



Overview & Objective – The purpose of this I M & U is to demonstrate the configuration of purchasing and order entry transaction definitions for drop ship arrangements. The scenarios allow cost and revenue to be recognized at different, but matching, points in typical transaction cycles.

Initial Preparation – Configuration beyond the scope of this I M & U is required for both the transaction definitions, and the Purchasing and Order Entry Modules themselves. Please consult with a solution specialist for additional information (see below, “**Further Instruction & Use**”).

Matching Principal – The scenarios shown are intended to match costs to revenues at equivalent transaction stages. While the creation of a purchase document will not trigger the creation of an order entry document, it’s advisable to manually keep PO and OE processing in parallel.

Document Names – Documents can serve different accounting functions (or none at all) while having the same name. This allows for flexibility in using standard document names in presentation to a respective vendor or customer. Example, a “Purchase Order” is a standard document name, and one likely required by a vendor for placing an order, but its issuance may represent different accounting recognition by your organization (in one scenario outlined it would be impractical to change the name to “Vendor Invoice” while the corresponding accounting entries suggest as such). Other documents, such as a PO Requisition, may be for internal use and not vendor facing.

Item Type: Inventory – By definition, drop shipments do not involve the possession and/or change of titling to an intermediary. However, items for drop ship should be attributed as type, “inventory” so that quantity on hand and/or value totals can tracked in the system to ensure an offset of purchase to subsequent sale. This can be done in one of two ways as outlined in “Inventory Control” below.

Inventory Control – There are two practices for tying out drop ship purchases to their subsequent sale. The configuration related to the scenarios shown below allow for using the Order Analysis Report for this check, without posting entries to GL accounts (another method). If required, postings to GL accounts can be configured using the <Inventory GL Info> (tab) in both purchase and order entry transaction definitions. The following configuration settings allow for either Order Analysis and/or GL reporting related to the drop ship transaction cycle:

- **Affects Inventory** – Mimics changes in inventory quantity and/or value. Increased with purchases, and decreases with subsequent sales.
- **Inc/Dec Inventory** – Mimics increases from purchasing activity, and decreases with order entry activity.
- **Affects Costs** – Mimics increases to inventory value (condition is set to “true” and used exclusively with purchasing documents).
- **Inventory Total** – Mimics changes to on order, on hold, and/or on hand quantity and/or value.

Inventory Control Reporting – For tying out drop ship purchase and sale transactions either of these reporting methods can be utilized:

- **OE Module: Order Analysis Report** – Note the report will *not show results* until a sale is posted. Use the following filter and format settings:
 - Filters – Order State: All Orders
 - Format – Summary Level: Item Summary
- **GL Reporting** – If inventory GL accounts are enabled for posting, then the GL can be checked to ensure a zero balance at the end of a period.

Standard Costing – A standard purchase cost can be applied to items (See Items > <General> (tab) > Purchasing > Standard Cost). This allows for additional reporting, but requires monitoring purchase price variances (actual invoiced amounts vs. an arbitrary and assigned standard cost). Also, **price variance GL posting** (see PO Module > Configure Purchasing) can be enabled to allow the system to automatically post these variances, but this doesn’t fit typical drop ship arrangements where actual costs are known and not estimative in nature.

Scenario I: Cost and Revenue Deferred Coincident with Bill Receipt and Invoice Issuance

PO Module			OE Module		
PO Document	Journal Entry (if Any)	Module Affects	OE Document	Journal Entry (if Any)	Module Affects
<u>PO Requisition</u> Affects Inventory No Inc/Dec Inventory Increase* Subledger Post None Affects Costs False Inventory Total None	<Inventory GL Info> None <AP GL Info> None	<u>General Ledger</u> None <u>Inventory</u> None <u>AP</u> None	<u>Sales Quote</u> Affects Inventory No Inc/Dec Inventory Increase* Subledger Post None Affects Costs False Inventory Total None	<Inventory GL Info> None <AR GL Info> None	<u>General Ledger</u> None <u>Inventory</u> None <u>AR</u> None
<u>Purchase Order</u> Affects Inventory No Inc/Dec Inventory Increase* Subledger Post None Affects Costs False Inventory Total OnOrder Quantity ↑	<Inventory GL Info> None <AP GL Info> None	<u>General Ledger</u> None <u>Inventory</u> OnOrder Q ↑ <u>AP</u> None	<u>Sales Order</u> Affects Inventory No Inc/Dec Inventory Increase* Subledger Post None Affects Costs False Inventory Total OnHold Quantity ↑	<Inventory GL Info> None <AR GL Info> None	<u>General Ledger</u> None <u>Inventory</u> OnHold Q ↑ <u>AR</u> None
<u>Vendor Invoice</u> Affects Inventory Quantity & Value Inc/Dec Inventory Increase Subledger Post To AP Affects Costs True Inventory Total OnHand Quantity & Value ↑	<Inventory GL Info> None <AP GL Info> Purchases – DB AP: Trade – CR	<u>General Ledger</u> None <u>Inventory</u> OnHand Q & V ↑ <u>AP</u> AP Ledger ↑	<u>Sales Invoice</u> Affects Inventory Quantity & Value Inc/Dec Inventory Decrease Subledger Post To AR Affects Costs False Inventory Total OnHand Quantity & Value ↓	<Inventory GL Info> None <AR GL Info> AR: Trade – DB Revenue – CR	<u>General Ledger</u> None <u>Inventory</u> OnHand Q & V ↓ <u>AR</u> AR Ledger ↑

Scenario II: Bill Receipt and Invoice Issuance in Advance of Cost and Revenue Recognition

PO Module			OE Module		
PO Document	Journal Entry (if Any)	Module Affects	OE Document	Journal Entry (if Any)	Module Affects
PO Requisition Affects Inventory No Inc/Dec Inventory Increase* Subledger Post None Affects Costs False Inventory Total None	<Inventory GL Info> None <AP GL Info> None	<u>General Ledger</u> None <u>Inventory</u> None <u>AP</u> None	Sales Quote Affects Inventory No Inc/Dec Inventory Increase* Subledger Post None Affects Costs False Inventory Total None	<Inventory GL Info> None <AR GL Info> None	<u>General Ledger</u> None <u>Inventory</u> None <u>AR</u> None
Purchase Order Affects Inventory No Inc/Dec Inventory Increase* Subledger Post To AP Affects Costs False Inventory Total OnOrder Quantity ↑	<Inventory GL Info> None <AP GL Info> Deferred Expense – DB AP: Trade – CR	<u>General Ledger</u> None <u>Inventory</u> OnOrder Q ↑ <u>AP</u> AP Ledger ↑	Sales Invoice Affects Inventory No Inc/Dec Inventory Increase* Subledger Post To AR Affects Costs False Inventory Total OnHold Quantity ↑	<Inventory GL Info> None <AR GL Info> AR: Trade – DB Deferred Revenue – CR	<u>General Ledger</u> None <u>Inventory</u> OnHold Q ↑ <u>AR</u> AR Ledger ↑
PO Closing Affects Inventory Quantity & Value Inc/Dec Inventory Increase Subledger Post To GL Affects Costs True Inventory Total OnHand Quantity & Value ↑	<Inventory GL Info> None <AP GL Info> Purchases – DB Deferred Expense – CR	<u>General Ledger</u> None <u>Inventory</u> OnHand Q & V ↑ <u>AP</u> None	Sales Closing Affects Inventory Quantity & Value Inc/Dec Inventory Decrease Subledger Post To GL Affects Costs False Inventory Total OnHand Quantity & Value ↓	<Inventory GL Info> None <AR GL Info> Deferred Revenue – DB Revenue – CR	<u>General Ledger</u> None <u>Inventory</u> OnHand Q & V ↓ <u>AR</u> None

Scenario III: Cost and Revenue Recognized in Advance of Bill Receipt and Invoice Issuance

PO Module			OE Module		
PO Document	Journal Entry (if Any)	Module Affects	OE Document	Journal Entry (if Any)	Module Affects
<u>PO Requisition</u> Affects Inventory No Inc/Dec Inventory Increase* Subledger Post None Affects Costs False Inventory Total None	<Inventory GL Info> None <AP GL Info> None	<u>General Ledger</u> None <u>Inventory</u> None <u>AP</u> None	<u>Sales Quote</u> Affects Inventory No Inc/Dec Inventory Increase* Subledger Post None Affects Costs False Inventory Total None	<Inventory GL Info> None <AR GL Info> None	<u>General Ledger</u> None <u>Inventory</u> None <u>AR</u> None
<u>Purchase Order</u> Affects Inventory No Inc/Dec Inventory Increase* Subledger Post To GL Affects Costs False Inventory Total OnOrder Quantity ↑	<Inventory GL Info> None <AP GL Info> Purchases – DB Accrued Expense – CR	<u>General Ledger</u> None <u>Inventory</u> OnOrder Q ↑ <u>AP</u> None	<u>Sales Order</u> Affects Inventory No Inc/Dec Inventory Increase* Subledger Post To GL Affects Costs False Inventory Total OnHold Quantity ↑	<Inventory GL Info> None <AR GL Info> Unbilled Revenue – DB Revenue – CR	<u>General Ledger</u> None <u>Inventory</u> OnHold Q ↑ <u>AR</u> None
<u>Vendor Invoice</u> Affects Inventory Quantity & Value Inc/Dec Inventory Increase Subledger Post To AP Affects Costs True Inventory Total OnHand Quantity & Value ↑	<Inventory GL Info> None <AP GL Info> Accrued Expense – DB AP: Trade – CR	<u>General Ledger</u> None <u>Inventory</u> OnHand Q & V ↑ <u>AP</u> AP Ledger ↑	<u>Sales Invoice</u> Affects Inventory Quantity & Value Inc/Dec Inventory Decrease Subledger Post To AR Affects Costs False Inventory Total OnHand Quantity & Value ↓	<Inventory GL Info> None <AR GL Info> AR: Trade – DB Unbilled Revenue – CR	<u>General Ledger</u> None <u>Inventory</u> OnHand Q & V ↓ <u>AR</u> AR Ledger ↑

Further Instruction & Use – For further information regarding Transaction Definitions for Managing Drop Ship Arrangements contact The NDH Group, Ltd. at 312.461.0505 or on the web: <http://www.ndhcpa.com>.