

Reversing Item Adjustments – Clearing the Item Adjustment Account on the Profit and Loss to zero (Decrease)

In this guide we will show you how to decrease the value that appears in your Item Adjustment account on the profit and loss without having any effect on the value of Items on hand.

Please Note that the Item Adjustment account appears on the Profit and Loss **ONLY** when you run by sales. This account does not form part of the Trial Balance or General Ledger.

How does the Item Adjustment account arise?

This account **ONLY** appears on the profit and loss when run by sales.

If you have processed an Item Adjustment/s in Sage One Accounting that **decreased** the value of your inventory, either by decreasing the quantity on hand or by **reducing** the average cost. The corresponding increase (or contra entry) will be recorded in your Profit and Loss by Sales as a **positive** Item Adjustment.

Sales	
Parts	117,858
Total for Sales	117,858
Cost of Sales	
Item Adjustments	79,490
Parts	99,362
Total for Cost of Sales	178,852
Gross Profit	-60,994

Using the example above, we will show you how to remove the Item Adjustment of R79,489.72 from your Profit and Loss.

We recommend this method to clear this account regardless of how many items were adjusted.

Reversing the Item Adjustment

Step 1 – Purchase an Item at R 0.00

1. Using a **Supplier Invoice** to purchase an item.
 - You can use an existing supplier or even better you can create a new supplier that you can call "Corrections Supplier".
2. Purchase an item on a supplier invoice
 - Create a new item "Correcting Item"
 - Assign any code
 - Set the default tax on the item to "No VAT"
3. Record the value of the item being purchased
 - Purchase a quantity of 1
 - The price of the item should be R 0.00.
 - Make sure there is no VAT on the transaction

Process Supplier Invoice

Send
Options

Supplier Details

Supplier: Correction Supplier | VAT Reference:

Balance: R 0.00 | Credit Limit: R 0.00

Physical Address

Physical Address:

Postal Address

Invoice Details

Document No.: *NUMBER* | Date: 31/01/2016

Supplier Inv. No.: CORRECTION | Due Date: 31/01/2016

From Purchase Order: | Discount %: 0.00 %

Layout: Default (Modern)

Use Inclusive Amounts

Use Last Supplier Invoice Detail

Type	Selection	Description	Unit	Qty	Excl. Price	VAT Ty...	Disc %	Discount	Exclusive	VAT	Total
Item	001CORR	CORRECTING ITEM		1.00	R 0.00	No VAT	0.00%	R 0.00	R 0.00	R 0.00	R 0.00

Add Additional Costs

Message:

Set Default Message

Total Discount: R 0.00

Total Exclusive: R 0.00

Total VAT: R 0.00

Total: R 0.00

Step 2 – Adjust the Items Average Cost

1. Go to Item Adjustments (Items...Transactions...Item Adjustments...Quick Entry Grid).
2. Select the date of the Adjustment – This is important as it needs to be in the same period as the original adjustment in order to correct the profit and loss.
3. Provide a reason for the Adjustment such as “Correction of Item Adjustment”.
4. Process the Adjustment
 - Select the Correction Item.
 - The Current Average Cost will be the amount that you specified on the Supplier Invoice when you purchased the Item – in the example R 0.00
 - You will need to adjust the New Average Cost to be the value of the adjustment that you require in the example R79,489.72.

Item Adjustment Quick Entry Grid

Adjustment Date: 31/01/2016
Reason: Correcting Item Adjustment

Import

Load All Clear All

Code	Description	Last Cost	Avg Cost	New Avg Cost	Qty on Hand	New Qty on Hand
001CORR	CORRECTING ITEM	R 0.00	R 0.00	79489.72	1.00	1.00

Step 3 – Return the Item

1. Return the item to the supplier (Edit the invoice and select the option to “Create Supplier Return”)
2. Return the quantity of 1 at a cost of R 0.00.

Item Quick View

Item: 001CORR - CORRECTING ITEM [Edit this Item](#)

Category: No Category Assigned
Item Type: Physical
Last Cost: R 0.00

Value on Hand: R 0.00
Quantity on Hand: 0
Average Cost: R 0.00
Inclusive Selling Price: R 0.00
Exclusive Selling Price: R 0.00

Overview **All Transactions**

All Transactions

Date	Transaction Type	Document Number	Customer / Supplier	Quantity	Quantity On Hand
31/01/2016	Supplier Invoice	SINV0000001	Correction Supplier	1	0
31/01/2016	Supplier Return	RTN0000001	Correction Supplier	-1	-1
31/01/2016	Adjustment			0	0

Item Valuation Report

SOA - KB - Decreasing an Item Adjustment

Item: All Items
 Category: All Categories
 Date Range: 31/01/2016
 Cost: Average Cost

Show Report Options



Code	Description	Category	Active	On Hand	Cost	Value
*CARBO-001	* Carbon Road Frame	Parts	Yes	32.00	R 19,872.43	R 635,917.76
001CORR	CORRECTING ITEM		Yes	0.00	R 0.00	R 0.00
ALUMIN-001	Aluminium Road Frame	Parts	Yes	18.00	R 15,862.90	R 285,532.20
BICYCL-002	Bicycle Pump	Parts	Yes	87.00	R 174.63	R 15,192.81
CARBON-001	Carbon Sole Shoes	Apparel	Yes	39.00	R 2,316.82	R 90,355.98
GROUPS-001	Groupset	Parts	Yes	27.00	R 4,807.48	R 129,801.96
MOUNTA-001	Mountain Bike Frame	Parts	Yes	3.00	R 15,092.80	R 45,278.40
MOUNTA-002	Mountain Bike Helmet	Apparel	Yes	84.00	R 842.46	R 70,766.64
RACING-001	Racing Road Wheelset	Parts	Yes	20.00	R 7,745.59	R 154,911.80
TIMETR-001	Time Trial Helmet	Apparel	Yes	129.00	R 1,005.07	R 129,654.03
XCWHEE-001	XC Wheelset	Parts	Yes	103.00	R 3,048.94	R 314,040.82
Total:						R 1,871,452.40

Results

The correction explained above should result in the following:

Correction Supplier – Balance should be zero (item purchased and returned at same value).

Correcting Item – Should be zero on hand (purchased and then returned).

Item Adjustment – Should be a credit (decrease) to the Profit and Loss for the value corrected.

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