Parallel Valuation of Inventory

Overview & Requirements

The concept of parallel valuation of inventory applicable mainly for Multi National Companies, where the parent company located let's say in US and reporting company located let's say in Sri Lanka, Here the group currency is USD and company code currency is LKR (Srilanka Rupees)

In this case the Sri Lankan Company will prepare the financial in LKR and then later on for submitting the final Trial Balance to parent company in US the entire GL Accounts data derived in group currency i.e. USD and then shared with US company,

Here an Auditor has found the GAP in the process of reporting the inventory and consumption data to US company in USD by the Srilanka Company.

In the next slide we will understand the GAP in detail with the help of an example;

Continued….

Overview & Requirements

Computation of Group currency (USD) value in current process

Dates	Transaction	Qty	Amt.(LKR)	Rate(LKR)	MAP	Amt.(USD)	Remark
31/10/12	Opening	10.00	1,000.00	100.00	100.00	10.00	
11/01/12	Purchase-GR	100.00	11,000.00	110.00	109.09	110.00	
11/01/12	Goods Issue	(15.00)	(1,636.36)	109.09	109.09	(16.36)	Amount in LKR/Applicable Exchange rate
11/05/12	Goods Issue	(45.00)	(4,909.09)	109.09	109.09	(44.63)	
11/10/12	Goods Issue	(50.00)	(5,454.55)	109.09	109.09	(45.45)	
	Balance	-	-			13.55	

GAP as highlighted by auditor:

The stock is fully consumed in LKR currency but in Group currency i.e. USD still there is some balance i.e. 13.55 USD

This is not correct reporting of Inventory balance in Group Currency for financial reporting by Srilanka Company in USD

Assumption for Exchange Rate		
1 USD	100 LKR	11/01/12
1 USD	110 LKR	11/05/12
1 USD	120 LKR	11/10/12

Overview & Requirements

INFOCOST Deliver Business Value

Dates	Transaction	Qty	Amount(LKR)	Rate(LKR)	MAP	Amount (USD)	Rate (USD)	MAP
	Computation of Group currency (USD) value in required process							
31-10-12	Opening Balance	10.00	1,000.00	100.00	100.00	10.00	1.00	1.00
11/01/12	Purchase-GR	100.00	11,000.00	110.00	109.09	110.00	1.10	1.09
11/01/12	Goods Issue	(15.00)	(1,636.36)	109.09	109.09	(16.36)	1.09	1.09
11/05/12	Goods Issue	(45.00)	(4,909.09)	109.09	109.09	(49.09)	1.09	1.09
11/10/12	Goods Issue	(50.00)	(5,454.55)	109.09	109.09	(54.55)	1.09	1.09
	Balance	-	-			-		

GAP as addressed by Parallel Valuation:

By maintaining the parallel valuation in LKR and USD at material level we can see that the balance in both the currency is same at any point of time.

Hence the GAP is addressed and financials in Group currency will be accurate

Assumption for Exchange Rate		
1 USD	100 LKR	11/01/12
1 USD	110 LKR	11/05/12
1 USD	120 LKR	11/10/12

Summary of Requirements

1. Enable valuation of inventory from a Group perspective in USD

2. Enable accounting of various goods movements with USD prices as per Group valuation in second currency in Financial Accounting

3. Enable generation of Financial Statements in Group Currency USD

Solution Approach

- Activate "**Material Ledger**" with Group Valuation.

- System will maintain two Parallel prices, one for "LKR"(For Local currency valuation) and another for "USD"(For Group/Functional currency Valuation)

- System should allow to locate *more than one rate* for inventory-related transactions.

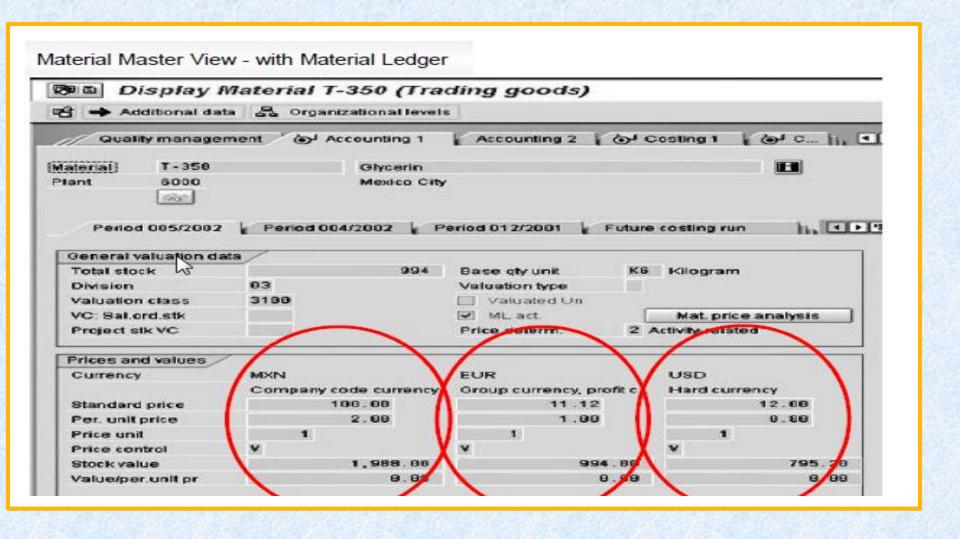- Each of them should be referred to during automatic postings to the General Ledger for inventory transactions.

  Note: We can set up more than one rate in the Material Master, such as a commercial price vs. a planned price vs. a standard price. The unique option of Parallel Valuation is to post more than one rate into the General Ledger with each saved, accounting-relevant goods movement.

- Parallel Valuation functionality in Material Masters only becomes possible once we activate *Material Ledger.*

- Refer Screen shots in Next Slides which shows Material Masters with & without activation of Material Ledger and Corresponding Accounting Document.
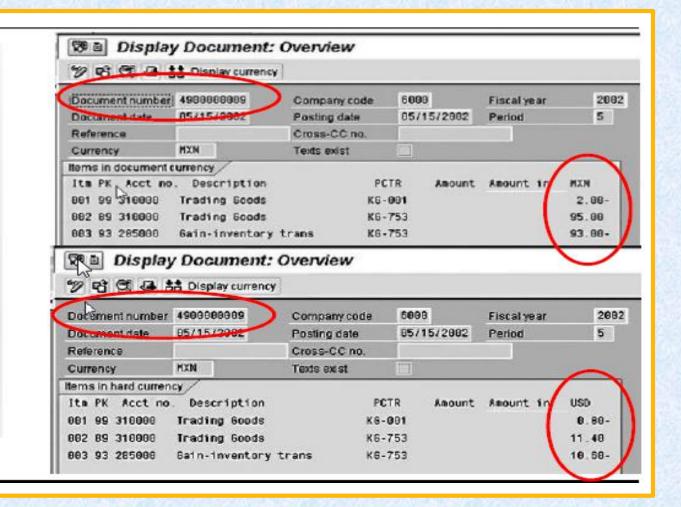
Solution Approach

Material Master View – Without Material Ledger –

Display Material M-06 (Trading goods)

➡ Additional data   🔠 Organizational levels

| Plant data / stor. 2 | Accounting 1 | Accounting 2 | Plant stock | Stor. locatio... |

Material	M-06	Flatscreen MS 1460 P
Plant	2200	Paris

General data

Base unit of measure	PC	piece(s)	Valuation category	
Currency	EUR		Current period	05 2002
Division	07		Price determ.	ML act.

Current valuation

Valuation class	3100	Proj. stk val. class	
VC: Sales order stk			
Price control	V	Price unit	1
Mov. avg. price	548.82	Standard price	0.00
Total stock	100	Total value	54,881.65
		Valuated Un	
Future price	0.00	Valid from	
Previous price	0.00	Last price change	

Previous period/year   Std cost estimate

Solution Approach

Material Master View - with Material Ledger

Solution Approach

- Accounting Document view for transferring Material from One Plant to another Plant having different Standard Prices.

- Local Currency fields are filled in according to the price maintained for each of them separately in Material Master.

Thanks