

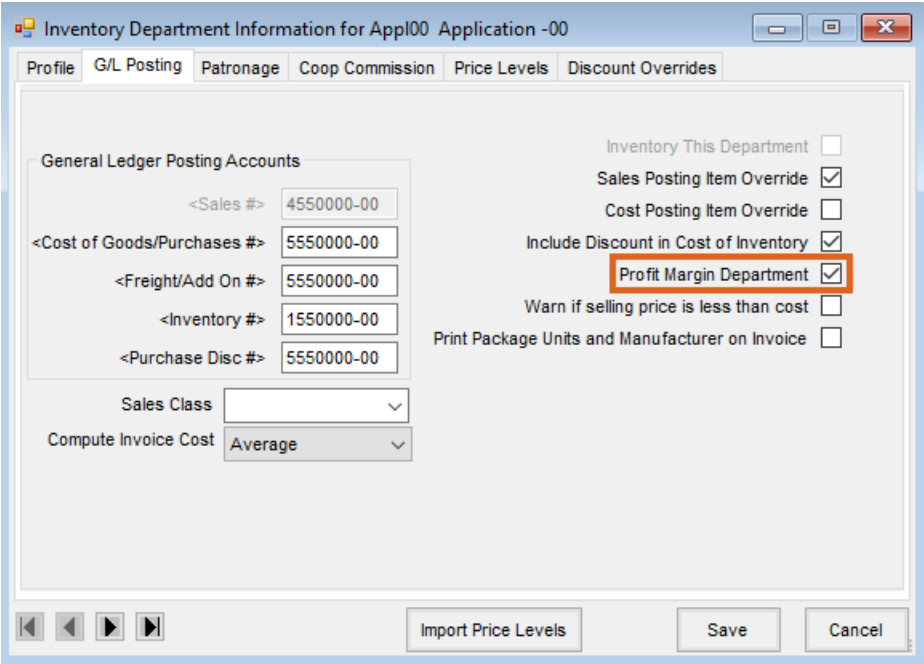
Profit Margin Departments

Last Modified on 05/21/2024 10:16 am CDT

Profit Margin Departments force preset sales margins by saving a calculated cost when invoicing rather than the cost found at the Product level. Profit Margin Departments are typically used for non-inventoried Products (like parts) which are not practical to track separately but do have a known margin.

Setup

To set up a Profit Margin Department, **Add** or **Edit** an Inventory Department at *Accounting / Setup / Inventory Departments*. On the *G/L Posting* tab, check the *Profit Margin Department* checkbox. Profit Margin Departments can share inventory asset accounts because they are not set as inventoried departments.



Each Product in a Profit Margin Department must have a predefined *Profit Margin* established on the Product's *Pricing* tab.

Product Information for Application -00 / Dry Spreading

Profile Safety Blend Setup **Pricing** Sales Activity Tier II Seed / Lots Mapping Recs Interfaces

Billing Units: Acre
Billing Divisor: 1
Average Cost: 0.000
Last Cost: 0.000
Replacement Cost: 0.000
Profit Margin: 12.000
Estimated Average Cost: 0.000
Replacement 2 Cost: 0.000
Replacement 3 Cost: 0.000
Replacement 4 Cost: 0.000

Audit Costs
Audit Prices

When using formulas, carefully select the Source. The Source must not be the same as the Pricing Level being updated.

Show Formulas

Threshold Ratio Wizard Manufactured Formula

Purchasing Product into Profit Margin Departments

Products in Profit Margin Departments are generally items such as hardware or miscellaneous parts. They are items that have an inventory value, but when counting inventory, each item may not necessarily be counted.

An example of this would be a department with nuts and bolts. Each and every bolt would not be counted for inventory, yet an inventory value would be assigned to the bolt product based on the Profit Margin entered. When a Profit Margin Department is set up, each Product has an assigned Profit Margin. Purchasing in this Product is done by entering an A/P Bill instead of a Purchase Invoice and posting that A/P Bill to the inventory asset account.

Profit Margin Departments and Summarized Posting

If using summarized posting (inventory asset accounts are only affected with the Post Inventory to G/L process), use the Post Inventory to G/L (PM) function to adjust the inventory asset and cost accounts at the end of each month.

Note: This function should not be done multiple times during the month as it always calculates the cost based on the total sales for the month. It does not consider if this function has already been run or not.

When Summarized Posting:

- Cost of Goods should point to the inventory asset account.
- Inventory Asset should point to the cost (expense) account.
- Freight and Purchase Discount should point to the inventory asset account.
- Sales should point to the income (sales) account.

Profit Margin Departments and Transactional Posting

If using transactional posting (inventory asset accounts are affected as product is purchased and sold), the inventory asset account for each Profit Margin Department is automatically updated as product is purchased and sold from that department. Therefore, no reconciling Journal Entry is necessary at month end. The Post Inventory to G/L (PM) function is not available if the preference to transactional post is turned on.

When Transactional Posting:

- Cost of Goods should point to the cost (expense) account.
- Inventory Asset should point to the inventory asset account.
- Freight and Purchase Discount should point to the cost (expense) account.
- Sales should point to the income (sales) account.

Year End Reconciliation

Whether using transactional or summarized posting, it is important to do a reconciliation at year end (or more often, if desired) to the true margin. To do this, take a physical count of inventory in each Profit Margin Department. Do a Journal Entry to set the inventory asset account to the true value of that department's inventory, offsetting to the cost of goods sold account. The margin may no longer be the exact forced margin but should instead reflect the true margin for the year.