MODULE 8: RETURNS MANAGEMENT

Module Overview

Sales returns management is important to customer service. The timely repair or replacement of damaged items, and being able to credit returned items, improves customer satisfaction and encourages repeat business.

Obtaining replacements or fair compensation for damaged items from vendors is equally important to vendor relationships.

From the company's perspective, the management of return-related processes can include the following:

- Shipment of replacement items to customers
- Inspection of returned items
- Sending returned items to vendors for repair
- Adjustment of customer and vendor balances
- Update of inventory quantities and values
- Accounting for additional costs

The scope of these processes depends on many factors, such as the following:

- Customer's request
- Reason for return
- Item type and value
- Cause of damage
- Practices common in a specific line of business

The return processes can require the participation of several different employees. These include order processors, warehouse workers, bookkeepers, purchasing agents, and inspectors. Although logically related, some operational tasks do not depend on one another. For example, a company might ship a replacement before the customer returns a damaged item, or the customer might be credited for a returned item before the company inspects and approves the return.

In such a multi-process environment, the challenge is to complete all return-related tasks in a timely manner with minimal errors, and if errors occur, they must be easily fixed.

Because of the complexity and the scope of return-related processes, their costs can be significant. To control these costs, companies must optimize their returns management system.

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8 - 1

The Returns Management functionality in Microsoft Dynamics® NAV helps companies manage returns in a highly efficient and cost-effective manner by offering the following features:

- Rapid response to customer requests, where the person(s) responsible for customer relationships can register the details of a return agreement by using just one document even though the return might involve many documents.

- Maximum flexibility. This includes being able to perform many return-related tasks in parallel.

- Full traceability of all return-related documentation. This provides strong support for customer inquiries and internal follow-up.

- Full support for the return-to-vendor process. This includes automatically creating all related documents.

Before starting the lessons in this module, set your work date to January 23, 2014.

Objectives

The objectives are:

- Describe the returns management setup for sales and purchases.
- Explain and show how to manage customer returns.
- Explain and show how to manage returns to vendors.

Returns Management Setup

The setup of returns management consists of two elements:

- **General setup**: Several fields on the **Sales & Receivables Setup** and **Purchases & Payables Setup** pages define the setup of Sales Return Order Management and Purchase Return Order Management.
- **Return Reasons setup**: A company can set up codes that specify the reasons to return items. These apply to both customer and vendor returns. You can select a return reason code when you register a return agreement in most sales and, or purchase documents.

Procedure: Review the Sales Return Order Setup

To view the general setup of Sales Return Order Management, enter "sales & receivables setup" in the **Search** box, and then select the related link.

The following table provides the description of the four fields on the **General** FastTab that define the sales return management setup.

Field	Description
Return Receipt on Credit Memo	Specifies that a posted return receipt is automatically created when a sales credit memo posts.
Copy Cmts Ret. Ord. to Cr. Memo	Indicates whether to copy comments from sales return orders to sales credit memos. If this check box is selected, then comments entered on a sales return are copied to the posted sales credit memo that is created from the return order.
Copy Cmts Ret. Ord. to Ret. Rcpt	Specifies whether to copy comments from sales credit memos to posted return receipts.

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8 - 3

Field	Description
Exact Cost Reversing Mandatory	Defines whether a company wants to apply an exact cost reversing policy to sales returns. This means that when items are returned to inventory from a sales return, the program values the items at the same cost as the original sale. If an additional cost is later added to the original sale, the program updates the value of the sales return. Selecting this check box also means that the program will not allow a return transaction to post unless the **Appl.-from Item Entry** field on the corresponding order line contains an entry.

Procedure: Review the Purchase Return Order Setup

To view the general setup of Purchase Return Order Management, enter "purchases & payables setup" in the **Search** box, and then select the related link.

The four fields on the **General** FastTab that define the purchase return management setup are shown in the following table.

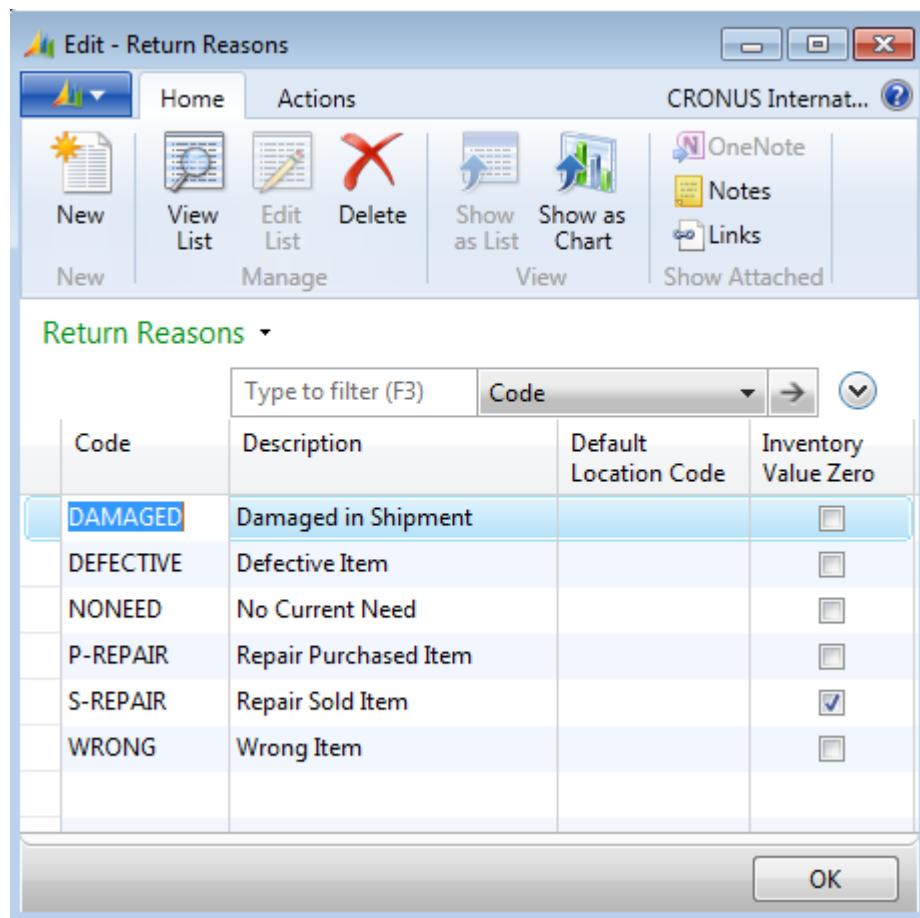| Field	Description
Return Shipment on Credit Memo	Specifies that a posted shipment document is automatically created when a purchase credit memo posts.
Copy Cmts Ret. Ord. to Cr. Memo	Indicates whether to copy comments from purchase return orders to purchase credit memos. If this check box is selected, then comments entered on a purchase return are copied to the posted purchase credit memo that is created from the return order.

Field	Description
Copy Cmts Ret. Ord. to Ret. Shpt	Specifies whether to copy comments from return orders to posted return shipments.
Exact Cost Reversing Mandatory	Defines whether a company wants to apply an exact cost reversing policy for purchase returns. This means that when items are removed from inventory because of a purchase return, the program values the items at the same cost as the original purchase. If an additional cost is later added to the original purchase, the program updates the value of the purchase return. Selecting this check box also means the program will not allow a return transaction to post unless the **Appl.-to Item Entry** field on the corresponding order line contains an entry.

Procedure: Review the Reason Code Setup

Companies set up return reason codes to identify the reasons items are returned by customers or returned to vendors.

Because return reasons copy to item ledger entries, companies can use them for general statistical purposes. They can also use them to assess relationships with individual customers or vendors.

To view the return reason codes set up in CRONUS International Ltd., enter "return reasons" in the **Search** box, and then select the related link.

FIGURE 8.1: RETURN REASONS

In addition to setting up return reason codes and descriptions, companies can also assign a default location to a return reason. By default, items that are returned are then received and, or shipped from the assigned location. For example, companies can store damaged and, or defective items in a specific location in a warehouse to prevent their sale.

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Demonstration: Create a Return Location and Assign to a Return Reason Code

Scenario: CRONUS has decided to create a new location called REPAIR and set it up as the default location for the S-REPAIR return reason code.

Demonstration Steps

To create a return location and assign it to a return reason, follow these steps.

1. In the **Search** box, enter "locations", and then select the related link (the list, not the setup link).
2. On the **Home** tab, click **New**.
3. On the **General** FastTab, in the **Code** field, type "REPAIR".
4. In the **Name** field, type "Repair Warehouse".
5. Click **OK** to close the location card.
6. In the **Search** box, enter "inventory posting setup", and then select the related link.
7. On the Scroll to the bottom of the listing.
8. Enter three new lines for the REPAIR location code. Other than setting the **Location Code** field to REPAIR, make sure that the three lines are an exact copy of the three lines for the YELLOW location.
9. Click **OK** to close the **Inventory Posting Setup** page.
10. In the **Search** box, enter "return reasons", and then select the related link (the setup page, in this case).
11. In the **Default Location Code** field, on the line for the S-REPAIR return reason code, select REPAIR.
12. Make sure that the **Inventory Value Zero** check box is selected.
13. Click **OK** to close the **Return Reasons** page.

Selecting the **Inventory Value Zero** check box specifies that items returned for the S-REPAIR reason code do not increase the inventory value. This is logical for repairs because the item belongs to the customer, not the company.

📋 **Note:** *If an item's costing method is set up as Standard, it means the inventory increase is valued at a budgeted (standard) cost instead of at an acquisition cost, and the program ignores the **Inventory Value Zero** field.*

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8 - 7

Manage Customer Returns

Processing a return that is received from a dissatisfied customer is an important transaction. By quickly and accurately handling the return, the customer is more likely to form a better opinion of the company's customer service.

Typically, the order processor that is responsible for customer interaction is also the person who will receive complaints from customers about the items purchased. In other cases, a company might use dedicated personnel to handle returns, such as employees in the Customer Service Department.

Managing returns from customers involves completing a series of tasks. The number and scope of tasks depend on the company's return policy and business practices. A customer-oriented return process can include the following tasks:

- Register compensation agreement with the customer
- Ship replacement items to the customer (if a replacement is part of the compensation agreement)
- Credit the customer, either by a credit for physically returned items or a sales allowance where the customer is not required to physically return the items
- Ship repaired items to the customer (if repair is a part of a compensation agreement)
- Follow up in response to customer inquiries

Additionally, several internal tasks might have to be completed that include the following:

- Receive and inspect returned items
- Apply restock charges
- Make sure that the inventory value assigned to the returned items is accurate
- Ship returned items to the vendor for repair

The topics and demonstrations in this lesson address these external and internal tasks.

Register a Compensation Agreement with a Customer

There are various ways to compensate customers who are dissatisfied with items they have received. The terms of the compensation agreement frequently depend on the company-customer relationship and the reason for the dissatisfaction.

For incorrect items ordered, the parties might agree that the customer returns them to the company for a credit, receives replacement items, and accepts that the company charges a restock fee.

If an item arrives damaged, the customer might agree to a price deduction against the original sales order price. Or, if the damaged item has a warranty, the company might agree to repair the item.

In Microsoft Dynamics NAV, the sales return order is the central document used to register a compensation agreement with a customer. From this document, you can access other sales-related documents and enter and maintain the return-related information, the method of compensation, and so on. You can register different aspects of the compensation agreement by creating return lines of different types. These include the following:

- **Item**: This is used for transactions where an item is physically returned to the company.
- **Charge (Item) or G/L Account**: These are used for financial transactions where a customer receives a credit (in the form of a sales allowance) for an item without physically returning it to the company. The same line type is used for registering fees that are associated with a return.

You can also create other return-related documents from a sales return order. These include a replacement sales order, and, where a return to vendor is required, a purchase return order and, or a replacement purchase order.

📋 *Note: Other standard sales documents can be used to register the details of a compensation agreement with a customer. These include sales credit memos, sales invoices, sales orders, or any combination of these.*

In the return order and credit memo, a return transaction is expressed as a line with a positive quantity. In the sales order and in the invoice, a return is represented by a line with negative quantity. Refer to the example in the "Sales Return Order" topic in the online Help.

Because there is a relationship between these documents, and because of the flexibility that the program offers by using them for returns, any one document should be considered more as a preferred entry point for a compensation agreement, instead of the whole agreement.

This is because additional events or information can arise at any later point in the process (such as the inability of a vendor to replace a defective item).

When you decide which document to use as a preferred entry point for a compensation agreement, consider that, compared to a credit memo and invoice (where posting updates for both the quantity and the value at the same time), a return and, or sales order can separate the quantity and value parts of the transaction. If this flexibility is important, companies might prefer to use a sales return order for returns instead of a credit memo.

Demonstration: Create a Sales Return Order

Scenario: A representative from customer 10000 calls Susan, the order processor at CRONUS, and says that the customer received five units of item 70011 instead of item 70010. Also, two units of item 1964-W were delivered damaged. The representative explains that item 70011 is ordered by mistake (the customer's fault), and that the two items of 1964-W were damaged during shipment.

Susan and the customer agree that item 70011 must be returned to CRONUS and a replacement of the same quantity of item 70010 must be shipped to the customer. CRONUS charges the customer a restock fee of five percent of the original order amount.

Item 1964-W is not returned, and CRONUS gives the customer a sales allowance of 15 percent off the price of the item.

Susan must register the compensation agreement reached with the customer and process the return. She must also make sure that the returned items, when returned to stock, are valued at the same unit cost as when they were originally sold (according to CRONUS's internal policy on inventory valuation).

This demonstration consists of these main tasks:

- Create the sales return order.
- Reverse the original shipment line.
- Create the return for five units of item 70011.
- Add the replacement item to the order.
- Assign the restocking charge.
- Assign the corresponding charge amount to the original sale of item 1964-W.

Demonstration Steps

Create the Sales Return Order

To create the sales return order from customer 10000 for five units of item 70011, follow these steps.

1. In the **Search** box, enter "sales return orders", and then select the related link.
2. On the **Home** tab, click **New** and then press **Enter**.
3. On the **General** FastTab, in the **Sell-to Customer No.** field, enter "10000".
4. In the **External Document No.** field, type "SR024". This is the number the program uses as a reference to the return document.
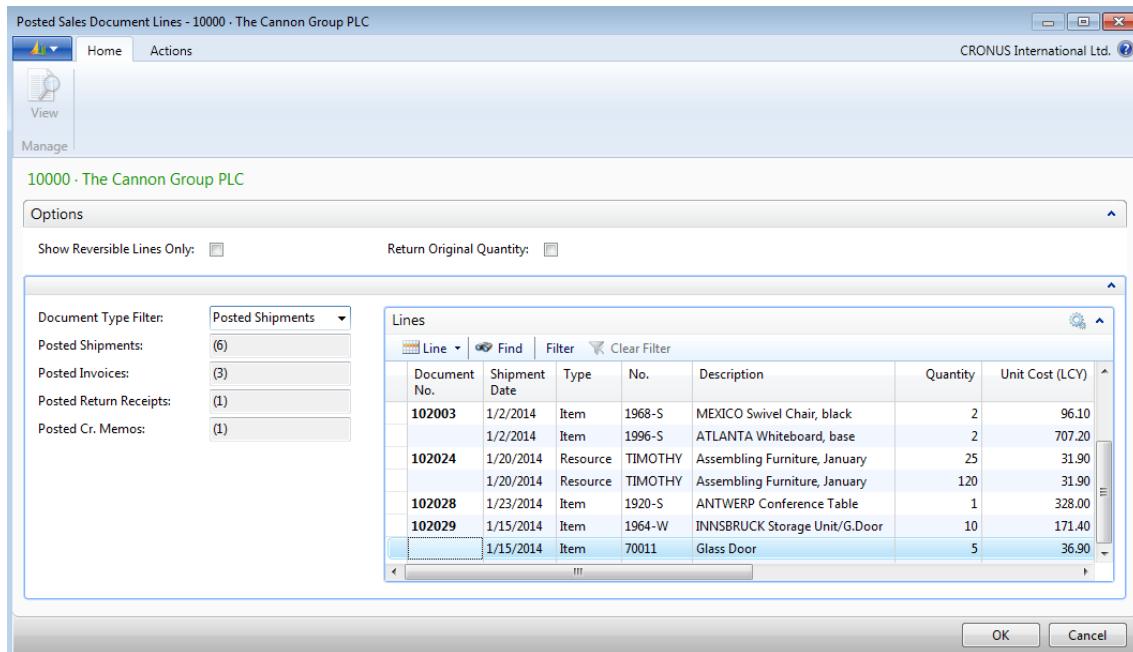
Enter an external document number if you want to be able to obtain an overview of the return status. External document numbers are also used to help locate the sales documents that are created for a specific customer return.

Reverse the Original Shipment Line

Susan must now enter the sales return line. When she invoices the order, she must also make sure that the returned item is revalued at the unit cost of the original sale. To find the original shipment line to reverse, follow these steps.

1. On the **Home** tab, click **Get Posted Document Lines to Reverse**.
2. On the **Posted Sales Document Lines** page, in the **Document Type Filter** field, select Posted Shipments.

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8 - 11

3. In the **Lines** FastTab, scroll down until item 70011 is in view.

FIGURE 8.2: POSTED SALES DOCUMENT LINES WITH THE POSTED SHIPMENTS VIEW

The **Posted Sales Document Lines** page provides information about the status of posted quantities. For example, it shows whether any quantities are already returned.

The **Options** FastTab includes the following fields:

- Select the **Show Reversible Lines Only** check box to view only lines including quantities that are not yet returned.

- Select the **Return Original Quantity** check box to use the original quantity. By doing this, you can use quantities from specific shipments. Otherwise, the program uses the remaining quantity when you create the lines.

On the left side of the page, the program lists the different document types, and the number in parentheses shows the number of documents available for each document type. In the **Document Type Filter** field, select the type of posted document lines to use.

On the **Lines** FastTab, the **Unit Cost (LCY)** field shows the current, potentially adjusted unit cost, and the **Reverse Unit Cost (LCY)** field shows the unit cost at which the item is originally sold and at which it must be reversed (these fields must be added by using the **Choose Columns** function).

The **Qty. Not Returned** field is implemented in the **Item Ledger Entry** table, where the reversible quantity of an outbound item ledger is stored. If exact cost reversing is in effect, the program verifies during the posting of return orders that only the remaining quantity in relation to the original sales document line can be reversed. This makes sure that you do not mistakenly return more than what is sold.

📋 *Note: There are three methods of assigning exact cost reversing to a return line.*

*You can use the **Get Posted Document Lines to Reverse** function to select one or more posted document lines for exact cost reversal, as shown in this demonstration. This function is especially useful when you must copy multiple lines from one or more posted documents.*
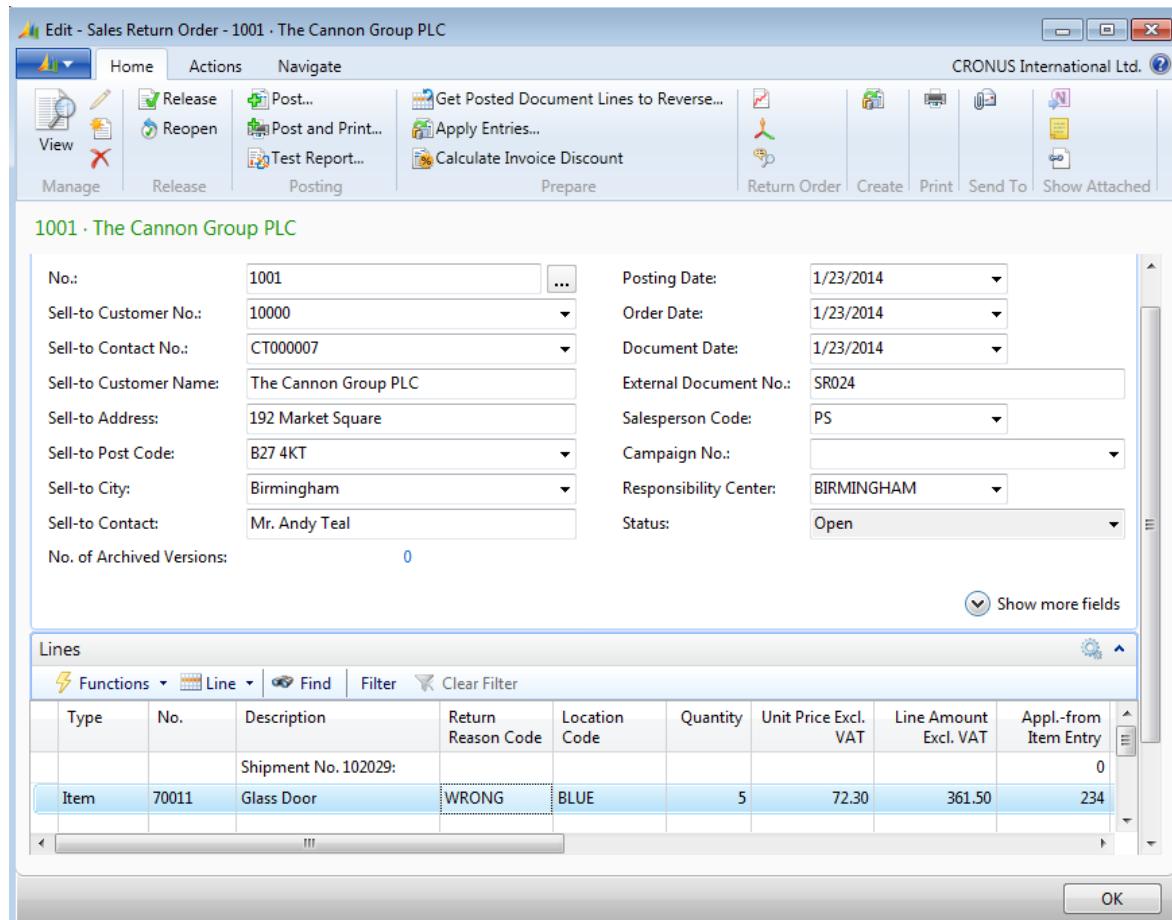

- o You can also manually fill in the return order line, and then select the relevant line from the **Item Ledger Entries** page.
- o You can use the **Copy Document** function to automatically fill in the return order from another posted shipment or invoice document. If the **Exact Cost Reversing Mandatory** check box is selected on the **Sales & Receivables Setup** page, the **Appl.-from Item Entry** field automatically populates with the corresponding entry on the return line.
- o For more information about each cost reversal method, refer to the "How to Assign Exact Cost Reversing in Sales" topic in the online Help.

Create the Return for Five Units of Item 70011

To create the return line for the five units of item 70011, follow these steps.

1. Select the line for five units of item 70011, and then click **OK**. The program closes the **Posted Sales Document Lines** page and returns to the sales return order, where it adds two lines on the **Lines** FastTab. The first line contains shipment information. The second line is the return line.
2. Use the **Choose Columns** function to add the **Appl.-from Item Entry** field to the **Lines** FastTab. Notice that this field is automatically populated for the return line with the item ledger entry number that is associated with the original shipment.

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3. In the **Return Reason Code** field, select WRONG.

FIGURE 8.3: SALES RETURN ORDER WITH LINE INFORMATION FROM THE GET POSTED DOCUMENT LINES TO REVERSE FUNCTION

If applicable, add some comment lines with additional information about the related posted invoice and, or shipment. Because multiple documents and persons are frequently involved in the return process, good documentation is important. To add comments, point to **Line** and then click **Comments**.

Add the Replacement Item to the Order

In the scenario, the customer also requested a replacement of item 70011 with item 70010. To register this requirement in the sales return order, Susan can enter a line with a negative quantity for the replacement item.

To add the replacement item to the return order, follow these steps.

1. On a new line, in the **No.** field enter "70010".
2. In the **Quantity** field, type "-5".

The advantage of doing this in the sales return order, is that Susan can register the customer's request to receive a replacement on one page, instead of opening a new sales order.

📓 **Note:** *Remember that the sales return lines (of the item type) with positive quantities represent return items, whereas lines with negative quantities represent replacement items.*

How to create the replacement sales order is shown in the "Process the Sales Return" demonstration.
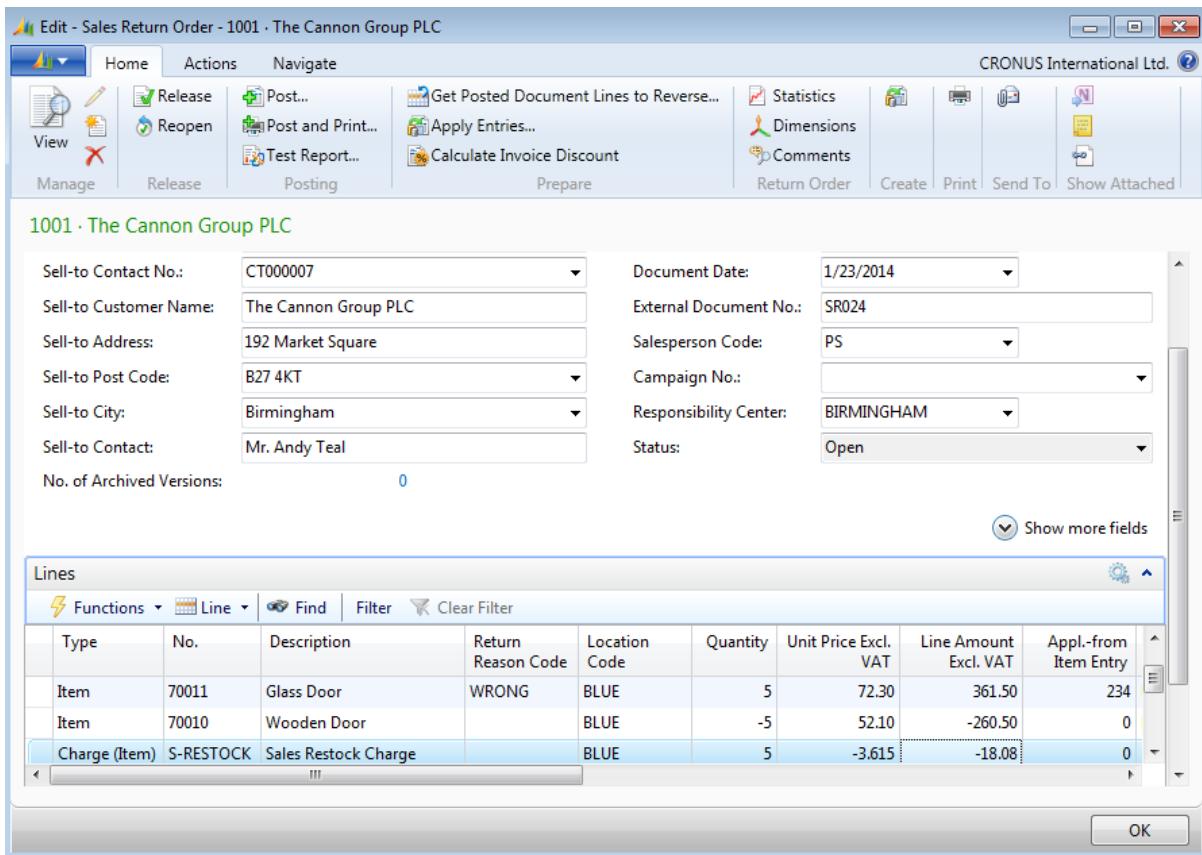
Assign the Restocking Charge

The compensation agreement states that Susan must also apply a five percent restock fee to cover the physical handling of returning the item. She does this in the same sales return order by creating a Charge (Item) line.

To apply a restock fee charge to the return order, follow these steps.

1. On a new line, in the **Type** field, select Charge (Item).
2. In the **No.** field, select S-RESTOCK.
3. In the **Quantity** field, type "5".
4. In the **Unit Price Excl. VAT** field, type "-3.615". This is five percent of the original unit price of 72.30 LCY.

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8 - 15

The program calculates the total restock fee amount equal to 18.08 LCY (5*3.615). Remember that the quantity of the restock charge must be positive. However, the unit price must be negative for the customer to pay the restock charge.

FIGURE 8.4: SALES RETURN ORDER WITH RETURN ITEM, REPLACEMENT ITEM, AND RESTOCK CHARGE

Susan also wants to make sure that sales statistics are accurate. To do this, assign the restock charge to the return entry by following these steps.

1. On the **Lines** FastTab, point to **Line** and then click **Item Charge Assignment**. The **Item Charge Assignment (Sales)** page appears.
2. On the line for 70011, in the **Qty. to Assign** field, type "5".
3. Click **OK** to close the page to return to the sales return order. The **Qty. to Assign** field on the restock charge line updates.

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Note: As an alternative to creating a Charge (Item) line, the order processor can create a G/L Account line for the restock fee and post the entry directly to the G/L Account. The advantage of using an item charge is that item statistics update correctly.
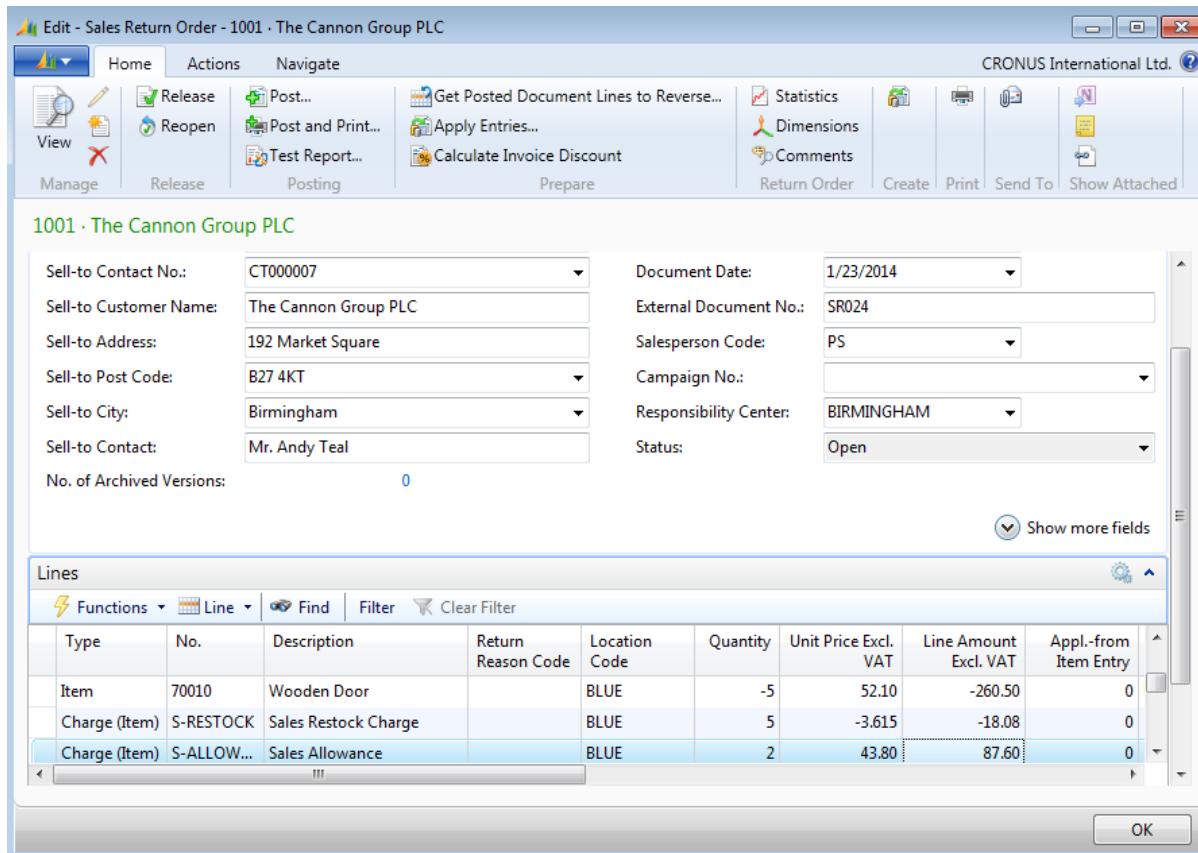
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Assign the Corresponding Charge Amount to the Original Sale of Item 1964-W

Finally, Susan must record the agreement with the customer about the sales allowance of 15 percent for the two damaged units of item 1964-W. She will use the sales return order as an entry point for the details of this agreement (an alternative entry point for a sales allowance is a sales credit memo).

To create a Charge (Item) line and assign the corresponding charge amount to the original sale of item 1964-W, follow these steps.

1. On a new line, in the **Type** field, select Charge (Item).
2. In the **No.** field, select S-ALLOWANCE. You can add more information about the allowance in the **Description** field.
3. In the **Quantity** field, type "2". This is the number of items that arrived damaged to the customer and for which the order processor must provide the allowance.
4. On the **Lines** FastTab, point to **Line**, and then click **Item Charge Assignment**.
5. On the **Actions** tab, click **Get Shipment Lines**. The program lists all posted shipment lines related to the customer.
6. Select the shipment line for item 1964-W, and then click **OK**.
7. On the **Item Charge Assignment (Sales)** page, in the **Qty. to Assign** field of the shipment line, type "2".
8. Click **OK** to close the page and return to the sales return order. The **Qty. to Assign** field on the sales allowance line updates.
9. On the sales allowance line, in the **Unit Price Excl. VAT** field, type "43.80". This is 15 percent of the original unit price (292.00 LCY) at which item 1964-W is sold to the customer.

10. Leave the sales return order open.

FIGURE 8.5: SALES RETURN ORDER INCLUDING LINES OF MULTIPLE TYPES

Demonstration: Process the Sales Return

This demonstration is a continuation of the "Create a Sales Return Order" demonstration.

Scenario: After Susan registers the details of the compensation agreement in the sales return order, the next task is to process the return. This means that CRONUS must do the following:

- Ship the customer a replacement item.
- Credit the customer for the returned items when they are received at the company (with a deduction for the restock charge).
- Provide a sales allowance for the items the customer is not required to return to CRONUS.

Unless the total order amount is negative, Susan can perform all the procedures when she posts the sales return order. However, if, for example, the replacement order has to ship without waiting until the returned items are received, then the replacement line(s) (lines with negative quantities) can be moved to a regular sales order.

When a replacement is posted from the return order, the program does not create a separate posted shipment document for the shipment.

Note: The program does not allow posting of any orders with a negative total amount. According to general conventions in the program, the warehouse management functionality does not manage negative lines. For the warehouse, it does not make sense to select a negative quantity. So, when you use warehousing, you must move negative lines to documents where they are positive.

Demonstration Steps

To ship the customer replacement items before waiting for the receipt of the return items, Susan decides to move the negative line (representing a demand for a replacement) to a separate sales order by using the **Move Negative Lines** function.

To move the negative line to create the replacement sales order, follow these steps.

1. Make sure that the sales return order created in the "Create a Sales Return Order" demonstration is still open.
2. On the **Actions** tab, click **Move Negative Lines**. The **Move Negative Sales Line** page opens.
3. Under the Return Order & Credit Memo heading, set the **To Document Type** field to Order. This field specifies the type of document to receive the negative lines. To learn about the different options on this page, refer to the topic "Move Negative Sales Lines Batch Job" in the online Help.
4. Click **OK** to close the page. The program deletes the return line with the negative quantity and creates a new sales order. A message that provides the new sales order number appears.
5. Click **Yes** to view the created document. On the **Lines** tab, notice the line with the reference to shipment number in the description. Otherwise, the order is a regular sales order and is posted as such.
6. On the **Home** tab, click **Post**.
7. Click **OK** to ship and invoice the order. This returns you to the sales return order.
8. On the sales return order, verify that the line with the negative quantity is deleted.

Upon receipt of the returned item, Susan posts the sales return order. This credits the customer's account for: a) the value of returned item 70011. This includes a deduction of the restock charge, and b) the sales allowance provided for two damaged units of item 1964-W.

To post the sales return order, follow these steps.

1. On the **Home** tab of the sales return order, click **Post**.
2. Click **OK** to receive and invoice the return order.

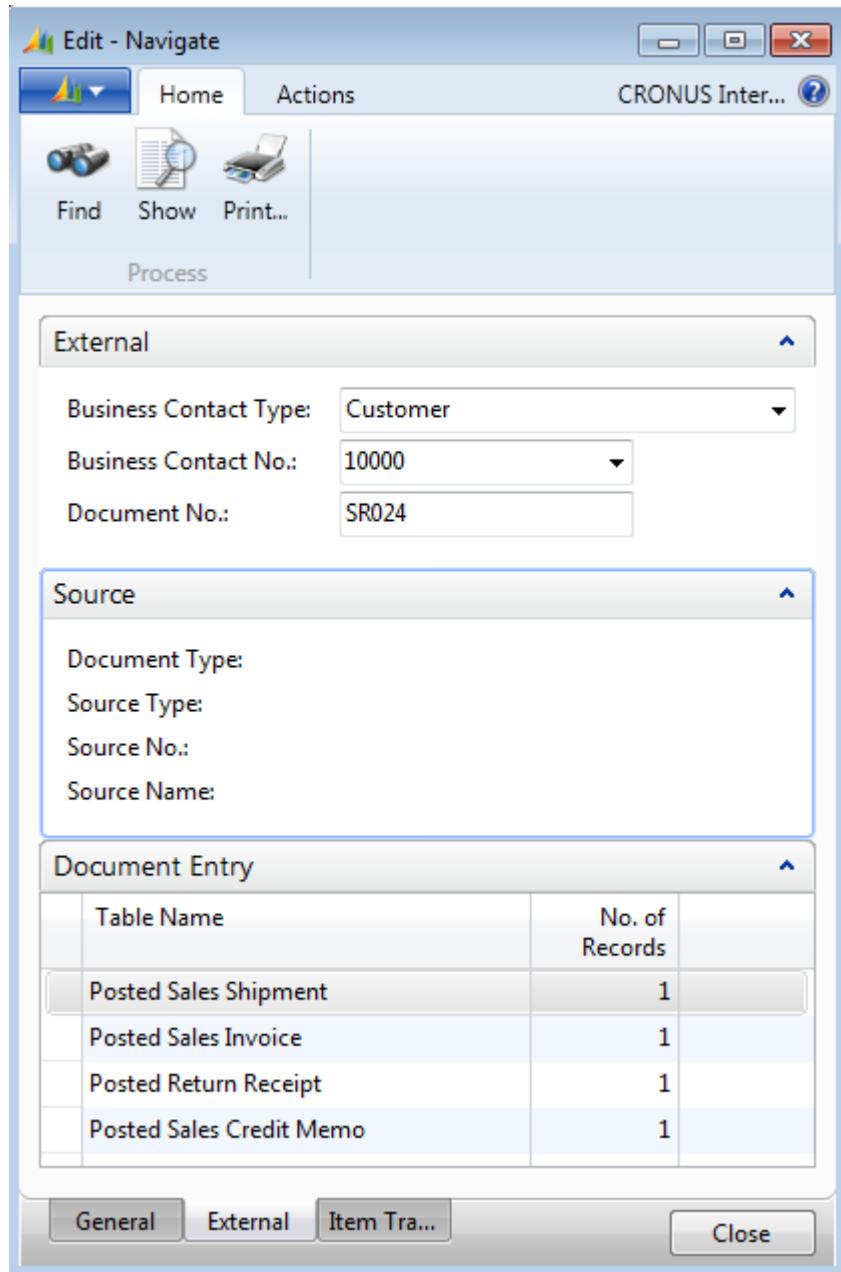The program creates a posted return receipt and a posted credit memo.

To view the status of the sales return, Susan uses the program's navigate feature to find and access the sales documents that are created for the return. She can use the external document number, provided by the customer as a reference to the return document, as a search parameter.

To view the status of the sales return, follow these steps.

1. In the **Search** box, enter "navigate", and then select the related link.
2. Click the **External** tab at the bottom of the page.
3. On the **External** FastTab, in the **Business Contact Type** field, select Customer.
4. In the **Business Contact No.** field enter "10000".
5. In the **Document No.** field, type "SR024".
6. On the **Home** tab, click **Find**.

On the Document Entry FastTab, the program lists all the sales documents created to process the sales return for customer 10000. These are the posted sales shipment and invoice for the replacement sales order, and the posted return receipt and credit memo for the sales return order.

FIGURE 8.6: NAVIGATION RESULTS OF POSTED SALES RETURN FOR CUSTOMER 10000 WITH DOCUMENT NUMBER SR024

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8 - 21

> 📓 **Note:** *You can also trace where specific serial or lot numbers are used with the navigate and item tracing features. For more information about how to handle serialized return items, refer to the "How to: Process Sales Returns," "How to: Process Purchase Returns," and "How to: Trace Item-Tracked Items" topics in the online Help.*
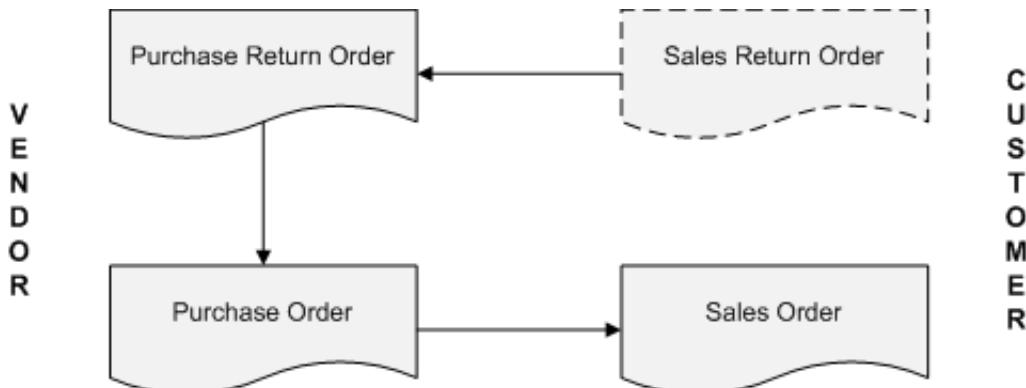>
> *To guarantee the full traceability of an item with a serial number, assign the item an item tracking code that requires the entry of serial numbers at the point of inbound sale (sales return) and outbound purchase (purchase return). Read more about how to set up item tracking codes in the* Inventory Management in Microsoft Dynamics NAV 2013 (HOL) *course.*

Items Returned for Vendor Repair

When a customer returns an item for repair that is then repaired at one of the company's vendors, an order processor must create several documents. These include the following:

- Sales return order
- Purchase return order
- Purchase order
- Sales order

The flow of these documents is shown in the Sales Return Documents Flow figure.

FIGURE 8.7: SALES RETURN DOCUMENTS FLOW

You use the **Create Return-Related Documents** function to automatically create all these documents.

8 - 22

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Demonstration: Return Items to Vendor for Repair

Scenario: Alicia, the purchasing agent at CRONUS, orders 40 units of item 80102 from vendor 50000 on December 15, 2013.

On January 4, 2014, customer 20000 orders eight units of item 80102.

On January 23, 2014, Susan, the order processor, receives a call from a representative from customer 20000, who states that two units of item 80102 must be returned because of manufacturing defects.

Susan and the customer agree that the items must be returned to CRONUS, and that CRONUS will send them to the manufacturer for repair. Susan must register the compensation agreement and process the return.

Susan creates the return documents to prompt Alicia to contact the vendor about the defective items. John, the warehouse worker, receives the items from the customer on January 26, 2014. He informs Susan of the return receipt so that she can post the return and create the sales credit memo.

Demonstration Steps

To process the initial purchase order, follow these steps.

1. Change the work date to December 15, 2013.
2. In the **Search** box, enter "purchase orders", and then select the related link.
3. On the **Home** tab, click **New** and then press **Enter**.
4. On the **General** FastTab, in the **Buy-from Vendor No.** field, enter "50000".
5. In the **Vendor Invoice No.** field, type "11619".
6. On the **Lines** FastTab, in the **Type** field, select Item.
7. In the **No.** field, enter "80102".
8. In the **Location Code** field, select BLUE.
9. In the **Quantity** field, type "40".
10. On **Home** tab, click **Post**.
11. Click **OK** to receive and invoice the order.

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8 - 23

To process the initial sales order, follow these steps.

1. Change the work date to January 04, 2014.
2. In the **Search** box, enter "sales orders", and then select the related link.
3. On the **Home** tab, click **New** and then press **Enter**.
4. On the **General** FastTab, in the **Sell-Customer No.** field, enter "20000". Accept any messages.
5. On the **Lines** FastTab, in the **Type** field, select Item.
6. In the **No.** field, enter "80102".
7. In the **Location Code** field, select BLUE.
8. In the **Quantity** field, type "8".
9. On the **Home** tab, click **Post**.
10. Click **OK** to ship and invoice the order.

As described in the scenario, on January 23, 2014, Susan receives a call from a representative of customer 20000 to inform her that two units of item 80102 must be returned for manufacturing defects.

Because the items will be repaired at the vendor's (manufacturer's) location, the customer keeps the ownership of the items during the repair process. This means that CRONUS must exclude the value of the items from its own inventory value.

To do this, the program performs all the transactions with these return items, such as receiving them at the company, shipping them to the manufacturer, receiving them back from the vendor, and shipping them back to the customer, at a zero unit cost and unit price.

Instead of manually entering a zero amount in the **Unit Cost (LCY)** and **Unit Price Excl. VAT** fields on the sales return lines, Susan can automate the process.
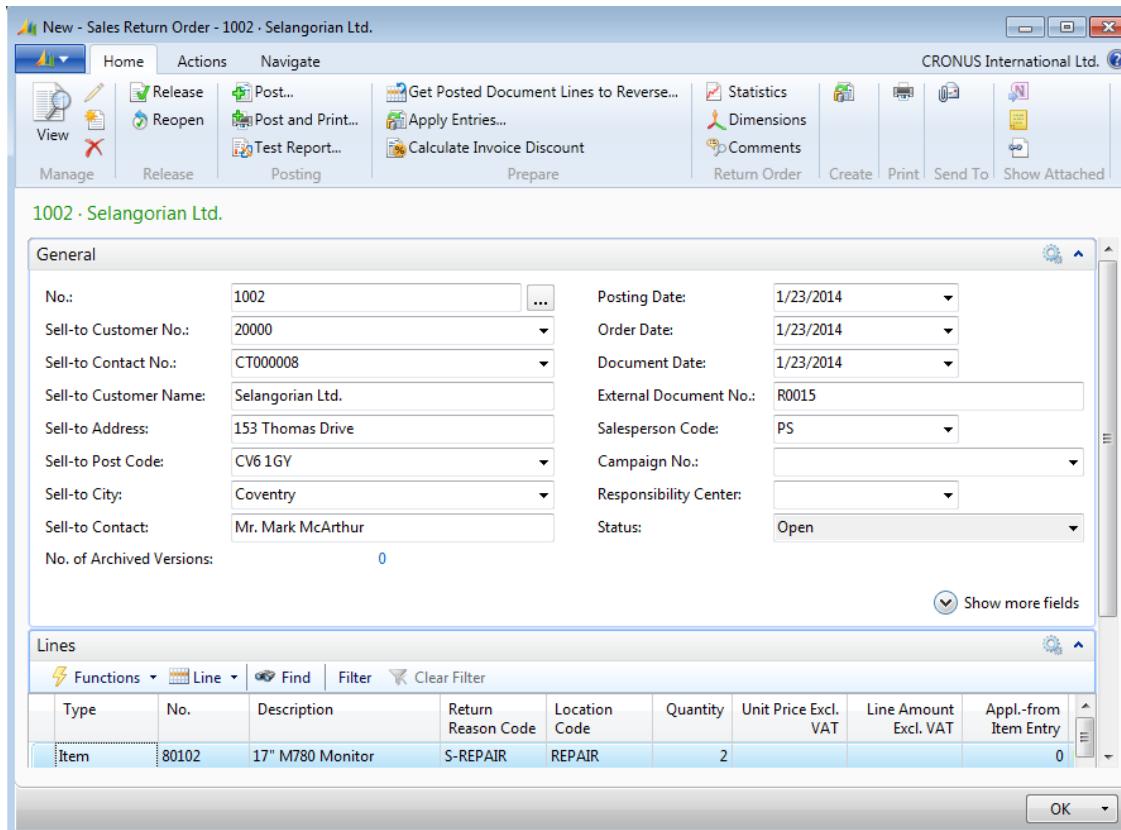
As described in the "Create a Return Location and Assign to a Return Reason Code" demonstration, the option of valuing inventory at zero (the **Inventory Value Zero** check box) is selected in the definition of the S-REPAIR return reason code. By assigning this reason code to the return, the return items are automatically valued at zero.

To create a sales return order for customer 20000 for two units of item 80102, follow these steps.

1. Change the work date to January 23, 2014.
2. In the **Search** box, enter "sales return orders", and then select the related link.
3. On the **Home** tab, click **New** and then press **Enter**.

4. On the **General** FastTab, in the **Sell-to Customer No.** field, enter "20000".

5. In the **External Document No.** field, type "R0015". This number is used as a reference to the return document.

6. On the **Lines** FastTab, in the **Type** field, select Item.

7. In the **No.** field, enter "80102".

8. In the **Return Reason Code** field, select S-REPAIR. The **Location Code** field automatically populates with REPAIR. This is the default location for this return reason code.

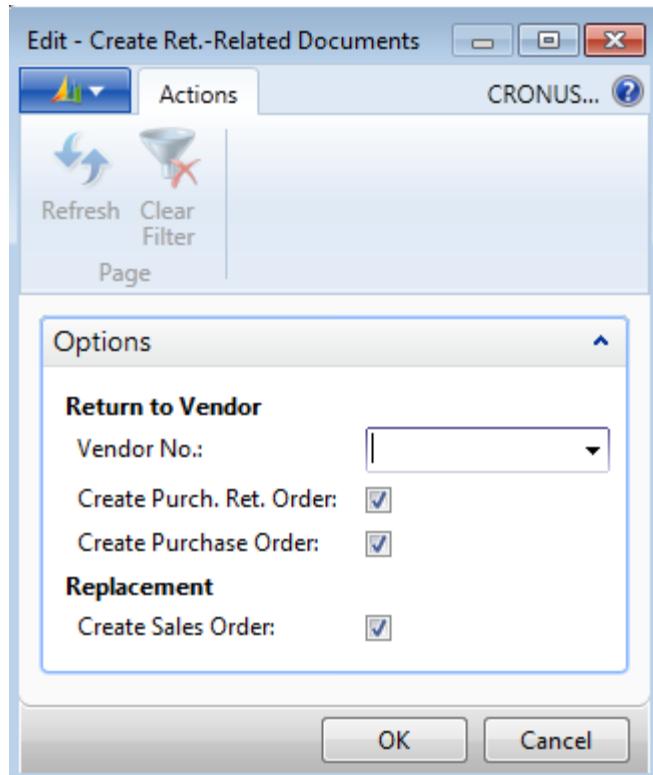9. In the Quantity field, type "2".

FIGURE 8.8: SALES RETURN ORDER WITH ITEM SET UP FOR REPAIR PROCESSING

Notice that the **Unit Price Excl. VAT** field does not contain an amount.

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8 - 25

To create the return-related documents, follow these steps.

1. On the **Home** tab of the sales return order, click **Create Return-Related Documents**. In the **Create Ret.-Related Documents** page, select the documents the program needs to create to manage the return. You can create a purchase return order and a purchase order if the items are returned to and received from the vendor. If it is necessary, you can also create a replacement sales order.

FIGURE 8.9: CREATE RETURN RELATED DOCUMENTS PAGE

2. In the **Vendor No.** field, enter "50000".
3. Select all three check boxes.
4. Click **OK** and accept any messages that appear.
5. The **Returns-Related Documents** page lists the created documents. Click **OK** to close this page.

Purchase return orders and purchase orders with a status of Open indicate that the return to the vendor and, or purchase replacement process can start.

When the items arrive at CRONUS, John informs Susan, who then posts the return order to create the sales credit memo.

To receive and credit the returned items, follow these steps.

1. Set the **Posting Date** field of the sales return order to January 26, 2010.
2. On the **Home** tab, click **Post**.
3. Click **OK** to receive and invoice (credit) the order.

You will continue to process this return in the "Manage Returns to Vendors" lesson.

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8 - 27

Lab 8.1: Process a Customer Return

Scenario

You are the order processor at CRONUS. A representative from customer 10000 calls and says that the complete delivery of 50 units (boxes) of item 80100 from the GREEN warehouse is damaged.

You and the representative agree to return the complete quantity of item 80100 to CRONUS, and to immediately ship a replacement of the same quantity to the customer. The representative provides a reference number to the customer's return document, R-0113.

To perform this return, you must first create the initial sales order to customer 10000 for 50 boxes of item 80100 from the GREEN warehouse.

When you create the return order, you must do the following:

- Find the returned items from a list of posted shipments and make sure that they are valued at the same unit cost as originally sold.
- Create and post a replacement sales order to the customer by using the **Move Negative Lines** function.
- Create a purchase return order to vendor 45858585.
- Receive and invoice the sales return order.

You will continue to process this return in the "Process a Vendor Return" lab.

High Level Steps

1. Create the sales order to customer 10000 for 50 boxes of item 80100 from the GREEN warehouse.
2. Create the sales return order to customer 10000 with customer reference number R-0113.
3. Add a replacement line for 50 boxes of item 80100 from the GREEN warehouse. Create and post the replacement sales order.
4. Run the **Create Return-Related Documents** function and create a purchase return order to vendor 45858585.
5. Receive and invoice the sales return order.

Detailed Steps

1. Create the sales order to customer 10000 for 50 boxes of item 80100 from the GREEN warehouse.
   a. In the **Search** box, enter "sales orders", and then select the related link.
   b. On the **Home** tab, click **New** and then press **Enter**.

  c. On the **General** FastTab, in the **Sell-to Customer No.** field, enter "10000".

  d. On the **Lines** FastTab, in the **Type** field, select Item.

  e. In the **No.** field, enter "80100".

  f. In the **Location Code** field, select GREEN.

  g. In the **Quantity** field, type "50".

  h. In the **Unit of Measure** field, select BOX.

  i. In the **Qty. to Ship** field, type "50", and then click **OK** to accept the warehouse message.

  j. On the **Home** tab, click **Post**.

  k. Click **OK** to ship and invoice the order.

2. Create the sales return order to customer 10000 with customer reference number R-0113.

  a. In the **Search** box, enter "sales return orders", and select the related link.

  b. On the **Home** tab, click **New** and then press **Enter**.

  c. On the **General** FastTab, in the **Sell-to Customer No.** field, enter "10000".

  d. In the **External Document No.** field, type "R-0113".

  e. On the **Home** tab, click **Get Posted Document Lines to Reverse**.

  f. In the **Document Type Filter** field, select Posted Shipments.

  g. Select the line for item 80100 and then click **OK**.

  h. On the return line on the sales return order, in the **Return Reason Code** field, select DAMAGED.

3. Add a replacement line for 50 boxes of item 80100 from the GREEN warehouse. Create and post the replacement sales order.

  a. On a new line, in the **Type** field, select Item.

  b. In the **No.** field, enter "80100".

  c. In the **Location Code** field, select GREEN.

  d. In the **Quantity** field, type "-50".

  e. In the **Unit of Measure** field, select BOX.

  f. On the **Actions** tab, click **Move Negative Lines**.

  g. Under the Return Order & Credit Memo heading, in the **To Document Type** field, select Order, and then click **OK**.

    h. Click **Yes** to view the created document.

    i. On the **Lines** tab of the sales order, in the **Qty. to Ship** field of the order line, type "50", and then click **OK** to accept the warehouse message.

    j. On the **Home** tab, click **Post**.

    k. Click **OK** to ship and invoice the order.

4. Run the **Create Return-Related Documents** function and create a purchase return order to vendor 45858585.

    a. On the **Home** tab of the sales return order, click **Create Return-Related Documents**.

    b. In the **Vendor No.** field, enter "45858585".

    c. Clear the **Create Purchase Order** and **Create Sales Order** check boxes. This leaves only the **Create Purch. Ret. Order** check box selected.

    d. Click **OK** to create the purchase return order.

    e. Click **OK** to close the **Returns-Related Documents** page.

5. Receive and invoice the sales return order.

    a. In the **Return Qty. to Receive** field, type "50", and then click **OK** to accept the warehouse message.

    b. On the **Home** tab, click **Post**.

    c. Click **OK** to receive and invoice the order.

Manage Returns to Vendors

Receiving compensation from a vendor for damaged or otherwise unsatisfactory items is important both for cost recovery and for the ongoing relationship between the company and the vendor. Streamlining the return-to-vendor process greatly reduces the costs of returns.

Typically, the purchasing agent responsible for vendor interaction also contacts vendors when the company is dissatisfied with purchased items.

Managing returns to vendors involves a series of tasks. The number and scope of the tasks depend on who starts the return: the company (when, for example, dissatisfied with the quality of purchased items or if there is a wrong delivery), or one of the company's customers. Vendor-oriented tasks include the following:

- Register compensation agreement with the vendor
- Ship return items to the vendor, if applicable
- Debit the vendor, either by receiving a credit for physically returned items, or with a purchase allowance if the company is not required to physically return the items
- Create a replacement purchase order(s) if a replacement is specified by the compensation agreement

Additionally, the following internal tasks might have to be completed:

- Receive replaced/repaired items
- Make sure that the inventory value assigned to the returned items is accurate
- Combine several return shipments to the same vendor into one credit memo document

The topics and demonstrations in this lesson address these external and internal tasks.

Register a Compensation Agreement with a Vendor

There are several ways a company can expect compensation when it is dissatisfied, or when one of its customers is dissatisfied, with a vendor's products. The terms of the compensation agreement frequently depend on the reason for the dissatisfaction and on the company-vendor relationship.

For example, the parties might agree that if the vendor delivered the wrong items, the company must return the items to the vendor, receive a credit for the incorrect order, and receive a replacement shipment. If items arrive at the company damaged but can still be used, the company can request a price deduction against the original purchase order price. Or, if a customer returns a damaged item that is covered by a vendor warranty, the company can ask the vendor to repair the item.

In Microsoft Dynamics NAV, you use the purchase return order to register a compensation agreement with a vendor. From this document, you can access other purchase-related documents and enter and maintain the return-related information, the method of compensation, and so on. You can register different aspects of the compensation agreement by creating return lines of different types. These include the following:

- **Item**: This is used for transactions where an item is physically returned to the vendor.

- **Charge (Item) or G/L Account**: These are used for financial transactions where the company receives a credit (in the form of a purchase allowance) for an item without physically returning it to the vendor. The same line types are used for registering fees associated with a return. The Charge (Item) line type supports the correct tracking of item values, and is used any time that a charge is directly related to the item (such as a manufacturing flaw). The G/L Account is used when the charge is not directly related to the item, such as when a shipping carrier damages an item that is manufactured without defect.

Note: Similar to the sales return process, you can use other standard purchase documents to register the details of a compensation agreement with a vendor. They include purchase credit memos, purchase invoices, purchase orders, or any combination of these documents.

The comments made in the "Register a Compensation Agreement with a Customer" topic about the flexibility to select one of these other documents as the entry point to register a compensation agreement, also apply to purchase returns.

The demonstrations in this lesson involve two scenarios—the return of an item to a vendor for repair, and the return of an item to a vendor for a purchase allowance

Both returns are started by the customer and are a logical continuation of the demonstrations presented in the Manage Customer Returns" lesson. Because the same handling procedures apply whether a customer or the company starts a purchase return to a vendor, the company-only scenario is not addressed.

Demonstration: Return Items to Vendor for Repair

This is a continuation of the "Return Items to Vendor for Repair" demonstration in the "Manage Customer Returns" lesson.

Scenario: For the return of two units of item 80102, started by customer 20000, CRONUS now has to ship the units back to vendor 50000 for repair.

When Susan, the order processor, registered the compensation agreement with the customer, she ran the **Create Return-Related Documents** function. The program created a purchase return order, a purchase order, and a sales order.

Alicia, the purchasing agent, contacts the vendor's representative and the parties agree that CRONUS will send the item for repair. Alicia is given the return authorization number of RO155 to reference on the order and now she performs the return process.

Demonstration Steps

To process the purchase return order, follow these steps.

1. In the **Search** box, enter "purchase return orders", and then select the related link.
2. Open the purchase return order to vendor 50000 that is created in the "Returns Items to Vendor for Repair" demonstration in the "Manage Customer Returns" lesson.
3. In the **Vendor Authorization No.** field, type "RO155".
4. On the **Lines** FastTab, notice that the **Direct Unit Cost Excl. VAT** field is empty. Repairs are valued at a zero unit cost and unit price to avoid distorting inventory values.
5. Expand the **Shipping** FastTab.
6. Set the **Expected Receipt Date** field to February 02, 2014. This is the shipment date for the return order. Press **Enter** or **Tab**.
7. Click **Yes** to update the lines.
8. On the **Home** tab, click **Post**.
9. Select Ship and then click **OK** to ship the return. The program updates the available inventory and creates a posted return shipment.
10. Click **OK** to close the purchase return order.

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8 - 33

Demonstration: Combine Return Shipments

When there are several return orders to the same vendor, you can combine them into one shipment. The combined shipment is then invoiced as one purchase credit memo.

Scenario: On January 25, 2014, five pallets of item 80100 were purchased from vendor 50000. During put-away, John, the warehouse worker notices that one pallet is damaged and it must be returned. He contacts Alicia, who contacts the vendor and then creates the purchase return order.

Because more items must be returned to the same vendor for repair, the items are shipped in the same shipment. After Alicia receives a credit memo from the vendor for this combined shipment, she invoices the two shipments on a single purchase credit memo.

Demonstration Steps

To process the initial purchase order, follow these steps.

1. Change the work date to January 25, 2014.
2. In the **Search** box, enter "purchase orders", and then select the related link.
3. On the **Home** tab, click **New** and then press **Enter**.
4. On the **General** FastTab, in the **Buy-from Vendor No.** field, enter "50000".
5. In the **Vendor Invoice No.** field, type "11624".
6. On the **Lines** FastTab, in the **Type** field, select Item.
7. In the **No.** field, enter "80100".
8. In the **Location Code** field, select BLUE.
9. In the **Quantity** field, type "5".
10. On the **Home** tab, click **Post**.
11. Click **OK** to receive and invoice the order.

To create a purchase return order to vendor 50000 for one pallet of item 80100, follow these steps.

1. Change the work date to January 28, 2014.
2. In the **Search** box, enter "purchase return orders", and then select the related link.
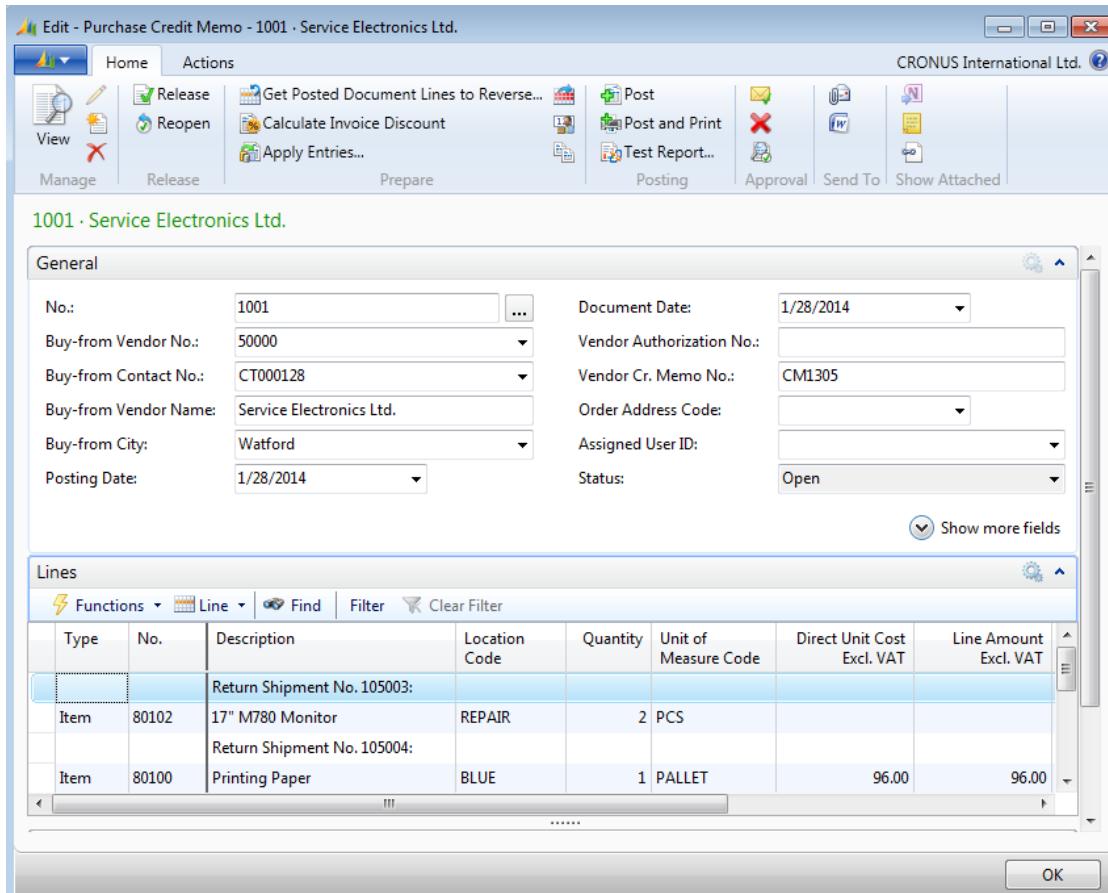3. On the **Home** tab, click **New** and then press **Enter**.

4. On the **General** FastTab, in the **Buy-from Vendor No.** field, enter "50000".

5. In the **Vendor Authorization No.** field, type "RO158".

6. On the **Home** tab, click **Get Posted Document Lines to Reverse**.

7. In the **Document Type Filter** field, select Posted Receipts.

8. Click the line for item 80100 and then click **OK**.

9. On **Lines** FastTab of the purchase order return, on the line for item 80100, in the **Return Reason Code** field, select DAMAGED.

10. In the **Quantity** field, type "1".

11. Expand the **Shipping** FastTab.

12. Set the **Expected Receipt Date** field to February 02, 2014. Press **Enter** or **Tab**.

13. Click **Yes** to update the lines.

14. On the **Home** tab, click **Post**.

15. Select Ship and then click **OK**.

16. Click **OK** to close the purchase return order.

To create the combined return shipment, follow these steps.

1. In the **Search** box, enter "purchase credit memos", and then select the related link.

2. On the **Home** tab, click **New** and then press **Enter**.

3. On the **General** FastTab, in the **Buy-from Vendor No.** field, enter "50000".

4. In the **Vendor Cr. Memo No.** field, enter "CM1305".

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8 - 35

5. On the **Lines** FastTab, point to **Functions**, and then click **Get Return Shipment Lines**. The **Get Return Shipment Lines** page will appear and display a list of all the shipment lines that are not yet invoiced.

6. Select both lines in the list and then click OK.

FIGURE 8.10: PURCHASE CREDIT MEMO WITH COMBINED RETURN SHIPMENT LINES

7. On the **Home** tab of the purchase credit memo, click **Post**.

8. Click **Yes** to post the credit memo.

After the vendor repairs the items and delivers them to CRONUS, Alicia posts the corresponding purchase order (created by running the **Create Return-Related Documents** function when registering the sales return from the customer). A sales order for the same items can then be shipped back to the customer.

Demonstration: Process a Purchase Allowance

This is a continuation of the "Create a Sales Return Order" demonstration in the "Manage Customer Returns" lesson.

Scenario: Susan, the order processor, is contacted by customer 10000, and is advised that two units of item 1964-W arrived damaged. Instead of returning the items, the customer is given a 15 percent sales allowance.

Because the carrier is responsible for the damage, CRONUS wants to recover the costs associated with this damage. Ted, the transportation coordinator, contacts the carrier's representative (the carrier [vendor] number is 49989898), and the parties agree that CRONUS will make a freight claim toward the carrier. The claim amount is equal to the sales allowance offered to the customer (87.60 LCY).

Ted decides to issue a freight claim toward vendor 49989898 from a purchase credit memo (or he can use a purchase return order).

Demonstration Steps

To issue the purchase allowance, follow these steps.

1. Change the work date back to January 23, 2014
2. In the **Search** box, enter "purchase credit memos", and then select the related link.
3. On the **Home** tab, click **New** and then press **Enter**.
4. On the **General** FastTab, in the **Buy-from Vendor No.** field, enter "49989898".
5. In the **Vendor Authorization No**. field, type "R123". This is the number that Ted received from the carrier (vendor) authorizing the claim (return).
6. In the **Vendor Cr. Memo No.** field, type "CM478".
7. On the **Lines** FastTab, in the **Type** field, select G/L Account.
8. In the **No.** field, enter "6810".
9. In the **Quantity** field, type "1".
10. In the **Direct Unit Cost Excl. VAT** field, type "87.60".
11. On the **Home** tab, click **Post**.
12. Click **Yes** to post the purchase credit memo.

Note: Technically, an item charge can also be used to process this purchase allowance. However, as the damage is the fault of the carrier, and has nothing to do with the item, charging the allowance directly to a G/L Account is the correct approach.

Lab 8.2: Process a Vendor Return

This lab is a continuation of the "Process a Customer Return" lab.

For the return of the 50 boxes of item 80100, started by customer 10000, CRONUS wants to return the damaged items to the original vendor and receive replacements.

When registering the compensation agreement, you, as the order processor, created a purchase return order. Now you are the purchasing agent. You contact the vendor's representative (vendor 45858585), and you both agree that CRONUS will send the damaged items back for a replacement. The vendor provides a return authorization number of PR0558.

To perform this return, you must first post the existing purchase order for vendor 45858585, number 6001. This consists of 200 pallets of item 80100 (among other items).

When you process the return order, you must complete the following tasks:

- Manually assign the original receipt line to make sure that the items are valued at the same unit cost as originally purchased instead of the average cost.
- Post and receive a replacement from the vendor by using vendor invoice number 522891.
- Ship the damaged items to the vendor and receive credit memo number CM0058.

📋 **Reader Aid:** Add the **Appl.-to Item Entry** field by using the **Choose Columns** function.

High Level Steps

1. Open purchase order 6001 to vendor 45858585, and then post it.
2. Open the purchase return order created in the "Process a Customer Return" lab and apply the purchase receipt.
3. Add a replacement line for 50 boxes of item 80100 to the GREEN warehouse, and receive and invoice the replacement order.
4. Fill in the credit memo number and **Return Qty. to Ship** field, and then ship and invoice the purchase return order.

Detailed Steps

1. Open purchase order 6001 to vendor 45858585, and then post it.

   a. In the **Search** box, enter "purchase orders", and then select the related link.

   b. Open purchase order number 6001.

   c. On the **Home** tab, click **Post**.

   d. Click **OK** to receive and invoice the order.

2. Open the purchase return order created in the "Process a Customer Return" lab and apply the purchase receipt.

   a. In the **Search** box, enter "purchase return orders", and then select the related link.

   b. Open the return order to vendor 45858585 that is created in the "Process a Customer Return" lab.

   c. In the **Vendor Authorization No.** field, type "PR0558".

   d. On the **Lines** FastTab, add the **Appl.-to Item Entry** field to the lines by using the **Choose Columns** function.

   e. On the order line, in the **Appl.-to Item Entry** field, click the drop-down arrow and select the purchase receipt created from purchase order 6001 (use the **Navigate** function on the **Item Ledger Entries** page to verify that you have selected the correct receipt. This opens the **Navigate** page; from there, you can select the Posted Purchase Receipt line on the **Document Entry** FastTab and then click **Show** on the **Home** tab to view the receipt details). After you select the correct purchase receipt, Escape back to the **Item Ledger Entries** page and then click **OK**.

3. Add a replacement line for 50 boxes of item 80100 to the GREEN warehouse, and receive and invoice the replacement order.

   a. On the **Lines** FastTab of the purchase return order, add another line.

   b. In the **Type** field, select Item.

   c. On the next line, in the **No.** field, enter "80100".

   d. In the **Location Code** field, select GREEN.

   e. In the Quantity field, type "-50".

   f. In the **Unit of Measure** field, select BOX.

   g. On the **Home** tab, click **Move Negative Lines**.

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8 - 39

h. Under the Return Order & Credit Memo heading, in the **To Document Type** field, select Order and then click **OK**.

i. Click **Yes** to view the created document.

j. On the **General** FastTab of the new purchase order, in the **Vendor Invoice No.** field, type "522891".

k. On the **Lines** FastTab, in the **Qty. to Receive** field, type "50". Click **OK** to accept the warehouse message.

l. On the **Home** tab, click **Post**.

m. Click **OK** to receive and invoice the order.

4. Fill in the credit memo number and **Return Qty. to Ship** field, and then ship and invoice the purchase return order.

a. On the **General** FastTab of the purchase return order, in the **Vendor Cr. Memo No.** field, type "CM0058".

b. On the **Lines** FastTab, in the **Return Qty. to Ship** field, type "50" and then click **OK** to accept the warehouse message.

c. On the **Home** tab, click **Post**.

d. Click **OK** to post the order.

Module Review

Module Review and Takeaways

It is important for a company to provide good customer so that it can develop and maintain a healthy relationship with its customers. Being able to quickly and efficiently replace, repair, and, or credit customers for shipping errors or product defects directly affects a customer's perception of a company. When your company is the customer, it should also expect the same good service from your vendors.

Returns are complex transactions. Typically, they involve many documents and multiple employees. When you process returns, whether as a vendor or as a customer, you must have processes set up for these complex transactions so that they are handled smoothly and efficiently. You must also correctly register all inventory and financial information.

In Microsoft Dynamics NAV, the return order is used to register a compensation agreement with a customer or vendor. From there, you can access other sales-related or purchase-related documents, and enter and maintain the following:

- Return-related information about the customer or vendor
- Method of compensation
- Items in question

If you use the lessons and demonstrations provided in this module to process these documents, the program will correctly register all inventory and financial information. It will also make this information available for follow-up and analysis through transparent links between the documents.

Test Your Knowledge

Test your knowledge with the following questions.

1. How do you make sure that Microsoft Dynamics NAV automatically values inventory increases at zero cost in a return situation?

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8 - 41

2. Why select the Exact Cost Reversing Mandatory check box in either the Sales & Receivable Setup or Purchases & Payables Setup?

    _____

    _____

    _____

    _____

3. Which of the following return-related documents cannot be created from the sales return order?

    ( ) Purchase Order

    ( ) Sales Order

    ( ) Purchase Credit Memo

    ( ) Purchase Return Order

4. When you create a sales return order, which two line types represent a financial transaction where a customer receives a credit (in the form of a sales allowance) for the item(s)?

    ( ) Item and Charge (Item)

    ( ) Item and G/L Account

    ( ) Fixed Asset and Charge (Item)

    ( ) Fixed Asset and Item

    ( ) Charge (Item) and G/L Account

5. Which of the following procedures cannot be used to value a return item at the unit cost of the original sale?

    ( ) Manually fill in the return order line and enter the relevant item ledger entry in the Appl.-from Item Entry field.

    ( ) Use the Get Exact Cost function to automatically populate the return order line from the posted shipment or invoice document.

    ( ) Use the Copy Document function to automatically fill in the return order from another posted shipment or invoice document.

    ( ) Use the Get Posted Document Lines to Reverse function to select one or more posted document lines.

Test Your Knowledge Solutions

Module Review and Takeaways

1. How do you make sure that Microsoft Dynamics NAV automatically values inventory increases at zero cost in a return situation?

   MODEL ANSWER:

   Select the Inventory Value Zero check box on the relevant Return Reason Code.

2. Why select the Exact Cost Reversing Mandatory check box in either the Sales & Receivable Setup or Purchases & Payables Setup?

   MODEL ANSWER:

   It defines whether a company wants to apply an exact cost reversing policy to sales returns. This means that when items are put back in inventory from a sales return, the program values the items at the same cost as the original sale. Selecting this check box also means the program will not allow a return transaction to post unless the Appl.-from Item Entry field on the corresponding order line contains an entry.

3. Which of the following return-related documents cannot be created from the sales return order?

   ( ) Purchase Order

   ( ) Sales Order

   (√) Purchase Credit Memo

   ( ) Purchase Return Order

4. When you create a sales return order, which two line types represent a financial transaction where a customer receives a credit (in the form of a sales allowance) for the item(s)?

   ( ) Item and Charge (Item)

   ( ) Item and G/L Account

   ( ) Fixed Asset and Charge (Item)

   ( ) Fixed Asset and Item

   (√) Charge (Item) and G/L Account

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8 - 43

5. Which of the following procedures cannot be used to value a return item at the unit cost of the original sale?

( ) Manually fill in the return order line and enter the relevant item ledger entry in the Appl.-from Item Entry field.

(√) Use the Get Exact Cost function to automatically populate the return order line from the posted shipment or invoice document.

( ) Use the Copy Document function to automatically fill in the return order from another posted shipment or invoice document.

( ) Use the Get Posted Document Lines to Reverse function to select one or more posted document lines.