PROCUREMENT / PURCHASING: Landed Costs

Introduction

Landed Costs are typically processed when goods are imported from abroad, but can also be processed on any Purchase Order, depending on the operating specifics of the Enterprise.

Landed Costs typically include items like Import Duties, Freight, Transport, Insurance, and so on.

Since Landed Costs are usually costs that are billed separately, i.e. not as part of the Supplier (of the Goods) Invoice, the Costs are NOT included in the Order Price when placing an Order on the Supplier. At the same time, it is desirable to distribute these costs to the Stock Items that are sourced, in order to have more accurate Average Costing on the Stock Items, i.e. true cost.

IES provides for Auto Landed Costs Levies and Invoiced Landed Costs. Any of the 2 methods, or both, may be used, depending on operating requirements.

We could say that the Invoiced Landed Costs method is exact, while the Auto Landed Costs method employs the 'standard rate' concept, and never gives accurate or true cost in the Stock Items, but only approximated cost.

There are various reasons why one or the other method may be preferred in a particular Enterprise, depending on the business operating environment. Possibly one of the primary reasons for choosing the 'auto' method is a scenario where Landed Cost Invoices cannot easily be 'connected' to the specific Goods it relates to, as is sometimes found in remote areas (due to various reasons). In such cases, the 'auto' method provides for a process to manage Landed Costs with relative ease, even though it is not exact. In a nutshell, the 2 methods compare as follows: -

The Auto Landed Cost Levy method: -

All Landed Cost Invoices are charged (debited) to the Levy Account in the GL.

Levy Account in the GL.
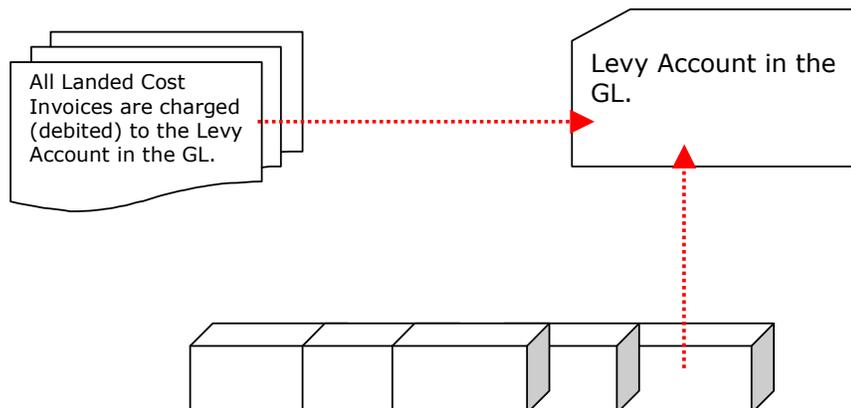
Stock Items are automatically charged with standard rated Landed Cost Levies, which are credited to the Levy Account.

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In this scenario, the Levy Account is always reflecting an under or over Recovery, and Landed Cost Levies are increased or decreased to attempt the goal of a break-even situation in the Levy Account.

Note: The Auto method does not raise automatic Levies on Direct Items, only on Stock Items.

The Invoiced Landed Costs method: -

All Landed Cost Invoices are charged directly to the procured Goods.
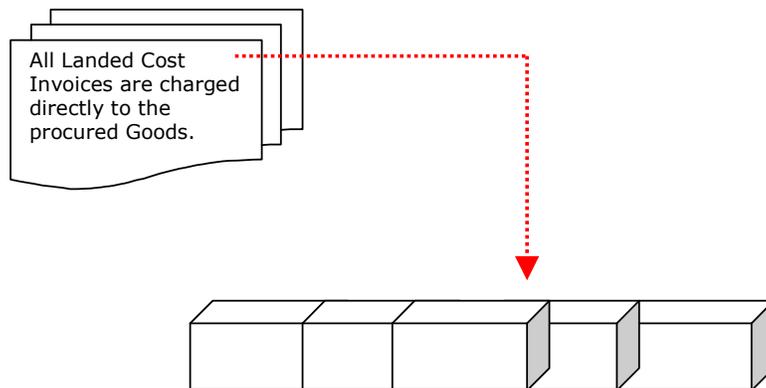
Selected Order Items are charged with 'weighted value' costs based on the Landed Cost Invoice being processed.

In this scenario, there is no Levy Account, and all Landed Costs are distributed directly to the procured Goods from the Purchase Order, usually on a 'weighted value' basis.

How to use the Auto Landed Cost Levy method

In order to use the 'auto' method, it is necessary to define standard rated Levy objects. This is done in Inventory File Maintenance.

A Landed Cost Levy object has a code, a name (description), a Ledger Account it closes to, and the % levy to raise. It is feasible to have a range of these objects with different percentages or different Levy Accounts to which they close.

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Once a Levy Object is attached to an Inventory Master Record, that Stock Item will automatically be charged with the specified %, based on the Value on the Invoice that is charged to the Stock Item. For example, if a Quantity of 2 Items is Received and Invoiced at a value of $100, that means the average cost of procuring the Item is $100 / 2, i.e. $50. However, the system now automatically raises a $3 (3% as per the example shown above) charge, which is debited to the Stock Item and credited to the Levy Account. Thus the total cost of procuring the Item now stands at $103, and the average cost per 1 = $51.50.

Above we see where a Landed Cost Levy object is attached to an Inventory Master Record (a Stock Item). If no auto Landed Cost should be processed for the Stock Item, then the Field is blank.

How to use the Invoiced Landed Cost Method

Invoiced Landed Costs are processed directly from a Purchase Order or a group of Purchase Orders. This provides a convenient method for selecting all or specific Items on the Order(s) to be charged with different types of Landed Costs being processed, and in the same step processing the Supplier Invoice (or a Ledger CC, if necessary).

The Landed Costs button on the Purchase Order may be used at any stage of the Order, and applied to any or all of the Items, irrespective of whether some Items are Received or not Received.

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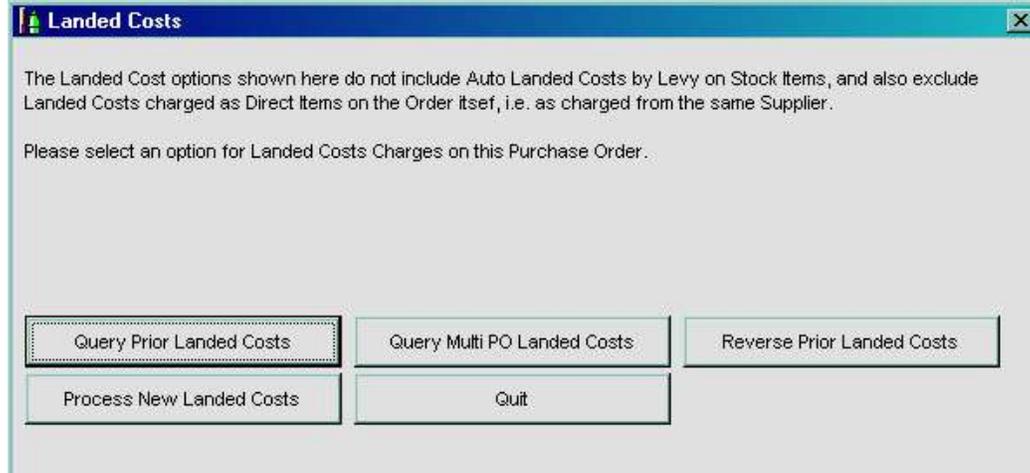
When you choose the LANDED COSTS option from the Purchase Order screen, the system offers a number of options: -

- ❑ Query Prior Landed Costs (on this Purchase Order)

- ❑ Query Multi PO Landed Costs (for Landed Costs processed on a group of Purchase Orders that include this one)

- ❑ Reverse Prior Landed Costs

- ❑ Process New Landed Costs

Both the 'Processing of New', and the 'Reversal of Prior' options are subject to the User having this privilege listed on his / her Purchase Order Profile for the Order type that is active (i.e. CP/ASO, DDP, MOD).

The Query Options lead to details of prior Landed Costs processed, and provide Transaction Drills for details of the Costs processed. The Reversal option includes a REVERSE button for those that enjoy this privilege.

The processing of NEW Landed Costs option will open the Transaction Screen for the processing of new Landed Costs, and will automatically 'load' all Items on the Purchase Order for 'weighted value' apportionment of Costs when processed. The Order Items may be re-selected to include only selected Items, or you may simply use the DEL function on any row in the Item grid to remove Items that should not attract the Landed cost being processed.

Whenever an Item is deleted, the system will automatically re-adjust the 'weighted' distribution, but you can also manually adjust any line Item.

The Invoice side may be directly processed to the Supplier of the Landed Cost Invoice(s) Account, or to a Ledger Account in the GL. Tax is processed transparently, and all related Journals are automatically generated when the POST option is chosen (and if all Validations pass OK).

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The system will auto calculate the 'weights' and the correct distribution of Charges per Item.

When Landed Costs apply to a list of Purchase Orders rather than for a specific Purchase Order in it's own right, then it is easier to use the "Multi PO Landed Costs" option from the menu, rather than from the Purchase Order Screen (which deals only with a single PO at a time).

The Multi PO Landed Cost screen allows you to list qualifying Purchase Order Numbers before choosing NEXT to proceed to the Transaction Screen.

Note: REVERSAL and QUERY links for prior Multi PO Landed Costs are provided below the EXIT button.

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The Transaction screen lists all the Purchase Orders chosen, and initially includes all Order Items for all the listed PO's.

In this case, the "RE-SELECT" button offers different options to facilitate inclusion of Items for specific Landed Cost types. For example, one can just load Items that usually attract Import Duties, and exclude other Items when processing an Import Duty Landed Cost. (Unwanted Items may also be removed with DEL.)

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Once a specific Landed Cost Invoice has been POSTed, the same list of Purchase Orders may be used again and again for more Invoices, or the list can simply be adapted before choosing NEXT again.

Multi PO Landed Costs from Basket

Landed Costs can also be processed on the 'basket' basis, i.e. all Items from a Dispatch received from a Supplier, which may typically be 1 or more containers, and which include some (but not necessarily all) Order Items listed on a range of different Purchase Orders. In this case, the Goods Received processing is done by importing a Dispatch Note (see the Manual for Importing a Supplier Dispatch Note), and the system marks all included Items so processed as part of the same 'basket'. This makes it easy to select the exact range of Items to include for Landed Cost processing. (Hint: If the standard multi-PO Landed Cost method is used for such a dispatch, it will list all Order Items for all the listed Purchase Orders, and one would have to carefully remove the Items that should not be included.)
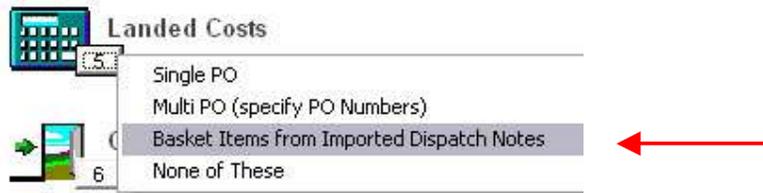
When you select the 'basket' option, you are prompted to select a Supplier –
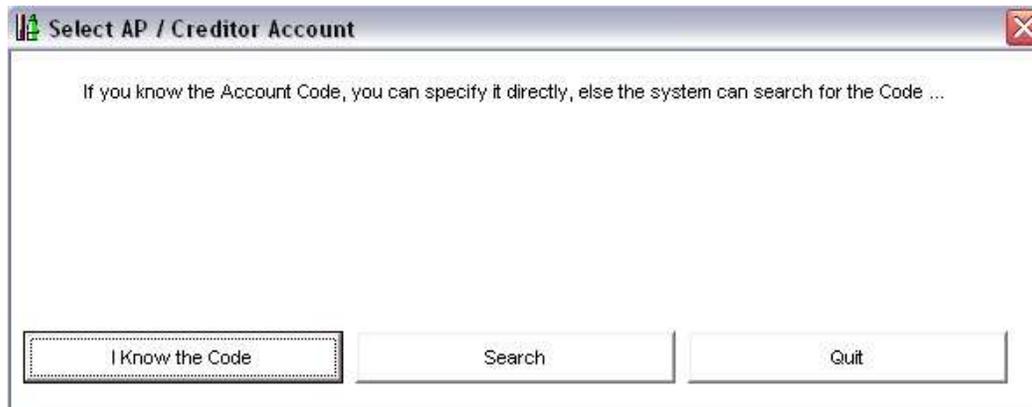
Having identified the Supplier to work with, the system will offer the most recent 100 Dispatch Notes that were imported for this Supplier, and you can include 1 or multiple Dispatch Notes to list for the Landed Cost processing option. The system will automatically include all Items on the selected Dispatch Note(s) and list them on the Landed Cost processing screen. At this stage, you may still re-select only dutiable Items or another selection as required, before processing the Landed Costs.

Note: Landed Costs (or different Landed Cost invoices) may be processed multiple times on the same Items, e.g. Duties may be processed, and then Freight Charges, or they may be done together, etc.

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Even a single Dispatch Note can be processed in multiple parts. To process Landed Costs on all Received Items in a selected Dispatch, just choose the Dispatch Notes (or parts of Dispatch Notes) to include.

The system will load the Order Items from the Dispatch, on a weighted basis, for Landed Cost processing.

Where to find the Landed Cost Processing options

To process Invoiced Landed Costs on a single Purchase Order, just use the
Landed Costs function on the PO processing screens.
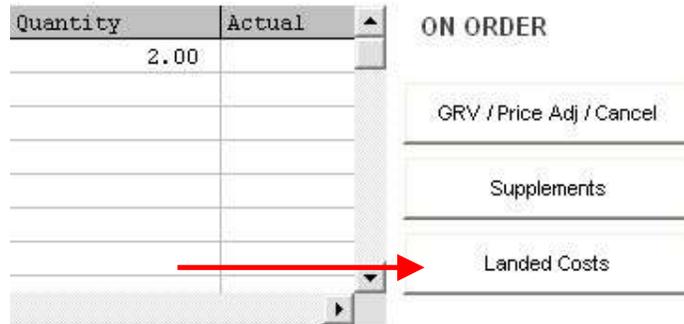
For Multi PO Landed Cost processing, choose 'Landed Costs' from the main
Purchasing options.

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