

## **HELP SHEET**

Inventory—Consignments at Customer Site

September 23, 2003

Recommended procedure for Consignment Inventory.

### **File maintenance:**

#### **Master Control: Store Control File:**

Create a store for each consignment location using a separate range of store numbers.

#### **Basic Information:**

The store must **NOT** be set up as a consignment store.

### **Operational Procedure:**

#### **Adding Inventory to the Consignment Location:**

The initial consignment inventory is added to the consignment location through Inventory Transfers. This will also create the items in the location, limiting the items in the location to only what is on consignment.

#### **Replenishment of Consignment Inventory:**

For replenishment of consignment inventory, there are two options:

**Option 1:** The customer orders replenishment items and notifies the main store location that these items are consignment replacements. The main store location ships these items to the consignment customer on an inventory transfer.

At the end of the month, an inventory valuation is printed for each consignment store and a physical inventory taken at the consignment locations. Any differences are billed to the customer FROM THE CONSIGNMENT STORE, which will bring the consignment inventory valuation back in sync with the physical inventory.

With this method a customer may increase his consignment allocation by ordering items that were not in the original batch on a transfer instead of an invoice, or reducing the items on consignment by not requesting replacement items.

This option is the preferred method, as by billing from the consignment store, a sales history of consignment units is available which will allow a determination to be made as to whether this consignment inventory is worth keeping in place.

**Note:** All merchandise other than consignment inventory will continue to be billed from the main location.

**Option 2:** The customer orders replenishment items as they are sold. (These items may be regular merchandise or consignment inventory). The customer is billed from the main store location and his inventory should remain constant.

At the end of the month, an inventory valuation is printed for each consignment store and a physical inventory taken at the consignment location. Any differences must be rectified with transfers to/from the main store location and the customer is billed appropriately from the main store location. This method allows for a customer to continually adjust his consignment inventory but does not allow any tracking as to how many sales are being made from the consignment inventory as all items are billed through the main store.

**Note:** All merchandise, including consignment inventory, will be billed from the main location.

**Overview:** Option 1 is the preferred method when a customer has prox terms. If the physical inventory is taken and the customer billed, before the end of the billing cycle, the customer does not gain any payment advantage, the due date is still the 10<sup>th</sup> of the next month.

Option 2 is the preferred method when a customer has 30 day terms. He is billed as soon as the request is received for additional items. In option 1, the billing would be done at the end of the billing cycle. This would give a payment advantage as the due date would be from the date the invoice was generated, not from the date the merchandise was sold.

## **Inventory Valuations:**

The final end-of-the-month inventory valuation report should include the consignment stores as these are still part of the Company's inventory and are included in the general ledger inventory account.