



# 2026 DYNAMICS CON Vegas



# Understanding Inventory Costing in Dynamics 365

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# Agenda

- Introduction to Logan Consulting
- Standard Cost Methodology
- Actual Cost Methodology
- Demo
- Questions





## ABOUT US



Founded in 1992  
33+ Years ERP Expertise



Chicago-Based, Global Reach  
125+ Consultants Deployed Annually



Certified Microsoft Business  
Solutions Partner



User Group Contributor since  
2014



Microsoft is our largest  
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Over a dozen Microsoft  
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### Core Service

- Assessments
- Implementations/Migrations
- Change Management
- Optimization
- Ongoing Support

### Extended Service

- AI Readiness
- Copilot Deployment
- Data Engineering
- Technology Selection
- Project/Program Management
- CRM Implementations
- EDI Management
- Technology Strategy



# Standard Cost Methodology



# Standard Cost

- Overview of standard cost
- Std. vs. actual – pros/cons
- Costing versions
- Costing sheet/costing groups
- Cost calculations (standard cost rollup on finished goods)
- Standard cost transactions – Physical vs. financial
- Purchase Price Variance analysis
- Production Price Variance Analysis



# What is standard cost

- Pre-determined fixed cost for purchased and/or manufactured goods.
- Variances are in play between fixed standard cost and actual costs of doing business.
- Costs are not updated without user intervention. Requires cost reviews and new standard cost setup periodically.



# Pros and Cons of Standard Costing

## Common environments

Manufacturing environments generally producing same goods repeatedly.

Material cost does not change frequently, less common in process manufacturing and environments where commodity pricing is used.

Multiple sources of material with varying costs, e.g. buying same item from US and China.

## Pros

Variance analysis, all variances are tracked providing greater visibility into inefficiencies.

Easier budgeting knowing what products are expected to cost.

Easier sell price determination, knowing the cost leads to better pricing the products in market.

## Cons

Not suited for major market events (covid) and costs can over time vary from actuals over time.

Relies heavily on good data, BOMs, Routes, Times, Scrap etc. Accuracy of that data is more critical than other methods.

High level cost, not suitable where cost is required at lower levels like batches, serial number, warehouse

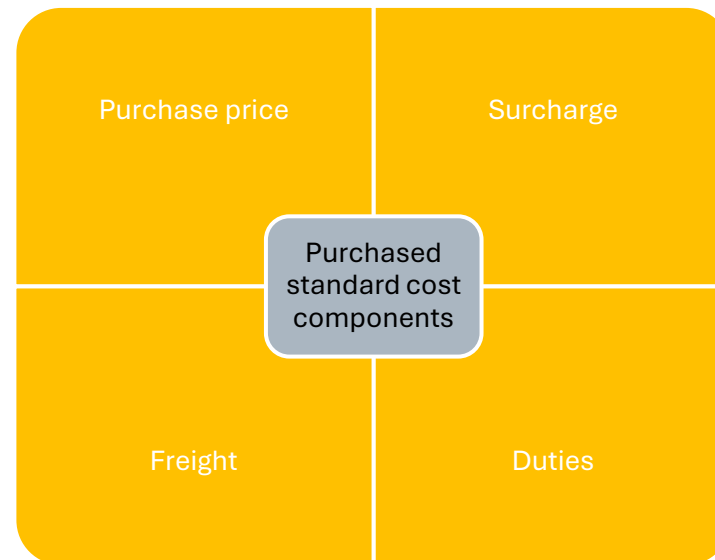
Does not work well in make vs buy scenarios

Requires additional resources to track/analyze variances and adjust standard costs periodically.



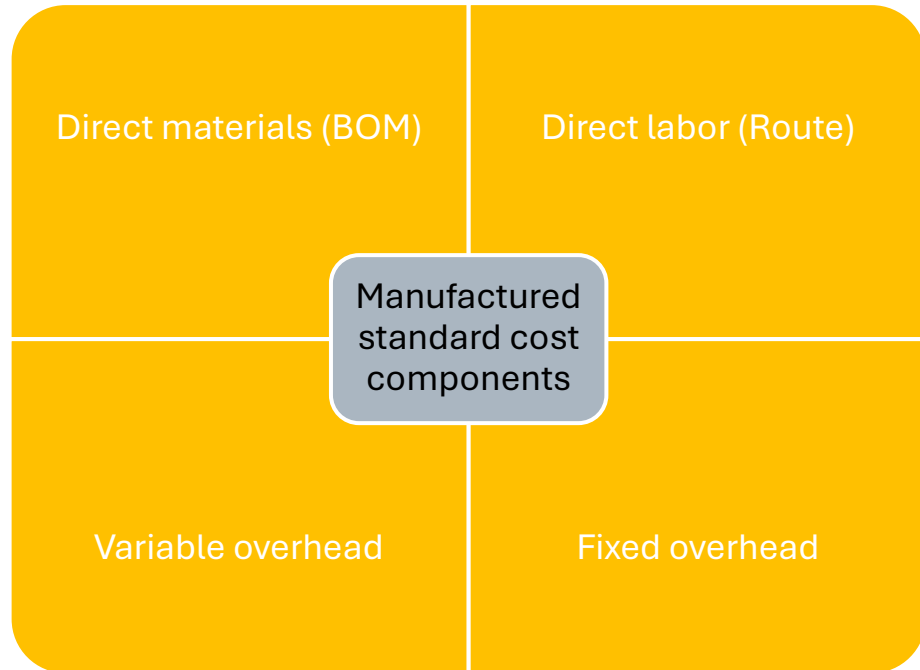
# Purchased Items

- Generally, requires some input from users before this is calculated, common practice is to expected load purchase prices and run cost calculation to apply overheads
- Trick - D365 can calculate this based on latest cost price/purchase price if a business chose to set their new standards automatically using above basis.



# Manufactured Items

- Generally calculated in system using cost roll up feature
- Highly dependent on accuracy of BOMs and Routes



# D365 Standard Cost Key Concepts

- Costing method
- Cost groups
- Costing versions
- Costing sheet
- Cost calculation
- Cost activation
- Posting profiles
- Standard cost transactions



# Item Model Groups

- Item model group costing method = D365 inventory model

Standard view ▾  
**Item model groups**

Item model group Name  
STD Standard cost

**Costing method & cost recognition**

**INVENTORY POLICY**  
 Stocked product

**INVENTORY MODEL**  
Inventory model  
Standard cost

- Item model group is assigned to products

Released product details | Standard view ▾  
**500AMPCoil : 500 AMP Coil**

<b>IDENTIFICATION</b>	Product number	Search name	Tracking dimension group
Product type	500AMPCoil	500AMPCoil	None
Item	Engineering product category details	Description	Item model group
Product subtype			STD
Product	Product owner		Reservation hierarchy
Product service type			Counting reason code policy
Not specified			

**FURTHER IDENTIFICATION**



# Cost Groups

- Building blocks for costing sheet, allows bundling of similar costs for calculation and variance reviews
- Types
  - Direct materials – Assigned to items
  - Direct manufacturing – Assigned to cost categories
  - Indirect – Assigned to material or labor in costing sheet
  - Direct outsourcing – Assigned to service items for subcontracting
  - Undefined – Anything goes

The screenshot shows the 'Cost groups' configuration page in Microsoft Dynamics 365. The left sidebar lists various cost group types: Retreat (AX Retreat), CP (Composed product), FG (Finished Goods), L1 (Packaging), L2 (Assembly), and L3. The main area shows the configuration for the 'Retreat' cost group. The 'Cost group type' dropdown is set to 'Undefined', and the 'Behavior' dropdown is also set to 'Undefined'. The 'Direct materials' option is selected in the dropdown menu. The 'Profit percenta...' field is set to 0.00.

Cost group	Name
Retreat	AX Retreat

**General**

Cost group type	Behavior
Undefined	Undefined
Direct materials	
Direct manufacturing	
Indirect	
Direct outsourcing	Profit percenta... 0.00

# Cost Groups

- Cost group assignment to "Released products"
- Product information management->Products->Released products->Manage costs
  - Allows grouping different items into common cost groups
  - "Direct material" type cost groups are most assigned to items.
  - If outsource service items, you may assign a cost group of type "Direct outsourcing"

Released product details | Standard view ▾

### P0002 : Speaker Damping Foam

Plan

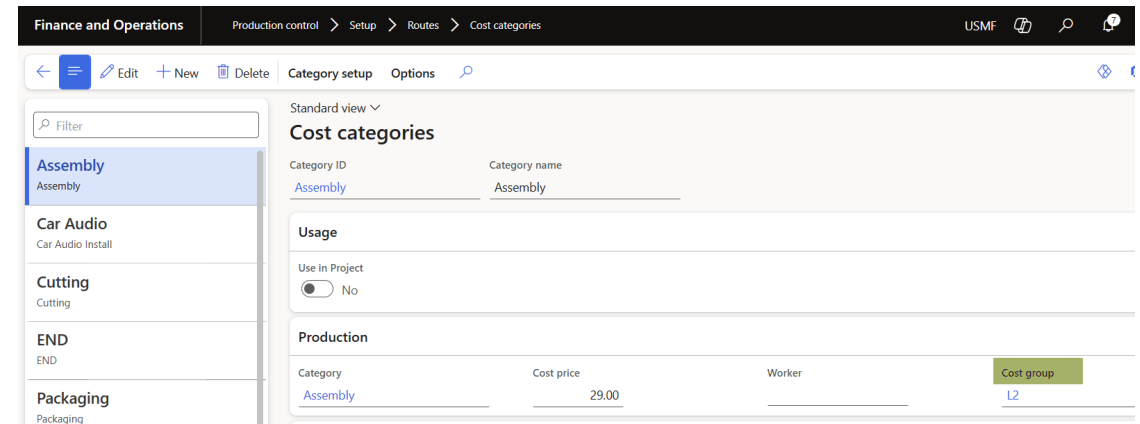
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Manage costs

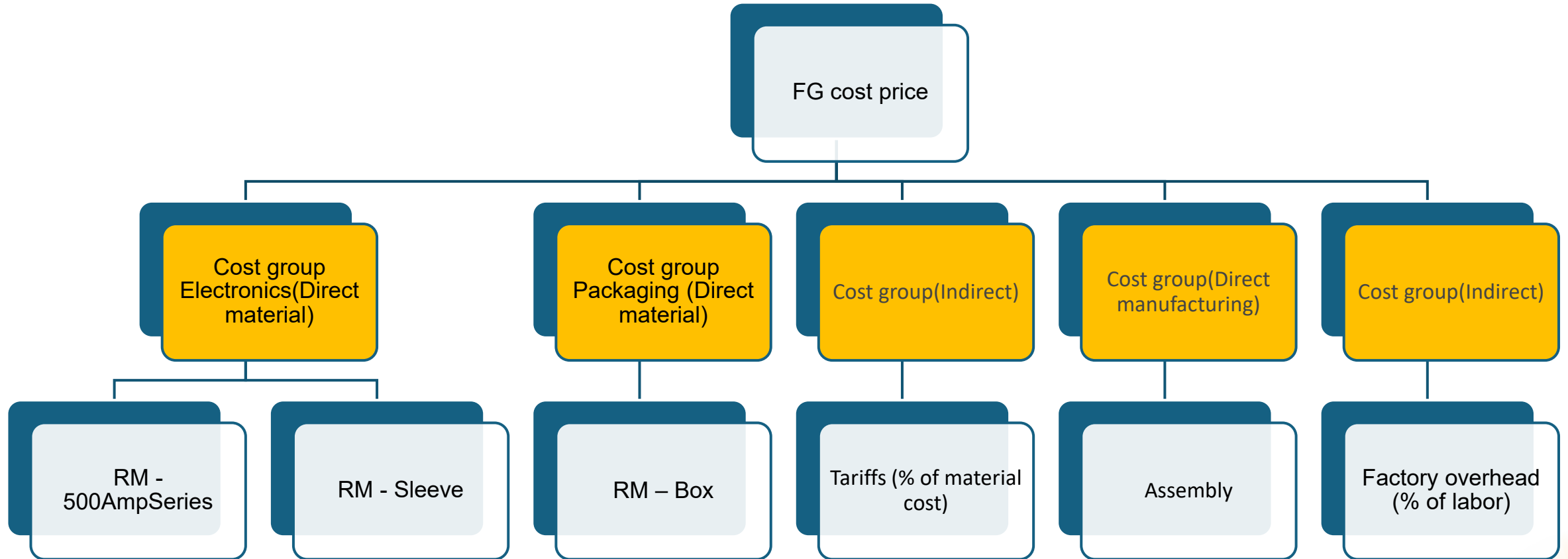
<b>POSTING</b>	<b>PRICE UPDATE</b>	Price
Item group	Latest cost price	6.75
<a href="#">AudioRM</a>	<input type="checkbox"/> No	Price quantity
	Date of price	1.00
	1/1/2013	
<b>COSTING</b>		<b>CHARGES</b>
Cost group	<b>PRICES</b>	Price charges
<a href="#">M3</a>	Unit	0.00
Use cost price by variant	<a href="#">ea</a>	
<input type="checkbox"/> No		

# Cost Groups

- Cost group assignment to "Cost categories"
- Production control->Setup->Routes->Cost categories->Production
  - Allows grouping different cost categories into common cost groups
  - "Direct manufacturing" type cost groups are most assigned to cost categories.
  - Cost categories are then assigned to production route operations.



# Cost Groups



# Costing Version Setup

- Costing versions is a grouping mechanism in D365 to contain a set of product, labor and overhead prices
- Uses
  - Track cost of products/overheads/labor over time
  - Generate future standard costs and activate them when needed e.g., beginning of next year
  - Run cost/price simulations
  - Mass calculate costs instead of item by item

Costing version setup

Standard view \* ∨

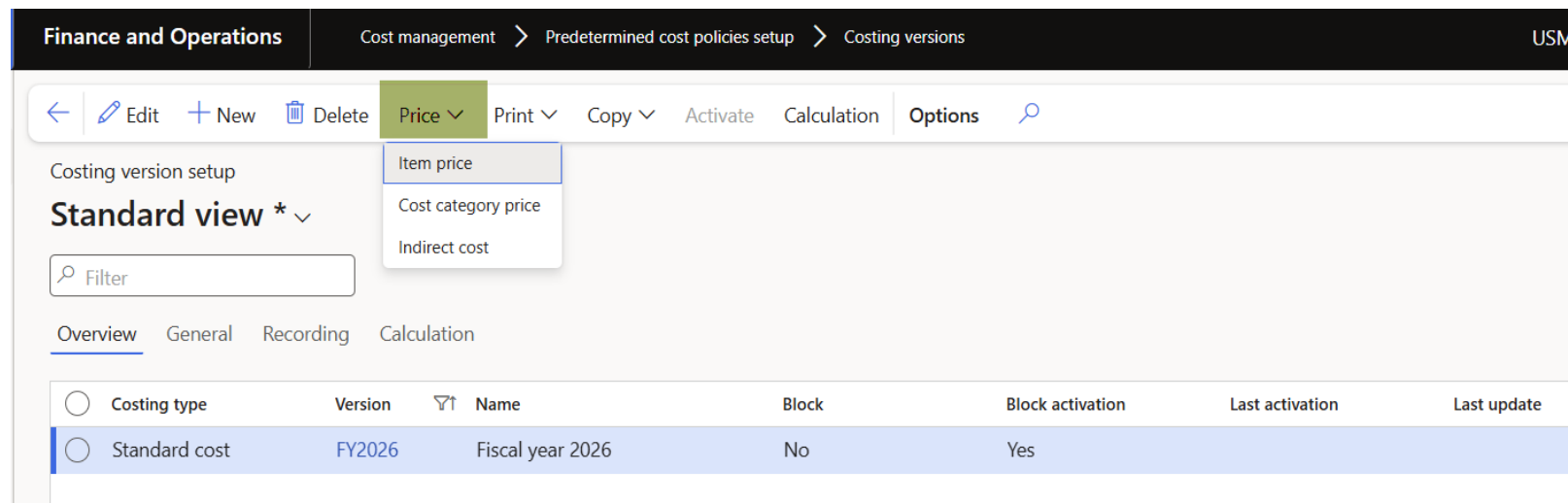
Overview General Recording Calculation

<input type="radio"/> Costing type	Version	<span>∨</span> Name	Block	Block activation	Last activation	Last update	From date	Production	Purchase order	Site
<input checked="" type="radio"/> Standard cost	FY2026	Fiscal year 2026	No	Yes			1/1/2026	✓	✓	



# Costing Version Setup

- Price types
  - Stores item cost/price
  - Stores cost category price
  - Stores indirect costs

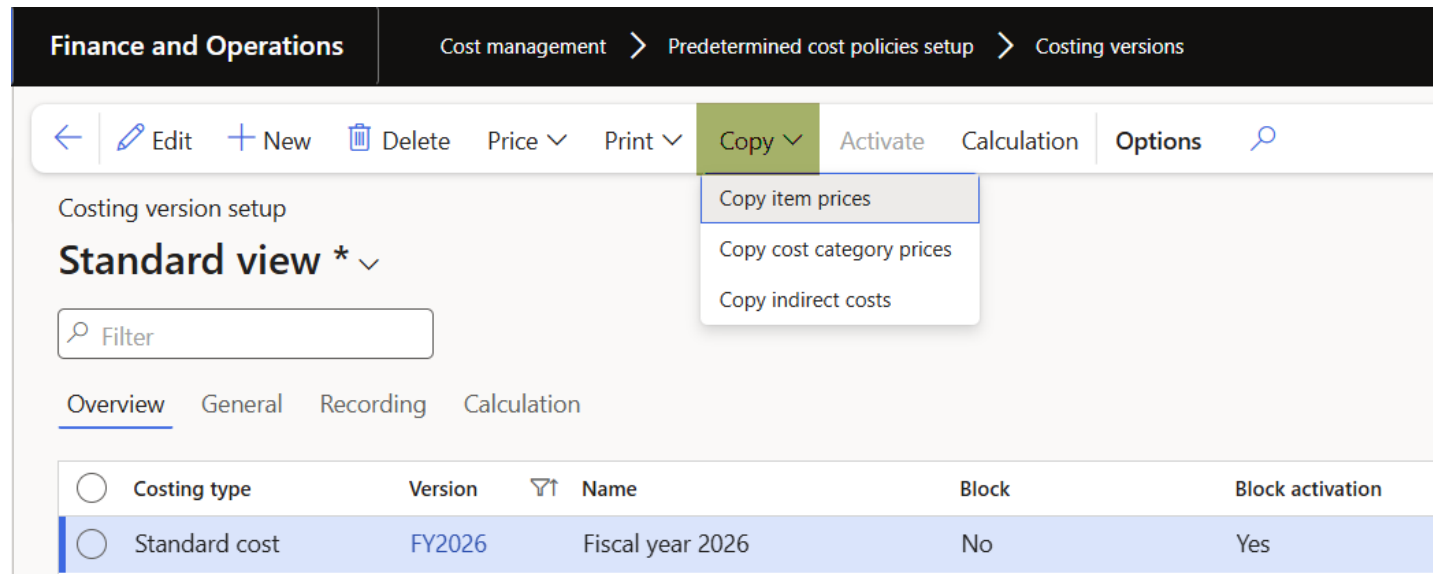


The screenshot shows the SAP Costing Version Setup interface. The breadcrumb navigation is: Finance and Operations > Cost management > Predetermined cost policies setup > Costing versions. The current view is 'Standard view \*'. A dropdown menu is open under 'Price', showing options: Item price, Cost category price, and Indirect cost. Below the menu is a search filter. The main table lists the costing version setup details.

Costing type	Version	Name	Block	Block activation	Last activation	Last update
Standard cost	FY2026	Fiscal year 2026	No	Yes		

# Costing Version Setup

- Copy feature
  - Facilitates copy from one costing version to another
  - Allows for basic increases and decreases with a multiplying and addition factor



The screenshot shows the 'Costing versions' setup page in Microsoft Dynamics 365. The breadcrumb trail is 'Finance and Operations > Cost management > Predetermined cost policies setup > Costing versions'. The top navigation bar includes 'Edit', 'New', 'Delete', 'Price', 'Print', 'Copy', 'Activate', 'Calculation', and 'Options'. The 'Copy' dropdown menu is open, showing options: 'Copy item prices', 'Copy cost category prices', and 'Copy indirect costs'. The main content area is titled 'Costing version setup' and 'Standard view \*'. There is a 'Filter' input field and tabs for 'Overview', 'General', 'Recording', and 'Calculation'. Below the tabs is a table with the following data:

<input type="radio"/>	Costing type	Version	↑ Name	Block	Block activation
<input type="radio"/>	Standard cost	FY2026	Fiscal year 2026	No	Yes

# Costing Sheet Setup

- What is costing sheet?
  - An organized template to setup and view costs breakdown.
- Why do we need it? (Not everyone uses it)
  - Only way to add indirect costs (People add these to BOMs and Routes in creative ways if not using costing sheets)
  - It is better to see price breakdown like following vs just seeing total cost of 269.48

<input type="radio"/> Item number	Production type	Warehouse	Quantity	Unit	CW quantity	CW u
<input type="radio"/> L0001	BOM		1.00	ea		0

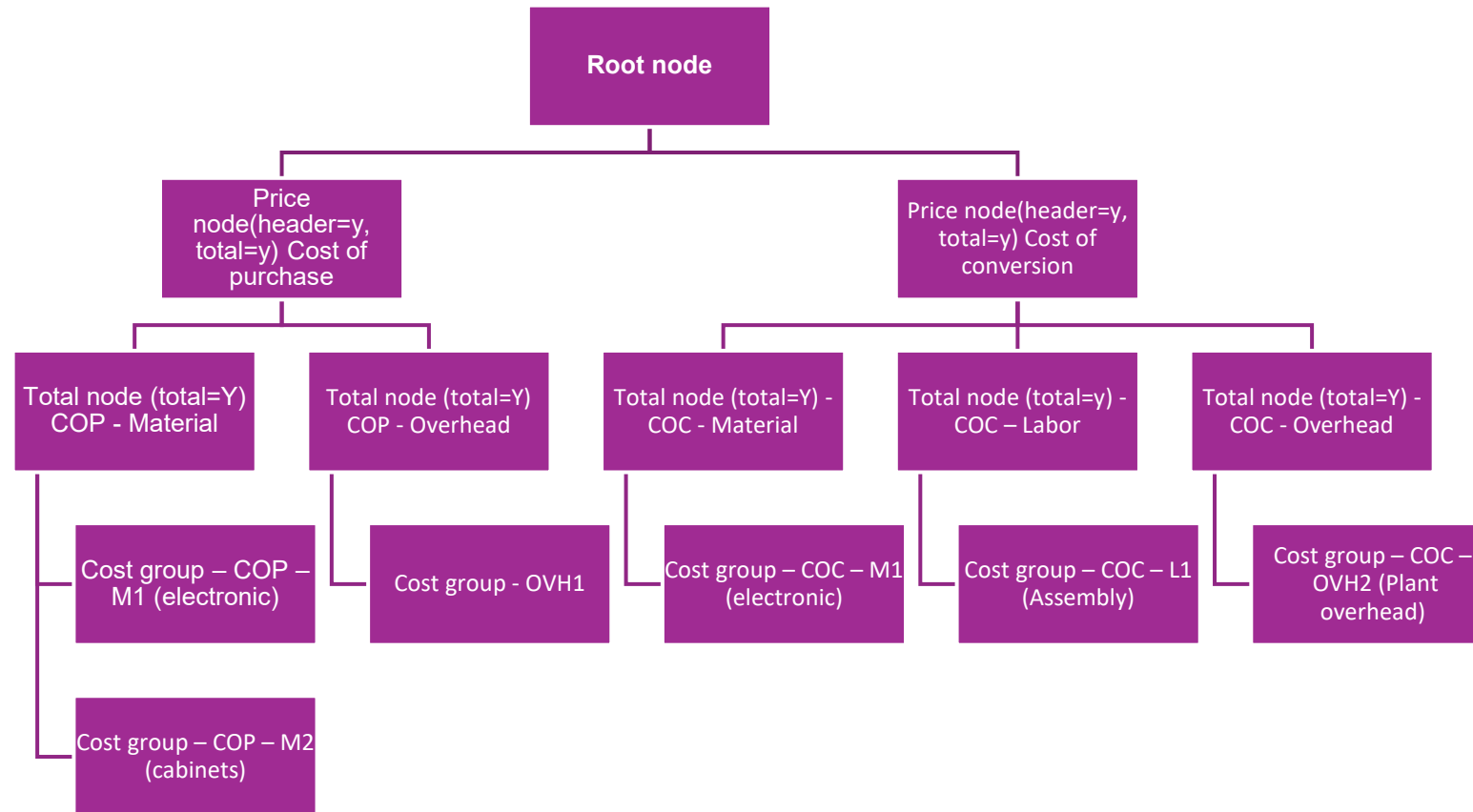
Overview General Prices Costing sheet

Level:  Per:  Quantity:  Unit:

<input type="radio"/> Code	Description	Variable cost	Fixed cost	Total
<input type="radio"/> Cost of Conversion				
COC-Material				
COC - M1	Electronic comp.	131.81		131.81
COC - M2	Cabinets comp.	81.59		81.59
COC - M3	Misc comp.	46.92		46.92
COC-Material		260.32		260.32
COC-Labor				
COC-Labor				
Overhead on Conversion				
COC - OVH2	Plant overhead	1.50		1.50
COC - OVH3	Material overhead	7.66		7.66
Overhead on Conversion		9.16		9.16
Cost of Conversion		269.48		269.48

# Costing Sheet Setup

- Understanding Costing Sheet



# Costing Sheet Setup

- Types of indirect costs available in costing sheet
  - Surcharge: An indirect cost calculated as a percentage of another cost component.
  - Rate: A fixed amount of cost applied to a certain input or output unit.
  - Input Unit-Based: A cost that is calculated by multiplying a specified amount by the selected unit on a per-input basis.
  - Output Unit-Based: A cost that is calculated by multiplying a specified amount by the selected unit on a per-output basis.
- Editing cost sheet
  - Add 20% Tariffs on all material (Surcharge)
  - Add \$2 receiving charge on electronic components (Rate/unit based)

## Create new node

### Parameters

Select node type

Total

Total

Cost group

Surcharge

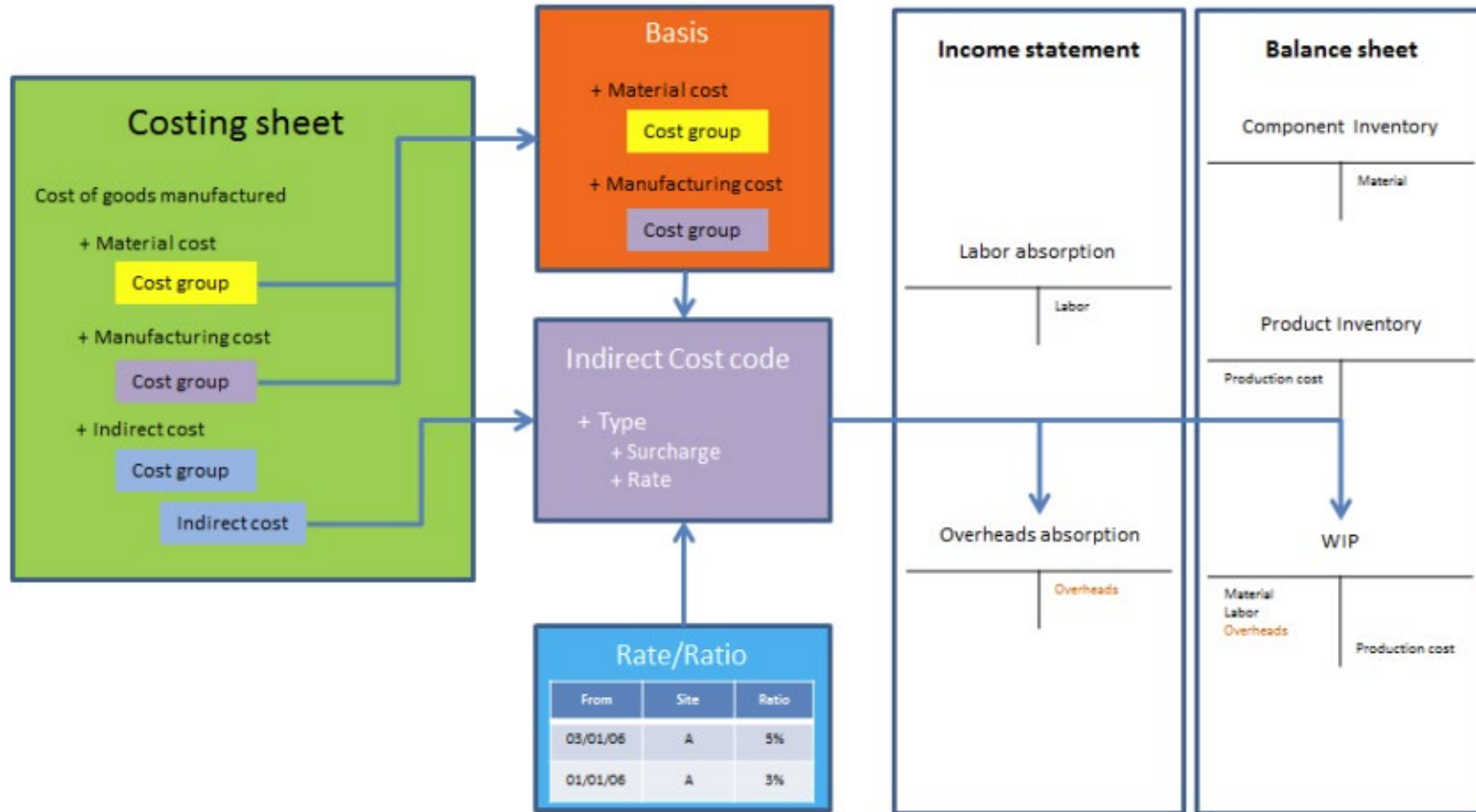
Rate

Output unit based

Input unit based

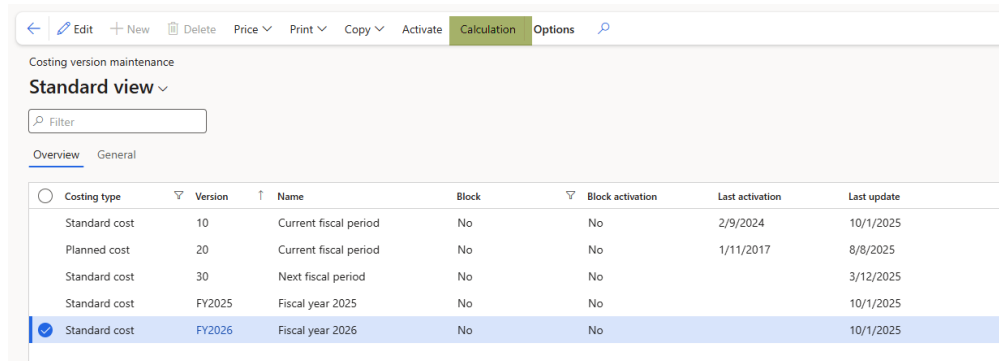
Description

# Costing Sheet Setup



# Cost Roll Ups

- Calculates purchased and manufactured material costs with or without costing sheet
- Costs are rolled from lowest BOM levels to top
- Can run from multiple places in system, costing versions, items.



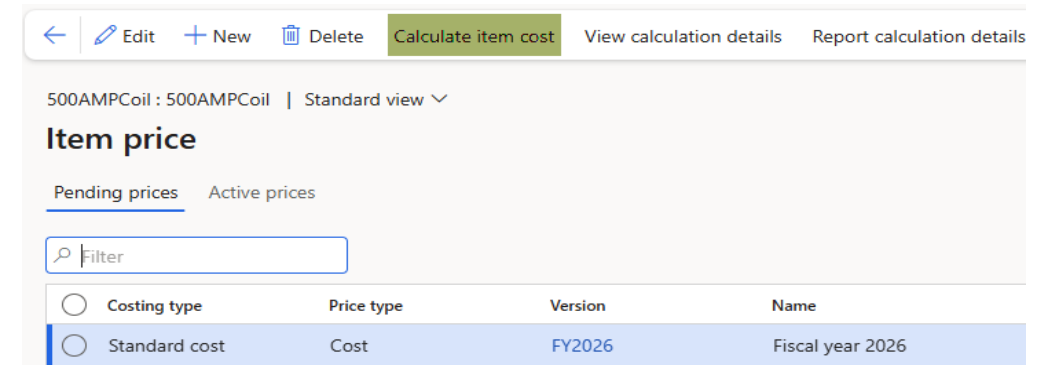
Costing version maintenance

Standard view

Filter

Overview General

Costing type	Version	Name	Block	Block activation	Last activation	Last update
Standard cost	10	Current fiscal period	No	No	2/9/2024	10/1/2025
Planned cost	20	Current fiscal period	No	No	1/11/2017	8/8/2025
Standard cost	30	Next fiscal period	No	No		3/12/2025
Standard cost	FY2025	Fiscal year 2025	No	No		10/1/2025
<input checked="" type="radio"/> Standard cost	FY2026	Fiscal year 2026	No	No		10/1/2025



500AMPCoil : 500AMPCoil | Standard view

### Item price

Pending prices Active prices

Filter

Costing type	Price type	Version	Name
<input type="radio"/> Standard cost	Cost	FY2026	Fiscal year 2026

- All cost calculations generate a pending price
- We can activate a costing version which includes everything or in day to day scenario new items.
- Unlike actual cost, Standard cost items cannot be transacted upon until a cost is specified.

# Cost Roll Ups

- Quantity – This is lot size quantity, makes difference in what system calculated cost will be.
- Item procurement mode
  - Production order – Discreet and Process manufacturing
  - Production Flow – Lean manufacturing
  - Purchase order – Purchased items

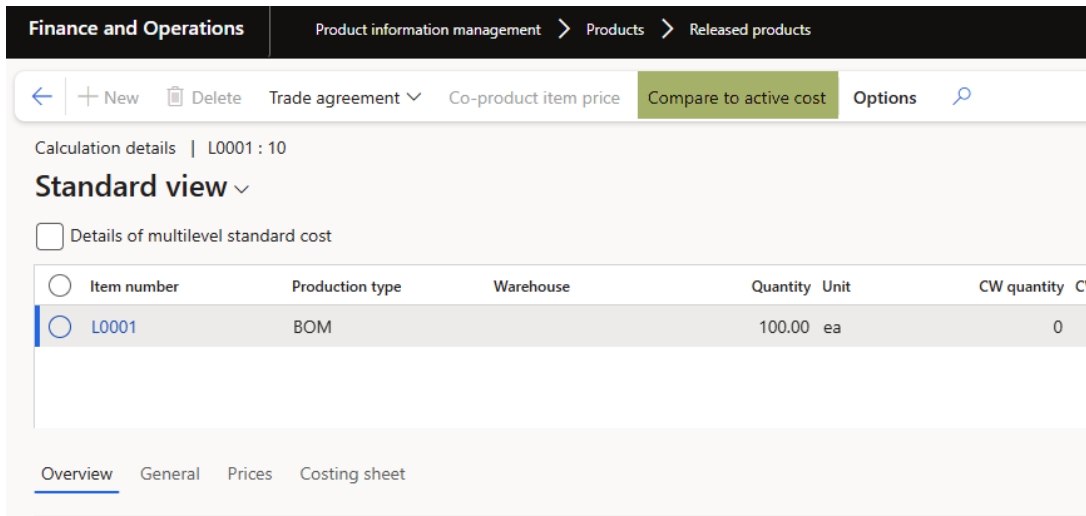
Standard view ▼  
Calculation for an item

General Price recording in version Warnings Run in the background

Item number	L0001	<b>ITEM PROCURED USING</b>	Item procurement mode	<b>CALCULATION TYPE</b>	Cost price model
<b>GENERAL</b>		<input type="radio"/> Production order		Version cost price	
Costing version	FY2025 <span>▼</span>	<input checked="" type="radio"/> Production flow		Purchase price model	Item purchase price
Site	1 <span>▼</span>	<input type="radio"/> Purchase order		Explosion mode	Single level
Calculation date	1/1/2025	<b>BOM</b>	000003 <span>▼</span>	<b>FALLBACK</b>	Fallback principle
<b>Quantity</b>	1.00	Route number		None	
Profit-setting	Standard	Production flow	Mid-Range Speaker 2 PF <span>▼</span>	Fallback costing version	
Update/insert calculated prices	Overwrite <span>▼</span>				

# Cost Roll Ups

- Example, USMF – L0001, Cost calculation Costing version 10, Qty 1 and 100
  - Calc pending
  - Compare to active costs



The screenshot shows the SAP Costing interface for product L0001. The breadcrumb trail is 'Finance and Operations > Product information management > Products > Released products'. The current view is 'Compare to active cost'. The calculation details are for 'L0001 : 10' in 'Standard view'. A checkbox for 'Details of multilevel standard cost' is unchecked. A table displays the product details:

Item number	Production type	Warehouse	Quantity	Unit	CW quantity	CI
L0001	BOM		100.00	ea	0	

At the bottom, there are tabs for 'Overview', 'General', 'Prices', and 'Costing sheet', with 'Overview' selected.

- Activate costs

# Additional Setup for Standard Cost

- Posting profiles – GL setup for variance needs to be setup

Posting type	Description
<b>Purchase price variance</b>	This account is used when there is a variance between the purchase price and standard cost on a purchase order.
<b>Inventory cost revaluation</b>	This account is used when a new costing version is activated for a standard cost item to revalue the on-hand inventory.
<b>Cost change variance</b>	This account is used when there is a difference in standard costs between sites, or when an item is returned and there is a change between the original standard cost and the current standard cost for a product.
<b>Production lot size variance</b>	This account is used when there are differences between the bill of materials (BOM) calculation basis and the actual quantity for the production order cost calculation.
<b>Production price variance</b>	This account is used when there are price differences between the estimated cost and the actual cost for a production order.
<b>Production quantity variance</b>	This account is used when there are quantity differences between the estimated cost and the actual costs for a production order.
<b>Production substitution variance</b>	This account is used when there is unexpected consumption on a production order.
<b>Rounding variance</b>	This account is used when there is a rounding difference when the production costs are calculated from the standard costs.

Sales order Purchase order Inventory Production Standard cost variance

Select

- Purchase price variance
- Inventory cost revaluation
- Cost change variance
- Production lot size variance
- Production price variance
- Production quantity variance
- Production substitution variance
- Rounding variance

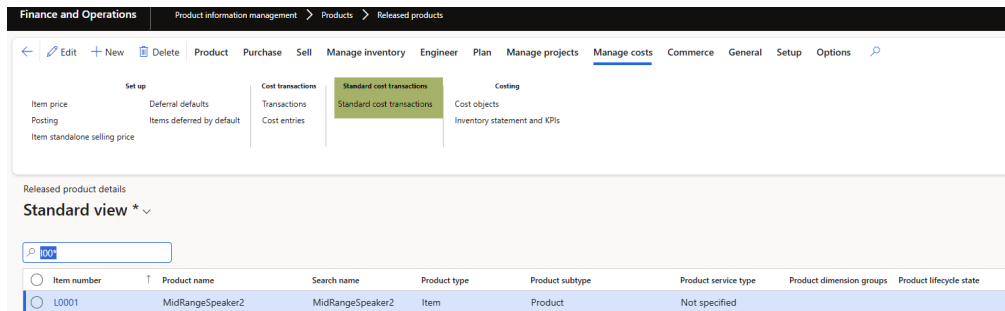
Item code	Item relation	Cost code	Cost relation	Main account
<input type="radio"/> All		All		510310

Can be setup on cost group or cost group type level

- Variance – Difference in transacted amount and standard cost for any receipt transaction. Issue transactions will never have variance.

# Standard Cost Transactions

- All transactions for standard cost items go to this screen, irrespective of variances or not



- Cost management>Inquiries and reports>Inventory accounting>inquiries>Standard cost transactions

The screenshot shows the 'Standard cost transactions' table in SAP. The table has columns: Item number, Site, Warehouse, Location, Date, Reference, Type, State, Number, and Quantity contr... The selected row is for item L0001, site 1, warehouse M9, location 10,00, date 8/8/2025, reference TP LEMON JUICE, type Purchase order, state Receipt, number 00001675, and quantity 1.00.

Item number	Site	Warehouse	Location	Date	Reference	Type	State	Number	Quantity contr...
D0002	1			4/22/2025	Purchase order	Receipt	Financial	00002485	
D0002	1			4/22/2025	Purchase order	Receipt	Physical	00002485	1.00
P0111	1			4/29/2025	Inventory journal	Receipt	Financial		14.00
P0111	3			4/29/2025	Production order	Receipt	Physical	8000051	-3.00
P0111	3			4/29/2025	Inventory journal	Receipt	Financial		14.00
M0061	3			5/19/2025	Purchase order	Receipt	Physical	0000026	2.00
TP LEMON JUICE	1			8/8/2025	Purchase order	Receipt	Financial	00001675	
TP LEMON JUICE	1			8/8/2025	Purchase order	Receipt	Physical	00001675	1.00



# Standard Cost Transactions

- Previous screen, unusual balances in variance accounts are used by cost accountant to analyze variances and dispositioned. Another useful report is variance analysis statement, it groups variances by Cost group types.
  - Cost management>Inquiries and reports>Inventory accounting analysis report> Variance analysis statement

## Variance analysis statement

Contoso Entertainment System USA

Item group	Item number	Product name Reference	Order number	Type	State	Variance type	Quantity contribution	Variance	Undefined	Direct materials	Direct manufacturing	Indirect
Audio	D0002	Cabinet					1.00	0.00		0.00		
		Purchase order	00002485	Receipt	Physical	Purchase price				0.00		
	D0002							0.00		0.00		
Audio	D0008	Licensed High End Speaker					50.00	24,950.00		24,950.00		
		Purchase order	00000900	Receipt	Physical	Purchase price				24,950.00		
	D0008							24,950.00		24,950.00		
Audio	M0061	Catalyst					2.00	0.80		0.80		
		Purchase order	000026	Receipt	Physical	Purchase price				0.80		
	M0061							0.80		0.80		
Audio	TP LEMON JUICE	TP LEMON JUICE					1.00					
		Purchase order	00001675	Receipt	Financial	Purchase price				10.00		
		Purchase order	00001675	Receipt	Physical	Purchase price				-10.00		
	TP LEMON JUICE											
Audio								24,950.80		24,950.80		



# Standard Cost Process

- Production orders track variances under "Standard cost transactions" screen

Finance and Operations > Cost management > Inquiries and reports > Inventory accounting - inquiries > Standard cost transactions

← Edit Delete New production order New batch order Production order Schedule Warehouse View **Manage costs**

Order details Calculations Production accounting Cost transactions **Standard cost transactions**

Update markings View calculation details View cost comparison Production posting Production WIP statement Inventory transactions Indirect cost transactions Route transactions Standard cost transactions Variance

Production order (details) | P000911 : Cabinet | Standard view

**P000911**

General

IDENTIFICATION

Production P000911

Item number D0002

Name Cabinet

Print Standard cost transactions Options

P000911 : Cabinet | Standard view

**Production variance**

Level: Single Quantity: 8.00 Total variance: 294.41 Details: Yes

Level	Resource	Resource name	Oper. No.	Cost group	Net realized q...	Net realized cost	Allowed quant...	Allowed cost	Lot size variance	Price variance	Quantity varia...	Substitution variance
	Assembly	Assembly	20	L2	1.25	9.75	1.00	7.80			1.95	
	Padding	Foam padding	30	L2	2.50	19.50	2.00	15.60			3.90	
	Polishing	Cabinet polishing	10	L3	15.00	120.00	12.00	96.00			24.00	
<input checked="" type="checkbox"/>	M0005	Enclosure	10	M2	10.00	815.90	8.00	652.72				163.18
	M0006	Binding posts	20	M3	10.00	154.53	8.00	123.62				30.91
	P0002	Speaker Damping Foam	30	M3	40.00	275.40	32.00	220.32			55.08	
	Machine depreciation	Output unit based		OVH2	8.00	12.00	8.00	12.00				
	Internal logistics	% of cost		OVH3	1,240.43	37.21	977.12	29.31			7.90	
	Indirect labor cost	Rate per process time		OVH4	18.75	37.50	15.00	30.00			7.50	



# Standard Cost Wrap Up

- Inventory close is not required as all cost transactions happened at one cost, so no adjustments are needed.
- There is a standard cost conversion tool to migrate existing actual cost items to standard cost.
- Inventory GL reconciliation is not an issue as costs are standard.
- Physical and Financial transaction costs are same
- Common customer issues
- Incorrect costing sheets leading to wrong standard cost calculation
- Customers not understanding variances
- Customers not understanding costs when multiple BOM levels are involved
- Only costing model which does not breakdown with allowing physical negative inventory
- Variances have to be analyzed periodically and if outside tolerance standard costs must be updated to reflect better inventory value



# Actual Cost Methodology



# Overview of Actual Costing Methods

- Weighted Average - Smoothing
- Moving averages – Purchase price trends
- FIFO - Perishable
- LIFO – Rare
- Specific Identification – Requires configuration at tracking dimension level – Value/Serial
  - Talk about this in a few slides
  - Still weighted average
  - Not an actual selection in the drop down



# Actual Cost Pros and Cons

- Pros:
  - Reflects true cost of materials, labor overhead
  - Used for margin analysis and product profitability
  - Provides accurate reporting for industries with volatile costs
  - Easier to maintain
- Cons:
  - Fluctuating item cost
  - No variance analysis
  - Can be harder to understand/explain where costs came from



# Costing By Dimension - Configuration

- Tracking Dimension Groups - Financial Inventory

The screenshot shows the Microsoft Dynamics 365 interface for configuring Tracking Dimension Groups. The breadcrumb navigation is: Financial Operations > Product information management > Setup > Dimension and variant groups > Tracking dimension groups. The left sidebar lists several dimension groups: BATCH, Batch-CP, BatchFin (selected), Batch-Fin, and Batch-Phy. The main area displays the configuration for the selected 'BatchFin' group. It shows a table of tracking dimensions with columns for Name, Active, Active in sales process, Primary stocking, Blank receipt a..., Blank issue all..., Physical invent..., Financial inven..., Coverage plan ..., For purchase p..., and For ...

Name	Active	Active in sales process	Primary stocking	Blank receipt a...	Blank issue all...	Physical invent...	Financial inven...	Coverage plan ...	For purchase p...	For ...
Batch number	✓					✓	✓			
Serial number										
Owner						✓	✓			

# Costing By Dimension - Difference

## Cost at Site/WH

Cost at WH and Site  
Day 1: 10 Pieces @ \$5 = \$50  
Day 2: 5 Pieces @ \$7 = \$35  
Day 3: 3 Pieces @ \$13 = \$39

### Total OH

18 Pieces at \$124  
= 6.88 cost per piece

## Cost at Batch

Cost of Batch #1  
Day 1: 10 Pieces @ \$5 = \$50

Total OH Batch #1:  
10 Pieces at \$50  
= \$5 per piece

Cost of Batch #2  
Day 2: 5 Pieces @ \$7 = \$35

Total OH Batch #2:  
5 Pieces at \$35  
= \$7 per piece

Cost of Batch #3  
Day 3: 3 Pieces @ \$13 = \$39

Total OH Batch #3:  
3 Pieces at \$39  
= \$13 per piece

# Physical vs. Financial

- Physical Costs:
  - Posts when physical transactions are updated
    - Receipt Posting
    - Picking List Posting
    - Report as Finished Posting
    - Packing Slip Posting
  - These are temporary and NOT the final cost on inventory transactions
- Financial Costs
  - Posts when financial transactions are updated
    - Purchase Order Invoice Posting
    - Production Order End
    - Sales Order Invoice Posting
  - These are the final costs on inbound transactions (unless manually adjusted)
  - Outbound (issue transactions) costs are always subject to change with revaluation



# Negative Costs

- Allowing negative physical inventory
  - Use with EXTREME caution
    - Commonly used in high-volume and fast paced environments where timing gaps occur
    - Retail, wholesale distro
    - Operational continuity takes precedence over inventory accuracy
  - If Supporting a negative cost environment
    - Need STRONG inventory processes
    - Need to account for negative quantities daily!
- Allowing negative financial Inventory
  - Necessary to support typical business processes
  - EX: Ship/invoice SO before the PO it was received on has been invoiced
    - Receive PO @ \$10 – Physical Inventory = \$10
    - Ship SO @ \$10 – Physical Inventory = \$0
    - Invoice SO @ \$10 – Financial Inventory = **-\$10**

Standard view ▾

### Item model groups

Item model group	Name
FIFO	First In-First Out

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#### Costing method & cost recognition

<b>INVENTORY POLICY</b>	<b>INVENTORY MODEL</b>
<input checked="" type="checkbox"/> Stocked product	Inventory model
	FIFO

---

#### Inventory policies

<b>NEGATIVE INVENTORY</b>	<b>WAREHOUSE MANAGEMENT</b>
<input type="checkbox"/> Physical negative inventory	<input type="checkbox"/> Quarantine management
<input checked="" type="checkbox"/> Financial negative inventory	<b>PHYSICAL UPDATE</b>
	<input type="checkbox"/> Registration requirements



# Purchase Order Charges

- If costs need to be updated on items AFTER PO invoicing
  - Can adjust the invoice by using Charge codes
  - Charge codes can only be Debit/Credit to inventory and offset to a GL account (NOT Vendor account)
  - Adjustments will come through once Reval occurs



# Other Actual Cost Notes

- Cannot move from Standard cost TO actual cost
- Complex Debugging - Research on client issues may involve a time study of inventory transactions
  - I.e. when was a purchase order received, how long was it in inventory and when did the material get sold
  - Common issues are weighted averages at a site and warehouse level
- Variance surprises – Unexpected variances may arise if purchase, production, freight costs are not captured in a timely manner
- Data dependency – Similar to Standard cost, if item model groups, BOMs, Routes are not setup correctly you will run into issues
- Adjustments only hit one adjustment field on transactions which hits one voucher; unless modified
- Common issues are between GL and subledger



# Month End Inventory Costing Tasks & Reporting



# Month End Inventory Costing Tasks & Reporting

- Closing and Adjustment
  - Recalculations/Closing
  - Adjusting Cost Transactions
- Viewing inventory transactions – Physical/Financial/Adjustments
- Subledger/Ledger Reconciliation
  - Reporting
    - Inventory Value
    - Potential Conflicts
  - Inventory Postings
  - GL Entries to Subledger Accounts – Do not allow manual entry



# Closing and Adjustment

- Recalculations/Closing
  - Necessary if you are using any of the actual costing methodologies
  - Not required for Standard Cost
  - Recalculations should be run frequently to keep costs as accurate as possible
  - Inventory close should be performed monthly, run for the last day of every month

Inventory management > Periodic tasks > Closing and adjustment

Close procedure ▼ Pre-closing Calculation ▼ Reverse Adjustment ▼ Recalculation Details ▼ Options 🔍

Closing and adjustment  
Standard view ▼  
Active ▼

Overview General Session Note

Active	Date	Voucher	Type	Executed	Reverse	OK	Has log
✓	6/21/2025	TPI-12964	Recalculation	6/21/2025		✓	✓
✓	6/22/2025	TPI-13010	Recalculation	6/22/2025		✓	✓
✓	6/23/2025	TPI-13011	Recalculation	6/23/2025		✓	✓
✓	6/24/2025	TPI-13020	Recalculation	6/24/2025		✓	✓
✓	6/25/2025	TPI-13030	Recalculation	6/25/2025		✓	✓
✓	6/26/2025	TPI-13021	Recalculation	6/26/2025		✓	✓
✓	6/27/2025	TPI-13022	Recalculation	6/27/2025		✓	✓
✓	6/28/2025	TPI-13031	Recalculation	6/28/2025		✓	✓
✓	6/29/2025	TPI-13023	Recalculation	6/29/2025		✓	✓
✓	6/30/2025	TPI-13025	Pre-closing	7/1/2025		✓	✓
✓	6/30/2025	TPI-13024	Recalculation	6/30/2025		✓	✓
✓	6/30/2025	TPI-10030	Closing	7/1/2025		✓	✓
✓	6/30/2025	TPI-13040	Posting	6/30/2025		✓	
✓	6/30/2025	TPI-13041	Posting	6/30/2025		✓	
✓	6/30/2025	TPI-13042	Posting	6/30/2025		✓	
✓	6/30/2025	TPI-13043	Posting	6/30/2025		✓	
✓	7/1/2025	TPI-13026	Recalculation	7/1/2025		✓	✓
✓	7/1/2025	TPI-13032	Recalculation	7/1/2025		✓	✓
✓	7/2/2025	TPI-13033	Recalculation	7/2/2025		✓	✓
✓	7/3/2025	TPI-13027	Recalculation	7/3/2025		✓	✓
✓	7/4/2025	TPI-13034	Recalculation	7/4/2025		✓	✓
✓	7/5/2025	TPI-13035	Recalculation	7/5/2025		✓	✓

# Closing and Adjustment

- What does a Recalculation/Close do?
  - Recalculation and close true up ISSUE (sales) costs with RECEIPT (purchase) costs
    - Receipt costs can change for a variety of reasons ex:
      - Invoices posted for different cost than PO cost
      - Manual inventory cost adjustments
      - Charges adjustments
      - Adjustments to production transactions prior to ending
    - Example:

## Before close/reclac

Inventory transactions

My view \* ▾

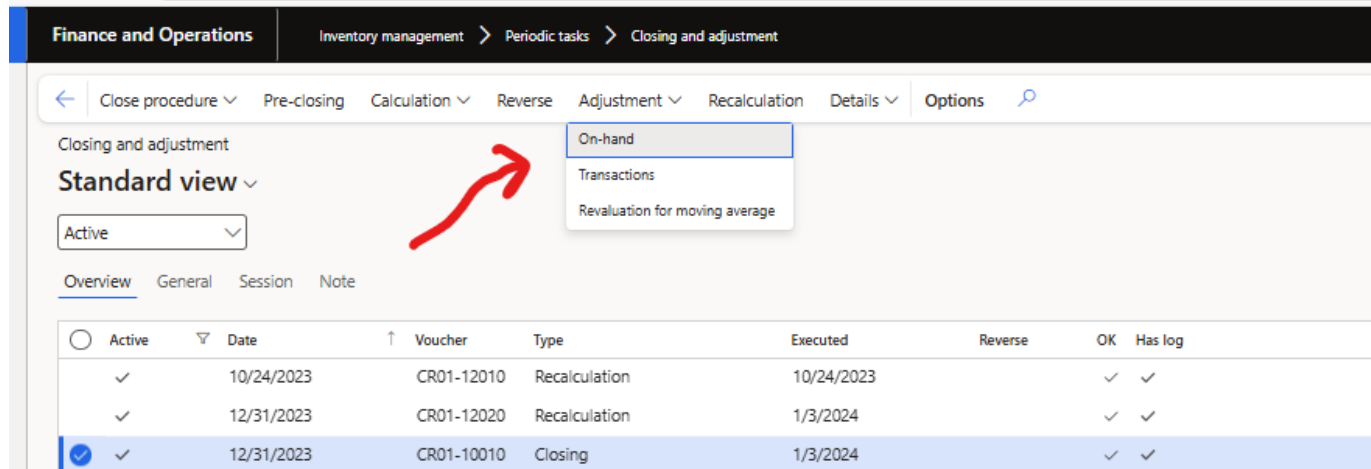
Filter

Product number	Item number	Physical date	Financial date	Reference	Number	Receipt	Issue	Quantity	Unit	Cost amount	Site	Warehouse	Adjustment	Financial cost ...	Physical cost a...
COSTDEMO2	COSTDEMO2	9/30/2025		Purchase order	BCI00002544	Received		10.00	ea	1		11			100.00
COSTDEMO2	COSTDEMO2	9/30/2025	9/30/2025	Sales order	003591		Sold	-10.00	ea	-100.00	1	11		-100.00	-100.00

- Inventory closing prevents inventory transactions in the closed period (before GL is closed for that period)

# Closing and Adjustment

- Adjusting cost transactions
  - Ability to adjust actual cost transactions through closing and adjustment screen
    - By transaction
    - By on-hand quantity – against a close, GL period must be open to post into



The screenshot shows the SAP Finance and Operations interface for the 'Closing and adjustment' task. The breadcrumb trail is 'Inventory management > Periodic tasks > Closing and adjustment'. The main navigation bar includes 'Close procedure', 'Pre-closing', 'Calculation', 'Reverse', 'Adjustment', 'Recalculation', 'Details', and 'Options'. The 'Adjustment' dropdown menu is open, showing 'On-hand' (highlighted with a red arrow), 'Transactions', and 'Revaluation for moving average'. Below the navigation, there is a 'Standard view' dropdown and an 'Active' filter. The main content area has tabs for 'Overview', 'General', 'Session', and 'Note'. A table displays the following data:

Active	Date	Voucher	Type	Executed	Reverse	OK	Has log
✓	10/24/2023	CR01-12010	Recalculation	10/24/2023		✓	✓
✓	12/31/2023	CR01-12020	Recalculation	1/3/2024		✓	✓
✓	12/31/2023	CR01-10010	Closing	1/3/2024		✓	✓

- After adjusting run re-calc or close to see adjustments reflected in issue costs
- Adjustments will show up on inventory transactions in Adjustment field

# Reviewing Inventory Transactions

- Viewing inventory transactions – Cost/Physical/Financial/Adjustment

Finance and Operations > Inventory management > Inquiries and reports > Transactions

Transaction details | Display dimensions | Summation | Split | Archived transactions | Inventory | Ledger | Options

Inventory transactions

My view \* v

Filter

Product number	Item number	Physical date	Financial date	Reference	Number	Receipt	Issue	Quantity	Unit	Cost amount	Adjustment	Financial cost	Physical cost a.
CR400	CR400	10/19/2023	10/19/2023	Sales order	CR01-000012		Sold	-1.00	ea	-3.00		-3.00	-3.00
A0002	A0002	10/22/2023	10/22/2023	Counting			Purchased	4.00	ea	80.00		80.00	80.00
A0002	A0002	10/22/2023	10/22/2023	Purchase order	CR01-000051		Purchased	4.00	ea	124.80	24.80	100.00	100.00
A0002	A0002	10/23/2023	10/23/2023	Sales order	CR01-000021		Sold	-4.00	ea	-80.00	10.00	-90.00	-90.00
CR400	CR400	10/24/2023	10/24/2023	Sales order	CR01-000031		Sold	-1.00	ea	-3.00		-3.00	-3.00
CR400	CR400	10/24/2023	10/24/2023	Sales order	CR01-000032		Sold	-1.00	ea	-3.00		-3.00	-3.00
CR001	CR001	11/20/2023	11/20/2023	Production	CR01-000021		Purchased	1.00	ea	215.00		215.00	220.00
CR100	CR100	11/20/2023	11/20/2023	Production line	CR01-000021		Sold	-1.00	ea	-50.00		-50.00	-50.00
CR200	CR200	11/20/2023	11/20/2023	Production line	CR01-000021		Sold	-1.00	ea	-100.00		-100.00	-100.00
CR300	CR300	11/20/2023	11/20/2023	Production line	CR01-000021		Sold	-1.00	ea	-5.00		-5.00	-5.00
CR001	CR001	11/20/2023	11/20/2023	Production	CR01-000022		Purchased	1.00	ea	215.00		215.00	220.00
CR100	CR100	11/20/2023	11/20/2023	Production line	CR01-000022		Sold	-1.00	ea	-50.00		-50.00	-50.00
CR200	CR200	11/20/2023	11/20/2023	Production line	CR01-000022		Sold	-1.00	ea	-100.00		-100.00	-100.00
CR300	CR300	11/20/2023	11/20/2023	Production line	CR01-000022		Sold	-1.00	ea	-5.00		-5.00	-5.00
CR001	CR001	11/20/2023	11/20/2023	Production	CR01-000023		Purchased	1.00	ea	215.00		215.00	215.00
CR100	CR100	11/20/2023	11/20/2023	Production line	CR01-000023		Sold	-1.00	ea	-50.00		-50.00	-50.00
CR200	CR200	11/20/2023	11/20/2023	Production line	CR01-000023		Sold	-1.00	ea	-100.00		-100.00	-100.00
CR300	CR300	11/20/2023	11/20/2023	Production line	CR01-000023		Sold	-1.00	ea	-5.00		-5.00	-5.00
CR100	CR100	11/20/2023	11/20/2023	Purchase order	CR01-000081		Purchased	10.00	ea	500.00		500.00	500.00
CR200	CR200	11/20/2023	11/20/2023	Purchase order	CR01-000081		Purchased	10.00	ea	1,000.00		1,000.00	1,000.00
CR300	CR300	11/20/2023	11/20/2023	Purchase order	CR01-000081		Purchased	10.00	ea	50.00		50.00	50.00
CR001	CR001	11/20/2023	11/20/2023	Sales order	CR01-000051		Sold	-1.00	ea	-215.00		-215.00	-215.00
CR700	CR700	11/27/2023	11/27/2023	Purchase order	CR01-000101		Purchased	1.00	ea	100.00		100.00	100.00
CR700	CR700	11/27/2023	11/27/2023	Transaction			Sold	-1.00	ea	-100.00		-100.00	-100.00
CR700	CR700	11/27/2023	11/27/2023	Purchase order	CR01-000102		Purchased	1.00	ea	100.00		100.00	100.00
CR700	CR700	11/27/2023	11/27/2023	Transaction			Sold	-1.00	ea	-100.00		-100.00	-100.00
CR700	CR700	11/28/2023	11/28/2023	Purchase order	CR01-000111		Purchased	1.00	ea	100.00		100.00	100.00
CR700	CR700	11/28/2023	11/28/2023	Transaction			Sold	-1.00	ea	-100.00		-100.00	-100.00
CR700	CR700	11/28/2023	11/28/2023	Project	CR01-000041		Sold	-1.00	ea	-100.00		-100.00	-100.00
CR700	CR700	11/28/2023	11/28/2023	Counting			Purchased	5.00	ea	500.00		500.00	500.00
CR700	CR700	11/28/2023	11/28/2023	Project	CR01-000042		Purchased	1.00	ea	100.00		100.00	100.00
CR700	CR700	11/28/2023	11/28/2023	Project	CR01-000042		Sold	-1.00	ea	-100.00		-100.00	-100.00
CR701	CR701	11/28/2023	11/28/2023	Purchase order	CR01-000112		Purchased	1.00	ea	50.00		50.00	50.00
CR701	CR701	11/28/2023	11/28/2023	Transaction			Sold	-1.00	ea	-50.00		-50.00	-50.00
CR700	CR700	11/28/2023	12/1/2023	Purchase order	CR01-000113		Purchased	1.00	ea	100.00		100.00	100.00
CR700	CR700	11/28/2023	12/1/2023	Transaction			Sold	-1.00	ea	-100.00		-100.00	-100.00
CR701	CR701	11/28/2023	11/28/2023	Purchase order	CR01-000114		Purchased	1.00	ea	50.00		50.00	50.00
CR701	CR701	11/28/2023	11/28/2023	Transaction			Sold	-1.00	ea	-50.00		-50.00	-50.00



# Subledger/Ledger Reconciliation

- Reporting

- Inventory Value Report

- This is your inventory subledger
    - This is the TRUE value of on-hand inventory for the date run
    - GL should always be corrected to match the value of the inventory value report
    - I like to run for a single day, faster to run, will run for end of every month to determine where discrepancy started (often dates back to go-live)

- Potential Conflicts – Inventory and General Ledger

- This report provides reasons why your Inventory Value Report (subledger) and General Ledger values for a given time period do not match
    - Provides posting issues as well as list of direct entries to GL accounts in detail
    - This is the go-to report to help resolve Subledger/Ledger reconciliation issues

- Inventory totaling account

- Inventory totaling account is important to setup for both reports above
    - Allows us to group together all inventory accounts that should balance against subledger

149999 : TOTAL PHYSICAL INVENTORY | Standard view

**Main accounts - chart of accounts: Shared**

**General**

Totals Assign template Additional consolidation accounts

**IDENTIFICATION**

Main account  
149999

Name  
TOTAL PHYSICAL INVENTORY

**LEDGER**

Main account type  
Total

Filter

- 133355, IC Receivable
- 133399, TOTAL INTERCOMPANY RECEIVABLE
- 133500, Interunit Receivable
- 133999, TOTAL INTERUNIT RECEIVABLES
- 140100, Raw Materials Inventory
- 140150, Sub-Assembly Inventory
- 140200, Finished Goods Inventory
- 149999, TOTAL PHYSICAL INVENTORY
- 150100, Production WIP-Clearing
- 150150, Production WIP-Materials

Previous Next

Account interval | MainAccount : 149999

**Standard view**

Filter

From value	To value	Invert sign
140100	140100	
140150	140150	
140200	140200	



# Inventory Value Report

## Inventory value

Contoso Entertainment System USA

Page 1 of 1  
10/1/2025  
3:53 PM

From 9/30/2025  
To 9/30/2025 *Always run for a single day, runs faster, produces same results.*

Resource group	Resource	Site	Reference	Inventory: Financial quantity	Inventory: Financial amount	Inventory: Physical quantity posted	Inventory: Physical amount posted	Inventory: Quantity	Inventory: Amount	Average unit cost
<b>Consume Resource group</b>				-537.19	25,002.00	-1.16	526.00	-538.35	25,528.00	
FG	FONA Choco Flavor	FONA	Ending balance	0.00	-3.16	3.00	35.32	3.00	32.16	10.72
FG	P3E00882578BL3	2	Ending balance	0.00		321.00	10,593.00	321.00	10,593.00	33.00
FG	P3E00882578WMS	2	Ending balance	42.00	630.00	20.00	300.00	62.00	930.00	15.00
FG	Pizza	2	Ending balance	5.00	80.00	0.00		5.00	80.00	16.00
<b>FG Resource group</b>				47.00	706.84	344.00	10,928.32	391.00	11,635.16	
INK	62035	2	Ending balance	19,777.06		-624.16		19,152.90		0.00
<b>INK Resource group</b>				19,777.06		-624.16		19,152.90		
SEMI-FG	JKE82578BL23335	2	Ending balance	20,315.00	20,315.00	-339.20	-339.20	19,975.80	19,975.80	1.00
<b>SEMI-FG Resource group</b>				20,315.00	20,315.00	-339.20	-339.20	19,975.80	19,975.80	
SPOOLS	50013	2	Ending balance	10,000.00	30,000.00	-810.55	-2,431.65	9,189.45	27,568.35	3.00
<b>SPOOLS Resource group</b>				10,000.00	30,000.00	-810.55	-2,431.65	9,189.45	27,568.35	
TV&Video	A0001	1	Ending balance	47.00	564.00	0.00		47.00	564.00	12.00
TV&Video	A0001	2	Ending balance	1,724.00	16,730.75	124.00	1,488.00	1,848.00	18,218.75	9.86
TV&Video	A0001	5	Ending balance	199.00	600.00	200.00		399.00	600.00	1.50
TV&Video	A0001	6	Ending balance	998.00	1,009.00	0.00		998.00	1,009.00	1.01
TV&Video	A0001	TONE	Ending balance	1,001.00	12,012.00	0.00		1,001.00	12,012.00	12.00
TV&Video	A0002	1	Ending balance	86.00	2,064.00	0.00		86.00	2,064.00	24.00
TV&Video	A0002	2	Ending balance	113.00	2,688.00	18.00	432.00	131.00	3,120.00	23.82
TV&Video	A0002	5	Ending balance	249.00	2,400.00	0.00		249.00	2,400.00	9.64
TV&Video	A0002	6	Ending balance	-1.00	-24.00	0.00		-1.00	-24.00	24.00
TV&Video	A0003	2	Ending balance	-2.00	-40.00	0.00		-2.00	-40.00	20.00
TV&Video	A0004	1	Ending balance	2.00	127.20	5.00	334.50	7.00	461.70	65.96
TV&Video	A0004	5	Ending balance	501.00	97.29	0.00		501.00	97.29	0.19
TV&Video	T0002	2	Ending balance	-274.00	-602,800.00	462.00	1,016,400.00	188.00	413,600.00	2,200.00
TV&Video	T0004	2	Ending balance	-433.00	-69,280.00	625.00	100,000.00	192.00	30,720.00	160.00
TV&Video	T0005	2	Ending balance	-196.00	-188,160.00	350.00	336,000.00	154.00	147,840.00	960.00
TV&Video	T0020	2	Ending balance	1,000.00	300,000.00	0.00		1,000.00	300,000.00	300.00
<b>TV&amp;Video Resource group</b>				5,014.00	-522,011.76	1,784.00	1,454,654.50	6,798.00	932,642.74	
<b>Material Totals</b>				6,517,863.27	2,192,089.09	-26,019.10	2,133,675.84	6,491,844.17	4,325,764.93	
<b>Report summary</b>				<b>Sum Inventory: Financial quantity</b> 6,517,863.27	<b>Sum Inventory: Financial amount</b> 2,192,089.09	<b>Sum Inventory: Physical quantity posted</b> -26,019.10	<b>Sum Inventory: Physical amount posted</b> 2,133,675.84	<b>Sum Inventory: Quantity</b> 6,491,844.17	<b>Sum Inventory: Amount</b> 4,325,764.93	<b>SUBLEDGER</b>

Ledger account	Account name	Amount	Percent
140100	Raw Materials Inventory	5,473,204.53	
140150	Sub-Assembly Inventory	0.00	
140200	Finished Goods Inventory	5,638,222.35	
<b>LEDGER</b>	<b>Total</b>	<b>11,111,426.88</b>	
	<b>Discrepancy</b>	<b>-6,785,661.95</b>	<b>-156.87</b>



# Potential Conflicts Report

## Date interval code

**From date** 1/1/2025  
**To date** 9/30/2025

*Run for period of time where you have a discrepancy - a month is usually good*

**Exclude physical to ledger** No

**Exclude blank dimension values** Yes

**Dimension name**

**Dimension value**

Module	Balance
Inventory	61,545.81
General ledger	62,528.81
<b>Discrepancy</b>	<b>-983.00</b>

SUBLEDGER CHANGE OVER PERIOD RUN  
 LEDGER CHANGE OVER PERIOD RUN

SECTION REPRESENTS INVENTORY POSTING ISSUES

Inventory					
Item number	Date	Lot ID	Reference	Value	Comment
Support	4/11/2025	029270	Project	16.00	The posting type Inventory issue is a product of the type Service and it has been posted to a main account that represents inventory.
Vanilla flavor	9/30/2025	032668	Purchase order	1.00	The posting type Cost of purchased materials received has been posted to a main account that does not represent inventory.
<b>Total</b>				<b>17.00</b>	

SECTION REPRESENTS GL POSTING ISSUES

General ledger					
Main account	Date	Posting type	Voucher	Value	Comment
140100	9/30/2025	Ledger journal	GNJL000925	-1,000.00	Direct postings on this main account representing inventory will cause imbalance.
<b>Total</b>				<b>-1,000.00</b>	

**Grand total** -983.00



# Subledger/Ledger Reconciliation

- Causes of Subledger/Ledger discrepancies
  - Bad Inventory Postings

Standard view ▾  
Posting

Sales order Purchase order **Inventory** Production Standard cost variance

Select

- Fixed receipt price profit
- Fixed receipt price loss
- Inventory issue
- Inventory expenditure, loss
- Inventory receipt
- Inventory expenditure, profit

<input type="radio"/> Item code	Item relation	Main account
<input checked="" type="radio"/> Table	SS002SC044B	140100
<input type="radio"/> Group	200	140100
<input type="radio"/> Group	Audio	140200
<input type="radio"/> Group	AudioRM	140100
<input type="radio"/> Group	CarAudio	140200
<input type="radio"/> Group	CarAudioRM	140100
<input type="radio"/> Group	SpareParts	140100
<input type="radio"/> Group	TV&Video	140200
<input type="radio"/> All		140100

- GL Entries to Subledger Accounts – Always set inventory accounts to Do Not Allow Manual Entry
- Imbalance from Go-Live – Very Important to match GL with Inventory Value Report during cutover!

# Subledger/Ledger Reconciliation

- Causes of Subledger/Ledger discrepancies
  - Bad Inventory Postings

Standard view ▾  
Posting

Sales order Purchase order **Inventory** Production Standard cost variance

Select

- Fixed receipt price profit
- Fixed receipt price loss
- Inventory issue
- Inventory expenditure, loss
- Inventory receipt
- Inventory expenditure, profit

<input type="radio"/> Item code	Item relation	Main account
<input checked="" type="radio"/> Table	SS002SC044B	140100
<input type="radio"/> Group	200	140100
<input type="radio"/> Group	Audio	140200
<input type="radio"/> Group	AudioRM	140100
<input type="radio"/> Group	CarAudio	140200
<input type="radio"/> Group	CarAudioRM	140100
<input type="radio"/> Group	SpareParts	140100
<input type="radio"/> Group	TV&Video	140200
<input type="radio"/> All		140100

- GL Entries to Subledger Accounts – Always set inventory accounts to Do Not Allow Manual Entry
- Imbalance from Go-Live – Very Important to match GL with Inventory Value Report during cutover!

# Subledger/Ledger Reconciliation

- How to reconcile?
  - Fix bad postings/setup
  - GL entry to match GL balances with IVR
  - Frequently monitor Potential Conflicts post reconciliation
  - Establish monthly cadence of reconciling GL with IVR
  - Once this activity is done once, goal to never have to do again!



# Questions?

