Inventory Management: Physical Inventory

SAP Business One Version 9.3

Run Simple

PUBLIC

Welcome to the inventory management topic on physical inventory.

Objectives

At the end of this topic, you will be able to:

- Describe the process steps for counting inventory

In this topic, we go through the process steps for counting inventory.
It covers basic concepts and process, for more detailed information on physical inventory, we recommend you read the How-to Guide: *How to Conduct Inventory Counting in SAP Business One*.

Business Scenario

- Your company needs to have an accurate count of the stock physically in the company warehouses.
- The company uses perpetual inventory which tracks the receipt and use of inventory and calculates the quantity on hand.
- The company needs an annual physical count of inventory for financial and tax reasons, so they have set up an inventory cycle linked to cycle count recommendations.
- If the physical count reveals any discrepancies from the quantity recorded in the system, the quantity difference is posted.

Imagine that:

- Your company needs to have an accurate count of the stock physically in the company warehouses.
- The company uses perpetual inventory which tracks the receipt and use of inventory and calculates the quantity on hand.
- The company wants a physical count of inventory for financial and tax reasons, so they have set up an periodic counts linked to cycle count recommendations.
- If the physical count reveals any discrepancies from the quantity recorded in the system, the quantity difference is posted.

Inventory Counting

Matching actual item availability and system quantities is crucial for inventory management.

You can set up inventory cycles with recommendations for periodic counts.

Inventory Counting is a recurrent activity in every item-based business. Matching the actual items availability and the quantities saved in the system is crucial for inventory management. You can set up inventory cycles with recommendations for periodic counts to be triggered annually, monthly, bi-monthly weekly or even daily.

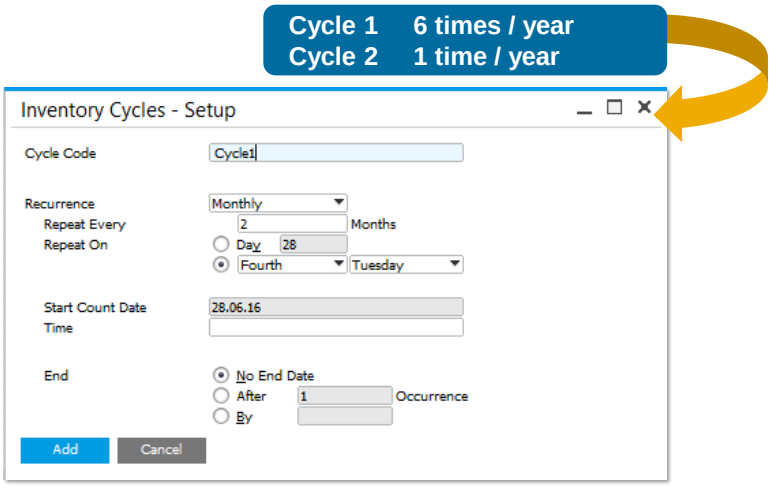
Cycle Counting Process Overview

- Cycle counting is the process of counting inventory items throughout the year based on a schedule, so that all items are counted at least once a year.
- First set up the various cycles you need. You can set cycles for different intervals. Then in cycle count determination, you assign the cycles to item groups or warehouse sublevels and set up an alert.
- The alert sends a recommendation for the count to specific user. The user can then select the items for counting.
- Once items are selected, you can freeze the items for counting. Freezing an item ensures that the item in the selected warehouse or bin is blocked from any business inventory transaction until the item has been counted and relevant postings made.
- When the inventory document is ready, you then print a count sheet for the stock takers to fill out. You can choose to include or exclude a display of the quantities recorded by the system.
- During the counting, you use a centralized inventory counting document to record and manage the inventory count process.
- The last step is to post any quantity differences that the stock takers detect. From the inventory counting document, you can copy the differences into an inventory posting document.

Setup Step 1: Set up Cycles

- First you set up the inventory cycles you need.
- You can set cycles for different intervals.

Administration → Setup → Inventory → Inventory Cycles

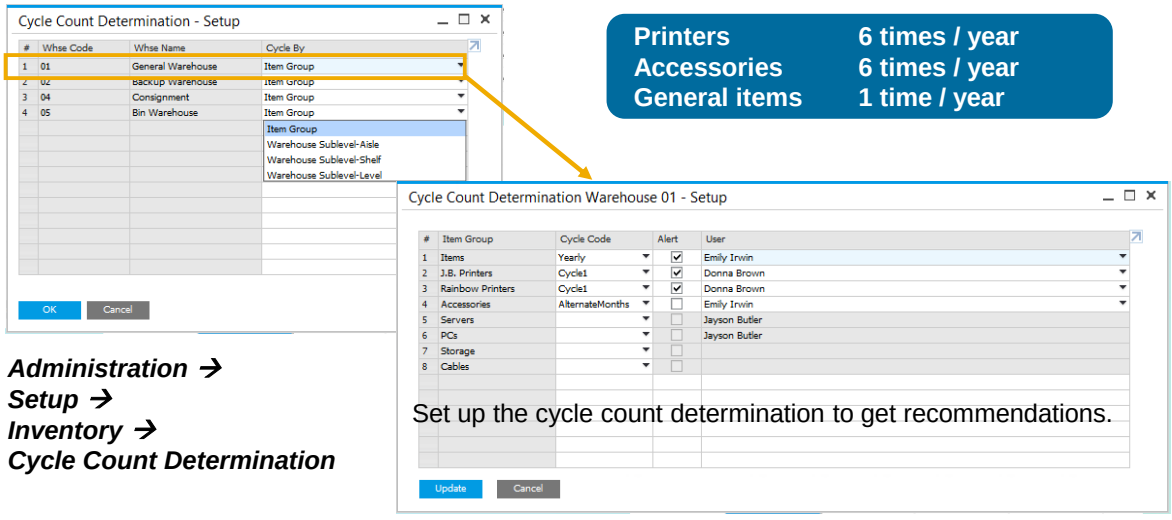


Let's look at the details behind the process. We will begin with the setup.
The first step in managing physical inventory is setting up the cycle counts.
You can set up different cycles with different frequencies. Generally the primary focus is on items that move more frequently, with less attention given to items that move less frequently. For example, you may want to count some more popular items every other month. Other less popular items may only need to be counted annually.

For each cycle, set a basic unit for the recurrence – for example: daily, weekly, monthly, annually

Then define the details. Set the recurrence, for example, repeat "every 2 months." You can specify the start date by either an exact date or a relative day, for example "annually, every second Tuesday in January". In this way you can stagger the start dates for each cycle to better manage the workload of the physical count.

Setup Step 2: Cycle Count Determination



Administration → Setup → Inventory → Cycle Count Determination

Set up the cycle count determination to get recommendations.

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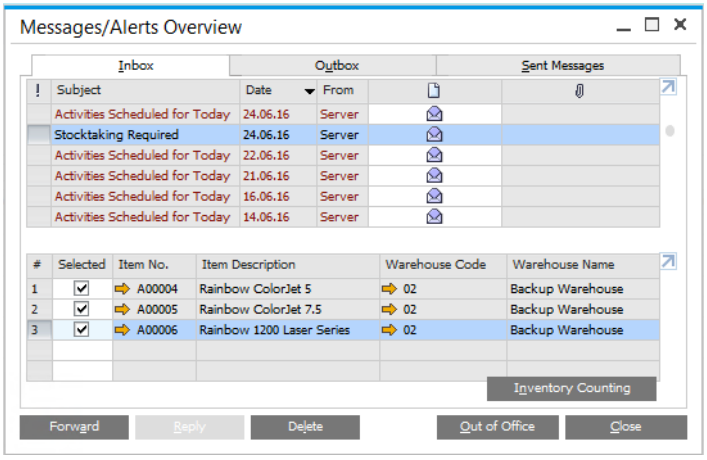
The second step is to set up the cycle count determination to get recommendations.
You can define your inventory cycle counts by item group or, if you are using bin location management, by warehouse sub-levels.
Once you have made these settings, you can then go into the inventory cycle count definition to set up alerts for the item groups or warehouse sublevels that need counting.

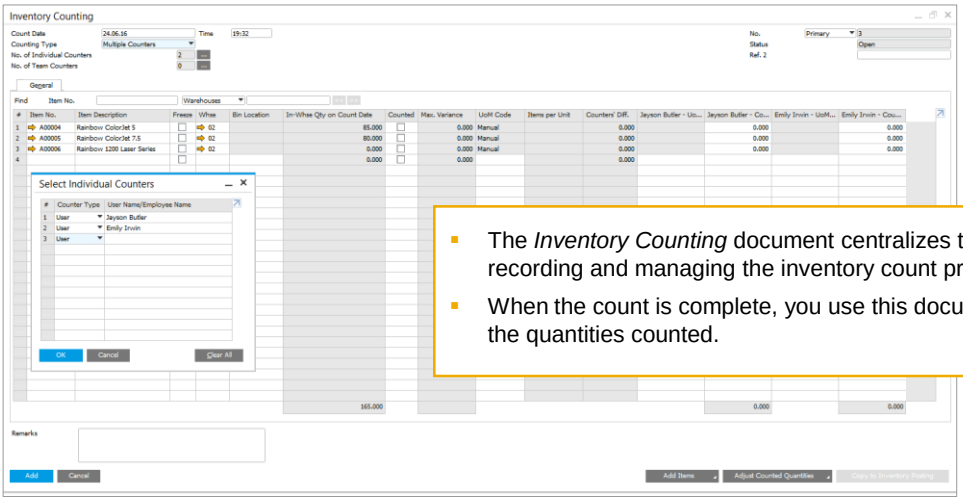
Process: Receive Alerts



- The designated user receives an alert for cycle count recommendations.
- The user can select which items to count and
- The user can open an inventory counting document from the alert.
- You can also use the menu for cycle count recommendations:
  Inventory → Inventory Transactions → Cycle Count Recommendations

The designated user receives an alert with cycle count recommendations.
The user can select which items to count.
Then the user can open an inventory counting document for those items from the alert by pressing the *Inventory Counting* button.
You can also use a menu path to select and view open cycle count recommendations.

Process: Inventory Counting



- The *Inventory Counting* document centralizes the process of recording and managing the inventory count process.
- When the count is complete, you use this document to enter the quantities counted.

The Inventory Counting document centralizes the process of recording and managing the inventory count process.

In the Inventory Counting document, you can:

- Freeze items you plan to count so that no inventory movements can take place during the count.
- Set the count to be done by one or multiple stock takers.
- Assign the count to teams or individual users or employees
- Print a count sheet for the stock takers to fill out.

When the count is complete, you use this document to enter the quantities counted.

Inventory Counting Option: Multiple Counters

- Multiple stock takers (either individuals or teams) can count items in the same area
- The teams or individuals enter their own results.
- You can then compare the results

You have the option to assign multiple individual counters, teams of counters or a mix of teams and individuals to count items in the same area.
The teams or individuals enter their own results. You can then compare results for an area.
Be careful to choose the correct counting type for single or multiple counters on the *Inventory Counting* document. If you change this setting after entering results, you may affect data already entered. For example, if you change from 'multiple' to 'single', and you have already entered counting results for two individual counters, when changing to single counter one of the individual counter's results will be deleted.

Multiple Counters Example

- Three employees count one section of a warehouse.
- Keisha counts the entire section alone. Lee and Saul work as a team.
- Each employee's count is entered into the *Inventory Counting Document*.
- Keisha's result is compared to the team result of Saul and Lee.

Keisha's count: 151

Saul's count: 76

Lee's count: 75

Total 151

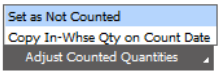
Here's an example of using a mix of individual and team counters.
Let's assume you have three employees available to do a count in a section of the warehouse. One employee, Keisha, is much faster than the others so you assign her to count the entire section. The other two employees, Lee and Saul are slower so you assign them to the same team.
When the count is complete, enter the quantities for each individual into the *Inventory Counting* document.
The system automatically adds Lee's and Saul's results together for their team.
You can then compare Keisha's individual results to the team results.

Process: Compare Results and Post Differences

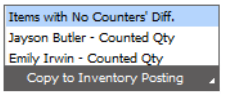
When there is a discrepancy from the expected in-warehouse quantity:

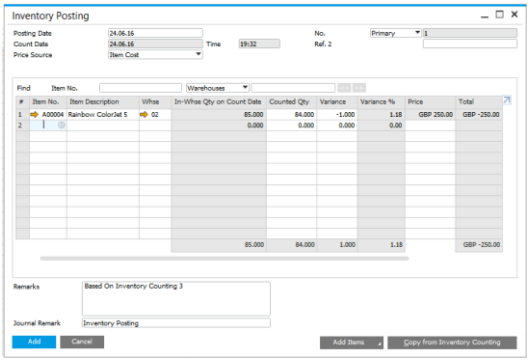
#	Item No.	Item Description	Freeze	Whse	In-Whse Qty on Count Date	Counted	Max. Variance	Counters' Diff.	Jayson Butler - Co...	Emily Irwin - Cou...
1	A00004	Rainbow ColorJet 5	☑	02	85.000	☑	-1.000	0.000	84.000	84.000
2	A00005	Rainbow ColorJet 7.5	☑	02	80.000	☑	0.000	0.000	80.000	80.000

Option 1: recount or adjust counted quantities



Option 2: copy the difference to an inventory posting

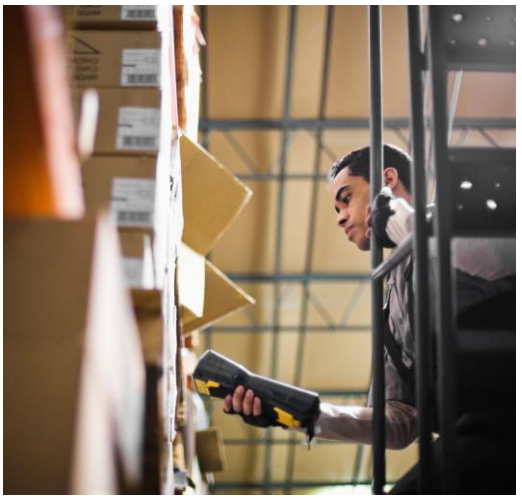




In the last step, you handle any quantity differences that the stock takers detect.
You have two main options to handle discrepancies.
Option 1: Adjust Counted Quantities. If you suspect the stock takers have counted incorrectly, then you can set the item as not counted and do a recount. You can also adjust the counted quantities to the system's in-stock quantities.
Option 2: Copy to Inventory Posting. Choose which values in the document to copy into an *Inventory Posting Document*. If the stock takers disagree, you can select one of the counts or if they all agree, then you can take the items with no counters' differences.
In the graphic, we see a situation where two individual stock takers count the same quantity, but it disagrees with the system's in-stock quantity for the item. Apparently, the warehouse is missing one of the printers that should be in stock. In this case, we could choose any of the three quantities to copy for inventory posting because all agree that one is missing.

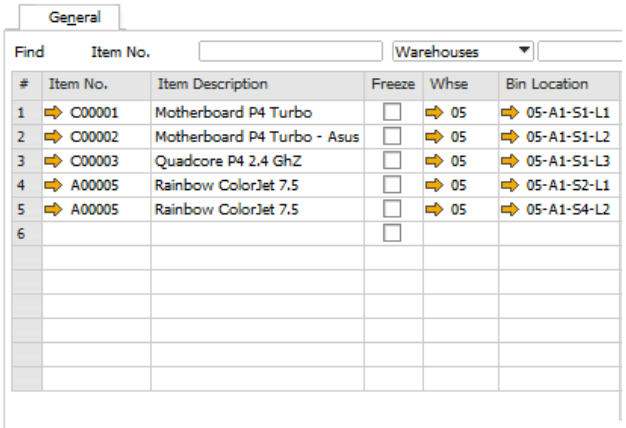
Additional Options in the Process

- Managing counts for bin locations
- Counting serial and batch numbers
- Counting different units of measures
- Importing items and counts into Inventory Counting Documents
- Setting inventory document dates or inventory posting dates as default for the in-house warehouse quantities



Let’s look at some of the additional options you have in the Inventory Counting Process.

Options: Manage Counts for Bin Locations



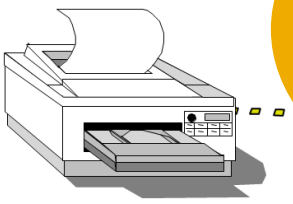
- For warehouses with bin locations, you can:
  - Enter bin locations in the *Inventory Counting* document
  - Enter quantities at the level of each bin location
  - View in-stock quantities by bin location

You can count at the level of the bin location.
For warehouses with bin locations, you can:

- Enter bin locations in the Inventory Counting Document
- Enter quantities at the level of each bin location
- View in-stock quantities by bin location

Options: Counting Serial Numbers and Batches

When counting serial numbers and batches, if there is a discrepancy, you can delete or add serial numbers or batch numbers.



1. OEC Computers performed a count for a printer item.

   Current inventory showed 54 in stock.

2. The stock taker entered a count of 55 into the Inventory Counting Document.

3. Stock taker creates a draft serial number in the Inventory Counting document.

4. When the counting differences are posted in an *Inventory Posting* document, the draft serial number becomes an actual serial number.

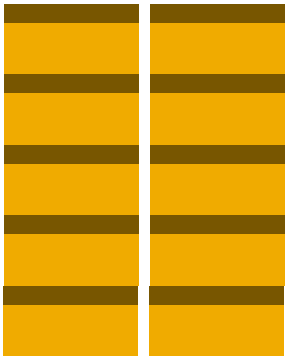
You can count items which are managed by serial numbers and batches.
The system can create new serial numbers or batch numbers if needed. After the count is complete, you can enter draft serial numbers or batches in the Inventory Counting document. The serial numbers will be created as actual serial numbers during inventory posting.

For example, OEC Computers performed a count for a printer item. There were 55 printers in the warehouse, but only 54 had serial numbers. The stock taker entered the quantity in the *Inventory Counting* document and created a new draft serial number for the additional printer. The draft became an actual serial number when the counting differences were posted in an *Inventory Posting* document.

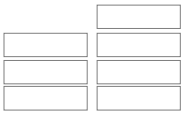
Options: Counting Different Units of Measure

- An item may be stored in different units of measure in a warehouse
- Units of measure groups contain relationships between units.
- The system automatically converts the different units into the inventory unit of measure
- Example:
  - Pack is inventory unit
  - 24 packs in a carton

10 cartons counted



7 packs counted



Total counted:

(24 x 10) + 7

= 247 packs

You have the option to count different units of measure.
An individual item may be stored in different units of measure within a warehouse. Because unit of measure groups are set up with relationships between units, the system automatically converts the counted units into the inventory unit of measure.
For example, a company selling paper may store paper in both cartons and in individual packs. The inventory unit of measure is the pack and there are 24 packs in a carton.
In this situation, let's assume a stock taker counts 10 cartons and 7 individual packs.
The stock taker can enter both the count in cartons and the count in packs.
SAP Business One will do the conversion of the units and determine the total of 247 packs for the inventory unit of measure.

Options: Importing Items and Counts

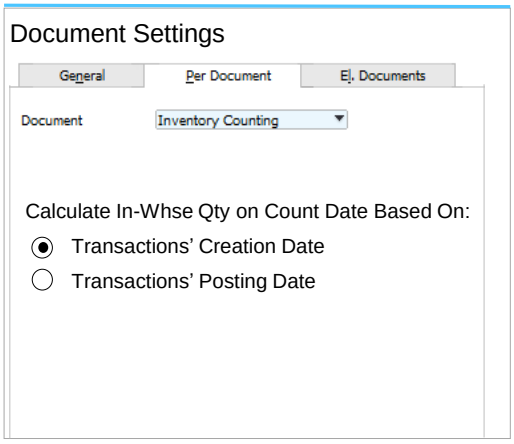
Use the Import from Excel tool to import items and counts:

	A	B	C	D	E	F	G	H	I	J	K
1	Item Code	Item Description	Warehouse	Bin	Counted Quantity	Bar Code	UoM	Batch	Counter Type	Counter ID	Individual/Team Counter
2	I006	I006	03	03-SYSTEM-BIN-LOCATION	20	1234	BOX	B60000	U	user2	I
3	I006	I006	03	03-SYSTEM-BIN-LOCATION	20	1234	BOX	B60001	U	user2	I
4	I006	I006	03	03-SYSTEM-BIN-LOCATION	20	1234	BOX	B60000	U	user3	I
5	I006	I006	03	03-SYSTEM-BIN-LOCATION	18	1234	BOX	B60001	U	user3	I
6	I006	I006	03	03-SYSTEM-BIN-LOCATION	19	1234	BOX	B60000	U	user4	I
7	I006	I006	03	03-SYSTEM-BIN-LOCATION	20	1234	BOX	B60001	U	user4	I
8	I006	I006	03	03-SYSTEM-BIN-LOCATION	21	1234	BOX	B60000	U	user5	I
9	I006	I006	03	03-SYSTEM-BIN-LOCATION	20	1234	BOX	B60001	U	user5	I
10	I006	I006	03	03-SYSTEM-BIN-LOCATION	15	1234	BOX	B60000	U	manager	T
11	I006	I006	03	03-SYSTEM-BIN-LOCATION	8	1234	BOX	B60001	U	user1	T
12	I006	I006	03	03-SYSTEM-BIN-LOCATION	15	1234	BOX	B60000	U	user2	T
13	I006	I006	03	03-SYSTEM-BIN-LOCATION	7	1234	BOX	B60001	U	user2	T

17

You have the option to import items and counts into a counting document using the *Import from Excel* tool.
This tool is covered in detail in its own course topic and specific instructions for inventory counts are covered in the *Inventory Counting How-to Guide*.
This option is very useful for companies who have a large number of items and extensive warehouses.
Even if you are not importing the count, it may be useful to import item details into the document.
You can import the fields for item codes and descriptions, warehouse codes, bin locations, bar codes, units of measure, batches, serial numbers, and counted quantities.

Options: Default Date for Warehouse Quantities



Administration → System Initialization → Document Settings → Per Document Tab
For Inventory Counting Document

- Two choices for the default date for calculation of the in-warehouse quantity for inventory counts.
- In most circumstances, the best date to use is inventory transactions' creation date.
- However, the posting date is another option for customers who create inventory documents with a posting date that differs from the current date.

There are two choices available for the default date for calculating the in-warehouse quantity for inventory counts.
In most circumstances, the best date to use is inventory transactions' creation date.
However, the posting date is another option for customers who create inventory documents with a posting date that differs from the current date.
This may be useful for companies with large volumes of incoming and outgoing transactions and who want to limit the period of time they freeze inventory items.

Example: Default date for In-Warehouse Quantities

September 6	September 7	September 8	September 9
Shipment with a quantity of 10 arrives at the warehouse	Physical inventory count performed	Goods receipt created for Qty. 10 (with posting date of September 6)	*Inventory Counting* Document created (with count date of September 7) to record results

Default as *Creation Date*: In-warehouse quantity does not include the 10.

Default as *Posting Date*: In-warehouse quantity includes the 10.

*More information on this option is available in note 1899113

Here is an example of when using the posting date makes the most sense:
Sometimes the OEC Computers warehouse team cannot keep up with the volume of inventory transactions and delays the entry of a goods receipt or goods issue until the next day.
They receive a shipment with a quantity of 10 on September 6, but do not enter a goods receipt on that day.
Physical inventory is performed on September 7.
On September 8, a goods receipt is created for the quantity of 10. The posting date is set to September 6.
The Inventory Counting document is created on the following day, September 9, with a count date of September 7.
If the default date for in-warehouse quantity is set to the creation date, the system will not include the 10 because the document was not yet created.
If the default date is set to the posting date, then the 10 will be included because the posting date of the transaction was set to September 6.
To learn more about this option, look at both the How-to Guide on Physical Inventory and the note 1889113.

Summary

Here are some key points:

- Inventory Counting is done periodically in every item-based business to match the actual physical count to the quantities saved in the system.
- You can set up inventory cycles with recommendations for periodic counts to be triggered annually, monthly, weekly or even daily.
- Cycle counts can be tied to item groups and warehouse sublevels.
- Alerts remind you about items due for inventory counting.
- Inventory counts can be done by individuals or teams or a mix of individuals and teams.
- The *Inventory Counting* document coordinates counting by multiple stock takers, records the results, manages the process and allows you to copy any differences into inventory posting documents.

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- You can set up inventory cycles with recommendations for periodic counts to be triggered annually, monthly, weekly or even daily.
- The cycles can be tied to item groups and, in warehouses with bin locations, warehouse sublevels.
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Thanks

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Thank you for your time!

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