# Objectives

At the end of this topic, you will be able to:

- List the three valuation methods used in perpetual inventory in SAP Business One
- Describe how each valuation method works
- Discuss the differences between perpetual and non-perpetual inventory

- In this topic, we will look at the three valuation methods used in perpetual inventory in SAP Business One We describe how each valuation method works. Additionally, we look at using non-perpetual inventory and discuss the differences between using perpetual and non-perpetual inventory.

Business Example
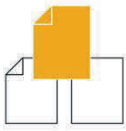
The company uses perpetual inventory.

Most items are controlled by the moving average valuation method.

However, some items are controlled by standard price and some are controlled by the FIFO method.

- The company uses perpetual inventory.
- Most items are controlled by the moving average valuation method.
- However, some items are controlled by standard price and some are controlled by the FIFO method.
- In our previous business examples in this course, we have always used the moving average valuation method. We have looked at how the item costs have been posted in the purchasing and sales business process. Now we will create some items with the other two methods and see the difference in inventory cost postings.

Perpetual or Non-Perpetual Inventory
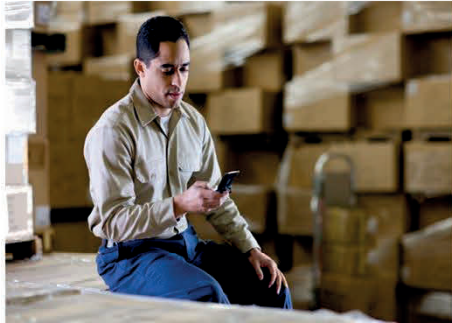
Two choices for defining inventory valuation:

- **Perpetual Inventory system**
  - Inventory transactions affect both stock levels and value
  - Automatic entries created in the general ledger

- **Non-perpetual inventory system**
  - Automatic inventory transactions affect only the inventory levels
  - No effect on stock value
  - No automatic entries in the general ledger

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- When you set up SAP Business One, you need to define how to control the inventory valuation according to business needs and local legal settings.
- You have two choices for defining inventory valuation.
- A perpetual inventory system or a non-perpetual inventory system.
- A perpetual inventory system reflects the value of inventory postings in terms of monetary transactions in the accounting system. These monetary transactions are carried out when items defined as inventory items are received or released from stock.
- In a perpetual inventory system, inventory transactions affect both stock levels and stock value. Automatic journal entries for the change in stock value are created in the general ledger.
- In our course's business example, we work with a perpetual inventory system so this is what you see in the demonstrations and in the exercises.
- The other choice is to use a non-perpetual inventory system in which sales, purchasing, inventory, and production transactions automatically create inventory transactions which affect only the inventory levels and have no effect on the stock value. Transactions in a non-perpetual inventory system do not generate automatic inventory-related monetary entries directly into the general ledger. However, it is possible to get an estimate of inventory value using different inventory reports.

Setup for Perpetual Inventory

Basic Initialization
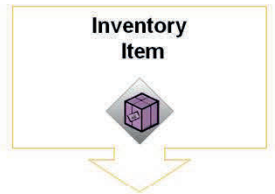
☑ Use Perpetual Inventory

Item Groups Valuation Method [Moving Average ▼]

☑ Manage Item Cost per Warehouse

- If you choose to use perpetual inventory, you need to make the configuration settings during basic initialization, before posting any transactions.
- To activate perpetual inventory, select the checkbox on the Basic Initialization tab of the Company Details window. This transaction is under System Initialization in the Administration module.
- You can then set a default valuation method for your company. This default will be used whenever you create a new item group. You can, of course, change the default in the item group or any item assigned to the item group.
- You also have the option to manage item costs separately for each warehouse, rather than setting an item's cost at the company level. This can be useful when you operate in several regions with varying cost levels.
- Once you have activated perpetual inventory, each transaction that receives or issues inventory items is reflected in the inventory related G/L accounts.
- After the first inventory transaction is posted, the option to choose either perpetual or non-perpetual inventory is disabled, and its status cannot be changed.
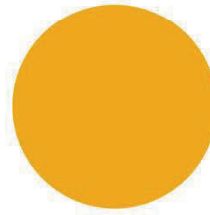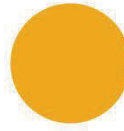
Monetary Value of Inventory Postings

Inventory Transactions   Inventory Account Balance

Inventory Item

Good Receipt PO

■ Let us quickly review the monetary effects on stock value of an inventory item when using perpetual inventory.

■ As you purchase an inventory item, the balance of the inventory account increases.