

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

In this guide we will show you how to increase 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?

If you have processed an Item Adjustment/s in Sage One that **increased** the value of your inventory, either by increasing the quantity on hand or by **increasing** 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	R 117,857.95
Total for Sales	R 117,857.95
Cost of Sales	
Item Adjustments	R -79,489.72
Parts	R 99,362.15
Total for Cost of Sales	R 19,872.43
Gross Profit	R 97,985.52

Using the example above we will show you how to remove the negative Item Adjustment of R-79,489.72 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

- Using a **Supplier Invoice** to purchase an Item.
 - You can use an existing supplier or you can create a new supplier that you call "Corrections Supplier".
- 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"
- Record the value of the Item being purchased
 - Purchase a quantity of 1.
 - The price of the item should be the value of the adjustment required – in the example R79,489.72.
 - Make sure there is no VAT on the transaction.
 - If you require a different adjustment value just change the amount.

Process Supplier Invoice

Send ▾
Options ▾

Supplier Details

Supplier Correction Supplier ▾

Balance R 0.00

VAT Reference

Credit Limit R 0.00

Physical Address

Physical Address ▾

Postal Address

Invoice Details

Document No. Date

Supplier Inv. No. Due Date

From Purchase Order Discount %

Layout

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 79,489.72	No VAT	0.00%	R 0.00	R 79,489.72	R 0.00	R 79,489.72

Add Additional Costs

Message

Set Default Message

Total Discount	R 0.00
Total Exclusive	R 79,489.72
Total VAT	R 0.00
Total	R 79,489.72

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 R79,489.72.
 - You will need to adjust the **New Average Cost** to be R 0.00

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
CORR-001	Correcting Item	R 79,490.00	R 79,490.00	0.00	1.00	1.00

Select Item Code Item Description

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
Value on Hand: R 0.00

Category: No Category Assigned
Item Type: Physical
Last Cost: R 79,489.72

Quantity on Hand: 0
Average Cost: R 79,489.72
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
26/01/2016	Adjustment			0	0

Item Valuation Report

SOA - KB - Increasing 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	40.00	R 19,872.43	R 794,897.20
001CORR	CORRECTING ITEM		Yes	0.00	R 79,489.72	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 2,030,431.84

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 debit (increase) to the Profit and Loss for the value corrected.

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