MODULE 6: ITEM CHARGES

Module Overview

Accurate cost information is an important prerequisite to efficient and competent decision-making in any company. At a minimum, companies record and analyze costs derived from purchase and sales invoices. However, companies must frequently account for additional purchase and sales costs, such as the following:

- Freight
- Insurance
- Customs duties
- Brokerage fees

When related to inventory purchases, these added expenditures are *inventoriable costs* and should be included in inventory valuations and the cost of goods sold. Additional sales costs are *non-inventoriable*, but can be recorded as expenses against sales to improve the accuracy of profit calculations.

Microsoft Dynamics® NAV addresses both inventoriable and non-inventoriable added costs through its Item Charges functionality. You can use this functionality to post item charges even after you post all related purchase or sales documents.

Item charges are strictly financial and do not affect inventory quantities. This also makes them ideal for the following:

- Purchase and sales allowances (such as restocking fees or credit memos on returns)
- Shipping fees paid by customers
- Certain types of adjustments to inventory valuations

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

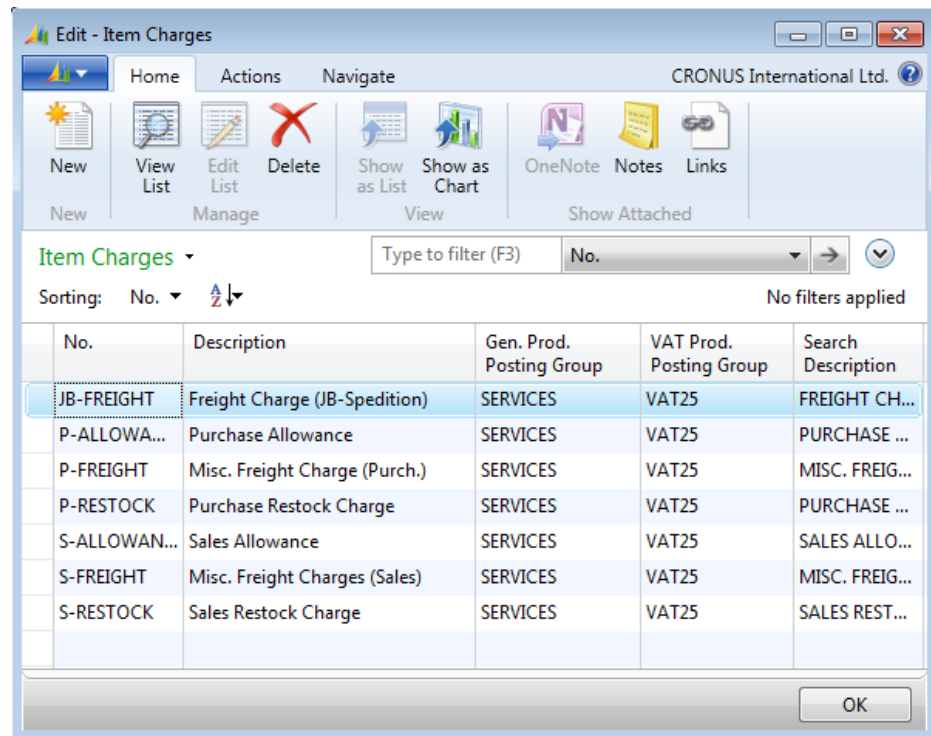### Objectives

The objectives are:

- Describe the setup of item charges.
- Explain purchase item charges and show how to assign them to a posted purchase receipt.
- Describe sales item charges and show how to assign them to a posted sales shipment.
- Explain purchase and sales allowances and show how to record an item charge for a sales allowance on a credit memo.

Microsoft Official Training Materials for Microsoft Dynamics ®
Your use of this content is subject to your current services agreement

6 - 1

Item Charges Setup

Item charges setup is part of the general Finance setup. Companies can set up different item charge numbers to distinguish types of charges and improve cost and sales statistics.

CRONUS International Ltd. has set up several different item charges that are typical for their business operations.

To open the **Item Charges** page, enter "item charges" in the **Search** box, and then select the related link.

FIGURE 6.1: ITEM CHARGES

Like an item, an item charge must have a general product posting group and a VAT product posting group. This combination of posting groups determines the general ledger account to which the item charge is posted.

As soon as you set up an item charge, you can select it on a purchase or sales document line. There are no limits as to what you can include in the category of item charges.

Purchase Item Charges

When purchasing goods from suppliers, companies frequently incur additional costs, such as freight, import taxes, and so on. These make up the total landed costs for purchases and can be included in the calculation of inventory value and cost of goods sold.

Depending on the nature of their sales agreements, companies might also pay these costs when delivering shipments. In this case, the costs represent non-inventoriable expenses that affect the company's overall profit calculation.

Accountants can register these added costs as a separate cost category and link them directly to related items. In Microsoft Dynamics NAV, these costs are known as item charges. You can register an item charge in two ways:

- As a separate purchase document. Typically, you use this method when the invoice for the added cost arrives after you post the original purchase document, or when the charge must be assigned to a sales document.
- In the original purchase document. You use this option when the item charge amount is known when you post the receipt of the related items.

The program can also suggest a distribution of the item charge to the relevant document lines. You can change this as needed.

Demonstration: Assign Landed Costs to a Posted Purchase Receipt

Scenario: After an earlier delivery from vendor 10000, the CRONUS Accounting Department receives an invoice for 100.00 LCY from the same vendor for the transportation services they provided for this delivery.

Cassie, the accountant, must now register these landed costs in the program and assign them to the original purchase (purchase receipt 107023). Because the purchase order is posted, associated freight charges must be registered in a separate invoice.

Demonstration Steps

To create the purchase invoice, follow these steps.

1. In the **Search** box, enter "purchase invoices", 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 "10000".

Microsoft Official Training Materials for Microsoft Dynamics ®
Your use of this content is subject to your current services agreement

6 - 3

4. In the **Vendor Invoice No.** field, type "Freight12810".

5. On the **Lines** FastTab, in the **Type** field, select Charge (Item).

6. In the **No.** field, select P-FREIGHT to represent the freight-related cost.

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

8. In the **Direct Unit Cost Excl. VAT** field, type "100".

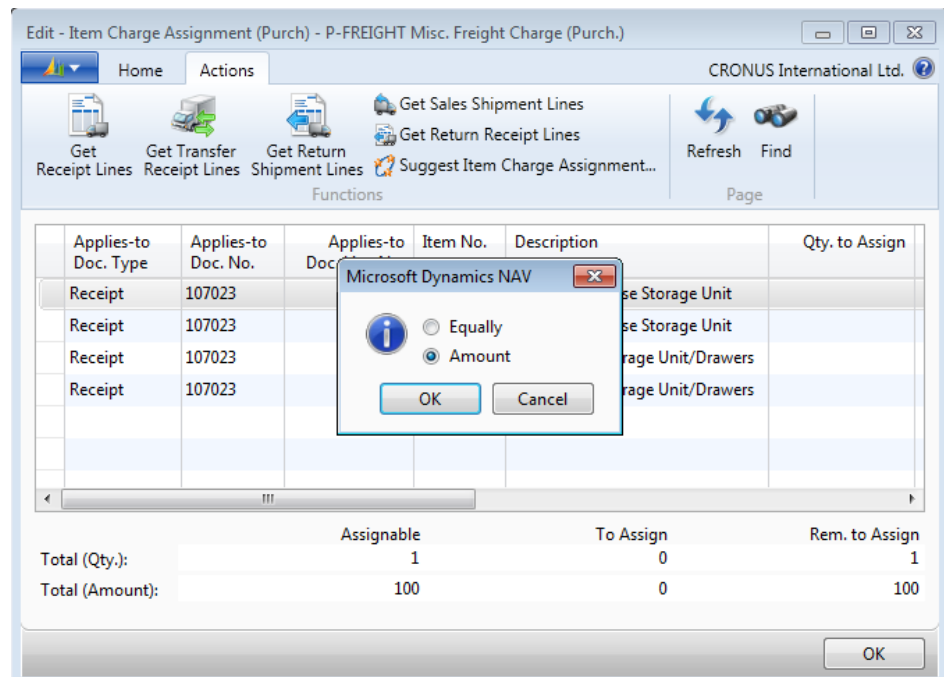To assign the charge to the posted purchase receipt, follow these steps.

1. On the **Lines** FastTab, point to **Line** and then click **Item Charge Assignment**.

2. On the **Actions** tab, click **Get Receipt Lines**.

3. Select all four lines for Document No. 107023 and then click **OK**. The selected lines copy to the **Item Charge Assignment (Purch)** page.

To assign the charge amount, Cassie can manually enter values in the **Qty. to Assign** field for all the lines, or she can use automatic assignment.

For automatic assignment, she can divide the total charge amount equally among the lines or proportionally based on the line amount.
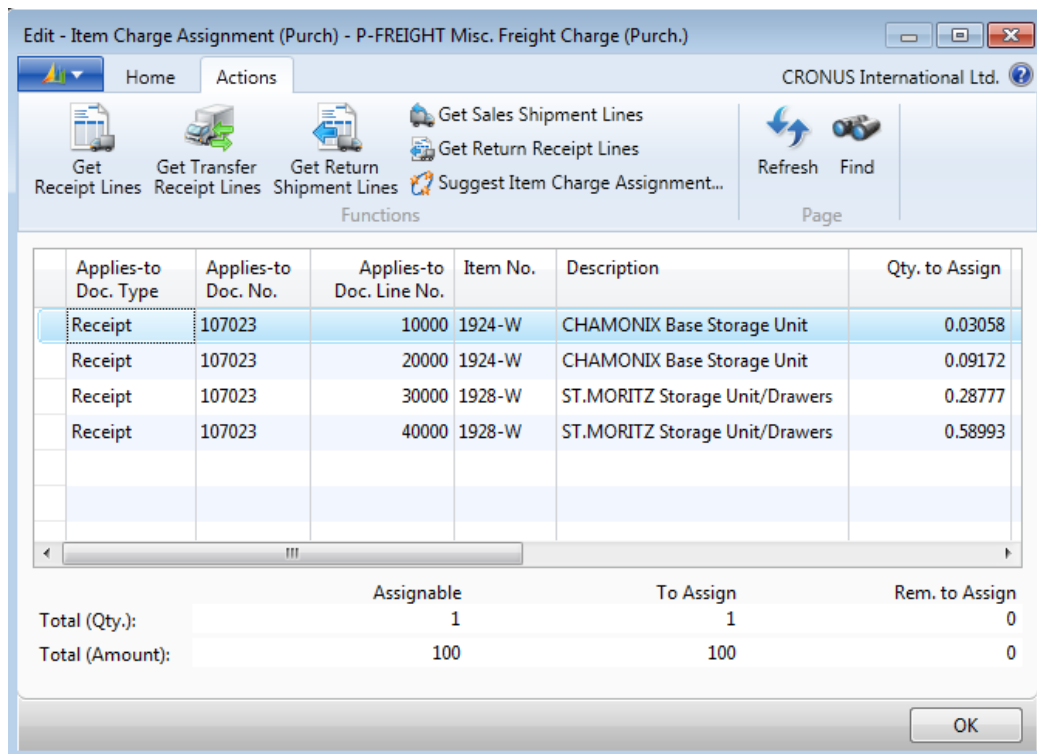
To automatically assign the charge by amount, follow these steps.

1. On the **Actions** tab, click **Suggest Item Charge Assignment**.

FIGURE 6.2: SELECT THE AMOUNT OPTION FOR ITEM CHARGE ASSIGNMENT

Microsoft Official Training Materials for Microsoft Dynamics ®
Your use of this content is subject to your current services agreement

2. Select **Amount** and then click **OK**.

FIGURE 6.3: CHARGE AMOUNT PROPORTIONALLY DISTRIBUTED AMONG POSTED PURCHASE RECEIPT LINES

3. Notice that the charge of 100 LCY distributes proportionally among the purchase receipt lines. Also, the status fields at the bottom of the page update to show how much of the item charge is assigned and how much remains to be assigned.

4. Click **OK** to close the **Item Charge Assignment (Purch)** page. The **Qty. to Assign** field on the purchase invoice line updates.

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

6. Click **Yes** to post the invoice.

Because of this posting, the program creates a link between the item charge and the items from the selected purchase receipt.

Because the cost value (total landed cost) of the earlier purchased items has increased by the charge amount without the actual quantity increasing, an additional value entry links to the item ledger entry of the posted purchase receipt.

Microsoft Official Training Materials for Microsoft Dynamics ®
Your use of this content is subject to your current services agreement

6 - 5

📝 ***Note:*** *This demonstration assigns an item charge to a posted purchase receipt. You can assign item charges to any posted inbound document (purchase receipt, sales return receipt, or transfer receipt), or posted outbound document (sales shipment or purchase return shipment). You can also record item charges on any purchase order, sales order, or credit memo, and the program will assign the item charges to the corresponding receipt or shipment document at the time of posting. The procedures for all these activities vary only slightly in each case.*

Procedure: Review Posted Item Charges

To view the value entries related to the freight charge you posted in the "Assign Landed Costs to a Posted Purchase Receipt" demonstration, follow these steps.

1. In the **Search** box, enter "posted purchase receipts", and then select the related link.
2. Open purchase receipt number 107023.
3. On the **Home** tab, click **Navigate**.
4. On the **Document Entry** FastTab, click **Item Ledger Entry**.
5. On the **Home** tab, click **Show**.

Posting Date	Entry Type	Document Type	Document No.	Item No.	Description	Location Code	Quantity	Invoiced Quantity	Remaining Quantity
1/15/2014	Purchase	Purchase Receipt	107023	1924-W		GREEN	5	5	5
1/15/2014	Purchase	Purchase Receipt	107023	1924-W		YELLOW	15	15	15
1/15/2014	Purchase	Purchase Receipt	107023	1928-W		GREEN	20	20	20
1/15/2014	Purchase	Purchase Receipt	107023	1928-W		YELLOW	41	41	41

FIGURE 6.4: ITEM LEDGER ENTRIES FOR PURCHASE RECEIPT 107023

6. Notice that the quantity has not changed. Select the first item ledger entry for item 1924-W (posted to the GREEN location).
7. On the **Home** tab, click **Value Entries**, or click the **Cost Amount (Actual)** field. A new value entry of the type Direct Cost represents the additional cost of the freight invoice.
8. Close the **Value Entries** page.
9. On the **Item Ledger Entries** page, click the **Item No.** field for item 1924-W.

10. Click **Advanced** to open the **Item List** page.

11. On the **Item List** page, click **Statistics** on the **Home** tab.

12. On the **General** FastTab, in the **Show as Lines** field, select **Purch. Item Charge Spec**.

13. Click **Show Matrix** on the **Home** tab.

FIGURE 6.5: PURCHASE ITEM CHARGE STATISTICS FOR ITEM 1924-W

14. Escape back to the **Item Ledger Entries** page.

15. Repeat steps 9 through 14 for item 1928-W to review the item charges.

📋 **Note:** *Because an item charge assignment changes the item cost amount without changing the quantity of the posted entry, you can use item charges to correct value-related errors that frequently occur in the starting phase of program implementation. Accountants can also collect statistical information that is specified for each item charge category.*

Microsoft Official Training Materials for Microsoft Dynamics ®
Your use of this content is subject to your current services agreement

6 - 7

Manage Non-inventoriable Costs as Purchase Item Charges

In addition to having detailed statistics on inventory landed cost, many companies find it important to account for non-inventoriable costs that affect profit, such as freight-out expenditures on a sales transaction.

To account for these costs, accountants can use purchase item charges. The registering and posting procedure for these costs resembles the one described in the "Assign Landed Costs to a Posted Purchase Receipt" demonstration. The only difference is that you assign the item charge amount to a sales document instead of a purchase document.

📋 *Note: Another use of non-inventoriable costs is in the retail-minus accounting model, where a company's subsidiary operates as a sales office and does not carry inventory at its own premises. Sales are fulfilled by drop shipment, and the sales revenue is posted at the subsidiary. Headquarters then sends the subsidiary purchase invoices for the cost price of the items sold. Posted as purchase item charges related to sales, the subsidiary records these charges as sales expenses (non-inventoriable cost) and includes them in profit calculations.*

Lab 6.1: Assign Freight Charges to an Open Purchase Order

Scenario

Purchase order number 106009 from vendor 10000 is not yet posted. You receive an invoice of 150.00 LCY from the same vendor for freight service.

As the accountant, you must register this additional invoice. This makes sure that the freight charge is distributed proportionally across the purchase receipt lines and that inventory costs are updated correctly.

Review the value entries for the purchase receipt lines after you post the order.

High Level Steps

1. Open purchase order 106009.
2. Add the freight charge line for 150.00 LCY.
3. Assign the item charge to the line and automatically assign the total charge proportionally based on the line amount.
4. Post the order.
5. Open the posted purchase receipt.
6. Use the **Navigate** function to open the item ledger entries for the receipt.
7. Review the value entries on each line.

Detailed Steps

1. Open purchase order 106009.
    a. In the **Search** box, enter "purchase orders", and then select the related link.
    b. Open purchase order number 106009.

2. Add the freight charge line for 150.00 LCY.
    a. On the next line on the **Lines** FastTab, in the **Type** field, select Charge (Item).
    b. In the **No.** field, select P-FREIGHT.
    c. In the **Quantity** field, type "1".
    d. In the **Direct Unit Cost Excl. VAT** field, enter "150".

Microsoft Official Training Materials for Microsoft Dynamics ®
Your use of this content is subject to your current services agreement

6 - 9

3. Assign the item charge to the line and automatically assign the total charge proportionally based on the line amount.

    a. On the **Lines** FastTab, point to **Line**, and then click **Item Charge Assignment**.

    b. On the **Actions** tab, click **Suggest Item Charge Assignment**.

    c. Select **Amount** and then click **OK**.

    d. Click **OK** to close the **Item Charge Assignment (Purch)** page.

4. Post the order.

    a. On the **Home** tab of the **Purchase Order** page, click **Post**.

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

5. Open the posted purchase receipt.

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

    b. Open the most recent posted purchase receipt for vendor 10000.

6. Use the **Navigate** function to open the item ledger entries for the receipt.

    a. On the **Home** tab, click **Navigate**.

    b. On the **Document Entry** FastTab, click **Item Ledger Entry**.

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

7. Review the value entries on each line.

    a. Click the **Cost Amount (Actual)** field for each line to view the value entries that include the freight charges.

Sales Item Charges

The "Purchase Item Charges" lesson introduced item charges functionality and explained how to record and allocate both inventoriable and non-inventorial added costs.

When a customer pays these additional costs, this becomes a regular sales transaction that does not affect inventory. The company can therefore record the cost amounts as sales item charges linked to the relevant sales document. This improves the accuracy of the company's revenue and profit statistics.

The principles of recording, assigning, and posting sales item charges are identical to those applied for purchase item charges, except that the item charges are entered on a sales document instead of a purchase document.

Demonstration: Assign Item Charges to a Posted Sales Shipment

Scenario: After several shipments were made to customer 20000 in January, 2014, the CRONUS Shipping Department informed the Accounting Department that they had insured all the shipments for the total of 40.00 LCY.

Cassie, the accountant, must now invoice the customer for the additional insurance costs and make sure that sales statistics for the related items reflect these cost amounts.

First, she must create a new item charge called INSURANCE with the general product posting group of SERVICES and the value-added tax (VAT) product posting group of VAT25.

Demonstration Steps

To create the item charge, follow these steps.

1. In the **Search** box, enter "item charges", and then select the related link.
2. On the **Home** tab, click **New**.
3. In the **Code** field, type "INSURANCE".
4. In the **Description** field, type "Freight Insurance".
5. In the **Gen. Prod. Posting Group** field, select SERVICES.
6. In the **VAT Prod. Posting Group** field, select VAT25.
7. Click **OK** to close the **Item Charges** page.

Microsoft Official Training Materials for Microsoft Dynamics ®
Your use of this content is subject to your current services agreement

6 - 11

To create the sales invoice, follow these steps.

1. In the **Search** box, enter "sales invoices", 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 "20000". Accept any messages.
4. On the **Lines** FastTab, in the **Type** field, select Charge (Item).
5. In the **No.** field, select INSURANCE.
6. In the **Quantity** field, type "1".
7. In the **Unit Price Excl. VAT** field, type "40". Because the charge is sold to the customer instead of incurred by the company as a cost, you must enter the charge amount in the **Unit Price Excl. VAT** field.

📋 **Note:** *You cannot automatically post the costs associated with a sales item charge as a part of posting a charge line from a sales document. You must post these costs to an appropriate general ledger (G/L) account as an expense or as an item charge on a purchase document.*

The item charge in the sales document basically transfers the costs to the customer. However, you must register both transactions to accurately calculate profit.

To assign the item charge and post the invoice, follow these steps.

1. On the **Lines** FastTab, point to **Line** and then click **Item Charge Assignment**.
2. On the **Actions** tab, click **Get Shipment Lines**.
3. Select all the shipment lines and then click **OK**.
4. On the **Actions** tab, click **Suggest Item Charge Assignment**.
5. Select **Amount** and then click **OK**.
6. Click **OK** to close the **Item Charge Assignment (Sales)** page.
7. On the **Home** tab, click **Post**.
8. Click **Yes** to post the invoice.

The program creates value entries with a link to the item ledger entries for the original sales. Based on that, the sales statistics update for the sold items.

To view the profit calculation statistics for item 1928-S, follow these steps.

1. In the **Search** box, enter "items", and then select the related link.
2. Select the line for item 1928-S.
3. On the **Home** tab, click **Statistics**.

4. On the **General** FastTab, in the **Show as Lines** field, select Profit Calculation.

5. On the **Home** tab, click **Show Matrix**.

FIGURE 6.6: ITEM STATISTICS - PROFIT CALCULATION FOR ITEM 1928-S

The 1.27 LCY is now included in revenue and profit calculations. The accountants can also collect statistical information for each item charge category.

Purchase and Sales Allowances

One of the main functions of item charges is to register changes to transaction costs and price amounts at the item level without affecting inventory quantity. This underlying principle can find many diverse applications within the financial management of purchase and sales transactions.

This lesson shows how to use item charges for purchase and sales allowances. Allowance is a term frequently used for returns. For example, if a customer receives damaged items, the company can offer the customer the opportunity to keep the items at a reduced price instead of returning them. If this offer is accepted, the company issues a sales allowance in the form of a credit memo for the price reduction. The line type for the credit memo is an item charge.

Similarly, to correct a wrongly priced delivery without a physical return of the related items, a vendor might issue an allowance to the company. The company can then register this amount as an item charge on a purchase credit memo. To learn more about sales and purchase returns, refer to "Returns Management" in this training material.

Demonstration: Create an Item Charge Sales Credit Memo

Scenario: After the company delivered and invoiced a shipment to customer 10000, Susan, the order processor at CRONUS, discovers that item 1964-W in the shipment is priced incorrectly and includes a 15 percent increase from the agreed price. The shipment number is 102029.

The customer must be compensated for the difference (15 percent of the total order price of 2,920.00 LCY, or 438.00 LCY). Because the items are in perfect condition, they will not be returned to CRONUS.
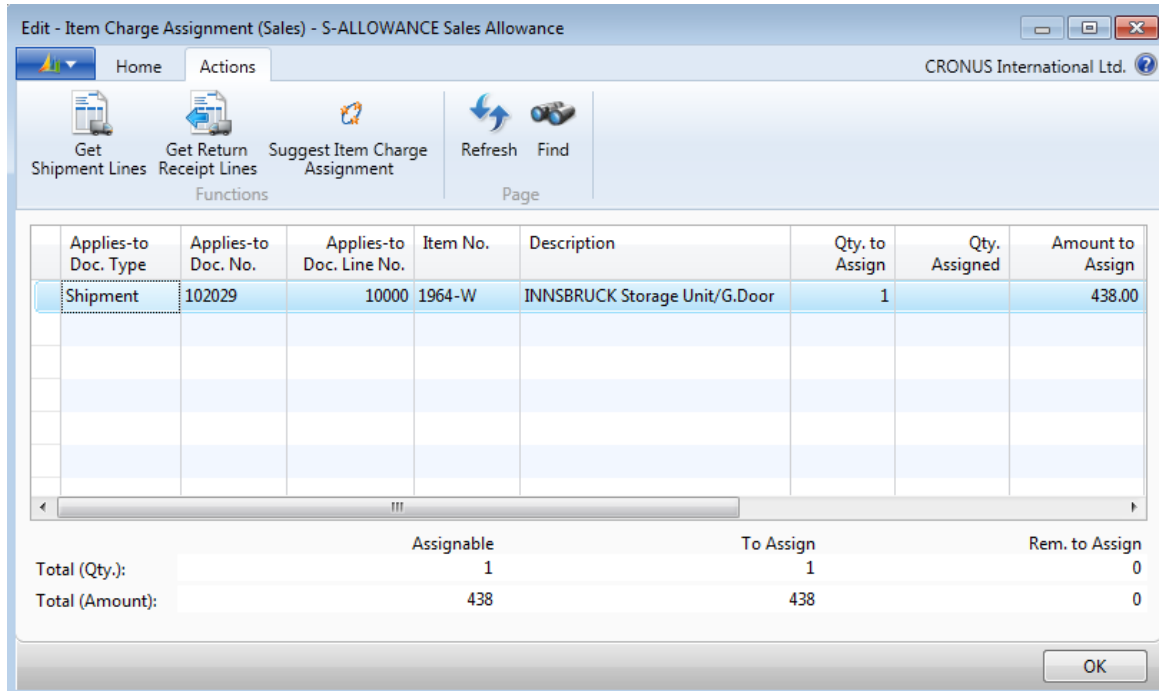
Cassie, the accountant, must now issue a credit memo by using an item charge.

Demonstration Steps

To create the sales credit memo, follow these steps.

1. In the **Search** box, enter "sales 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 **Sell-to Customer No.** field, enter "10000". Accept any messages.
4. On the **Lines** FastTab, in the **Type** field, select Charge (Item).
5. In the **No.** field, select S-ALLOWANCE.
6. In the **Quantity** field, type "1".
7. In the **Unit Price Excl. VAT** field, type "438".
8. On the **Lines** FastTab, point to **Line**, and then click **Item Charge Assignment**.
9. On the **Actions** tab, click **Get Shipment Lines**.

10. Click the line for Document No. 102029 for item 1964-W, and then click **OK**.

11. In the **Qty. to Assign** field, type "1" to assign the full amount to the line.

Applies-to Doc. Type	Applies-to Doc. No.	Applies-to Doc. Line No.	Item No.	Description	Qty. to Assign	Qty. Assigned	Amount to Assign
Shipment	102029	10000	1964-W	INNSBRUCK Storage Unit/G.Door	1		438.00

	Assignable	To Assign	Rem. to Assign
Total (Qty.):	1	1	0
Total (Amount):	438	438	0

FIGURE 6.7: ASSIGNED SHIPMENT LINE FOR THE SALES ALLOWANCE OF 438.00 LCY FOR ITEM 1964-W

12. Click **OK** to close the **Item Charge Assignment (Sales)** page.

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

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

The customer and item sales statistics update without the original shipment quantity (and therefore inventory) changing.

Lab 6.2: Create an Item Charge Purchase Credit Memo

Scenario

After the inventory manager at CRONUS receives and invoices a shipment (No. 107019) from vendor 10000, he or she discovers that two units of item 70011 had a small fault on the glass surface. The inventory manager contacts the vendor about the problem, and the vendor offers to let CRONUS to keep the items for a 40 percent reduction in price.

CRONUS receives credit memo number CM2 from the vendor for 29.52 LCY (40 percent of the unit cost of 36.90 LCY * 2).

As the accountant, your task is to register this agreement in the program. This makes sure that the transaction is reflected in the item statistics. After posting the credit memo, review the value entries for item 70011.

High Level Steps

1. Create a purchase credit memo to vendor 10000.
2. Enter the purchase allowance for two items at a price of 14.76 LCY.
3. Assign the item charge to the posted receipt number 107019, item 70011.
4. Post the credit memo.
5. Open the item card for item 70011.
6. Review the related value entries.

Detailed Steps

1. Create a purchase credit memo to vendor 10000.
   a. In the **Search** box, enter "purchase credit memos", and then select the related link.
   b. On the **Home** tab, click **New** and then press **Enter**.
   c. On the **General** FastTab, in the **Buy-from Vendor No.** field, enter "10000".
   d. In the **Vendor Cr. Memo No.** field, type "CM2".

2. Enter the purchase allowance for two items at a price of 14.76 LCY.
   a. On the **Lines** FastTab, in the **Type** field, select Charge (Item).
   b. In the **No.** field, select P-ALLOWANCE.
   c. In the **Quantity** field, type "2".
   d. In the **Direct Unit Cost Excl. VAT** field, type "14.76".

3. Assign the item charge to the posted receipt number 107019, item 70011.

   a. On the **Lines** FastTab, point to **Line** and then click **Item Charge Assignment**.

   b. On the **Actions** tab, click **Get Receipt Lines**.

   c. Click the line for Document No. 107019, item 70011, and then click **OK**.

   d. In the **Qty. to Assign** field, type "2" to assign the full amount to the line.

   e. Click **OK** to close the **Item Charge Assignment (Purch)** page.

4. Post the credit memo.

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

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

5. Open the item card for item 70011.

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

   b. Open the item card for item 70011.

6. Review the related value entries.

   a. On the **Home** tab, point to **Entries**, and then click **Value Entries**. Here, in the entries list, you can view the purchase allowance that is applied to the item.

Microsoft Official Training Materials for Microsoft Dynamics ®
Your use of this content is subject to your current services agreement

6 - 17

Module Review

Module Review and Takeaways

Item charges are an ideal way to record item-related financial transactions without affecting inventory quantities.

A company can use item charges in the purchase and sales processes to improve the accuracy of cost and sales information, and contribute to improved decision making.

Purchase and sales allowances are frequently used when the company or a customer receives a damaged item and is offered a reduced price to keep the item instead of returning it.

Test Your Knowledge

Test your knowledge with the following questions.

1. What is the main purpose of item charges functionality?

2. How can you use item charges to account for non-inventoriable costs that are incurred for a sales transaction?

3. Which of the following combination of posting groups do you set up for an item charge?

    ( ) General business posting group and VAT product posting group

    ( ) General product posting group and VAT business posting group

    ( ) General product posting group and VAT product posting group

    ( ) General business posting group and VAT business posting group

4. Of the options that are shown, what is the one way that you cannot assign an item charge to lines in the Item Charge Assignment page?

    (   ) Manually enter the values in the Qty. to Assign field for each line.

    (   ) Automatically assign the total charge amount proportionally based on the line amount.

    (   ) Specify percentages for each line and have the program assign the total charge based on these percentages.

    (   ) Automatically assign the total charge amount equally among the lines.

5. How do you charge a customer shipping fees for the sale of an item?

    (   ) As a purchase item charge assigned to the relevant purchase document

    (   ) As a purchase item charge assigned to the relevant sales document

    (   ) As a sales item charge assigned to the relevant purchase document

    (   ) As a sales item charge assigned to the relevant sales document

    (   ) As a sales allowance

Test Your Knowledge Solutions

Module Review and Takeaways

1. What is the main purpose of item charges functionality?

    MODEL ANSWER:

    To account for inventoriable added costs for purchase transactions and non-inventoriable added costs for sale transactions.

2. How can you use item charges to account for non-inventoriable costs that are incurred for a sales transaction?

    MODEL ANSWER:

    Assign the item charge amount to a related sales document.

3. Which of the following combination of posting groups do you set up for an item charge?

    ( ) General business posting group and VAT product posting group

    ( ) General product posting group and VAT business posting group

    (√) General product posting group and VAT product posting group

    ( ) General business posting group and VAT business posting group

4. Of the options that are shown, what is the one way that you cannot assign an item charge to lines in the Item Charge Assignment page?

    ( ) Manually enter the values in the Qty. to Assign field for each line.

    ( ) Automatically assign the total charge amount proportionally based on the line amount.

    (√) Specify percentages for each line and have the program assign the total charge based on these percentages.

    ( ) Automatically assign the total charge amount equally among the lines.

5. How do you charge a customer shipping fees for the sale of an item?

( ) As a purchase item charge assigned to the relevant purchase document

( ) As a purchase item charge assigned to the relevant sales document

( ) As a sales item charge assigned to the relevant purchase document

(√) As a sales item charge assigned to the relevant sales document

( ) As a sales allowance