓	688,132.00	0.00	0.00	0.00	0.00
Strike Retail	U5-023	299,852.12	✓	299,852.12	0.00	172,294.81	30,629.91	0.00
Sparrow Retail	U5-008	1,446,846.60	◆	1,446,846.60	0.00	375,477.02	266,578.11	279,087.37
Sunflower Wholesale	U5-019	161,480.80	✓	161,480.80	0.00	0.00	0.00	0.00
Surface Wholesale	U5-010	180,717.00	✓	180,717.00	0.00	0.00	0.00	0.00
Turtle Wholesale	U5-017	74,345.00	✓	74,345.00	0.00	0.00	0.00	0.00
White Wholesale	U5-016	86,812.50	✓	86,812.50	0.00	0.00	0.00	0.00
Yellow Square	U5-024	94,827.50	✓	94,827.50	0.00	0.00	0.00	0.00

Figure 9.3 Collections

As we can see this list page doesn't contain the (000500) Cherry Company customer. So this form is not updated automatically when customer transactions are generated.

To update data on this list page, the **Customer aging snapshot** job is used.

This list page contains special color signs that identifies customers with due invoices.

Update Customers Balances per Aging Periods

Let's update the data that is used on the Customer past due and Collections list pages.

Run the **Customer aging snapshot** job: **Accounts receivable > Common > Periodic > Collections > Customer aging snapshot.**

The **Customer aging snapshot** form opens. Specify the **30_60_90_180** aging period definition and click **OK**.

9. Collections

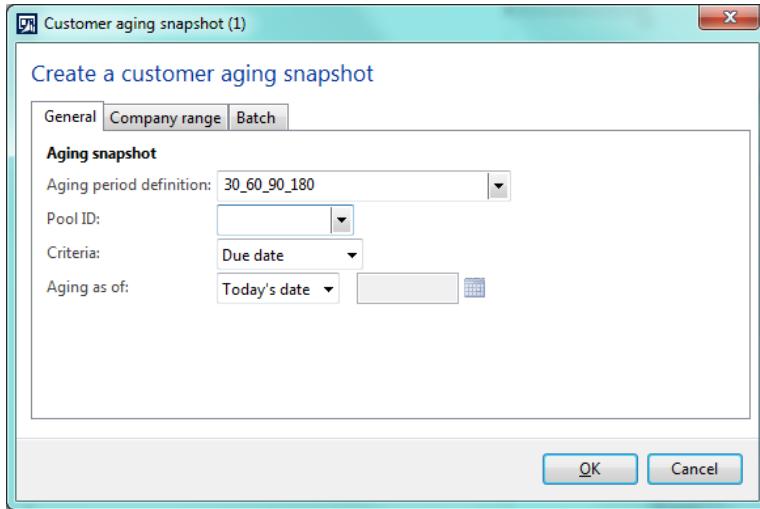


Figure 9.4 Customer aging snapshot

The “The aging snapshot has been created for the selected customers” message appears. Let’s check the results.

Open the **Collections** list page again.

Collections (Unsaved filter)										
Pool:	Aging period definition:	Customer account	Amount due balance	Not due	Current	30 days	60 days	90 days	180 and over	Type
		Birch Company	US-027	40,157.05	0.00	0.00	0.00	0.00	40,157.05	
		Cave Wholesales	US-004	208,878.80	0.00	0.00	0.00	0.00	0.00	208,878.80
		Cherry Company	000500	37,534.32	0.00	0.00	0.00	34.32	37,500.00	0.00
		Contoso Europe	DE-001	382,761.50	0.00	0.00	0.00	0.00	0.00	382,761.50
		Contoso Retail Chicago	US-015	252,286.37	0.00	0.00	0.00	0.00	0.00	252,286.37
		Contoso Retail Dallas	US-011	690,243.57	0.00	0.00	0.00	0.00	0.00	690,243.57
		Contoso Retail Detroit	US-018	232,163.32	0.00	0.00	0.00	0.00	0.00	232,163.32
		Contoso Retail Los Angeles	US-002	360,219.50	0.00	0.00	0.00	0.00	0.00	360,219.50
		Contoso Retail Miami	US-028	35,800.44	0.00	0.00	0.00	0.00	0.00	35,800.44
		Contoso Retail New York	US-012	688,209.60	0.00	0.00	0.00	0.00	0.00	688,209.60
		Contoso Retail Portland	US-006	218,215.00	0.00	0.00	0.00	0.00	0.00	218,215.00
		Contoso Retail San Diego	US-001	356,969.82	0.00	0.00	0.00	0.00	0.00	356,969.82
		Contoso Retail Seattle	US-005	118,024.37	0.00	0.00	0.00	0.00	0.00	118,024.37
		Contoso Retail USA	US-040	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		Contoso Retail Virginia	US-022	131,752.00	0.00	0.00	0.00	0.00	0.00	131,752.00
		Desert Wholesales	US-007	347,702.27	0.00	0.00	0.00	0.00	0.00	347,702.27
		Forest Wholesales	US-003	356,473.31	0.00	0.00	0.00	0.00	0.00	356,473.31

Figure 9.5 Collections list page

As we can see the (000500) Cherry Company customer is listed on the page. The Customer has due balance since we don’t pay all invoices. In my case invoices are not paid during 60 days, others – during 90 days.

Collection Activities

The Collection Manager can also create activities that have been done or are going to be done with the Customer in relation to the collection.

Activities are created for the Customer on the Collections list page.

Let's assume that the Collection Manager wants to add a note that it is required to call to the Customer next Monday and recall about the due invoice.

The Collection Manager opens the **Collections** list page, finds the (000500) Cherry Company, and clicks the **Tasks** button.

The **Schedule a new task** form opens. The Collection Manager selects the type and fills in the required fields:

- Type = *Phone call*
- Purpose = *Call about invoice*
- Notes = *Call to the Customer next Monday and recall about due invoice*
- Start date time, End date time = next Monday

The screenshot shows the 'Schedule a new task' dialog box. The 'Type' field is set to 'Phone call'. The 'Purpose' field contains 'Call about invoice'. The 'Notes' field has the text 'Call to the Customer next Monday and recall about due invoice'. The 'Start date/time' and 'End date/time' both show '12/21/2015 12:00 am'. On the right side, there is a list of customer accounts: US-027, US-004, 000500 (which is highlighted in yellow), DE-001, US-015, and US-011. The 'Create task' button is located at the bottom right of the dialog.

Figure 9.6 Schedule a new task

The Collection Manager clicks the **Create task** button.

9. Collections

To review all collections activities, the Collection Manager opens the **Collections activities** list page:
Accounts receivable > Common > Collections > Collections activities.

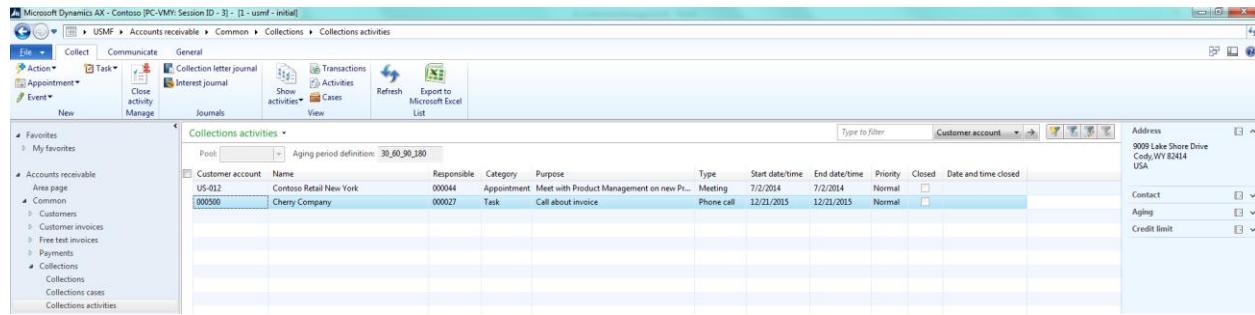


Figure 9.7 Collections activities

As we can see a new activity for the (000500) Cherry Company is available on this list page.

When the Collection Manager calls the customer and agrees all details he or she closes the activity by clicking the **Close activity** button. When the activity is closed, it disappears from the list page.

The Collection Manager can review all activities (closed and open) by clicking the **Show activities > Show all** button on the **Collection activities** list page.

Account Statement

As usual, in the end of each month the company sends an account statement to all customers whose balance is not zero. The document contains the customer balance and all transactions with the payment due dates during the period.

Let's print an account statement for the customer US-027 (Birch Company):

1. Go to **Accounts receivable > Reports > External > Customer account statement**. The **Customer account statement** form opens.
2. Click the **Select** button, select **US-027** in the **Criteria** field for the **Customer account** row, and click **OK**.

9. Collections

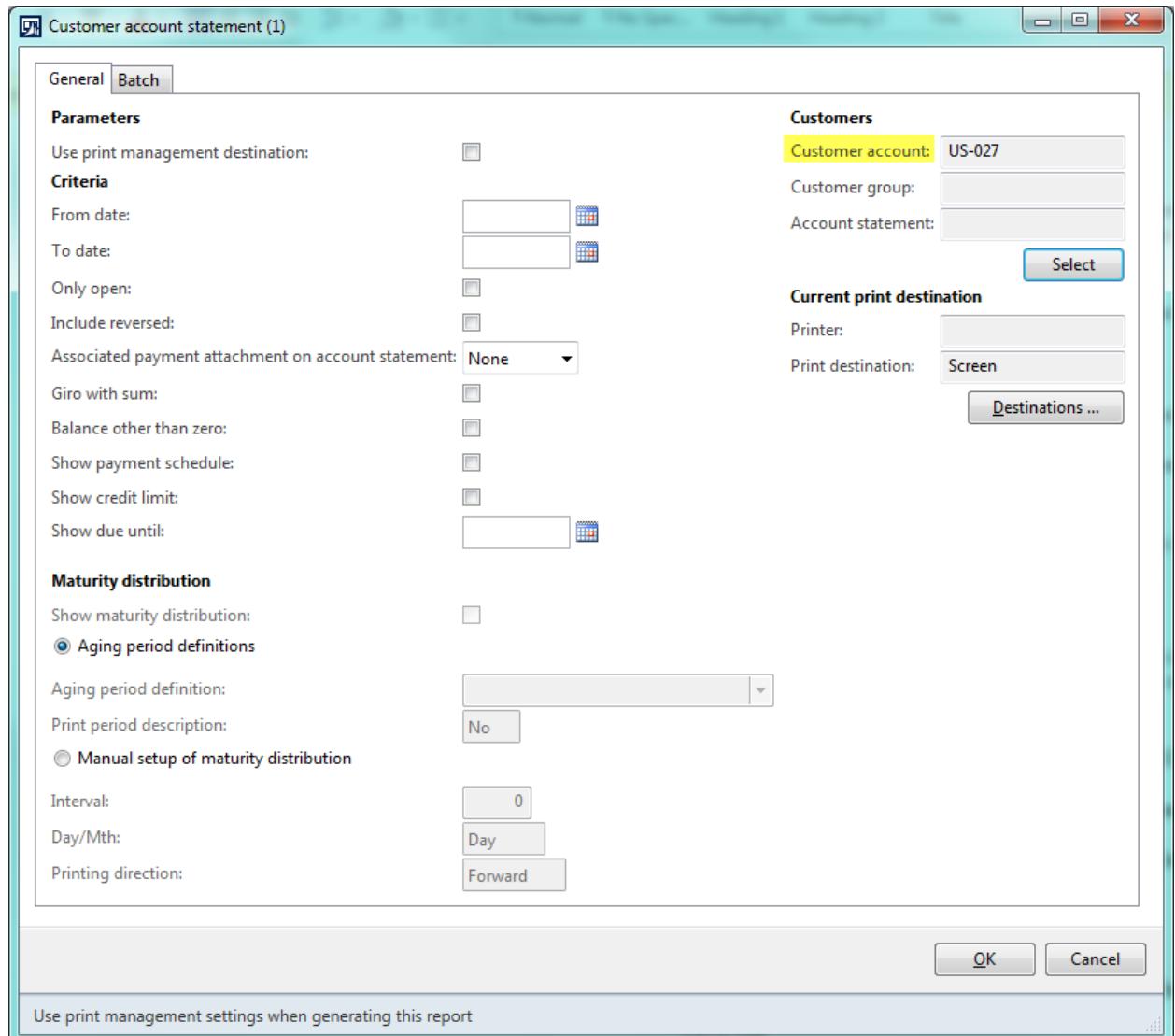


Figure 9.8 Customer account statement form

3. Click **OK**.

9. Collections

The customer account statement is printed to the screen.

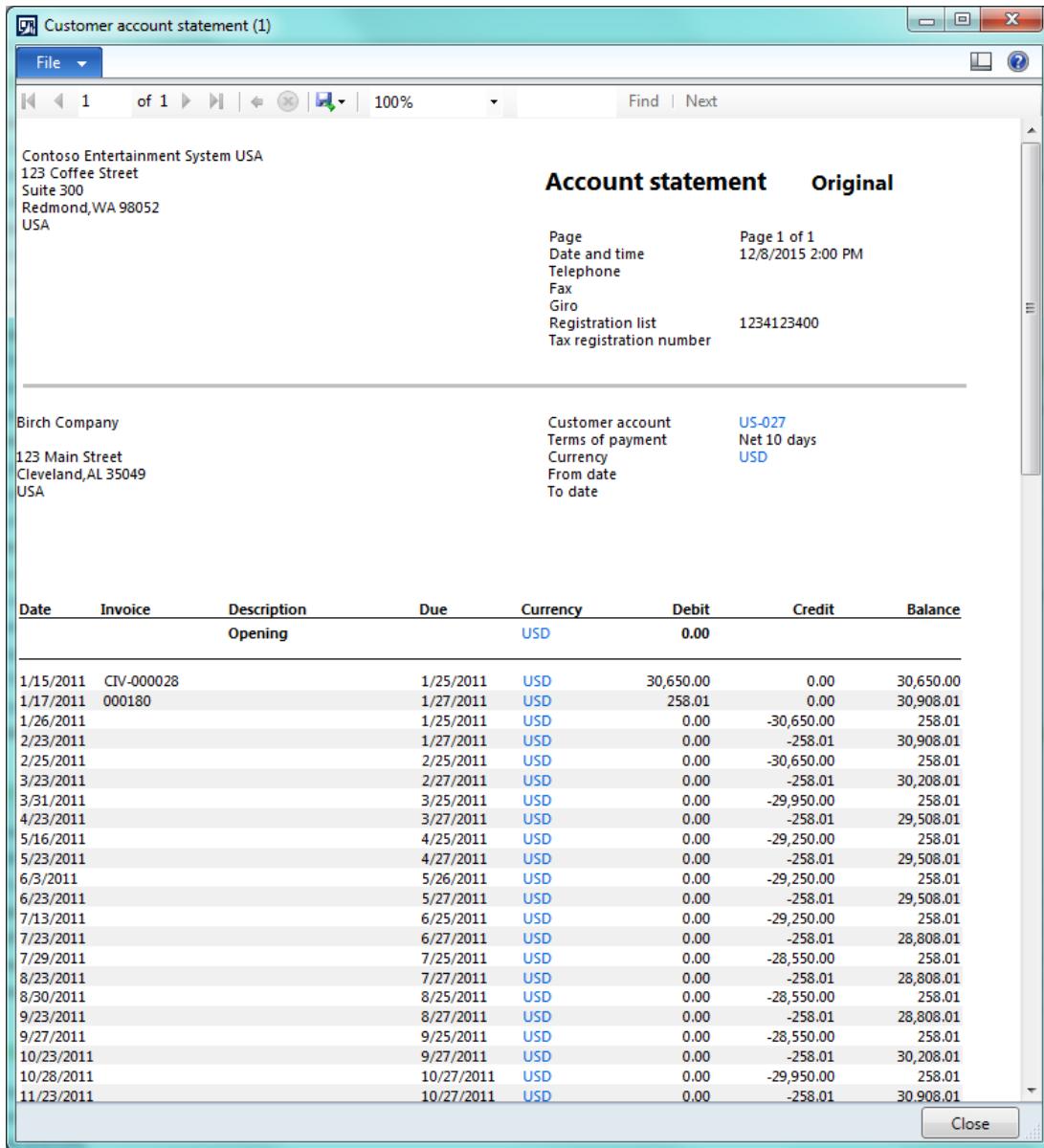


Figure 9.9 Customer account statement report

The **Balance** field accumulates the Debit and Credit amounts.

We can see that the open customer balance in our demo data is \$40 157.05.

The Account Manager sends this document to the customer to notify about the open balance.

Note that the customer account statement can be printed in another language, it depends on the customer parameters set under **Accounts receivable > Common > Customers > All customers** > double-click the required customer > **General** fast tab > **Other information** field group > **Language** field.

9. Collections

Generate a Collection Letter

When a customer does not pay an invoice, a company, depending on its policy, usually sends a collection letter(s).

Collection letter contains information about unpaid invoice(s), due date(s), fees (if applied), and collection note(s).

In Microsoft Dynamics AX, collection letters are grouped in the collection sequence. Collection sequence determines which collection letter is sent first, second, third, etc.

The customer is linked to the collection letter sequence indirectly through the customer posting profiles.

Review Setup

Let's generate collection letters for the (000500) Cherry Company customer. In the Sales lesson, we have found out that the (000500) Cherry Company customer belongs to the 80 (Major Customers) group, and the GEN customer posting profile is used in the system.

Open the customer posting profile: **Accounts receivable > Setup > Customer posting profiles**. Find the **GEN** posting profile.

We can see there is no setup either for the (000500) Cherry Company customer or the 80 (Other customers) customer group. So, the setup for *All* customers is used.

Specify the *High* collection letter sequence for the *All* customers setup.

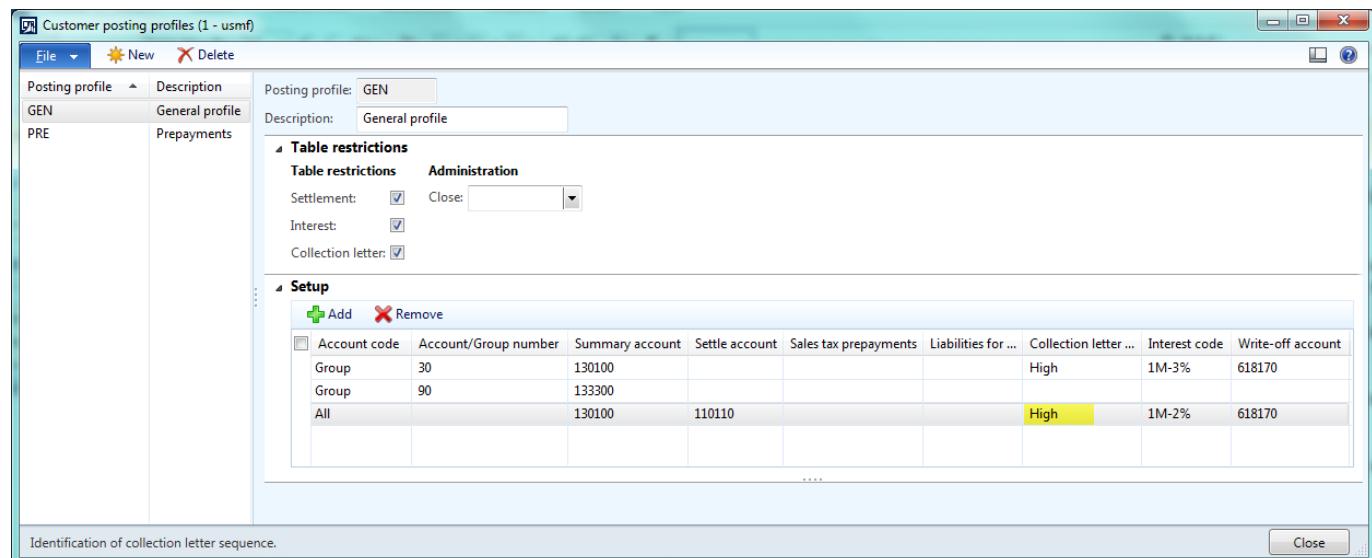


Figure 9.10 Customer posting profile form

9. Collections

Let's review collection letters from the *High* collection letter sequence.

Go to **Accounts receivable > Setup > Collections > Collection letter**. The **Collection letter** form opens.

The screenshot shows the 'Collection letter' form with two tabs: 'Overview' and 'General'. The 'Overview' tab is selected, displaying a table of collection letter sequences:

Collection letter sequence	Description	Terms of payment
High	High priority	
Low	Low priority	

The 'General' tab is also visible, showing a table of collection letter codes:

Collection letter code	Description	Currency	Main account	Fee in currency	Item sales tax group	Minimum overdue balance	Days	Block
Collection letter 1	First notification	USD		0.00		0.00	1	
Collection letter 2	Second notification with fee	USD	403150	20.00		10.00	3	
Collection letter 3	Third notification with fee	USD	403150	30.00		40.00	5	
Collection	Final notification with fee	USD	403150	50.00		100.00	10	

Figure 9.11 Collection letter form

We can see the *High* and *Low* collection letter sequences.

The **Overview** tab contains collection letters that belong to the sequence.

The *High* collection letter sequence has the following rules:

1. If the customer does not pay until the due date plus 1 day, the "Collection letter 1" is created, printed, and sent. This collection letter doesn't have the fee amount.
2. If the customer does not pay during 3 days after the first collection letter is sent or the post date (depends on the parameter), the "Collection letter 2" is created, printed, and sent. The second collection letter has the fee amount and the ledger account that is used during posting the fee.

As usual, the fee contains the amount that the company spends to deliver the mail to the customer.

Note that generally, the Accountant Manager posts the fee only in case the customer pays the fee. Because usually the fee is not paid by the customer.

Note that the "Collection letter 2" cannot be created, printed, and sent before the "Collection letter 1".

9. Collections

If, for example, the company forgets to create the Collection letter 1 and after the due date plus 4 days it tries to create the Collection letter 2, the Microsoft Dynamics AX does not allow it. In this case, the user can create, print, and post the collection letter 1 post factum and then create the collection letter 2.

Each collection letter can have a note. For example, the Collection letter 1 can have the “Please pay for the items” note. The Collection letter 2 – “We insist that you pay for purchased items”, etc.

The collection letter note is specified on the **Note** tab (the **Collection letter** form).

Let's specify the “Please pay for the items” note on the *Collection letter 1* from the *High* letter sequence.

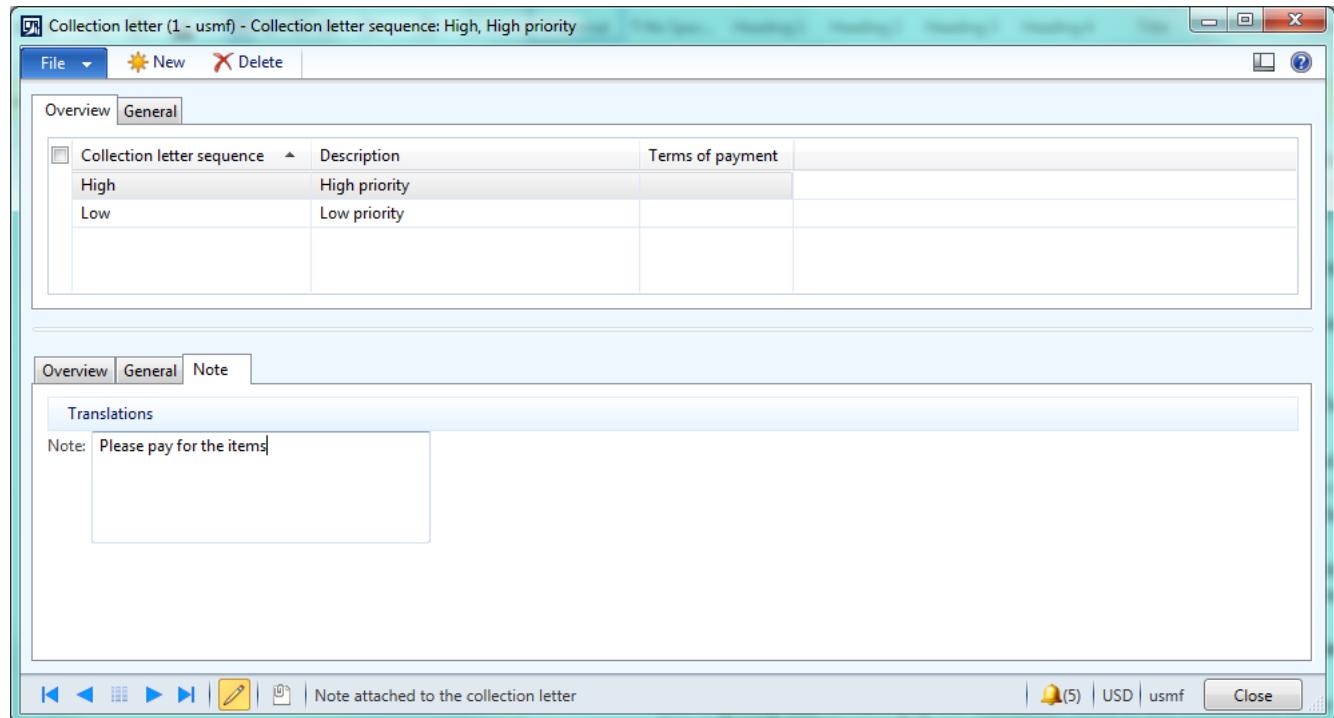


Figure 9.12 Collection letter form

Generate the Collection Letter 1

Let's generate a collection letter. According to the *High* collection letter sequence, the *Collection letter 1* is created first.

1. Go to **Accounts receivable > Periodic > Collections > New collection letters**. The **Creation of collection letter** form opens.
 - a. Select the **Invoice** check box.
 - b. Select *Collection letter 1* in the **Collection letter** field.
 - c. Specify the collection letter date, this date should be greater than the payment due date plus one.

To find the payment due date, go to **Accounts receivable > Common > Customer invoices > Open customer invoices** > find the invoice for the 000500 customer > **Due date** field.

In my case, the \$37,500.00 invoice has the 8/13/2015 due date and the today date is 12/17/2015. As we see the today date is bigger than the invoice due date + 1.

Note that the collection letter date can be in the future, Microsoft Dynamics AX allows this.

I leave the today date empty in the **Collection letter date** field.

- d. Specify the customer. In the **Creation of collection letter** form, click the **Select** button and specify the 000500 account in the **Criteria** field (for the **Customer account** field range).

The **Creation of collection letter** form looks as follows:

Figure 9.13 Create of collection letter form

2. Click **OK**. The “Collection letter 000015 with collection letter code Collection letter 1 for customer 000500 was created” info message appears.
3. Now, the Collection Manager prints the collection letter and then sends it to the customer. Go to **Accounts receivable > Periodic > Collections > Print/post collection letters**. The **Print/post collection letters** form opens.
4. Find the last collection letter note. Make sure that it is for 000500. Go to the **Transactions** tab and make sure that all not paid invoices are there.

9. Collections

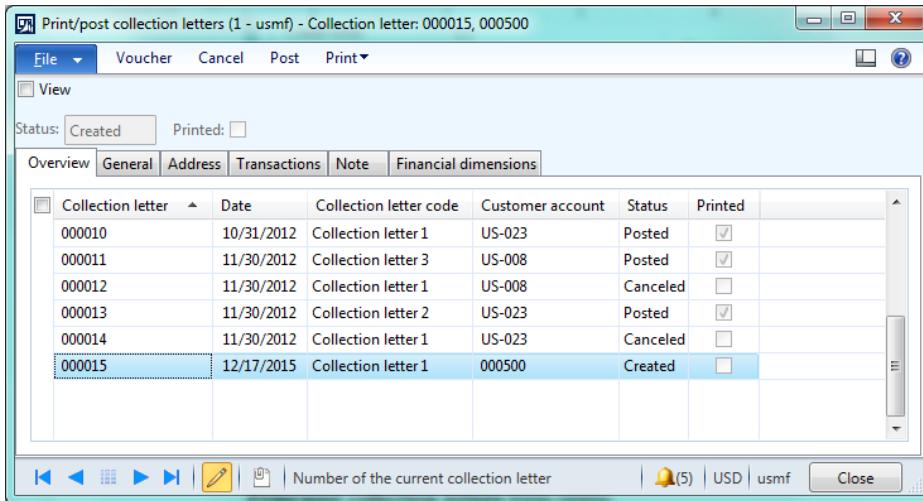


Figure 9.14 Print/post collection letters form

5. The Collection Manager prints the collection letter. Click the **Print > Collection letter note** button. The **Collection letter note** form opens. Click **OK**. The collection letter note is printed.

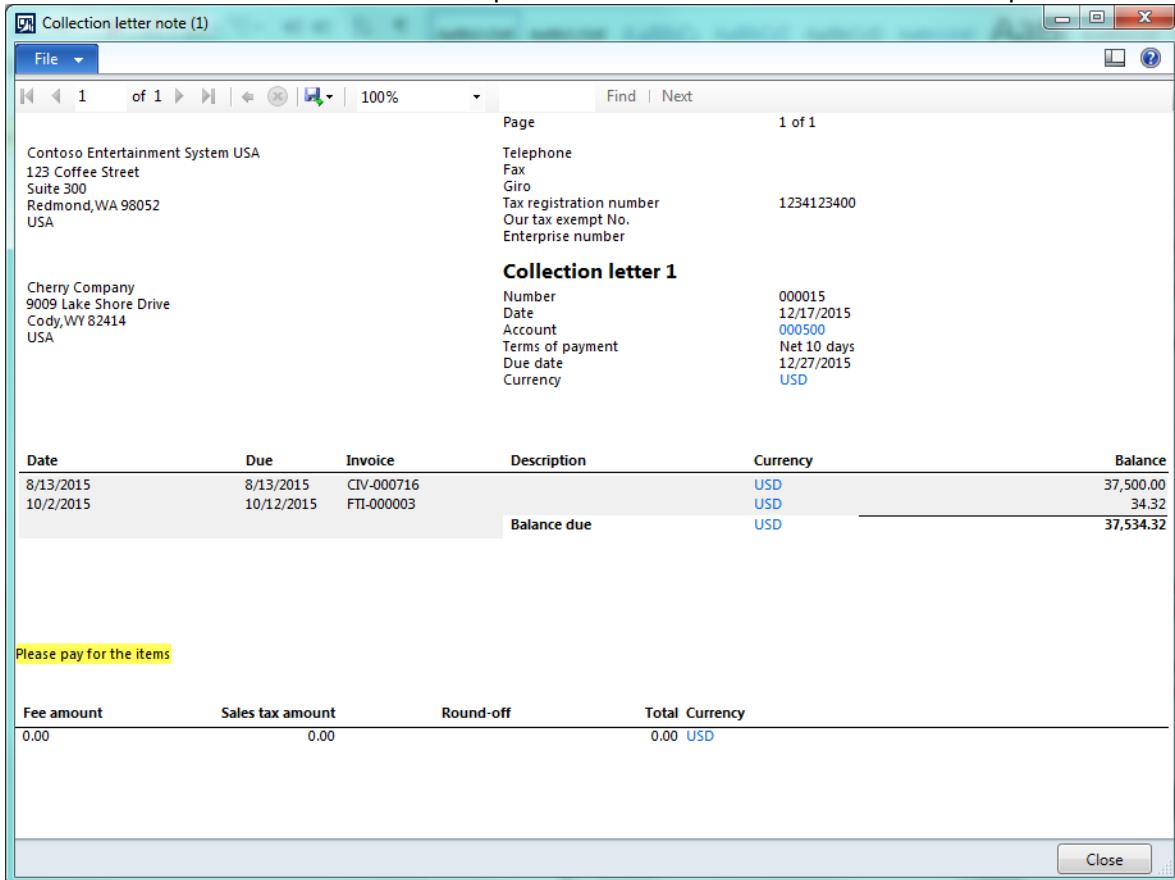


Figure 9.15 Collection letter 1 report

6. As we can see, the note is also printed on the collection letter.
7. The Collection Manager sends this collection letter to the customer.

Generate the Collection Letter 2

We assume that the customer did not pay the invoice during 3 days after the first collection letter print date. The Account Manager decides to create, print, and send the Collection letter 2.

Go to **Accounts receivable > Periodic > Collections > New collection letters**. The **Creation of collection letter** form opens. Select *Collection letter 2* in the **Collection letter** field. Increase the collection letter date to 3.

The form looks as follows:

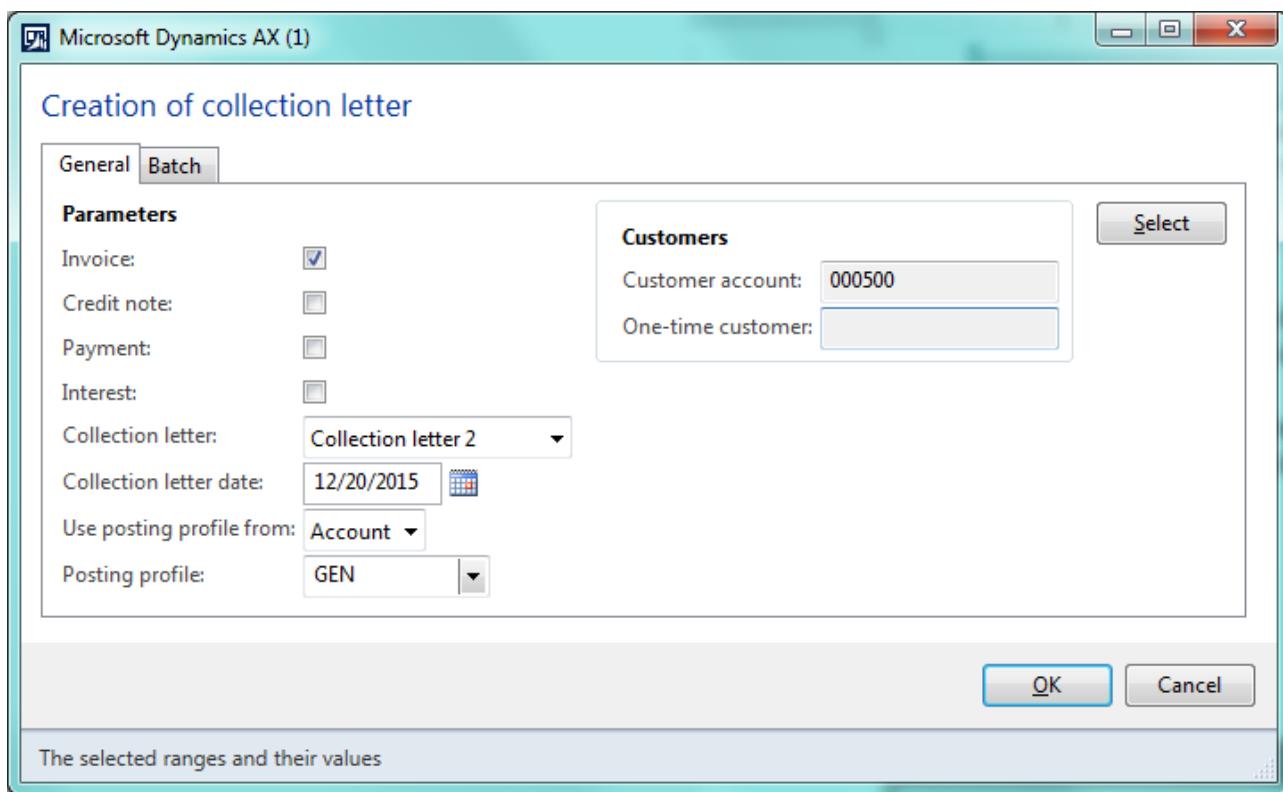


Figure 9.16 Creation of collection letter form

Click **OK**. Nothing happens.

Microsoft Dynamics AX has the parameter that determines after what operation (printing or posting) the next collection letter can be created.

In our demo data, the next collection letter can be created only when the previous collection letter is posted.

It is set up under **Accounts receivable > Setup > Accounts receivable parameters > Collections fast tab > Collection letter field group > Update collection letter code field**.

9. Collections

As we can see, the *Posting* option is specified. Change this option to *Printout*. In this case, the next collection letter can be created when the previous is printed only.

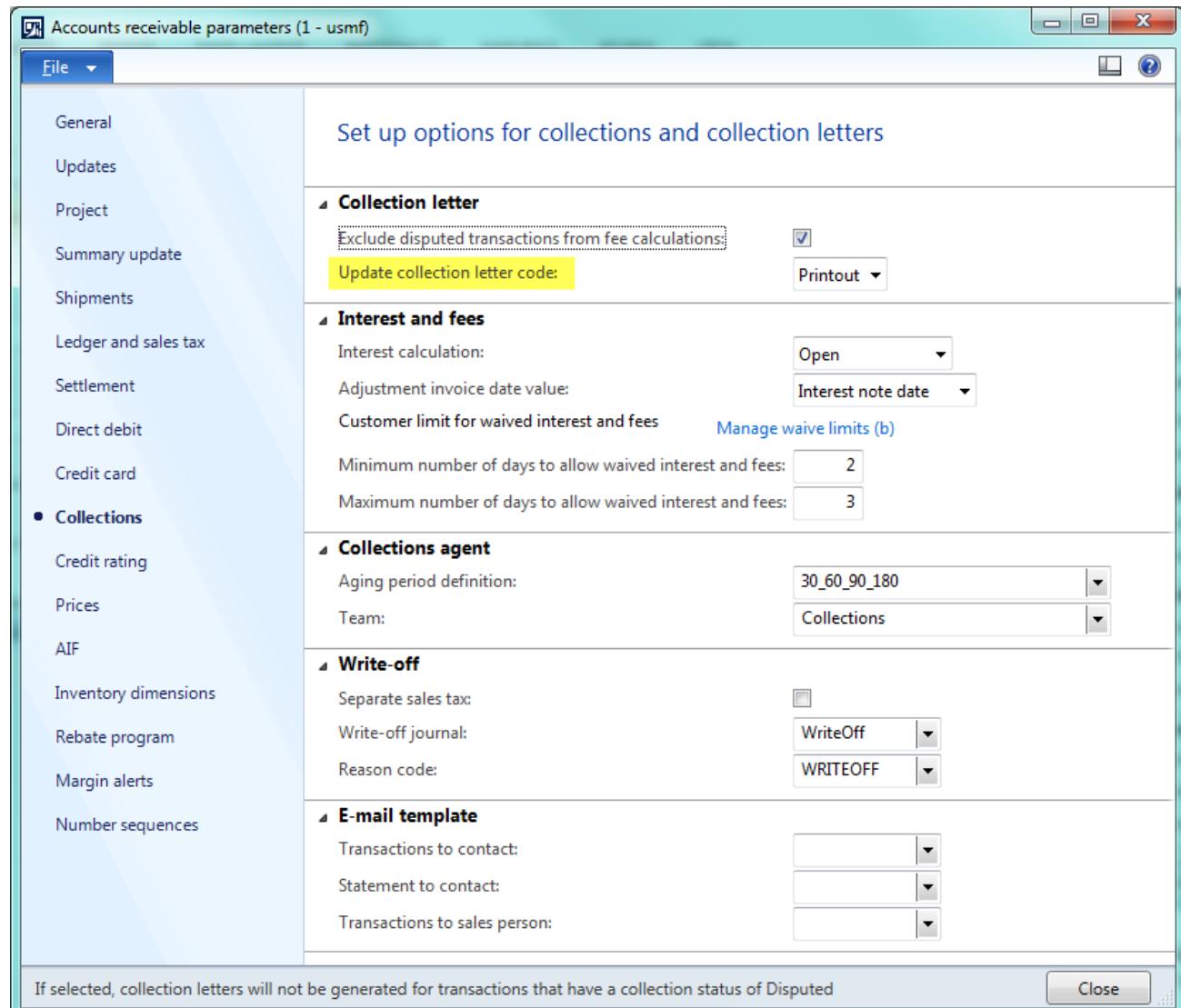


Figure 9.17 Accounts receivable parameters form

Let's try to create the Collection letter 2 again.

Repeat the same steps. **Accounts receivable > Periodic > Collections > New collection letters**. The **Creation of collection letter** form opens. Select *Collection letter 2* in the **Collection letter** field. Increase the collection letter date to 3. Click **OK**.

Nothing happens. That is because when we print *Collection letter 1*, the previous **Update collection letter code** parameter value is used. As a result the **Valid collection letter** field is not updated on the customer invoice transaction.

9. Collections

Let's do this manually. Go to **Accounts receivable > Common > Customer invoices > Open customer invoices** > find the invoice for \$37,500.00, for the 000500 customer > **View** menu button > **Transactions** button. The **Transactions** form opens. Go to the **Collections** tab. Change the **Valid collection letter code** field value from *None* to *Collection letter 1*.

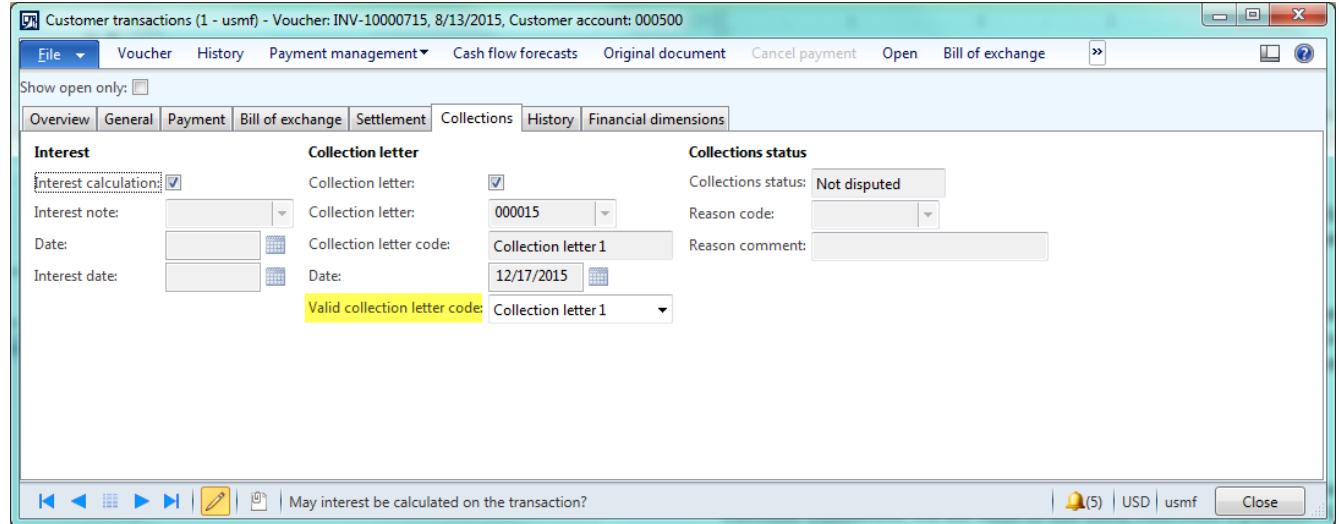


Figure 9.18 Customer transactions form

The **Valid collection letter code** field contains information about the last collection letter created for the customer transaction. On basis of this field, Microsoft Dynamics AX determines what collection letter from the collection letter sequence should be used next.

Note that the update of this field depends on the **Update collection letter code** field (from the **Accounts receivable parameters** form). The *Posting* value means that the **Valid collection letter** code field is updated when the collection letter is posted. The *Printing* value – when the collection letter is printed.

Let's try to create the Collection letter 2 again. Repeat the same steps. **Accounts receivable > Periodic > Collections > New collection letters**. The **Creation of collection letter** form opens. Select *Collection letter 2* in the **Collection letter** field. Increase the collection letter date to 3. Click **OK**.

The “Collection letter 000016 with collection letter code Collection letter 2 for customer 000500 was created” info message appears!

The Collection Manager prints and sends the new collection letter:

1. Go to **Accounts receivable > Periodic > Collections > Print/post collection letters**. The **Print/post collection letters** form opens.

9. Collections

2. Find the last collection letter note. Make sure that it is for the 000500 customer. Go to the **Transactions** tab and make sure that the invoice for \$37,500.00, for the 000500 customer is there.

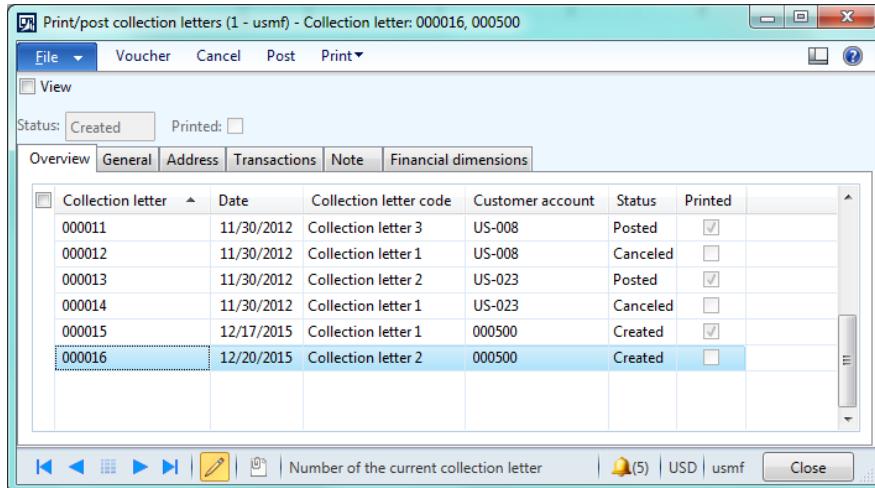


Figure 9.19 Print/post collection letters form

3. The Collection Manager prints the collection letter. Click the **Print > Collection letter note** button. The **Collection letter note** form opens. Click **OK**. The collection letter note is printed.

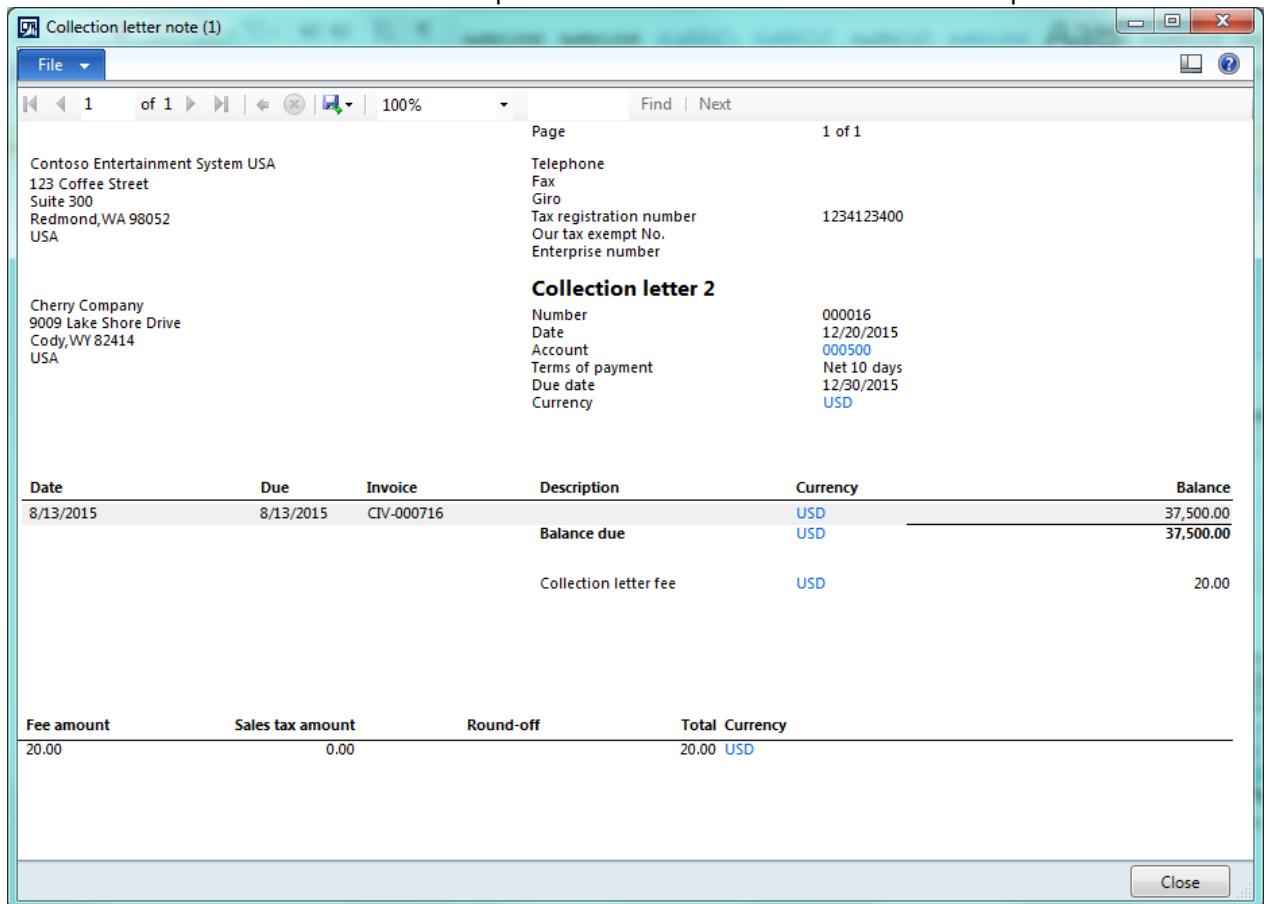


Figure 9.20 Collection letter 2 report

We can see that \$20 is included as the fee amount.

9. Collections

Post the Collection Letter 2

Let's post the collection letter. When we post the collection letter with the fee, we record in the system that the customer should pay the fee (in other words, the customer owes some money). The transaction looks as follows:

Customer		Collection fees	
Debit	Credit	Debit	Credit
\$20			\$20

The Customer account is the Asset account since the customer's debt increases (i.e. the Asset is increased), the Debit part is used.

The Collection fees account is the Profit & Loss account. This account is similar to the Liability account, because it contains the amount of money that should be returned by the company to the owners. Since the Collection fees account is increased, the Credit part is used.

Microsoft Dynamics AX uses the 130100 general ledger account instead of the Customer account (this is set up in the Customer posting profile).

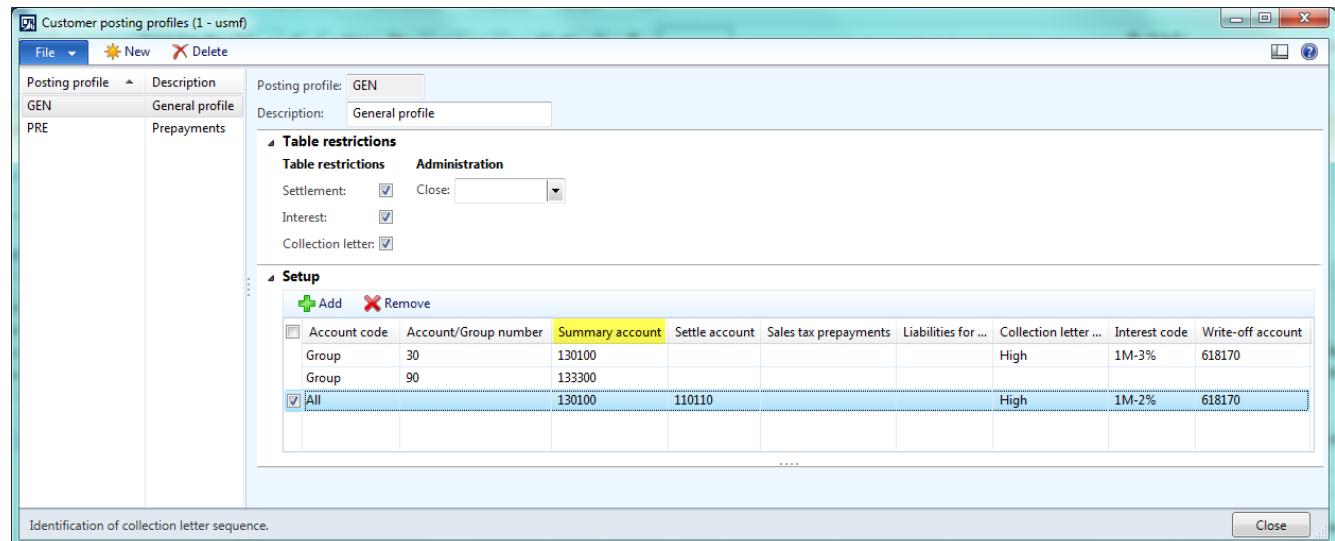


Figure 9.21 Customer posting profiles form

Instead of the Collection fees account, Microsoft Dynamics AX uses the account from the collection letter setup. Go to **Accounts receivable > Setup > Collections > Collection letter** > find *Collection letter 2* (for the *High* collection letter sequence) > **Main account** field. In our demo data, this field contains the 403150 ledger account.

9. Collections

Collection letter sequence	Description	Terms of payment
High	High priority	
Low	Low priority	

Collection letter code	Description	Currency	Main account	Fee in currency	Item sales tax group	Minimum overdue balance	Days	Block
Collection letter 1	First notification	USD		0.00		0.00	1	<input checked="" type="checkbox"/>
Collection letter 2	Second notification with fee	USD	403150	20.00		10.00	3	<input checked="" type="checkbox"/>
Collection letter 3	Third notification with fee	USD	403150	30.00		40.00	5	<input checked="" type="checkbox"/>
Collection	Final notification with fee	USD	403150	50.00		100.00	10	<input checked="" type="checkbox"/>

Figure 9.22 Collection letter form

Let's post the collection letter and review the results. Return to the **Print/Post collection letters** form and click the **Post** button. The **Post collection letter note** form opens. Click **OK**. The collection letter note is posted.

To view the voucher, click the **Voucher** button. The **Voucher transactions** form opens.

Journal number	Voucher	Date	Year closed	Ledger account	Currency	Amount in transaction currency	Amount	Amount in reporting currency	Posting layer
013870	CLV-50000003	12/17/2015		403150----	USD	-20.00	20.00	-20.00	Current
013870	CLV-50000003	12/17/2015		130100--	USD	20.00	20.00	20.00	Current

Figure 9.23 Voucher transactions form

We make sure that the transaction looks as follows:

130100 (Accounts Receivable)		403150 (Collection fees)	
Debit	Credit	Debit	Credit
\$20			\$20

9. Collections

If we click the **Origin** button, we see all transactions for all ledger accounts.

The screenshot shows the 'Transaction origin' window for module 'Customer' with ID '000500'. The window has tabs for 'Overview', 'General', and 'Financial dimensions'. The 'General' tab is selected, displaying a table of transactions:

Module	Voucher	Date	Number	Text	Currency	Amount in transaction currency	Amount	Dimensions	Number
Ledger	CLV-50000003	12/17/2015	130100--		USD	20.00	20.00		
Ledger	CLV-50000003	12/17/2015	403150----		USD	-20.00	-20.00		
Customer	CLV-50000003	12/17/2015	000500		USD	20.00	20.00		

Below the table, there are fields for 'Name' (Cherry Company) and 'Table' (Customer transactions). At the bottom, there are application modules and a status bar indicating 5 notifications, USD currency, and the usmf module.

Figure 9.24 Transaction origin form

There are two general ledger transactions and one customer transaction.

New customer transaction is not settled with any payment transaction. So this amount should be paid by the customer. If the customer does not pay the fees in time, the company can generate the collection letters for the fee amount.

Interest Notes

Usually the collection letter fee includes the cost of mail. But sometimes companies may want to charge interest on late payments. (Like the bad guys who say: "If you don't return the money until Thursday, the sum to return will double."). For this purposes, Microsoft Dynamics AX has the interest notes functionality.

Note that an interest note can be created for invoices that were paid later than their due date.

Review Setup

The customer is linked to the interest indirectly through the customer posting profiles.

We generate an interest note for the (000500) Cherry Company customer. In the Sales lesson, we have found out that the (000500) Cherry Company customer belongs to the 80 (Major Customers) group, and the GEN customer posting profile is used in the system.

Open the customer posting profile: **Accounts receivable > Setup > Customer posting profiles**. Find the **GEN** posting profile.

9. Collections

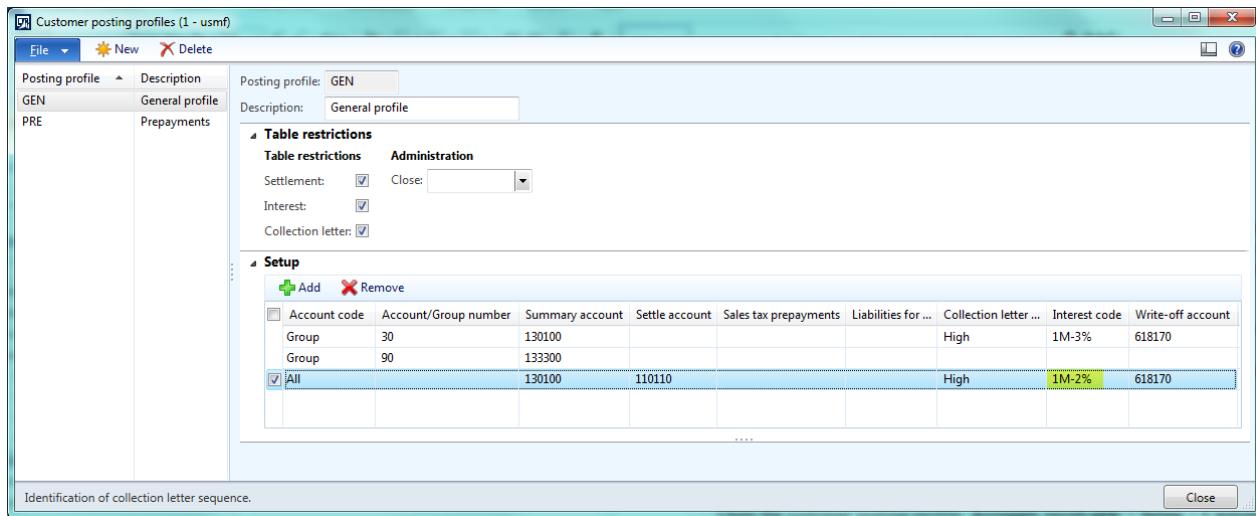


Figure 9.25 Customer posting profiles form

Interests are set up under **Accounts receivable > Setup > Collections > Interest**. The **Interest** form opens.

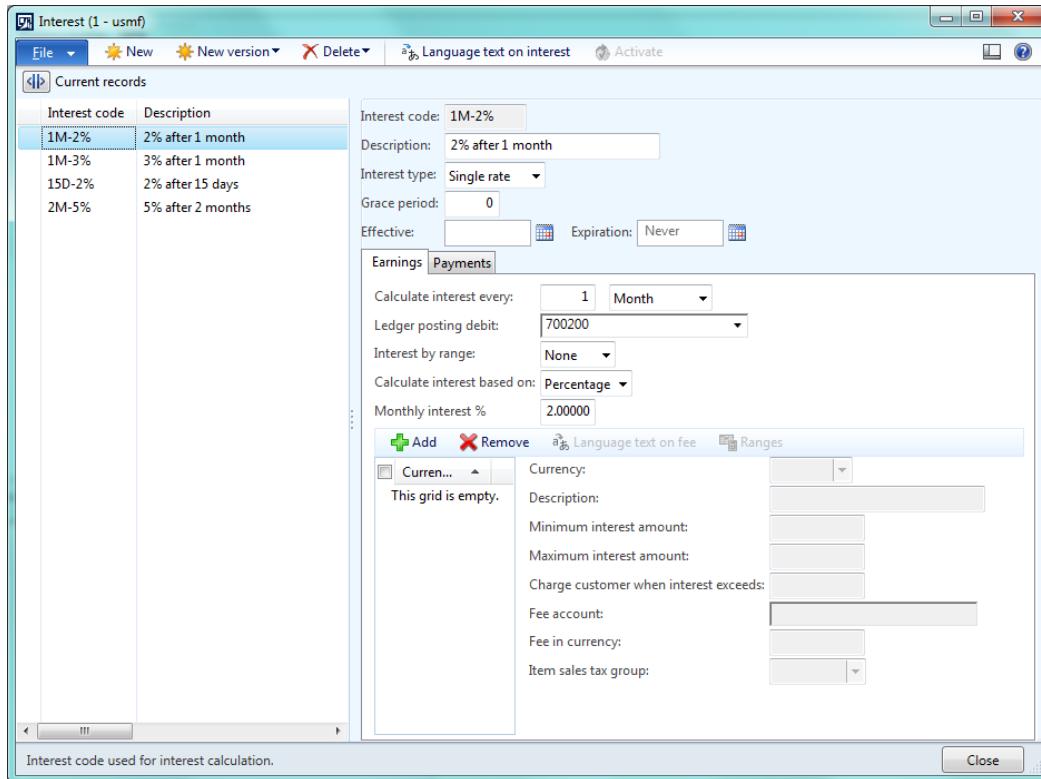


Figure 9.26 Interest form

The **1M-2%** interest code has the following rules: if the customer does not pay during 1 month, the 2% interest is added.

9. Collections

Note that the 700200 general ledger account is used to store the interest amount. When the interest is posted, the customer transaction has the following view (similar to the sales transaction):

Customer		Interest income	
Debit	Credit	Debit	Credit
\$Interest amount			\$Interest amount

The 700200 general ledger account is used instead of the Interest income account. The Interest income account belongs to the Profit&Loss accounts and is similar to the Liability account.

Generate and Post an Interest Note

Let's run the interest note proposal that creates interest notes. Then, these notes can be printed, sent to the customer, and posted.

1. Go to **Accounts receivable > Periodic > Collections > Interest calculation**. The **Interest calculation** form opens:
 - a. Select the **Invoice** check box. In this case, all customer invoice transactions are checked if the payment is late.
 - b. Set up the payment due date in the **From date** field.
In my case, the \$37,500.00 invoice has the *8/13/2015* due date.
 - c. For example, we need to calculate the interest for the period of 2 months. So, set up the payment due date + 2 months in the **To date** field. In my case, it is *10/13/2015*.
 - d. Click the **Select** button and select the *000500* customer.

The **Interest calculation** form looks as follows:

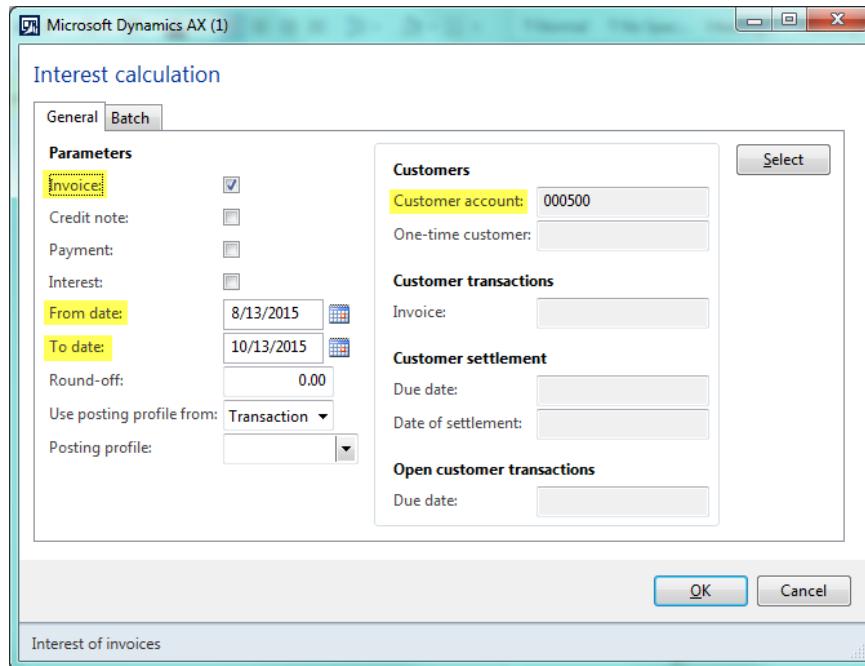


Figure 9.27 Interest calculation form

2. Click **OK**. "The Interest note 000001 for customer 000500 has been created" message appears.

9. Collections

- To print and post an interest note, go to **Accounts receivable > Periodic > Collections > Interest note**. The **Interest note** form opens.

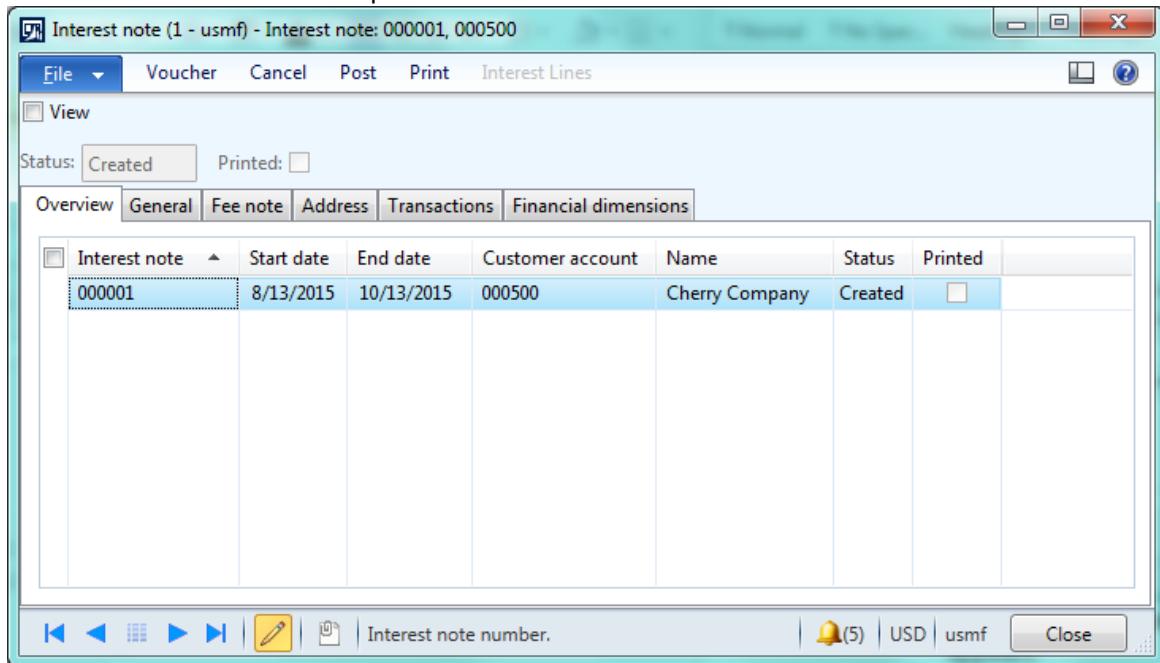


Figure 9.28 Interest note form

We can see the start and end date of the interest. In our case, we calculate the interest for the period of 2 months.

- Go to the **Transactions** tab and make sure that all not paid invoices are there.

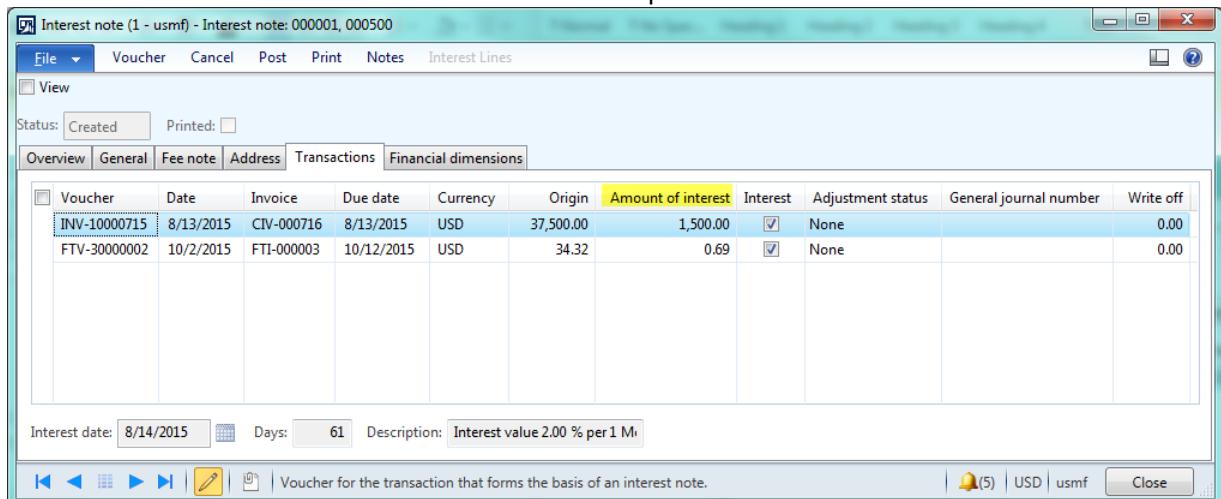


Figure 9.29 Interest note form, Transactions tab

We can see that Microsoft Dynamics AX calculated \$1500 as the interest amount for the first invoice. According to our setup, the interest amount is increased by 2% each month, so during 2 months, the interest amount must be $\$37\ 500 \times 0.04 = \1500 .

- To print the interest note, click the **Print** button. The interest note is printed and can be sent to the customer.

9. Collections

The screenshot shows the 'Interest note (1)' window. At the top, it displays contact information for Contoso Entertainment and Cherry Company. Below this, the title 'Interest note Original' is centered. To the right, there is a summary table with details like page number, interest note date, account, and currency. The main part of the window is a table showing transaction details:

Date	Due date	Transaction	Description	Currency	Amount	Interest from date	Interest to date	Days	Interest amount	Interest amount in USD
10/2/2015	10/12/2015	FTI-000003	Interest FTI-000003 by line	USD	34.32	10/13/2015	11/12/2015	31	0.69	0.69
8/13/2015	8/13/2015	CIV-000716	Interest value 2.00 % per 1 Month is used.	USD	37,500.00	8/14/2015	10/13/2015	61	1,500.00	1,500.00
Interest total			1,500.69							
Interest fee			0.00							
Sales tax amount			0.00							
Total			1,500.69							

Figure 9.30 Interest note report

- If the Collection Manager is sure that the customer pays the interest, the interest is posted. Click the **Post** button in the **Interest note** form. The **Post interest note** form opens, set up the today date in the **Posting date** field and click **OK**. The interest note is posted.

To review the posting result, click the **Vouchers** button in the **Interest note** form. The **Voucher transactions** form opens.

The screenshot shows the 'Voucher transactions (1 - usmf) - Journal number: 013872, 12/18/2015' window. It lists four transactions in a grid:

Journal number	Voucher	Date	Year closed	Ledger account	Currency	Amount in transaction currency	Amount	Amount in reporting currency	Posting layer
013871	INT-60000000	12/18/2015		700200----	USD	-1,500.00	1,500.00	-1,500.00	Current
013871	INT-60000000	12/18/2015		130100--	USD	1,500.00	1,500.00	1,500.00	Current
013872	INT-60000001	12/18/2015		700200----	USD	-0.69	0.69	-0.69	Current
013872	INT-60000001	12/18/2015		130100--	USD	0.69	0.69	0.69	Current

Below the grid, there are fields for 'Description' (Customer interest), 'Posting type' (Customer interest), 'Account name' (Accounts Receivable - Domestic), and a toolbar with various icons.

Figure 9.31 Voucher transactions form

We can see that two vouchers were generated, one for each invoice.

9. Collections

We make sure that the general ledger transaction looks as follows:

130100 (Customer)		700200 (Interest income)	
Debit	Credit	Debit	Credit
\$Interest amount			\$Interest amount

Click the **Origin** button to see all transactions.

The screenshot shows the 'Transaction origin' window for module Customer, ID 000500. The main area displays a grid of transactions with columns: Module, Voucher, Date, Number, Text, Currency, Amount in transaction currency, Amount, Dimensions, and Number. The grid contains three rows: two ledger entries (INT-60000000) and one customer entry (INT-60000000). The customer entry has a value of 1,500.00. Below the grid, there are fields for 'Name' (Cherry Company) and 'Table' (Customer transactions). At the bottom, there are navigation buttons (Back, Forward, Home, etc.), a toolbar with icons, and status information (Bell icon with 5, USD, usmf).

Figure 9.32 Transaction origin form

We can see that except the ledger transactions, a customer transaction is created. This is the open customer transaction that should be settled with the customer payment transaction. The customer payment transaction is created when the customer pays the interest (the Collection Manager uses a payment journal to post the customer payment).

Note that if the customer does not pay the interest, the Collection Manager can create the collection letter or write off this amount.

Write Off Journal

Write off is used to decrease the customer open balance without any documentation from the customer side.

The Collection Manager can have different reasons to make such operation:

- Customer payment was posted but not reached the company bank account (so the payment should be reversed).
- Invalid amount was posted.
- Write off penny amount, Write off collection fees, etc.

In Dynamics AX, the Write off functionality uses the General journal to decrease the customer balance.

9. Collections

The Write off functionality automatically does the following:

- Generates a general journal with a line
- Settles the journal line with the open customer transaction

When the user posts the general journal, the following transaction is generated:

Customer		Write off account	
Debit	Credit	Debit	Credit
	Write off amount	Write off amount	

The write off account is set up in the Customer posting profile: **Accounts receivable > Setup > Customer posting profiles**.

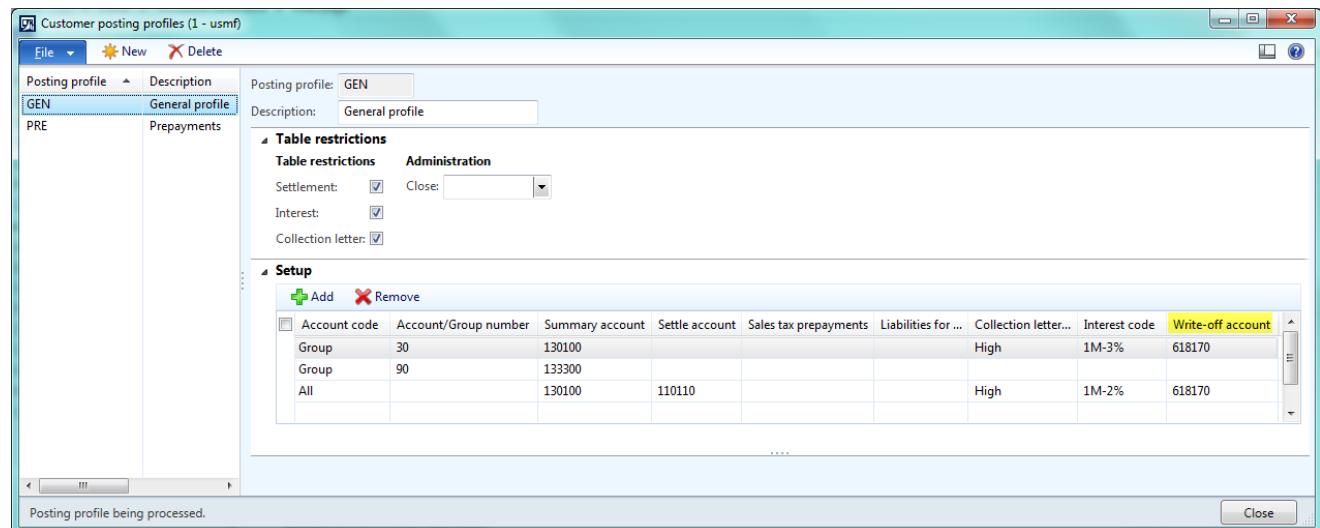


Figure 9.33 Customer posting profiles form

In the “Generate the Collection letter 2 paragraph” we have posted the \$20 as the collection letter fee.

Let’s assume that the Customer calls the Collection Manager and confirms that the invoice will be paid, but the collection letter fee is not paid. The Customer asks to write off the collection letter fee.

9. Collections

The Collection Manager does the following:

- 1) Open the **Open customer invoices** list page: **Accounts receivable > Common > Customer invoices > Open customer invoices**. Find the customer transaction for the Cherry Company with \$20:

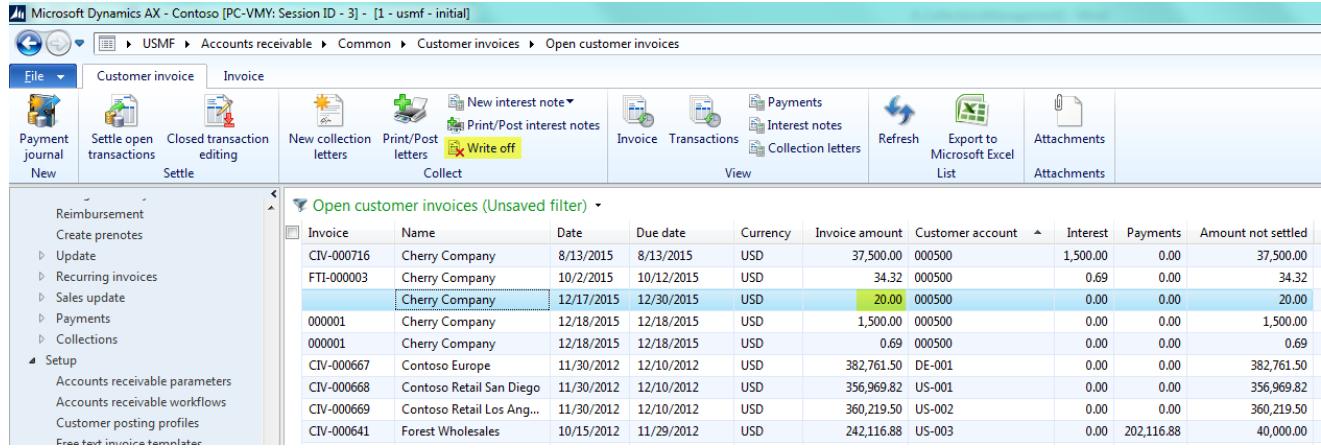


Figure 9.34 Open customer invoices list page

- 2) Click the **Write off** button.
- 3) The **Write-off** dialog opens. Select the **WRITEOF** (Write-off customer balance) reason code and click **OK**. The “General journal 00483 was created in company usmf and is ready to be posted” message appears.
- 4) Let’s review and post the general journal. Go to the **General ledger > Journals > General journal** > find the **00483 write off journal > Lines** button. The **Journal voucher** form opens.

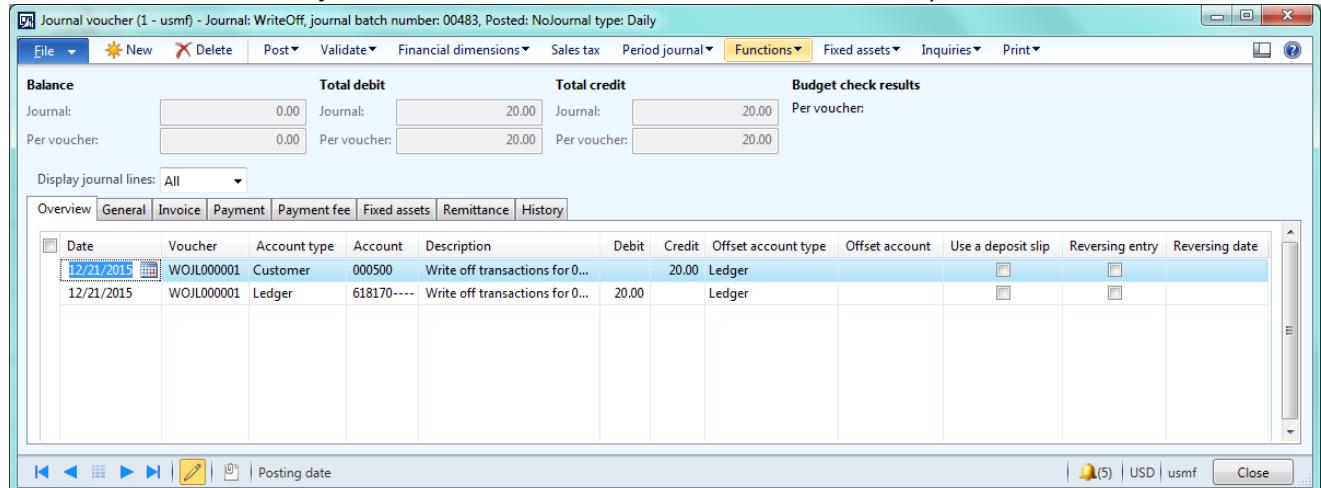


Figure 9.35 Journal voucher form

We can see that the customer account is credited and the general ledger account is debited. The general ledger account is taken from the customer posting profile.

- 5) Make sure that the write-off transaction is settled with the collection fee customer transaction. In the **Journal voucher** form, click the **Functions > Settlement** button. The **Cancel settlement** dialog opens, click **No**. The **Settle open transactions** form opens.

9. Collections

The screenshot shows the 'Settle open transactions' window. At the top, there are several input fields: 'Marked total:' (0.00), 'Marked total in USD:' (0.00), 'Customer balance:' (39,055.01), 'Estimated cash discount:' (0.00), 'Estimated cash discount in USD:' (0.00), 'Payment proposal:' (checkbox), and 'Transferred:' (-20.00) with 'Transferred in USD:' (-20.00). Below these are tabs for 'Overview', 'General', 'Payment', 'Settlement', 'Cash discount', 'Collections', and 'Financial dimensions'. The 'Collections' tab is selected, showing a grid of transactions:

Is marked	Mark	Use cash discount	Voucher	Account	Company...	Date	Due date	Deadline	Invoice	Amount in transaction currency	Currency	Amount to settle
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Normal	INV-10000715	000500	usmf	8/13/2015	8/13/2015		CIV-000716	37,500.00	USD	37,500.00
<input type="checkbox"/>	<input type="checkbox"/>	Normal	FTV-30000002	000500	usmf	10/2/2015	10/12/2015	FTI-00003		34.32	USD	34.32
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Never	CLV-50000003	000500	usmf	12/17/2015	12/30/2015			20.00	USD	20.00
<input type="checkbox"/>	<input type="checkbox"/>	Normal	INT-60000000	000500	usmf	12/18/2015	12/18/2015	000001		1,500.00	USD	1,500.00
<input type="checkbox"/>	<input type="checkbox"/>	Normal	INT-60000001	000500	usmf	12/18/2015	12/18/2015	000001		0.69	USD	0.69

Below the grid are several input fields: 'Cash discount date:' (dropdown), 'Cash discount amount to take:' (0.00), 'Cash discount amount:' (0.00), 'Cash discount amount in USD:' (0.00), 'Full settlement cash discount:' (radio button), 'Use cash discount:' (dropdown set to 'Never'), 'Cash discount taken:' (0.00), 'Interest amount:' (radio button), 'Cash discount taken in USD:' (0.00), 'Fine amount:' (radio button), 'Description:' (text box), and 'Alternative cash discount account:' (dropdown).

Figure 9.36 Settle open transactions form

We can see that the open collection fee for the customer transaction for \$20 is marked with our journal lines. When we post the journal, the new write off customer transaction for -\$20 is generated and settled with the marked customer transaction. Close the form.

- In the **Journal voucher** form, click the **Post > Post** button. The journal is posted. The “Number of vouchers posted to the journal: 1” message appears.

Let's review the posting result.

To view the voucher, click the **Inquiries > Voucher** button in the **Journal voucher** form. The **Voucher transactions** form opens.

The screenshot shows the 'Voucher transactions' window. At the top, there are tabs: 'File', 'Subledger journal', 'Transaction origin', 'Transactions', 'Audit trail', 'Posted sales tax', 'Original document', 'Related vouchers', and 'All related vouchers'. The 'General' tab is selected. Below is a grid of transactions:

Journal number	Voucher	Date	Year closed	Ledger account	Currency	Amount in transaction currency	Amount	Amount in reporting currency	Posting layer
013873	WOJL000001	12/21/2015	<input type="checkbox"/>	618170----	USD	20.00	20.00	20.00	Current
013873	WOJL000001	12/21/2015	<input type="checkbox"/>	130100--	USD	-20.00	20.00	-20.00	Current

At the bottom, there are fields for 'Description:' (Write off transactions for 000500 Cherry Company), 'Posting type:' (Customer balance), 'Account name:' (Accounts Receivable - Domestic), and a note about unique keys for generating general ledger entries. There are also standard toolbar buttons and a close button.

Figure 9.37 Voucher transactions form

9. Collections

We make sure that the transaction looks as follows:

130100 (Accounts Receivable)		618170 (Write off account)	
Debit	Credit	Debit	Credit
	\$20	\$20	

If we click the **Origin** button, we see all transactions for all ledger accounts.

The screenshot shows the 'Transaction origin' window for module 'Customer' with ID '000500'. It displays three transactions in a grid:

Module	Voucher	Date	Number	Text	Currency	Amount in transaction currency	Amount	Dimensions	Number
Ledger	WOJL000001	12/21/2015	130100--	Write off transactions for 000500 Cherry Company	USD	-20.00	-20.00		
Ledger	WOJL000001	12/21/2015	618170----	Write off transactions for 000500 Cherry Company	USD	20.00	20.00		
Customer	WOJL000001	12/21/2015	000500	Write off transactions for 000500 Cherry Company	USD	-20.00	-20.00		

Below the grid, there are fields for 'Name' (Cherry Company) and 'Table' (Customer transactions). At the bottom, there are navigation buttons (back, forward, search, etc.) and application modules.

Figure 9.38 Transaction origin form

There are two general ledger transactions and one customer transaction.

Let's open the **Open customer invoice** list page and make sure that the open transaction for 20\$ is not there: **Accounts receivable > Common > Customer invoices > Open customer invoices**.

The screenshot shows the 'Open customer invoices' list page with filter 'Customer account' set to '000500'. It displays four open invoices:

Invoice	Name	Date	Due date	Currency	Invoice amount	Customer account	Interest	Payments	Amount not settled
CIV-000716	Cherry Company	8/13/2015	8/13/2015	USD	37,500.00	000500	1,500.00	0.00	37,500.00
FTI-000003	Cherry Company	10/2/2015	10/12/2015	USD	34.32	000500	0.69	0.00	34.32
000001	Cherry Company	12/18/2015	12/18/2015	USD	1,500.00	000500	0.00	0.00	1,500.00
000001	Cherry Company	12/18/2015	12/18/2015	USD	0.69	000500	0.00	0.00	0.69

Figure 9.40 Open customer invoices list page

Let's review the closed customer transactions and make sure that the collection fee and the write off transactions are there: **Accounts receivable > Common > Customers > All customers > find the *Cherry Company (000500)* customer > Collect button tab > Closed transaction editing button**.

9. Collections

Is marked	Mark	Voucher	Account	Company accounts	Fiscal establishment ID	Date	Due date	Invoice	Settled currency	Currency
		ARPM000771	000500	usmf		11/20/2015	11/20/2015		-80.00	USD
		CLV-50000003	000500	usmf		12/17/2015	12/30/2015		20.00	USD
		WOJL000001	000500	usmf		12/21/2015	12/21/2015		-20.00	USD
		FTV-30000001	000500	usmf		8/14/2015	8/24/2015	FTI-000002	80.44	USD

Figure 9.41 Closed transactions form

We make sure that the collection fee and the write off transactions are settled.

Collections Management

Dynamics AX has the functionality that allows setting up collection agents for customers.

For example, Taras Zozulya is a new collection agent. We, as business admins, can create a new user and grant this user specific Dynamics AX permissions: Taras can manage collections only for the Cherry Company (000500) customer.

This functionality can be set up through the user interface and doesn't require any development.

The main steps are:

- Create a Customer pool.
- Create a Worker.
- Assign the Worker to the Dynamics AX user.
- Assign the Worker to the customer pool.

Create a Customer pool:

- 1) Go to the **Accounts receivable > Setup > Collections > Customer pools**. The **Customer pools** form opens.
- 2) Create a new customer pool:
 - a. **Pool ID = Cherry**
 - b. **Pool description = Cherry Company**

9. Collections

The screenshot shows the 'Customer pools (1 - usmf)' window. On the left is a grid of existing customer pools:

Pool ID	Pool description	Pool type
Cherry	Cherry Company	Collections
A to M	Customers beginning with A t...	Collections
All	All customers	Collections
N to Z	Customers beginning with N t...	Collections
Over 180	Over 180 past due	Collections

To the right of the grid, there are input fields for creating a new pool:

- Pool ID: Cherry
- Pool description: Cherry Company
- Pool type: Collections

Below these fields is a button labeled "Select pool criteria". Underneath the button is a table:

Table	Field	Criteria
This grid is empty.		

The status bar at the bottom says "The description of the customer pool".

Figure 9.42 Customer pools form

- 3) Click the **Select pool criteria** button. The **Customer pools criteria** form opens. Select **000500** (Cherry Company) in the **Customer account** field criteria. Click **OK**. The **Customer pools** form has the following view:

The screenshot shows the same 'Customer pools (1 - usmf)' window as Figure 9.42, but with a different state. The 'Select pool criteria' button has been clicked, and a new row has been added to the table:

Table	Field	Criteria
Customers	Customer account	000500

The status bar at the bottom now says "Determines which customers are included in the pool".

Figure 9.43 Customer pools form

The new *Cherry* customer pool has been created.

Create a Worker:

- 1) Go to the **Human resource > Common > Workers > Workers**. The **Workers** list page opens.
- 2) Click the **Hide new worker** button. The **Create a new worker** form opens.

9. Collections

- 3) Create a new worker:

- a. First name = Taras
- b. Last name = Zozulya

The screenshot shows the 'Create new worker' form in Microsoft Dynamics AX. The 'First name' field is populated with 'Taras'. The 'Last name' field is populated with 'Zozulya'. The 'Legal entity' dropdown is set to 'usmf'. The 'Personnel number' field contains '000643'. The 'Worker type' dropdown is set to 'Employee'. The 'Employment start date' is set to '12/23/2015 12:00:00 am'. The 'Employment end date' is set to 'Never'. The 'Position' dropdown is empty. Below the form, there is a list of names starting with 'lund'. At the bottom right of the form is a blue 'Hire new worker' button.

Figure 9.44 Create new worker form

- 4) Click the **Hire new worker** button.

The new Taras Zozulay worker has been created.

Assign the Worker to the Dynamics AX user. Usually new users are created in the active directory, but I assign the new worker to my current Dynamics AX user.

- 1) Go to **System administration > Common > Users > Users**. The **Users** list page opens.
- 2) Select the required user and click the **Relations** button. The **User relations** form opens.
- 3) Delete existing workers if there are any.
- 4) Click the **New** button.
- 5) Specify **Taras Zozulya** in the **Person** field. The **User relations** form has the following view:

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The screenshot shows the 'User relations' form for User ID: Admin. The main grid displays a single record: Worker Taras Zozulya and Person Taras Zozulya. On the right side, there are fields for Person (set to Taras Zozulya), User ID (set to Admin), Name (empty), Effective date (12/23/2015 at 07:06:26 pm), and Expiration (Never). Below these fields is a section titled 'External relations' with a grid. The grid has columns for Relation type, Legal entity, and Name. A message at the bottom of the grid states 'This grid is empty.' At the bottom left, it says 'Reference field in a different table'. The bottom right corner has a 'Close' button.

Figure 9.45 User relations form

A relation between the Worker and the user has been created.

Now we should assign the Worker to the customer pool.

- 1) Go to **Accounts receivable > Setup > Collections > Collections agent**. The **Collection agents** form opens.
- 2) Click the **Add team member** button. The **Add team member** form opens.
- 3) Fill in the *Taras** value in the **Search name** field and click the **Refresh** button. Select the record.

The screenshot shows the 'Add team members' form for Party ID: 000000555, Collections agents. The title bar says 'Add team members (1) - Party ID: 000000555, Collections agents'. The main area is titled 'Select team members' with the instruction 'Select the people that you want to add to the team. You can filter the list of people by name or by skill.' It has a 'Search name:' field containing 'Taras*' and a 'Skill:' dropdown. A 'Refresh' button is also present. A grid below shows a list of team members. One record is selected: Taras Zozulya (Role: Employee). The 'Add' and 'Cancel' buttons are at the bottom right.

Figure 9.46 Add team members form

- 4) Click the **Add** button. The collection agent is created. Close the **Add team members** form.
- 5) Select the new collection agent in the **Collection agents** form and click the **Add** button.

9. Collections

- 6) Select the *Cherry* value in the **Pool ID** field. Save the line.

The **Collection agents** form has the following view:

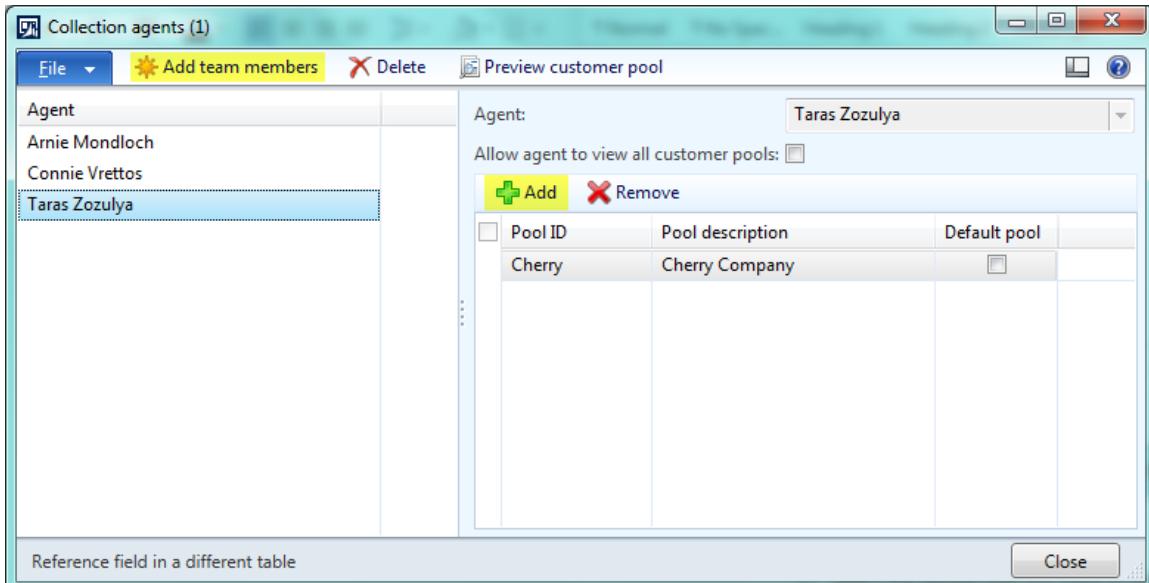


Figure 9.47 Collection agents form

The Worker is now assigned to the customer pool.

Let's check how it works. Close the Dynamics AX client and run it again.

Go to **Accounts receivable > Common > Collections > Collections**. The **Collections** list page opens.

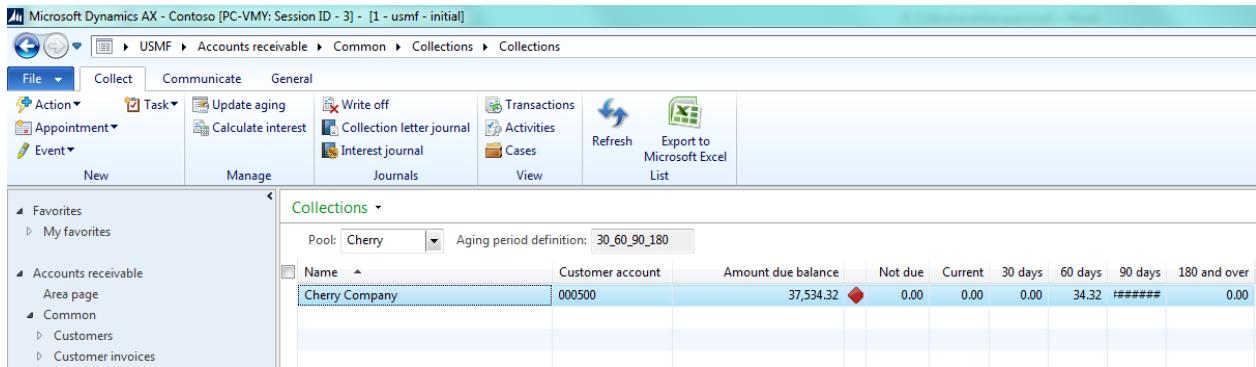


Figure 9.48 Collections list page

We make sure that this page has only one Charry Company customer.

In addition to this, the Business admin can assign a user to either the *Collections agent* or the *Collection manager* roles to restrict access to other Dynamics AX forms: **System administration > Common > Users > Users** > double-click the needed user > **Assign roles** button.

Summary

In this training lesson we have studied the main activities that are required to create and manage collections.

Among them are:

- Review not paid invoices
- Generate, print, and post collection letters
- Generate, print, and post interest notes
- Generate and post write off journals
- Manage collections

10. Year-End Close

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Introduction

In this training lesson we will learn what the year-end closing means and what it is used for.

The year-end closing activities are not related to a company business. Moreover, during the year-end closing all business activities (sales, purchases, production, etc.) should be stopped.

The main goal of the year-end closing activities is to prepare accurate financial reports.

Financial reports are Balance sheet, Income statement, Statement of Cash flows, and Statement of stockholder's equity.

These reports reflect in money equivalent the company business activities throughout the year.

Financial reports are used by the Headquarters to make decisions and define budget and strategy for the next year.

These reports show general ledger accounts with their balances.

What is an account balance? Account balance is the sum of all transaction amounts for a specific account that were posted during a certain period of time.

So the balance depends on two entities: an account and a period of time.

For example if I write the Cash account balance is \$500, this means that the balance for the Cash account for the current year is \$500 (i.e. the sum of all transaction amounts for this account from the beginning of the year till the current date is \$500).

The year-end closing consists of the following activities:

- 1) Stop transactions posting for the closing year.
- 2) Adjust accounts balances for the closing year. It is done with the help of adjusting entries to have accounts balances according to the accrual method of accounting. It is required for generating accurate financial reports for the closing year.
- 3) Generate financial reports.
- 4) Prepare accounts balances for the new year:
 - a. Create closing transactions for the closing year (optional).
 - i. Reset balances for the closing year for the Profit&Loss accounts.
 - ii. Reset balances for the closing year for the Balance sheet accounts.
 - b. Create opening transactions for the new year:
 - i. Transfer balances for the Balance sheet accounts from the closing to the new year.
 - ii. Transfer earnings from the Profit & Loss accounts to the Retained earnings account.
 - c. Reverse the closing year adjusting transactions.

Let's review these year- closing activities in details.

Adjusting Transactions

We already know that adjusting is used to change a ledger account balance according to the accrual method of accounting. What is the accrual method of accounting?

Under the *accrual* basis of accounting, revenues are reported on the income statement when they are earned. (Under the *cash* basis of accounting, revenues are reported on the income statement when the cash is received.)

Under the accrual basis of accounting, expenses are matched with the related revenues and/or are reported when the expense occurs, not when the cash is paid.

In order for a company's financial statements to be complete and to reflect the accrual method of accounting, adjusting entries must be processed before the financial statements are issued.

Why do general ledger accounts contain inaccurate balances and require adjusting entries?

The Accountant posts sales or purchase invoices according to the accrual method of accounting, i.e. when an invoice is issued or received (not when an invoice is paid).

Here are two situations that describe why adjusting entries are needed:

- A bill for electricity used during December might not arrive until January 10. But this amount should be shown in December.
- A bill for insurance on the company's vehicles for \$6,000 is posted in Dynamics AX. But it covers the six-month period of December 1 through May 31. So only \$1,000 should be shown in December.

The above examples illustrate why account balances should be adjusted in order to reflect accurate amounts on financial statements.

Unfortunately Dynamics AX (and any accounting software) cannot compute the amounts needed for the adjusting entries. The Accountant must review the situations and then determine the amounts needed in each adjusting entry.

Adjusting entries are entered into the system through the **General journal** or **Closing sheet** forms manually by the Accountant.

You can find additional financial information here:

- [Accrual basis of accounting](#)
- [Adjusting entries](#)

Reverse Adjusting Transactions

In all likelihood, an actual transaction (for example the bill for electricity) gets routinely processed and recorded in the next accounting period. This presents a potential problem of entering the transaction into the accounting records twice: once through the adjusting entry and also when it is routinely processed in the subsequent accounting period.

To prevent this the reversing entries are used. The purpose of reversing entries is to remove adjusting entries. Reversing entries are dated as of the first day of the accounting period immediately following the period of adjusting entries. In other words, for a company with accounting periods which are calendar months, an adjusting entry dated December 31 is reversed on January 2.

Dynamics AX can automatically generate reversing entries for adjusting (we will see it a bit later) if adjusting is entered through the General journal.

Opening Transactions

Opening transactions are used to create balances for Balance sheet accounts in a new year.

Balance sheet accounts consist of the following accounts: Assets, Liabilities, and Owner's or Stockholders' equity.

For example, we have the following balance in the closing year:

- Cash account has balance of \$1550
- Accounts payable account has balance of \$850
- Retained earnings account has balance of \$1000

The opening transaction for \$1550 is created on the first day of a new year for the Cash account.

The opening transaction for \$850 is created on the first day of a new year for the Accounts payable account.

Earnings are not collected on the Retained earning account during a year. Earnings are collected on the Asses & Liabilities account from one side and the Profit & Loss accounts from the other side.

So, in our case the Retained earnings account has balance of \$1000 in the closing year and this means that in the beginning of the closing year the Retainer earnings balance was \$1000.

The opening transaction for the Retained earning account should reflect the closing year earnings.

What amount has the company earned during the year?

Recall the main accounting rules (from the first training lesson):

- Accounting equation: Assets = Liabilities + Owner's Equity.
- Double-entry accounting: Debits = Credits

In our case we have the following: \$1550 (Cash) = \$850 (Accounts payable) + \$1000 (Retained earnings).

But that is not true in our case, because $\$1550 \neq \1850 .

10. Year-End Close

We already know that the Retained earnings account doesn't accumulate earnings during a year. So to follow the accounting equation we should accumulate -300\$ on this account.

This means that the -\$300 amount is the earnings during the year.

Opening transactions in our case have the following view:

Cash		Accounts payable		Retained earnings	
Debit	Credit	Debit	Credit	Debit	Credit
\$1550			\$850		\$700

Note that Debit = Credit, so the double-entry accounting rule is followed.

As a result, Open transactions generate the following balances in a new year:

- Cash account balance is \$1550
- Accounts payable balance is \$850
- Retained earnings balance is \$700.

Note that opening transactions are not generated for the Profit & Loss accounts. So, their balances in a new year are zero.

You can find additional financial information here:

- [Closing entries](#)
- [Difference between adjusting and closing entries](#)

Closing Transactions

Dynamics AX closing transactions are optional. They are used to set balances of all accounts (the Balance sheet and Profit & Loss accounts) to zero in the closing year.

Let's review our previous example and provide some additional information.

For example, the Cash account has the following transactions during a closing year:

Date	Cash account	
	Debit	Credit
03/15/2015	255	
08/12/2015	345	
10/18/2015	950	
Balance	1550	

10. Year-End Close

When we add an opening transaction, the Cash account has the following transactions:

Date	Cash account		Comment
	Debit	Credit	
03/15/2015	255		
08/12/2015	345		
10/18/2015	950		
01/01/2016	1550		Opening transaction
Balance	?		

The year-end closing activities are not related to a company business. So the Cash account balance cannot be changed during the year-end closing.

But the Cash account balance is not changed! =)

We already know that an account balance is the sum of all transaction amounts for a specific account that were posted during a certain period of time.

To calculate the balance for the year 2015, we should sum all transactions that were generated during this year. In our case, the balance for the year 2015 is \$1550.

To calculate the balance for the year 2016, we should sum all transactions that were generated during the year 2016. In our case, the balance for 2016 is \$1550.

The Accountant (and Dynamics AX) does not sum the transactions from different periods to calculate the balance. So, from this point of view the balances are valid. But from the logical point of view it is a bit confusing. So, Dynamics AX allows generating closing transactions to have accurate cross periods balance.

When the closing transaction is generated, the Cash account has the following transactions:

Date	Cash account		Comment
	Debit	Credit	
03/15/2015	255		
08/12/2015	345		
10/18/2015	950		
31/12/2015		1550	Closing transaction
01/01/2016	1550		Opening transaction

For all accounts (the Balance sheet and Profit & Loss accounts) the logic is the same.

10. Year-End Close

Recall our example, we don't mention balances in a closing year for the Profit & Loss accounts. It is time to mention them:

- Cash account has the balance of \$1550.
- Accounts payable account has the balance of \$850.
- Retained earnings account has the balance of \$1000.
- Revenue account has the balance of \$200.
- Expense account has the balance of \$500.

We already know that the company earning is -\$300, so I assume that the Revenue balance is \$200, while the Expense balance is \$500.

Taking into account the main accounting principles, the Closing transactions in our case have the following view:

Cash		Accounts payable		Retained earnings		Revenue		Expense	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
	\$1550	\$850		\$1000		\$200			\$500

Note that Debit = Credit, so the double-entry accounting rule is applied.

As a result, the Closing transaction generates the following balances in a closing year:

- Cash account has the balance of \$0 in the closing year.
- Accounts payable account has the balance of \$0 in the closing year.
- Retained earnings account has the balance of \$0 in the closing year.
- Revenue account has the balance of \$0 in the closing year.
- Expense account has the balance of \$0 in the closing year.

Let's see how it works in Dynamics AX.

Demo Data

The Microsoft demo data for DAX 2012 is used. You can find more information about demo data [here](#).

In this lesson, we are working with the USMF (Contoso Entertainment System USA) company and are closing the 2012 fiscal year.

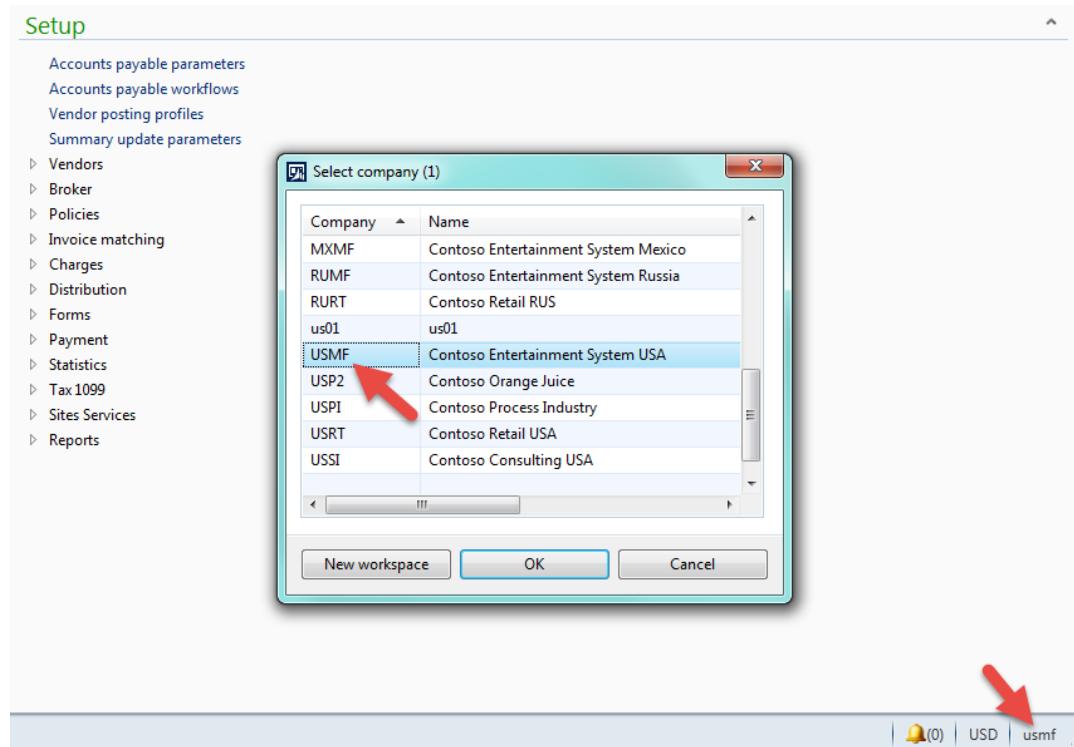


Figure 10.1 Select company form

Stop Transactions Posting for the Closing Year

We already know that all financial reports show accounts balances. The Accountant should review balances and, if needed, make adjusting entries to have balances according to the accrual basis of accounting.

This is a pretty tedious task and to avoid nightmare and mess, the Accountant should stop transactions posting for the closing year.

In Dynamics AX, it is done with the help of the Ledger calendar.

The Ledger calendar uses a fiscal calendar. Fiscal calendars are created here: **General ledger > Setup > Fiscal calendar**.

10. Year-End Close

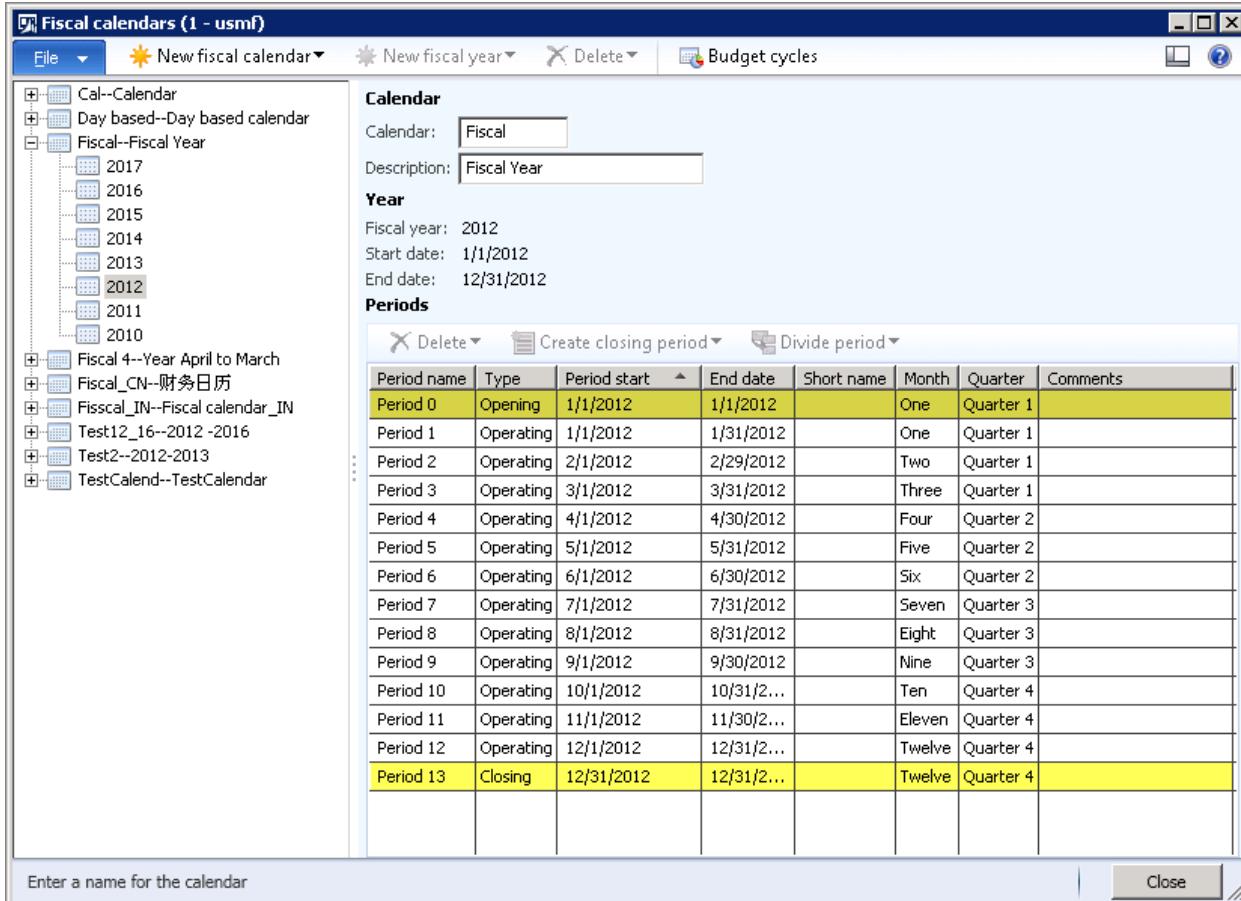


Figure 10.2 Fiscal calendar form

Fiscal calendar consists of Opening, Operating, and Closing periods.

Note that Dynamics AX automatically creates the Opening and Closing periods. These periods cover 1 day and intersect with Operating periods.

Opening period is used for Open transactions posting. Closing period is used for Close transactions posting.

This is done to distinguish business related transactions from the year-end transactions.

The Ledger calendar is a fiscal calendar assigned to the ledger. To review which fiscal calendar is used as a ledger calendar, open the **Ledger** form: **General ledger > Setup > Ledger**.

10. Year-End Close

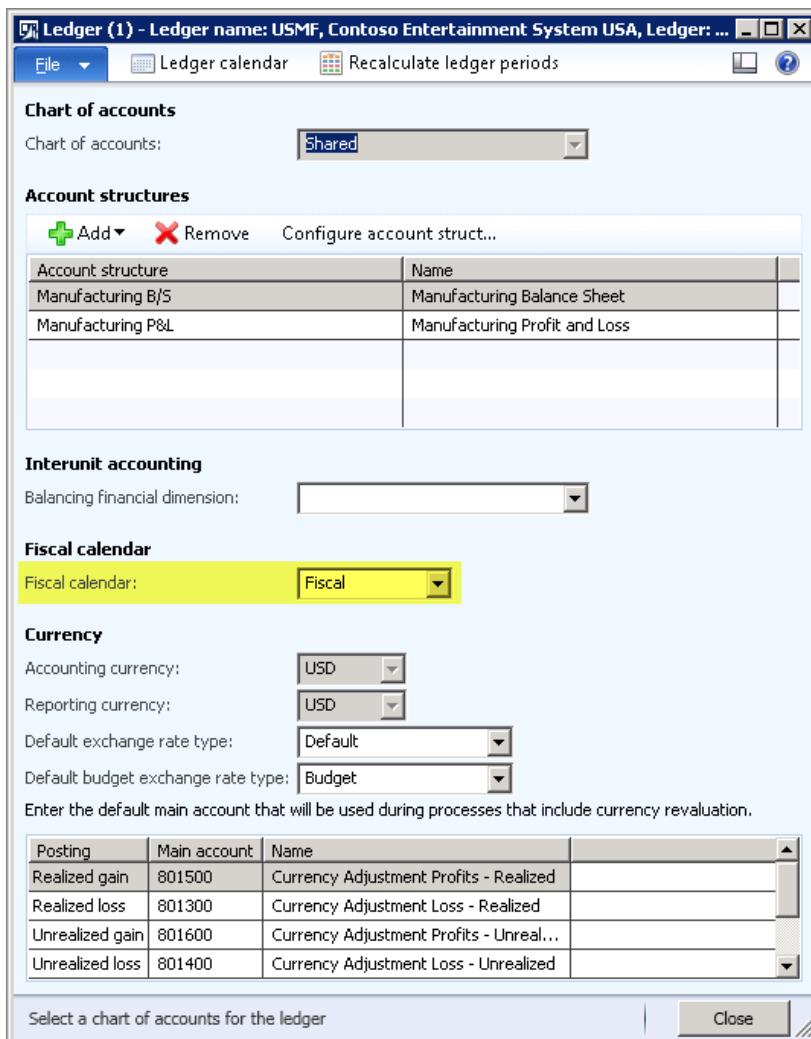


Figure 10.3 Ledger form

In our demo data the *Fiscal* calendar is used as a ledger calendar.

The Accountant can put on hold or close the ledger calendar period. In both cases, transactions cannot be recorded in a period. But the *Closed* period cannot be re-opened or put on hold.

We will close the 2012 fiscal year.

Let's hold all 2012 fiscal year periods:

- 1) In the **Ledger** form, click the **Ledger calendar** button. The **Ledger calendar** form opens.
- 2) Select the 2012 calendar in the right pane.
- 3) Select the *On hold* period status for all periods except the Closing one. (Scroll the grid to the right if you don't see the **Period status** field).
- 4) Select the *Open* period status for the Period 12 operating period to be able to post adjusting entries through the General journal. If you do not use the General journal to post adjusting entries, set this period status to *On hold* also.
- 5) Select the *Open* period status for the Closing period.

10. Year-End Close

- 6) The **Ledger calendar** form has the following view:

The screenshot shows the 'Ledger calendar (1 - usmf)' window. At the top, it displays 'Fiscal calendar (1 - usmf) - Ledger name: USMF, Contoso Entertainment System USA, Ledger: USMF'. Below this, there's a 'File' menu and a toolbar with icons for New, Open, Save, Print, and Exit.

The main area is titled 'Ledger:USMF – Calendar.Fiscal, Fiscal Year'. It shows a tree view under 'Calendar' for 'Fiscal-Fiscal Year' with years from 2017 down to 2010. A 'Year' section details the fiscal year as 2012, starting on 1/1/2012 and ending on 12/31/2012. The status is set to 'Open'.

A 'Periods' table follows, listing 13 periods from Period 0 to Period 13. The table includes columns for Period name, Type, Short name, Period start, End date, Month, Quarter, Comments, and Period status. The last row, Period 13, is highlighted with a blue background and has its status set to 'Open'.

At the bottom, a note says 'Select a status for the fiscal calendar period, such as open or closed.' and a 'Close' button is visible.

Figure 10.4 Ledger calendar form

We deny posting transactions for the 2012 fiscal year to prevent any accidental postings. (Except the *Period12* period because we use the General journal to post adjusting entries.)

We open the year-end closing period in the fiscal year being closed to enable posting of any necessary closing entries.

Make Adjusting and Reverse Entries

Adjusting entries assure that both the balance sheet and the income statement accounts balances are up-to-date on the accrual basis of accounting.

Adjusting entries are made manually by the Accountant after deep analysis. A reasonable way to begin the analysis is to review the balance shown in each of the balance sheet accounts.

Let's review the balance for the Accounts receivable account:

- 1) Go to **General ledger > Common > Trial balance**. The **Trial balance** list page opens. It contains the accounts with transactions.

10. Year-End Close

The screenshot shows the Microsoft Dynamics AX interface for the General ledger > Common > Trial balance screen. The left sidebar has a tree view with 'Trial balance' selected under 'Common'. The main area displays a table titled 'Trial balance' with columns: Ledger account, Name, Opening balance, Debit, Credit, and Closing balance. The table lists various accounts like Bank Account - USD, Accounts Receivable - Domestic, etc., with their respective financial details.

Ledger account	Name	Opening balance	Debit	Credit	Closing balance
110110	Bank Account - USD	0.00	4,204.53	10.00	4,194.53
130100	Accounts Receivable - Domestic	0.00	490,456.26	79,153.11	411,303.15
140200	Finished Goods Inventory	0.00	67,305.25	67,295.25	10.00
200100	Accounts Payable - Domestic	0.00	0.00	48,151.75	-48,151.75
200140	Accrued Purchases - Received Not Invo...	0.00	67,231.75	31.75	67,200.00
401100	Product Sales	0.00	0.00	45.00	-45.00
401200	Service Revenues	0.00	0.00	429,000.00	-429,000.00
401300	Other Revenues	0.00	5,655.00	0.00	5,655.00
403150	Miscellaneous Charges	0.00	0.00	90.00	-90.00
500100	COGS - Finished Goods	0.00	31.75	0.00	31.75
500130	COGS - Services	0.00	11,850.00	0.00	11,850.00
500150	Deferred COGS	0.00	31.75	31.75	0.00
510310	Purchase Price Variance	0.00	0.00	19,080.00	-19,080.00
600150	Other Miscellaneous Expenses	0.00	90.00	5,655.00	-5,565.00
600180	Raw Materials Receipts	0.00	0.00	0.00	0.00
600300	Payroll Allocation	0.00	0.00	11,850.00	-11,850.00
700100	Interest Income - Bank Balances	0.00	35.70	19.50	16.20
700200	Interest Income - Customers	0.00	74,912.88	61,391.76	13,521.12

Figure 10.5 Trial balance list page

- 2) Select the 130100 (Accounts Receivable - Domestic) account and click the **Period** button. The **Period balance** form opens.
- 3) Specify the date 5/5/2012 (any date from the year 2012) in the **Date** field and click **OK**. The **Period balances** form has the following view:

The screenshot shows the 'Period balances' form for account 130100. The table lists 13 periods from Period 0 to Period 13, showing the balance at the start of each period and the accumulated balance. The table includes columns for Period name, Period code, Balance, Percent, and Accumulated. At the bottom, summary statistics show Debit in period, Debit accumulated, Credit in the period, and Credit accumulated.

Period name	Period	Period code	Balance	Percent	Accumulated
Period 0	1/1/2012	Opening	6,003,588.55	71.06	6,003,588.55
Period 1	1/1/2012	Operating	-1,729,739.36	-20.47	4,273,849.19
Period 2	2/1/2012	Operating	2,409,580.07	28.52	6,683,429.26
Period 3	3/1/2012	Operating	-2,124,893.63	-25.15	4,558,535.63
Period 4	4/1/2012	Operating	1,521,681.11	18.01	6,080,216.74
Period 5	5/1/2012	Operating	898,996.62	10.64	6,979,213.36
Period 6	6/1/2012	Operating	-221,196.31	-2.62	6,758,017.05
Period 7	7/1/2012	Operating	-4,261,965.81	-50.44	2,496,051.24
Period 8	8/1/2012	Operating	2,150,441.62	25.45	4,646,492.86
Period 9	9/1/2012	Operating	545,370.43	6.45	5,191,863.29
Period 10	10/1/2012	Operating	158,571.33	1.88	5,350,434.62
Period 11	11/1/2012	Operating	898,560.74	10.64	6,248,995.36
Period 12	12/1/2012	Operating	2,199,816.55	26.04	8,448,811.91
Period 13	12/31/2012	Closing	0.00	0.00	8,448,811.91

Debit in period: 6,003,588.55 Debit accumulated: 6,003,588.55
 Credit in the period: 0.00 Credit accumulated: 0.00

Figure 10.6 Period balances form

Let's assume that the Accountant found out that some work for \$3,000 and \$1700 has been performed (and therefore this money has been earned) as of December 31 but these amounts won't be billed until January 10. Because these \$3,000 and \$1700 amounts were earned in December, they must be entered and reported on the financial statements for December.

Two adjusting entries dated December 31 are prepared in order to get this information onto the December financial statements.

The Accountant prepares the following adjusting entries:

Accounts receivable (130100)		Services Revenue (401200)	
Debit	Credit	Debit	Credit
\$3000			\$3000
\$1700			\$1700

Dynamics AX has two forms to enter adjusting entries – General journal and Closing sheet.

General Journal

Let's enter the first adjusting entries with the help of the General journal:

- 1) Go to **General ledger > Journals > General journal**. The **General journal** form opens.
 - 2) Create a new line, select *GenJrn* in the **Name** field, and save the line.
 - 3) Click the **Lines** button. The **Journal voucher** form opens.
 - 4) Create a new line:
 - a. Date = 12/31/2012.
 - b. Account = 130100. I receive the "Value 130100 is not allowed for manual entry. Enter another value" error message when specifying this account. It is because it is used as a controlling account for the customer (specified on the customer posting profile) and should be in sync with the customer subledger account.
To be able to use this account in the general ledger, clear the **Do not allow manual entry** check box in the **Main accounts** form (**General ledger > Common > Main accounts** > find the *130100* account and double-click it > **Edit** button > clear the **Do not allow manual entry** check box).
 - c. Debit = 3000
 - d. Offset account = 401200
 - 5) It was mentioned that an adjusting entry should be reversed in the beginning of the next year to avoid "a potential problem in entering the transaction into the accounting records twice: once through the adjusting entry and also when it is routinely processed in the subsequent accounting period". Dynamics AX can automatically reverse the adjusting entries in the new year.
- Specify the following additional parameters:
- a. Reversing entry = True
 - b. Reversing date = 01/01/2013

10. Year-End Close

- 6) The line has the following view:

The screenshot shows the 'Journal voucher' window with the following details:

- Balance:** Total debit: 0.00, Total credit: 3,000.00.
- Journal type:** Daily.
- Journal lines:** One entry: Date 12/31/2012, Voucher GNJL000797, Account type Ledger, Account 130100--, Description: None, Debit: 3,000.00, Credit: 0.00, Offset account type: Ledger, Offset account: 401200----, Use a deposit slip: checked, Reversing entry: checked, Reversing date: 1/1/2013.
- Currency:** USD.
- Settlement type:** None.
- Withholding tax group:** None.
- Sales tax group:** None.
- Account name:** Accounts Receivable.
- Release date:** None.
- Item sales tax group:** AU/VI.
- Offset account name:** Service Revenues.
- Calculated sales tax amount:** 0.00.
- Actual sales tax amount:** 0.00.

Figure 10.7 Journal voucher form

- 7) Click the **Post > Post** button to post the adjusting entries. The journal is posted successfully. The "Number of vouchers posted to the journal: 2" info message is shown.

Let's check the posting results.

In the **Journal voucher** form click the **Inquiries > Voucher** button. The **Voucher transactions** form opens.

The screenshot shows the 'Voucher transactions' window with the following details:

- Overview:** Shows two entries for journal number 013963, both dated 12/31/2012, with ledger accounts 401200---- and 130100-- respectively.
- General tab:** Shows the same two entries with amounts -3,000.00 and 3,000.00.
- Amount tab:** Shows the same two entries with amounts 3,000.00 and 3,000.00.
- Description:** None.
- Posting type:** Ledger journal.
- Account name:** Accounts Receivable - Domestic.

Figure 10.8 Voucher transactions form

We make sure that the necessary adjustment has been entered for the accounts.

Let's make sure that the reversing adjusting entries were entered. In the **Voucher transactions** form, click the **Transactions** button to review all account transactions. Scroll up the grid and find the transactions for 1/1/2013.

10. Year-End Close

Ledger account: 130100 - - Account name: Accounts Receivable - Domestic
Description:

Voucher number in ledger. | (21) | USD | usmf | Close |

Journal number	Voucher	Date	Year closed	Type	Currency	Amount in transaction currency	Amount	Amount in r
003791	INV-10000...	12/18/2012		Operating	USD	76,280.88	76,280.88	
003792	INV-10000...	12/18/2012		Operating	USD	72,807.00	72,807.00	
003793	INV-10000...	12/18/2012		Operating	USD	18,566.00	18,566.00	
003794	INV-10000...	12/18/2012		Operating	USD	2,544.00	2,544.00	
003795	INV-10000...	12/18/2012		Operating	USD	1,444.30	1,444.30	
013797	INV-10000...	12/27/2012		Operating	USD	67,814.18	67,814.18	
013963	GNJL000797	12/31/2012		Operating	USD	3,000.00	3,000.00	
013964	GNJL000798	1/1/2013		Operating	USD	-3,000.00	3,000.00	
004339	180000060	1/3/2013		Operating	USD	69.80	69.80	
004340	180000061	1/3/2013		Operating	USD	144.76	144.76	
004341	180000062	1/5/2013		Operating	USD	223.78	223.78	
004342	180000063	1/11/2013		Operating	USD	246.33	246.33	
004343	180000064	1/17/2013		Operating	USD	302.72	302.72	
004353	180000065	2/3/2013		Operating	USD	71.20	71.20	

Figure 10.9 Account number (account transactions) form

We can see that the reversing transaction for 1/1/2013 has been entered on the account.

You can also click the **Audit trial > Voucher transactions** button in the **Voucher transactions** form to review all transactions from both vouchers generated during the journal posting.

We make sure that Dynamics AX automatically reverses adjusting entries entered through the General journal. Unfortunately the General journal cannot post adjusting entries to Period 13 Closing period. That is why we leave the Period 12 Operating period open. Now we can set the Period 12 to On hold.

Closing Sheet

Closing sheet is used to enter adjusting entries to closing period. Unfortunately, the Closing sheet doesn't post reversing entries.

Let's enter the second adjusting entry with the help of the Closing sheet:

- 1) Go to **General ledger > Common > Periodic > Fiscal year close > Closing sheet**. The **Closing sheet** form opens.
- 2) Fill in the necessary values and save the line:
 - a. Closing sheet = 2012_Adj
 - b. Type = Closing (in this case, adjustment transactions are posted to the Period 13 closing period)
 - c. **General tab > Post** = 12/31/2012

10. Year-End Close

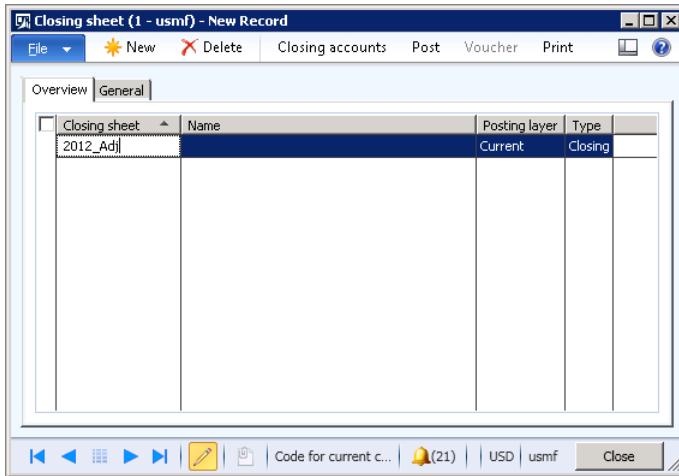


Figure 10.10 Closing sheet form

- 3) Click the **Closing accounts** button. The **Closing accounts** form opens.
- 4) Click the **Load balances** button. The **Closing sheet** dialog opens, click **OK**.
- 5) The **Closing accounts** form is populated with the ledger accounts and their balances.
- 6) Find the 130100 ledger account.

A screenshot of the "Closing accounts" form. The title bar indicates it is for closing sheet 2012_Adj. The toolbar includes "File", "Transfers", "Load balances", "Post", and "Print" buttons. The main area shows a table of ledger accounts with columns: Main account, Trial balance, Transfer, Reconciled, Difference, and Result. The account 130100 is highlighted with a gray background and a value of 16,344,715.60 in the Trial balance column. Other accounts listed include 120400, 120500, 120600, 129999, 130110, 133300, 130300, 133350, 130400, and 130500. The "Reconciled" column contains several checked boxes. The "Difference" column shows values like 16,344,715.60 and 724,036.50. The "Result" column shows values like 0.00 and 0.00. The bottom of the form includes standard navigation buttons and a "Close" button.

Figure 10.11 Closing accounts form

- 7) Select the 130100 ledger account and click the **Transfers** button. The **Transfers** form opens.
- 8) Fill in the necessary values and save the line:
 - a. Ledger account = 130100
 - b. Offset account = 401200
 - c. Amount = 1700

10. Year-End Close

The screenshot shows the 'Transfers' form with one record displayed. The table has columns: Ledger account, Description, Offset account, and Amount. The entry is:

130100--		401200----	1,700.00
----------	--	------------	----------

Figure 10.12 Transfers form

- Close the **Transfer** form. The **Closing accounts** form is updated.

The screenshot shows the 'Closing accounts' form. It has tabs for Overview and General. The General tab displays a table with columns: Main account, Trial balance, Transfer, Reconciled, Difference, and Result. The transfer row for account 130100 is highlighted, showing a trial balance of 16,344,715.60, a transfer of 1,700.00, and a result of 16,346,415.60.

Main account	Trial balance	Transfer	Reconciled	Difference	Result
120200	0.00	0.00	<input type="checkbox"/>	0.00	0.00
120300	0.00	0.00	<input type="checkbox"/>	0.00	0.00
120400	0.00	0.00	<input type="checkbox"/>	0.00	0.00
120500	0.00	0.00	<input type="checkbox"/>	0.00	0.00
120600	0.00	0.00	<input type="checkbox"/>	0.00	0.00
129999	0.00	0.00	<input checked="" type="checkbox"/>	0.00	0.00
130100	16,344,715.60	1,700.00	<input checked="" type="checkbox"/>	16,346,415.60	0.00
130110	0.00	0.00	<input type="checkbox"/>	0.00	0.00
133300	724,036.50	0.00	<input type="checkbox"/>	724,036.50	0.00
130300	0.00	0.00	<input type="checkbox"/>	0.00	0.00
133350	0.00	0.00	<input type="checkbox"/>	0.00	0.00

Figure 10.13 Closing accounts form

- Click the **Post** button to post the adjusting entry. The “Closing sheet has been posted” info message appears.

Let's check the posting results. Close the **Closing accounts** form and click the **Voucher** button in the **Closing sheet** form. The **Voucher transactions** form opens.

The screenshot shows the 'Voucher transactions' form. It has tabs for Overview, General, and Amount. The General tab displays a table with columns: Journal number, Voucher, Date, Year closed, Ledger account, Currency, Amount in transaction currency, Amount, Amount in reporting currency, and Posting layer. The table shows two rows for the same transaction:

Journal number	Voucher	Date	Year closed	Ledger account	Currency	Amount in transaction currency	Amount	Amount in reporting currency	Posting layer
013965	0001	12/31/2012		401200----	USD	-1,700.00	1,700.00	-1,700.00	Current
013965	0001	12/31/2012		130100--	USD	1,700.00	1,700.00	1,700.00	Current

Figure 10.14 Voucher transactions form

We can see that the required adjusting entry is posted to the system.

10. Year-End Close

When we click the **Transactions** button we see all transactions generated for the ledger account, scroll up and find the transactions for 12/31/2012.

Journal number	Voucher	Date	Year closed	Type	Currency	Amount in transaction currency	Amount
003791	INV-10000...	12/18/2012		Operating	USD	76,280.88	76,280.88
003792	INV-10000...	12/18/2012		Operating	USD	72,807.00	72,807.00
003793	INV-10000...	12/18/2012		Operating	USD	18,566.00	18,566.00
003794	INV-10000...	12/18/2012		Operating	USD	2,544.00	2,544.00
003795	INV-10000...	12/18/2012		Operating	USD	1,444.30	1,444.30
013797	INV-10000...	12/27/2012		Operating	USD	67,814.18	67,814.18
013963	GNJL000797	12/31/2012		Operating	USD	3,000.00	3,000.00
013965	0001	12/31/2012		Closing	USD	1,700.00	1,700.00
013964	GNJL000798	1/1/2013		Operating	USD	-3,000.00	3,000.00
004339	180000060	1/3/2013		Operating	USD	69.80	69.80
004340	180000061	1/3/2013		Operating	USD	144.76	144.76
004341	180000062	1/5/2013		Operating	USD	223.78	223.78
004342	180000063	1/11/2013		Operating	USD	246.33	246.33
004343	180000064	1/17/2013		Operating	USD	302.72	302.72

Figure 10.15 Account transactions form

We can see that both adjusting transactions have the same date but are posted to different fiscal periods: the first one to the Period12 operation period, the second one to the Period13 closing period.

Generate Financial Reports

To ensure that year financial statements are accurate and timely, companies use standard journal entries and checklists for the tasks that must be completed.

At a minimum the following should be done:

- 1) Bank reconciliation. The purpose of the bank reconciliation is to be certain that the financial statements report correct amounts of cash and the proper amounts for any related bank accounts.
- 2) Inventory closing. If a company uses inventory, the Accountant must make sure that the costs are recorded in the same month as the goods are added to the inventories. In short, the accrual of expenses becomes immensely important when goods are received and are sold.
- 3) Adjusting entries. To have company's financial statements to be complete and to reflect the accrual method of accounting.

We assume that the Accountant doesn't find any other business activities that were not reflected on accounts balances during a closing year and all necessary bank accounts are reconciled.

To print financial statements, Microsoft suggests Management Reporter. It is a third-party application.

Dynamics AX also has its own financial statements reports. In this lesson we will use them.

To use Dynamics AX financial statements reports, enable the **Financial statement (traditional)** configuration key.

10. Year-End Close

To enable the key go here: **System administration > Setup > Licensing > License configuration.**

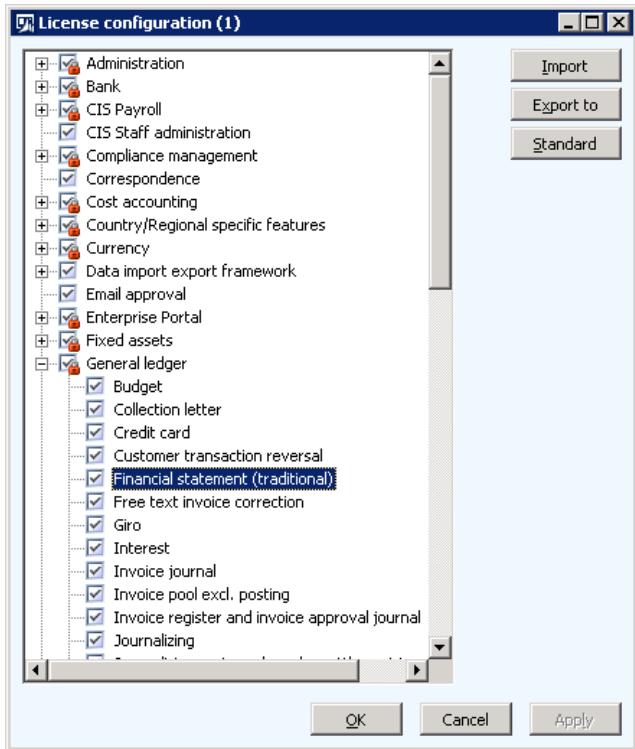


Figure 10.16 License configuration form

To generate a Balance sheet, do the following:

- 1) Go to the **General ledger > Reports > Transactions > Financial statement (traditional)**. The **Financial statement** form opens.
- 2) Fill in the necessary values:
 - a. Financial statement = *BalanceShe*
 - b. Reference date = 12/15/2012
 - c. Go to the **Save to** tab and specify the file name.

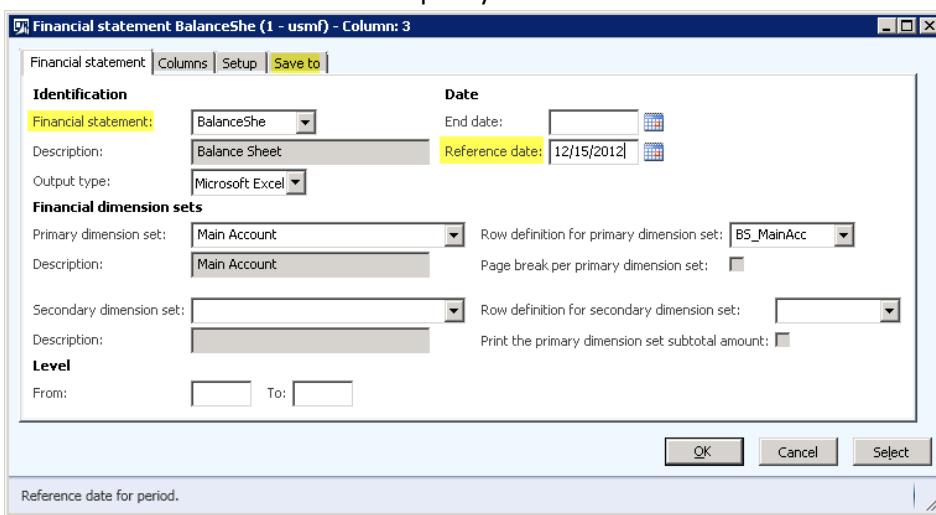


Figure 10.17 Financial statement form

- 3) Click **OK**. The report is generated and saved.

To generate the Income statement report, perform the same steps, but select *IncomeStat* in the **Financial statement** field.

Make Opening and Closing Entries

After generating the accurate financial reports, the Accountant prepares balances for the Balance sheet accounts in a new year.

- 1) Follow the path **General ledger > Periodic > Fiscal year close > Opening transactions**. The **Opening transactions** form opens.
- 2) Specify the necessary values and click **OK**.
 - a. End date = 12/31/2012
 - b. Balance accounts = Closing->Opening
 - c. Main account for transfer of year-end result = 300160 (Retained Earnings)
 - d. Voucher number = V1
 - e. Print created transactions = true

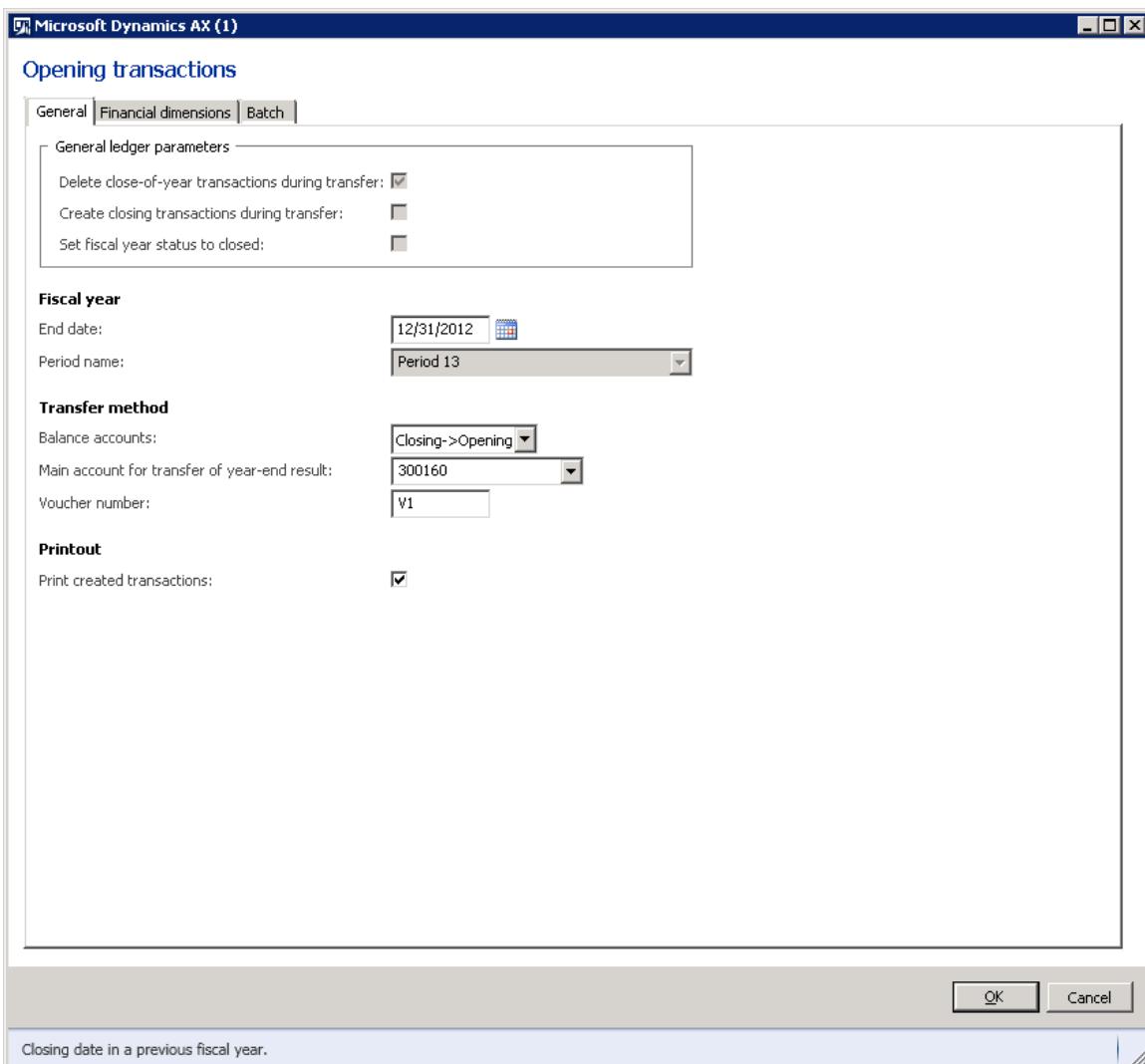


Figure 10.18 Opening transactions form

10. Year-End Close

- 3) The “The transactions for fiscal year 1/1/2012 - 12/31/2012 have been created” message is shown. It means that the voucher is posted. The **Close-of-year transactions** form opens. Click **OK** to print voucher transactions.

The voucher is posted and printed.

The screenshot shows a Microsoft Dynamics AX 2012 application window titled "Close-of-year transactions (1)". The window displays a list of opening transactions for the year 2013. The columns include Ledger account, Date, Voucher, Account name, Description, Currency, Amount in transaction currency, Amount in accounting currency (Debit and Credit), and Amount in reporting currency. The report is page 1 of 5, dated 1/27/2016 at 3:41 AM. The data shows various bank accounts and payroll accounts with their initial balances.

Ledger account	Date	Voucher	Account name	Description	Currency	Amount in transaction currency		Amount in reporting currency
						Debit	Credit	
110110-001-	1/1/2013	V1	Bank Account - USD		USD	88,870,815.13	88,870,815.13	88,870,815.13
110110-001-022	1/1/2013	V1	Bank Account - USD		USD	-692,950.58	692,950.58	-692,950.58
110110-001-023	1/1/2013	V1	Bank Account - USD		USD	-1,187,996.70	1,187,996.70	-1,187,996.70
110110-001-024	1/1/2013	V1	Bank Account - USD		USD	-459,169.44	459,169.44	-459,169.44
110110-001-025	1/1/2013	V1	Bank Account - USD		USD	-477,860.18	477,860.18	-477,860.18
110110-001-026	1/1/2013	V1	Bank Account - USD		USD	-815,848.74	815,848.74	-815,848.74
110110-001-027	1/1/2013	V1	Bank Account - USD		USD	-112,842.29	112,842.29	-112,842.29
110110-002-	1/1/2013	V1	Bank Account - USD		USD	9,790,408.35	9,790,408.35	9,790,408.35
110110-002-022	1/1/2013	V1	Bank Account - USD		USD	-493,794.65	493,794.65	-493,794.65
110110-002-023	1/1/2013	V1	Bank Account - USD		USD	-792,540.55	792,540.55	-792,540.55
110110-002-024	1/1/2013	V1	Bank Account - USD		USD	-306,113.59	306,113.59	-306,113.59
110110-002-025	1/1/2013	V1	Bank Account - USD		USD	-320,044.41	320,044.41	-320,044.41
110110-002-026	1/1/2013	V1	Bank Account - USD		USD	-224,181.82	224,181.82	-224,181.82
110110-002-027	1/1/2013	V1	Bank Account - USD		USD	-75,228.71	75,228.71	-75,228.71
110130-001-	1/1/2013	V1	Bank Account - EUR		EUR	60,000.00	80,699.39	80,699.39
110130-002-	1/1/2013	V1	Bank Account - EUR		EUR	40,000.00	53,799.60	53,799.60
110160-001-	1/1/2013	V1	Bank Account - Payroll		USD	1,077,139.24	1,077,139.24	1,077,139.24
110160-001-022	1/1/2013	V1	Bank Account - Payroll		USD	-318,718.56	318,718.56	-318,718.56
110160-001-023	1/1/2013	V1	Bank Account - Payroll		USD	-1,551,939.69	1,551,939.69	-1,551,939.69
110160-001-024	1/1/2013	V1	Bank Account - Payroll		USD	-394,146.19	394,146.19	-394,146.19
110160-001-025	1/1/2013	V1	Bank Account - Payroll		USD	-24,634.14	24,634.14	-24,634.14
110160-001-026	1/1/2013	V1	Bank Account - Payroll		USD	-221,707.22	221,707.22	-221,707.22
110160-002-	1/1/2013	V1	Bank Account - Payroll		USD	2,847,600.00	2,847,600.00	2,847,600.00
110160-002-022	1/1/2013	V1	Bank Account - Payroll		USD	-180,650.35	180,650.35	-180,650.35
110160-002-023	1/1/2013	V1	Bank Account - Payroll		USD	-1,034,633.80	1,034,633.80	-1,034,633.80
110160-002-024	1/1/2013	V1	Bank Account - Payroll		USD	-262,764.14	262,764.14	-262,764.14
110160-002-025	1/1/2013	V1	Bank Account - Payroll		USD	-16,422.76	16,422.76	-16,422.76
110160-002-026	1/1/2013	V1	Bank Account - Payroll		USD	-147,804.84	147,804.84	-147,804.84
130100--	1/1/2013	V1	Accounts Receivable - Domestic		USD	4,700.00	4,700.00	4,700.00
130100-001-	1/1/2013	V1	Accounts Receivable - Domestic		USD	7,969,329.31	7,969,329.31	7,969,329.31
130100-002-	1/1/2013	V1	Accounts Receivable - Domestic		USD	479,482.60	479,482.60	479,482.60
130300-001-	1/1/2013	V1	Accounts Receivable - Not Invoiced		USD	556,779.00	556,779.00	556,779.00
130300-002-	1/1/2013	V1	Accounts Receivable - Not Invoiced		USD	84,000.00	84,000.00	84,000.00
130300-004-	1/1/2013	V1	Accounts Receivable - Not Invoiced		USD	302,721.50	302,721.50	302,721.50

Figure 10.19 Close-of-year transactions report

We see that all transactions are generated for 1/1/2013. This means that the balance sheet accounts have balances in a new year.

As we already know, transactions that prepare balances for the new year are called opening transactions.

If you click the voucher id (in my case V1) on the report, the **Voucher transactions** form opens.

10. Year-End Close

When you sum all Assets, Liabilities, and Owner's Equity accounts, you make sure that the main accounting rules are met:

- Accounting equation: Assets = Liabilities + Owner's Equity.
- Double-entry accounting: Debits = Credits

Let's check the transactions generated for the 130100 (Account receivable - Domestic) account.

Go to **General ledger > Common > Main accounts** > find the 130100 account. Click the **Posted** button.

The **Account number** form with the ledger transactions opens. Scroll up to review the transactions generated for the 12/31/2012 -1/1/2013 period.

Journal number	Voucher	Date	Year closed	Type	Currency	Amount in transaction currency	Amount
003795	INV-10000...	12/18/2012		Operating	USD	1,444.30	1,444.30
013797	INV-10000...	12/27/2012		Operating	USD	67,814.18	67,814.18
013963	GNJL000797	12/31/2012		Operating	USD	3,000.00	3,000.00
013965	0001	12/31/2012		Closing	USD	1,700.00	1,700.00
013964	GNJL000798	1/1/2013		Operating	USD	-3,000.00	3,000.00
013966	V1	1/1/2013		Opening	USD	4,700.00	4,700.00
013966	V1	1/1/2013		Opening	USD	479,482.60	479,482.60
013966	V1	1/1/2013		Opening	USD	7,969,329.31	7,969,329.31
004339	180000060	1/3/2013		Operating	USD	69.80	69.80
004340	180000061	1/3/2013		Operating	USD	144.76	144.76
004341	180000062	1/5/2013		Operating	USD	223.78	223.78
004342	180000063	1/11/2013		Operating	USD	246.33	246.33
004343	180000064	1/17/2013		Operating	USD	302.72	302.72
004353	180000065	2/3/2013		Operating	USD	71.20	71.20

Figure 10.20 Account transactions form

There are three open transactions because of the financial dimensions. If you review the Ledger account field (in the form bottom), you see that all three transactions have different dimensions.

We can also see that the cross-period balance is not accurate. To make the cross-period balance accurate, we should generate closing transactions (i.e. reverse the previous year balance to zero).

- 1) Open the **General ledger parameters** form: **General ledger > Setup > General ledger parameters**.
- 2) Expand the **Fiscal year close** fast tab.
- 3) Select the **Create closing transactions during transfer** check box.

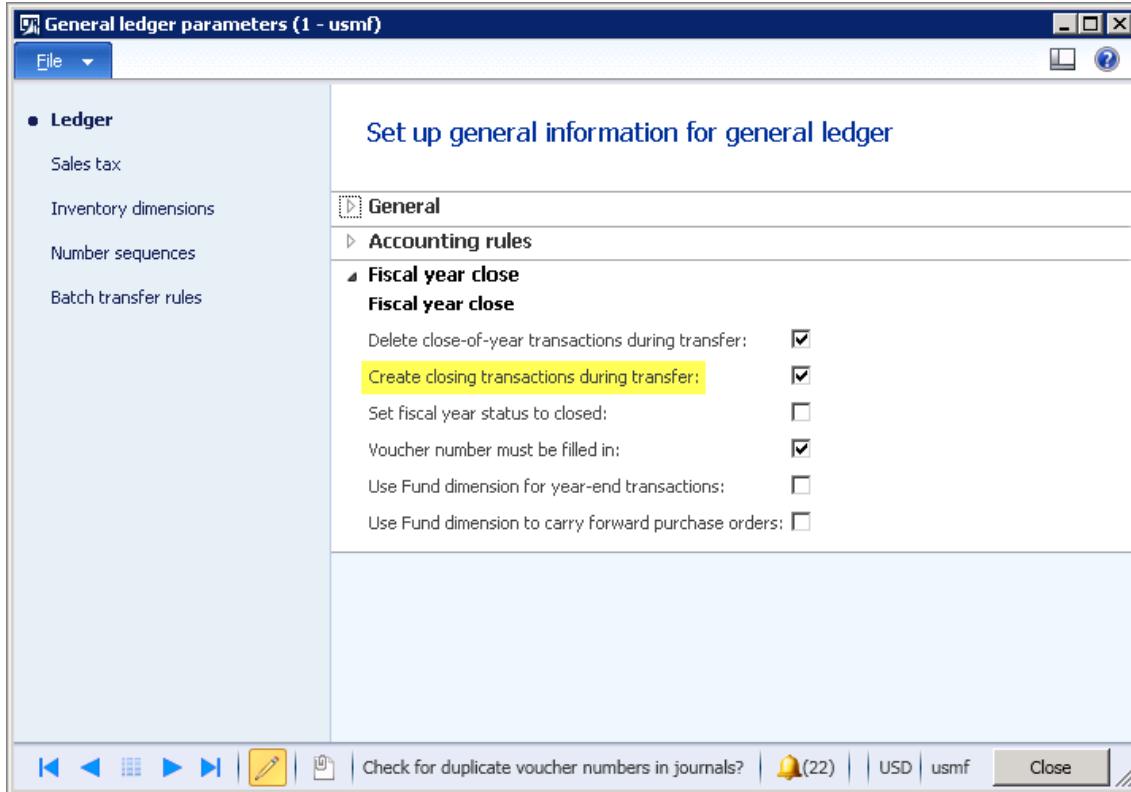


Figure 10.21 General ledger parameters form

- 4) Open the **Opening transactions** form: **General ledger > Periodic > Fiscal year close > Opening transactions**.
- 5) Specify the necessary values and click **OK**.
 - a. End date = 12/31/2012
 - b. Balance accounts = Closing->Opening
 - c. Main account for transfer of year-end result = 300160 (Retained Earnings)
 - d. Voucher number = V2
 - e. Print created transactions = true

10. Year-End Close

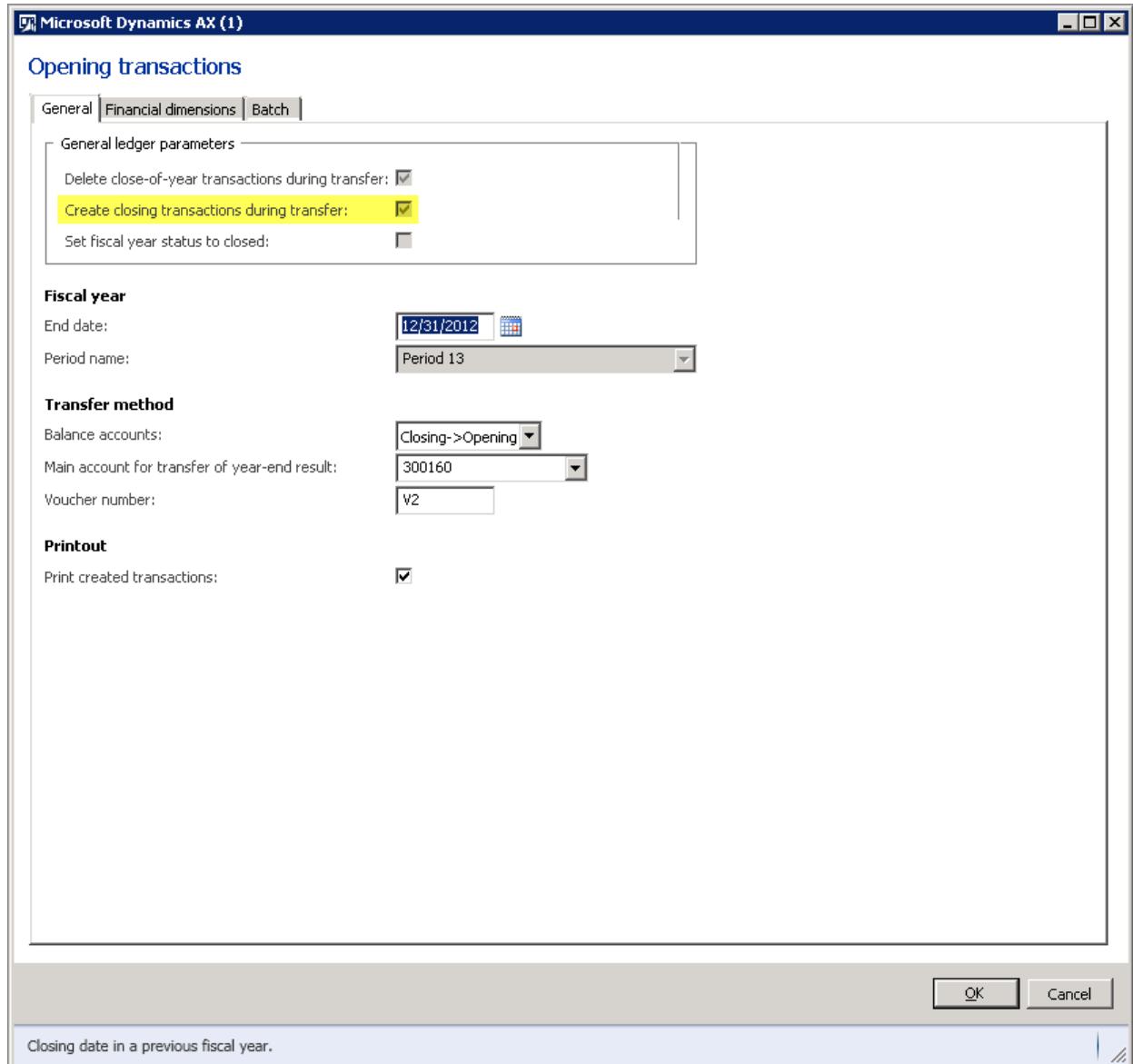


Figure 10.22 Opening transactions form

Be aware that the **Create closing transactions during transfer** check box is selected.

- 6) The “The transactions for fiscal year 1/1/2012 - 12/31/2012 have been created” message is shown. It means that the voucher is posted. The **Close-of-year transactions** form opens. Click **OK** to print voucher transactions.

10. Year-End Close

The voucher is posted and printed.

Close-of-year transactions (1)								
File		Options						
		Close-of-year transactions						
Contoso Entertainment System USA								
		Page 5 of 19 1/27/2016 5:35 AM						
Opening transactions								
Ledger account	Date	Voucher	Account name	Description	Currency	Amount in transaction currency	Amount in accounting currency	Amount in reporting currency
						Debit	Credit	
300160-002-023	1/1/2013	V2	Retained Earnings		USD	1,917,886.35	1,917,886.35	1,917,886.35
300160-002-023-009	1/1/2013	V2	Retained Earnings		USD	240,844.29	240,844.29	240,844.29
300160-002-023-009-Services	1/1/2013	V2	Retained Earnings		USD	-7,846.77		-7,846.77
300160-002-023-010	1/1/2013	V2	Retained Earnings		USD	648,549.77	648,549.77	648,549.77
300160-002-023-011	1/1/2013	V2	Retained Earnings		USD	26,442.94	26,442.94	26,442.94
300160-002-023-012	1/1/2013	V2	Retained Earnings		USD	157,412.63	157,412.63	157,412.63
300160-002-024	1/1/2013	V2	Retained Earnings		USD	614,233.73	614,233.73	614,233.73
300160-002-024-013	1/1/2013	V2	Retained Earnings		USD	46,269.98	46,269.98	46,269.98
300160-002-024-014	1/1/2013	V2	Retained Earnings		USD	706,489.40	706,489.40	706,489.40
300160-002-025	1/1/2013	V2	Retained Earnings		USD	427,179.17	427,179.17	427,179.17
300160-002-025-014	1/1/2013	V2	Retained Earnings		USD	38,925.40	38,925.40	38,925.40
300160-002-026	1/1/2013	V2	Retained Earnings		USD	417,342.66	417,342.66	417,342.66
300160-002-026-014	1/1/2013	V2	Retained Earnings		USD	222,114.45	222,114.45	222,114.45
300160-002-027	1/1/2013	V2	Retained Earnings		USD	120,584.71	120,584.71	120,584.71
300160-002--Audio	1/1/2013	V2	Retained Earnings		USD	-6,503,151.88		-6,503,151.88
300160-002--Services	1/1/2013	V2	Retained Earnings		USD	-487,750.00	487,750.00	-487,750.00
Type Opening								
						160,608,553.63	160,608,553.63	
Net difference								
							0.00	
Closing transactions								
Ledger account	Date	Voucher	Account name	Description	Currency	Amount in transaction currency	Amount in accounting currency	Amount in reporting currency
						Debit	Credit	
110110-001-	12/31/2012	V2	Bank Account - USD		USD	-88,870,815.13		88,870,815.13
110110-001-022	12/31/2012	V2	Bank Account - USD		USD	692,950.58		692,950.58
110110-001-023	12/31/2012	V2	Bank Account - USD		USD	1,187,996.70	1,187,996.70	1,187,996.70
110110-001-024	12/31/2012	V2	Bank Account - USD		USD	459,169.44	459,169.44	459,169.44
110110-001-025	12/31/2012	V2	Bank Account - USD		USD	477,860.18	477,860.18	477,860.18
110110-001-026	12/31/2012	V2	Bank Account - USD		USD	815,848.74	815,848.74	815,848.74
110110-001-027	12/31/2012	V2	Bank Account - USD		USD	112,842.29	112,842.29	112,842.29
110110-002-	12/31/2012	V2	Bank Account - USD		USD	-9,790,408.35		9,790,408.35
110110-002-022	12/31/2012	V2	Bank Account - USD		USD	493,794.65	493,794.65	493,794.65
110110-002-023	12/31/2012	V2	Bank Account - USD		USD	792,540.55	792,540.55	792,540.55
110110-002-024	12/31/2012	V2	Bank Account - USD		USD	306,113.59	306,113.59	306,113.59
110110-002-025	12/31/2012	V2	Bank Account - USD		USD	320,044.41	320,044.41	320,044.41
110110-002-026	12/31/2012	V2	Bank Account - USD		USD	224,181.82	224,181.82	224,181.82
110110-002-027	12/31/2012	V2	Bank Account - IISD		IISD	75,228.71	75,228.71	75,228.71

Figure 10.23 Close-of-year transactions form

We see that opening transactions are generated for 1/1/2013. This means that the balance sheet accounts have balances in a new year.

The closing transactions are generated for 12/31/2012. This means that the account balances become zero in the closing year.

If you click the voucher id (in my case V2) on the report, the **Voucher transactions** form opens.

When you sum all Assets, Liabilities, Owner's Equity, and Profit&Loss accounts, you make sure that the main accounting rules are met:

- Accounting equation: Assets = Liabilities + Owner's Equity (Retained earning on the beginning of the year + Profit&Loss).
- Double-entry accounting: Debits = Credits

10. Year-End Close

Let's check the transactions generated for the 130100 (Account receivable - Domestic) account.

Go to **General ledger > Common > Main accounts** > find the 130100 account. Click the **Posted** button.

The **Account number** form with the ledger transactions opens. Scroll up to review the transactions generated for the 12/31/2012 -1/1/2013 period.

Journal number	Voucher	Date	Year closed	Type	Currency	Amount in transaction currency	Amount	Amount
003795	INV-10000...	12/18/2012		Operating	USD	1,444.30	1,444.30	
013797	INV-10000...	12/27/2012		Operating	USD	67,814.18	67,814.18	
013963	GNJL000797	12/31/2012		Operating	USD	3,000.00	3,000.00	
013965	0001	12/31/2012		Closing	USD	1,700.00	1,700.00	
013968	V2	12/31/2012		Closing	USD	-4,700.00	4,700.00	
013968	V2	12/31/2012		Closing	USD	-479,482.60	479,482.60	
013968	V2	12/31/2012		Closing	USD	-7,969,329.31	7,969,329.31	
013964	GNJL000798	1/1/2013		Operating	USD	-3,000.00	3,000.00	
013970	V2	1/1/2013		Opening	USD	4,700.00	4,700.00	
013970	V2	1/1/2013		Opening	USD	479,482.60	479,482.60	
013970	V2	1/1/2013		Opening	USD	7,969,329.31	7,969,329.31	
004339	180000060	1/3/2013		Operating	USD	69.80	69.80	
004340	180000061	1/3/2013		Operating	USD	144.76	144.76	
004341	180000062	1/5/2013		Operating	USD	223.78	223.78	

Ledger account: 130100 - 002 - Account name: Accounts Receivable - Domestic
Description:
Unique key for generating general ledger entries | (22) | USD | usmf | Close

Figure 10.24 Account transactions form

We can see that the closing and opening transactions are generated.

Note that there are no previous opening transactions generated in the V1 voucher. This is the only function in Dynamics AX that can delete general ledger transactions.

Opening transactions were deleted because the **Delete close-of-year transactions during transfer** check box in the **General ledger** parameters form is selected.

The Accountant should not forget to reverse the adjusting entry (with the help of the General journal) entered with the help the **Closing sheet** form.

The Accountant must also close all fiscal periods in the **Ledger calendar** form manually one by one.

Summary

In this training lesson we have studied what the year-end closing process is, its main steps, and how they are implemented in Microsoft Dynamics AX.

The year-end closing process is not related to a company business. Moreover, during the year-end closing all business activities (sales, purchase, production, etc) should be stopped.

10. Year-End Close

The main goal of the year-end closing is to prepare accurate financial reports.

The year-end closing consists of the following activities:

- 1) Stop transactions posting for the closing year.
- 2) Adjust accounts balances for the closing year. It is done with the help of adjusting entries to have accounts balances according to the accrual method of accounting. It is required for generating accurate financial reports for the closing year.
- 3) Generate financial reports.
- 4) Prepare accounts balances for a new year:
 - a. Create closing transactions for the closing year (optional).
 - i. Reset balances for the closing year for the Profit&Loss accounts.
 - ii. Reset balances for the closing year for the Balance sheet accounts.
 - b. Create opening transactions for the new year:
 - i. Transfer balances for the Balance sheet accounts from the closing to the new year.
 - ii. Transfer earnings from the Profit & Loss accounts to the Retained earnings account.
 - c. Reverse the closing year adjusting transactions.