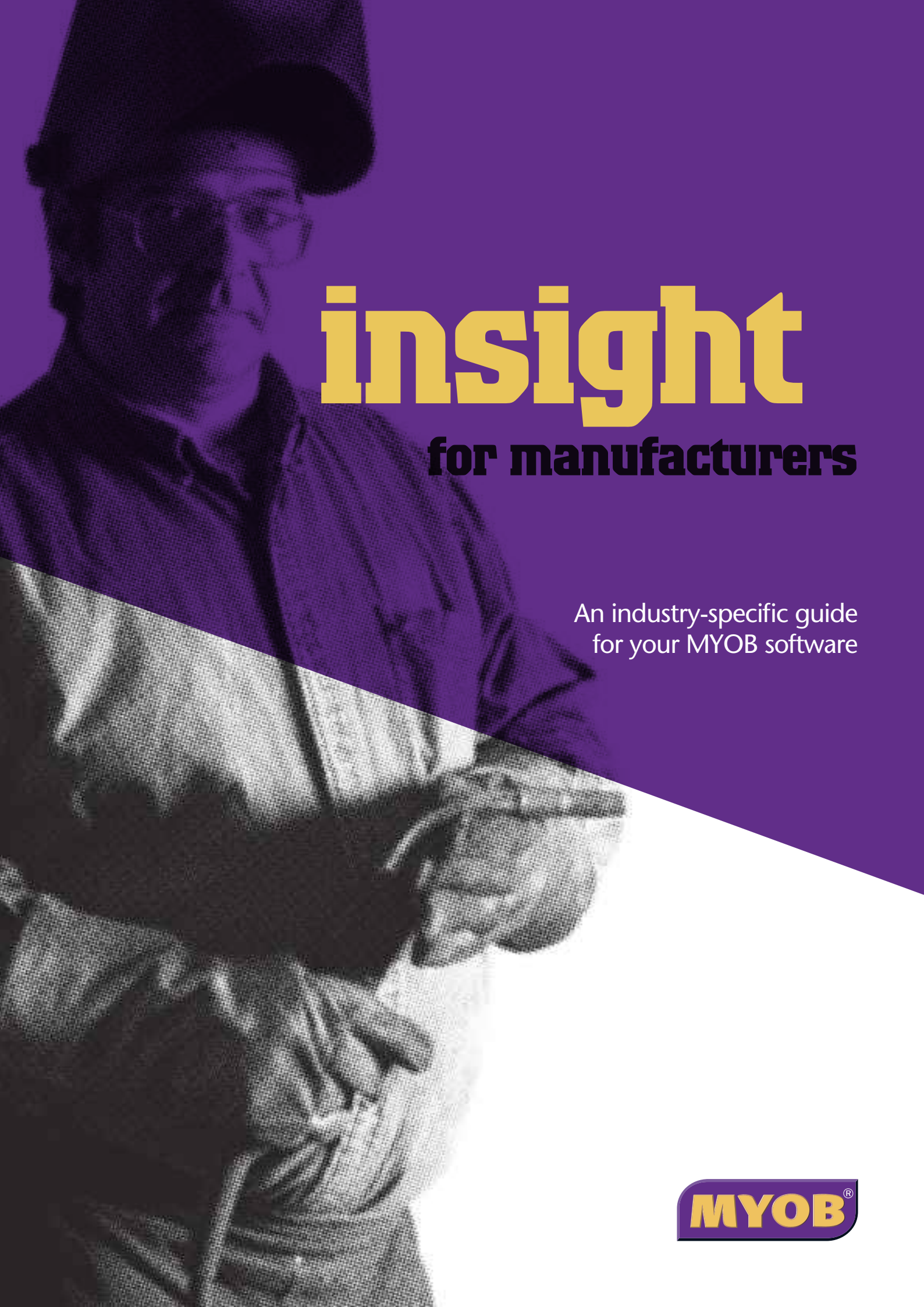


insight

for manufacturers

An industry-specific guide
for your MYOB software

MYOB®

contents

Introduction 3

Choosing your MYOB software 4

Understanding the essentials 5
- Creating your accounts list 5
- Reviewing your accounts list 5
- Checking your preferences 6
- Setting up opening balances 6
- Getting ready to go 6

Communicating with customers 7
- Creating sales 7
- Dealing with cash sales 7
- Including additional information on your sales 7
- Changing the layout of your printed sale 8
- Providing different payment options for your customers 9
- Entering sales orders 9
- Processing sales orders and finalising sales 9
- Recording backorders 10

Case Study 11

Dealing with expenses 12
- Recording expenses 12
- Recording a supplier invoice 13
- Placing supplier orders 13
- Paying suppliers electronically 14
- Analysing how much you owe 14

Recording other types of expenses 15
- Dealing with credit cards 15
- Organising petty cash (if you have a petty cash tin) 16
- Organising petty cash (if you have a wallet full of receipts) 16

Case Study 17

Setting up inventory 18
- Creating a new item 18
- Setting up item buying details 19
- Setting up item selling details 19
- Setting up raw materials 20
- Setting up items that you sell but don't buy 20
- Setting up one-off custom items 21
- Creating product groups and categories 21
- Selecting items by name or by number 22

Case study 23

Creating assemblies and auto-builds 24
- Creating sub sub assemblies 24
- Showing groups of items on sales invoices 24
- Costing finished items 25

Managing your inventory 26
- Analysing stock levels 26
- Tracking stock in more than one location 26
- Printing production job sheets 28

Inventory adjustments and transfers 29
- Adjusting for missing or damaged stock 29
- Adjusting the unit costs of inventory items 29
- Creating credit notes when inventory returns to zero 30
- Journaling stocktake totals when you don't use inventory 30
- Incorporating the cost of labour into item costs 31
- Incorporating freight into item costs 31

Pricing 32
- Calculating average and last cost 32
- Setting up multiple selling prices 32
- Updating prices 33
- Analysing profit on each stock line 33

Analysing your profitability 34
- Analysing profitability by accounts 34
- Analysing profitability by jobs or cost centres 34
- Analysing profitability by category or location 35

Understanding GST 36
- Recording GST 36
- Deciding what GST codes you need 36
- Deciding what codes to use when 37

In creating this document, MYOB gratefully acknowledges use of material from Making the Most of MYOB business software, 6th edition, by Veechi Curtis, published by Woodslane Pty Ltd, 2004.

© MYOB Technology Pty Ltd

Introduction

An efficient and robust accounting system is vitally important for manufacturers. Cost margins, stock control and product development are central to business success, as margins are often small and changes in customer demand frequent. Even the smallest manufacturer usually encounters relatively complex situations, such as costing finished goods, calculating overheads and selling at different price levels.

Fortunately, MYOB software offers a range of practical and versatile products for most small to medium-sized manufacturers, streamlining stock control, financial reporting and tax management so that complex tasks become as simple as possible. In this guide, you'll find lots of ideas and tips on the best way to set up MYOB software, all written with manufacturing specifically in mind.

If you are a wholesaler as well as a manufacturer, you'll find additional information in *MYOB Software for Wholesalers*. If you import or export goods overseas, then refer also to *MYOB Software for Exporters and Importers*.

© MYOB Technology Pty Ltd

Choosing your MYOB software

For very small manufacturers, such as craftspeople, artists and cottage industries, it may be enough to simply record your receipts and expenses. In this case, MYOB BusinessBasics (for Windows) or MYOB FirstEdge (for Macs) will probably be your best bet.

If you have want to keep track of items you buy and sell, then MYOB Accounting provides an all-round solution perfect for many small businesses. However, if you have employees, then MYOB Accounting Plus is the way to go as it includes full payroll management.

If you need to have more than one person working in your accounting system at a time (perhaps one person invoicing and another doing the books), then MYOB Premier (for Windows) or MYOB AccountEdge (for Macs) provide the most suitable solution, as both these products provide multi-user capability (both these products include payroll management as standard).

Whichever product you choose, if you want to upgrade to another product that's further up the family tree, you can do so at any time. You don't need to buy the new software from scratch; you simply pay an upgrade price.

For more information about these MYOB products, simply visit **www.myob.com.au** .

© MYOB Technology Pty Ltd

The following five steps are a brief guide to getting started, highlighting important information specific to manufacturers.

Creating your accounts list

When you create the company file for your business, the New Company File Assistant asks you to **Build Your Accounts List**, giving you the option of starting with a standard list. The best choice is to select **Other** as your **Industry Classification**, and **Manufacturing Business** as your type of business. This template provides a sample list of accounts and makes a good starting point. Don't worry if you can't find an accounts list that is perfect - you can add, change or delete as many accounts as you like.

Reviewing your accounts list

Before entering your opening balances, you need to adapt your accounts list so that it suits the unique needs of your business.

Your accounts list is a list of categories to which you allocate all transactions. There are eight major account categories (or, for MYOB BusinessBasics and MYOB FirstEdge, there are six categories).

Account Category	What it means
Assets	Things you own, or that people owe you. Includes bank accounts, outstanding customer accounts and new equipment. Asset account numbers start with **1.**
Liabilities	What you owe to other people. Includes loans, taxes payable, and outstanding supplier accounts. Liability account numbers start with **2**.
Equity	This is the profit or loss your business has made since its inception. Examples of equity accounts include retained profits, partners' drawings, or capital contributions. Equity account numbers start with **3**.
Income	Money in! Everything you invoice to your customers. Income account numbers start with **4**.
Cost of sales	Cost of sales are the goods you buy for resale plus any direct costs, such as freight or commissions. Cost of sales account numbers start with **5**.
Expenses	Overheads. The day-to-day running costs of your business. Includes wages, electricity, repairs, telephone, and so on. Expense account numbers start with **6**.
Other Income	Extraordinary income that is not part of normal operations. Could include compensation income, capital gains or interest income. Other Income account numbers start with **8**. This account category is not available in MYOB BusinessBasics or MYOB FirstEdge.
Other Expenses	Extraordinary expenses that are not part of normal operations. Could include lawsuit expenses, capital losses, or fire damage costs. Other Expenses account numbers start with **9**. This account category is not available in MYOB BusinessBasics or MYOB FirstEdge.

© MYOB Technology Pty Ltd

Checking your preferences

You can customise your MYOB software so that it works for your business the way you want it to. You can do everything from changing the appearance of your windows, to automatically requesting a backup prompt each time you quit the program. It all happens via the **Preferences** window.

To review your preferences, go to the **Setup** menu, choose **Preferences** and explore the **System, Windows, Reports & Forms, Banking, Sales, Purchases** and **Security** tabs. Remember—your choice of preferences does not commit you to this for ever and ever, for you can change your preferences at any time.

Setting up opening balances

To enter opening account balances, go to the **Setup** menu, choose **Balances**, and then choose **Account Opening Balances**.

To enter opening balances for outstanding customer accounts, go to the **Setup** menu, choose **Balances** and then choose **Customer Opening Balances.**

To enter opening balances for outstanding supplier accounts, go to the **Setup** menu, choose **Balances** and then choose **Supplier Opening Balances**.

To get up and running, you only need to enter opening balances for a few accounts. Bare essentials will probably include your bank account and any customer accounts outstanding. Your opening account figures won't balance, but this out of balance amount simply goes to the Historical Balancing account. You or your accountant can fix this later.

Getting ready to go

Before you start entering transactions, work out how you intend to back up your company file. If your file is going to contain very few transactions, you may be able to fit your backup onto floppy disk. Otherwise, you'll need to have a CD burner or a zip drive.

You might have been lucky so far, but nobody can guarantee continued immunity to power surges, theft, fire or hard disk failure. If you don't organise a system now, you'll probably forget about it until it's too late—and then you'll be sorry.

© MYOB Technology Pty Ltd

Communicating with customers

The most elementary part of communicating with your customers has to be your sales invoices. Not only do your invoices need to be clear and easy to understand, but they need to look good too, creating a positive impression every time. Fortunately, MYOB software makes creating and printing invoices as simple as pie.

Creating sales

To create your first customer invoice, go to the **Sales** command centre and click **Enter Sales**. Next, click Layout to choose the most appropriate invoice format. There are three main invoice layouts: **Service, Item** and **Professional**.

The best invoice format for manufacturers is usually an Item invoice, a typical one of which is shown below. Don't worry if this invoice layout includes unnecessary columns, such as the **Backorder** column or the **Job** column, as you can customise your printed invoice so that these don't print.

A standard item sale

Dealing with cash sales

If you give invoices to all your customers, but don't want to bother setting up a new card for one-off customers and cash sales, the easiest solution is to create a new customer called 'Cash Sales'.

Of course, if you're a small manufacturer (such as a craftsperson or artist), you may not want to issue invoices for any of your sales. Instead, it might make more sense simply to record the total of daily takings, or the amount you bank each week. In this kind of situation, you don't need to use the Sales command centre at all (and you can ignore most of the headings in this part of the guide). Instead, go to the Banking command centre, click **Bank Register** and select **Receive Money** as your transaction type. Record one transaction for your total daily or weekly takings.

Including additional information on your sales

Manufacturers often confront complex situations that are unique to their business and for this reason, require special formats or information on their sales. You'll find that MYOB software has a standard invoice format that is surprisingly flexible; all you need is a little forethought and creativity. The following examples give you an idea of how versatile this format can be (these examples do not apply to MYOB BusinessBasics or MYOB FirstEdge).

- You may need to print your customer's item code, as well as your own item code, on every sale. Simply enter the customer's item code in the **Custom List** field (found

© MYOB Technology Pty Ltd

under the **Item Details** tab of every item) and then customise your invoice layout so that this information prints on every sale.

- You may need to print additional item information, such as colour, size or model type. Again, you can take advantage of **Custom Fields** and **Custom Lists** (found under the **Item Details** tab of every item) and you can customise your invoice layout so that this information prints on every sale.

- You may use salespeople to make your sales. Simply complete the **Salesperson** field at the time you create the sale to print their name on the customer invoice. (Even better, later you will be able to generate commission reports from your Sales reports menu.)

- You may offer different prices to different customers, depending on their location or how much they buy from you. MYOB Premier and MYOB AccountEdge offer the facility for up to six different levels of pricing for a single item, with five quantity breaks for each level.

Changing the layout of your printed sale

With all MYOB software, you can customise your invoices or receipts so that they look exactly as you want them to look. You can change the fonts, add your own logo, draw boxes, add comments and much more. All you have to do is go to the **Sales** command centre, click **Print Invoices** and then click **Customise** (refer to MYOB help for more details on customisation commands).

Below is one possible way in which an invoice could be customised.

You can customise your invoice to look exactly as you want it to look

© MYOB Technology Pty Ltd

Providing different payment options for your customers

MYOB Software has a relationship with the Commonwealth Bank, meaning that by subscribing to a special service called MYOB M-Powered® invoices, you can offer your customers the choice of paying invoices by BPAY®, Postbillpay (at all Australia Post outlets) or by credit card over the phone.

The main advantage of this service is that by providing more ways for your customers to pay you (especially if you invoice in advance for security deposits), you'll be paid quicker, not to mention the fact that receiving electronic payments is less time-consuming than receiving cheques. Also, by offering these facilities you will make your business look that much 'bigger' and more professional.

For more information about MYOB M-Powered invoices, and to read the Product Disclosure Statement, visit **www.myob.com.au/m-powered/** .

Entering sales orders

When customers place orders with you, the best approach is to enter these orders straightaway, so that you can see at a glance the value of all outstanding customer orders as well as the total quantity on order for any individual item. Note that orders are not available in MYOB BusinessBasics and MYOB FirstEdge.

Recording sales orders is easy. Simply go to the Sales command centre, click **Enter Sales** as if you were about to record a normal customer sale, and in the top left corner change the drop box from **Invoice** to **Order**.

You'll find that orders affect neither your financial figures nor your receivables reports. When you're ready to invoice the goods, you can convert orders to sales simply by opening up the initial order (you'll find it under the **Order** tab in your **Sales Register** or your **To Do List**), changing any amounts or quantities if necessary, and clicking the Invoice button.

Processing sales orders and finalising sales

Many manufacturers find it works best to finalise sales (by changing the status from **Order** to **Invoice**) on the morning after the sales leave the warehouse. Here's one way of working that you might find practical:

1. When a customer places an order, click **Enter Sales** in the **Sales** command centre and enter the order details, selecting **Order** as the status.

2. If you need to see what items are currently on order, go to the Analysis menu in the **Command Centre**, click **Inventory**, and look in the **On Order** column.

3. When the goods are ready to go out to the customer (which could be several days or weeks after the initial placing of the order), the order is called up, quantities and amounts reviewed, and the date changed to the current date. This order (which has been customised to print as a Tax Invoice) is then printed, along with a delivery docket, and sent to the warehouse for packing.

© MYOB Technology Pty Ltd

4. The warehouse refers to the order when packing the goods. If any goods are out of stock or can't be sent that day for some reason, the packer marks changes on the Tax Invoice and the delivery docket. The delivery dockets go out with the goods, the invoices return to the office.

5. The next morning in the office, you review the invoices. Invoices without any changes are ready to send to the customers as they stand. Invoices with changes are called up in the system, quantities or items changed as required, and then re-printed.

6. Finally, go to the **To Do List**, click the **Orders** tab, and mark all the orders that have just been finalised. Click **Record as Actual** to finalise these orders, changing them into sales.

Look up all outstanding customer orders in your To Do List

Recording backorders

If you can't fulfil every item on a customer's order, you may choose to send some goods now and place the remainder on backorder. To do this, go to the **Enter Sales** window as normal. Enter the quantities you intend to send now in the **Ship** column and the quantities you plan to place on backorder in the **Backorder** column. Once you click **Record**, MYOB automatically creates a new sales order for the backordered items.

You can set up your preferences so that original invoice numbers are retained on backorders, making the fulfilment of orders easier to track. By adding an additional digit to the invoice number when it comes up on the backorder (e.g. changing the **Invoice #** from **9130** to **9130-1**), you provide every sale with a unique number, yet group all the invoices relating to a single sale together. To select this preference, go to the **Setup** menu, choose **Preferences**, click the **Sales** tab and then mark the **Retain Original Invoice Number on Backorders** checkbox.

If you want to inform the customer in writing that items have been placed on backorder and will be delivered as soon as possible, you can generate a letter automatically by going to their card, clicking the **Letter** button and selecting the template called **BACKORDR.DOT**. Click **Use Template** and Word will create a standard backorder letter.

© MYOB Technology Pty Ltd

Business name: Lily Lane Potters

Business overview: Lily Lane Potters is owned by Sally, a potter working from home selling crockery at local markets.

Sally is an example of a very small manufacturer and not surprisingly, she has set up her MYOB software in the simplest of ways. Sally uses MYOB BusinessBasics to track income and expenses.

Once a month, Sally sits down with her business bank statement. She looks at every deposit and records the total value of each deposit in the **Receive Money** window. (Sally doesn't worry about recording a sale for every transaction made.) She then goes through her cheque butts and records expenses in the **Spend Money** window. Last, she tips the petty cash receipts out of her wallet and records these in the **Spend Money** window also.

In just a couple of hours every month, Sally keeps her tax affairs up-to-date and produces a Profit & Loss statement. She has been very encouraged to see how her income is slowly increasing, month by month, and how well her business is going.

© MYOB Technology Pty Ltd

The simplest way to record expenses, suitable for many small manufacturers who don't want to track inventory, is to go to the **Banking** command centre and click **Spend Money** (or, for MYOB BusinessBasics and MYOB FirstEdge, go to the **Bank Register** and select **Spend Money** as the transaction type). Read more about this method in the *Recording expenses* section below.

An alternative way to record expenses is to enter all supplier invoices in the **Purchases** command centre when you receive them. Later, these invoices are paid using the **Supplier Payments** window. (Note that purchases aren't available in MYOB BusinessBasics or MYOB FirstEdge.) This method works well if you:

- Need to track inventory
- Have a substantial amount of accounts to be paid each month and you want to keep tabs on how much you owe
- Report for GST on an accrual basis (as opposed to a cash basis), as you can claim the GST on bills you've received, but haven't yet paid.
- Want to keep tabs on when early payment discounts fall due.

Read more about entering supplier invoices in the Purchases command centre in the *Recording a supplier invoice section* on page 13.

Recording expenses

To record an expense:

1. Go to the **Banking** command centre and click **Spend Money**. (Or, if you're using MYOB BusinessBasics or MYOB FirstEdge, go to the **Bank Register** and select the **Spend Money** transaction type.)
2. Click the **Pay from Account** radio button in the top-left and select your bank account, or, if you plan to make this payment online, click **Group with Electronic Payments**.
3. For cheques, enter the cheque number in the **Cheque No**. field. For other transactions, such as credit card debits or electronic payments, simply ignore the **Cheque No**. field.
4. Enter the date and amount, and in the **Card** field, enter the name of the person you are paying. If you've never paid this person before, you'll see a list of cards, asking you to select one of them. Either double-click on a name to select it from the list or click **New** to create a new card.
5. Write a brief description in the **Memo** field, if desired.
6. In the **Acct#** column, specify which account this expense should go to.
7. Check that the **Amount** is correct. Usually, this amount includes GST, assuming you've ticked the **Tax Inclusive** checkbox on the top-right.
8. Fill in the **Job** column if you want to track expenses by particular projects or cost centres. Otherwise, leave this column blank.
9. If you want to include additional information about this transaction, do so in the additional **Memo** column that appears next to the Job column.
10. Fill in your **Tax** code, double-check the tax total (this calculates automatically), then click **Record**.

© MYOB Technology Pty Ltd

Recording a supplier invoice

Manufacturers tend to use one of two layouts when recording purchases: either an **Item** layout or a Service layout. Item layouts work best if you want to track the costs and quantities of the materials you purchase; service layouts work best in all other situations.

Here's how to record a purchase:

1. From the **Purchases** command centre, click **Enter Purchases**.
2. Click the **Layout** button and select either Item or **Service** as your layout.
3. Fill in the supplier name and if required, enter the purchase order number.
4. Check the **Date** and enter the supplier's invoice number in the **Supplier Inv#** field.
5. For item invoices, enter the **Quantity, Item Number** and check the **Price**. Enter each line one at a time, making sure the final total tallies.
6. For service invoices, choose your allocation account in the **Acct#** field. Don't worry about detailed descriptions, as they're usually not necessary. A general description such as 'Advertising in this June's Gazette' does just fine.
7. Don't forget to complete the **Job** column if you're tracking job performance and progress.
8. Make sure the GST total matches with your supplier invoice, and then click **Record**.

Recording supplier invoices

Placing supplier orders

It's easy to enter purchase orders, ready to print, fax or email direct to your suppliers. This way you can see at a glance what items are on order and when they are due to arrive.

To create a supplier order, go to the **Purchases** command centre, click **Enter Purchases** and select the supplier. In the top left corner, make sure that the purchase status is **Order** (not **Bill**). Complete the order as normal and click **Print**, or click the **Send To** button and select **Fax** or **E-mail**.

You'll find that orders affect neither your financial figures nor your payable reports. When you receive the goods, you can convert orders to purchases simply by opening up the initial order (you'll find it under the **Order** tab in the **Purchases Register** or the **To Do List**), changing any amounts or quantities if necessary, and clicking the **Purchase** button.

© MYOB Technology Pty Ltd

Paying suppliers electronically

MYOB M-Powered® payments enable you to make electronic payments to your suppliers directly from your MYOB software. Once you subscribe to this service, you can use your MYOB software to record payments in your company file and then transmit these payments electronically using a secure link. The M-Powered Services Centre monitors the progress of all payments and, at your request, emails or faxes remittance advices direct to your suppliers.

If you pay more than five suppliers per week, M-Powered payments are well worth the fees. If you were to put a value on your own time (or on your bookkeeper's time) and calculate how long it takes you to pay a supplier (including writing a cheque, printing a remittance advice, writing their address on an envelope, entering the payment into your MYOB company file, and so on) as well as the costs (the envelope, the stamp, the petrol to the post office, etc.), then chances are that paying a supplier is much more expensive than you think.

M-Powered payments offer other benefits too, although these are somewhat less tangible. You can schedule payments to be made at future dates, ensuring that suppliers are paid on time, even when you're away from the business. Payments are more secure, as you pay directly from your account into your supplier's account (whereas cheques are more prone to fraud or getting lost in the mail). Finally, an M-Powered Services Centre keeps track of all online payments, including when payments are sent, when they're processed, if they fail due to insufficient finds, and so on.

To subscribe to M-Powered payments, all you have to do is click the **M-Powered Services Centre** icon that appears on the bottom-right of every command centre. (Note that M-Powered payments are available in MYOB Accounting, MYOB Accounting Plus and MYOB Premier).

For more information about M-Powered payments, including how to subscribe, the current pricing structures, or to read the Product Disclosure Statement, visit **www.myob.com.au/m-powered.**

Analysing how much you owe

To see how much you owe to your suppliers, go to the **Analysis** menu in the **Command Centre** and click **Payables**. You'll see a summarised Analyse Payables report, aged as at the current date.

Click the zoom arrows to go straight to a detailed breakdown of any supplier's totals, or click **Print** to print the report.

© MYOB Technology Pty Ltd

Recording other types of expenses

MYOB software realises that most businesses don't just pay for expenses by cheque and electronic transfer, but by cash and credit cards as well. Luckily, it's easy to record these kinds of transactions.

Dealing with credit cards

The easiest way to deal with credit cards is to think of them as if they were a bank account. Create a new liability account in your **Accounts List** and make it a **Detail Credit Card Account (Postable)**.

For expenses where you don't receive a supplier account (such as fuel, interest, memberships or internet access), do the following:

1. Go to the **Banking** command centre and click **Spend Money**. If you're using MYOB BusinessBasics or MYOB FirstEdge click **Bank Register** and select the **Spend Money** transaction type.

2. Select your credit card account as your bank account in the top left.

3. Record each transaction on the credit card in the same way as you would record cheques, the only difference being that you ignore the **Cheque No** field completely. (You end up with one transaction per line on your credit card.)

Entering credit card transactions (note the account in the top-left corner)

For payments on your credit card where you have already recorded the supplier account, do the following:

1. Go to the **Purchases** command centre and click **Pay Bills**.
2. Select your credit card account as your bank account in the top left.
3. Record the payment in the same way as you would any other supplier payment, ignoring the cheque number.

By the way, don't forget to account for GST when recording credit card transactions. If you know an item definitely attracts GST (such as fuel payments or telephone expense), simply mark the **Tax Inclusive** checkbox in the top of the **Spend Money** window and the GST component calculates automatically.

© MYOB Technology Pty Ltd

Recording other types of expenses

Organising petty cash (if you have a petty cash tin)

The method described here works best if you have an office with a petty cash tin, and more than one person takes money out of the tin. However, if you don't have a petty cash tin but end up paying lots of little cash expenses directly from your own pocket, see the method listed in *Organising petty cash (if you have a wallet full of receipts)*.

1. Start off with a float, say $200. Write a cash cheque for this float, and allocate this cheque to an asset account called 'Petty Cash'. If you don't have an account by this name already, create one now, remembering to select **Bank** as the **Account Type**.
2. Whenever staff take money out of the tin, get them to give you a receipt in exchange. Store these receipts in the tin.
3. Now, add up the receipts and work out which expense categories they belong to. Then go to the **Spend Money** window but this time change the bank account at the top to read **Petty Cash**.
4. Complete the payment, allocating it across several **Allocation Accounts** and several **Amounts**. Click **Record** when you're done.
5. When funds in the tin get low, write out a cash cheque to top the tin back up to its original float value. For example, if you have a $200 float but there's only $4.50 left in the tin, write out a cash cheque for $195.50. Allocate this cheque to Petty Cash.

Recording petty cash transactions when you use a petty cash tin

Organising petty cash (if you have a wallet full of receipts)

If you don't have a petty cash tin, but end up paying lots of cash expenses directly from your own pocket, you'll find the following method works best.

1. Pile these receipts into their various categories and then, with a calculator, add up the value of each pile of receipts. You might end up with $40 worth of receipts for stationery, $50 for postage, $15 for travel and so on.
2. Next, go to the **Spend Money** window and as your bank account, select **Petty Cash** in the top left corner.
3. As the **Amount**, enter the total value of all these receipts added together.
4. Split the transaction across the appropriate expense accounts, writing individual memos on each line, if desired.

© MYOB Technology Pty Ltd

Business Name: Finn's Fine Furniture

Overview: Finn's manufactures custom furniture from salvaged timbers.

Justin Finn has been making custom furniture for many years in the backwoods of NSW. However, the whole nature of his business changed when he launched his website a couple of years ago, as he started to receive commissions from all around Australia. At first, this growth caused difficulties, as Justin had to employ staff for the first time, and he encountered cashflow constraints and problems meeting order deadlines.

In order to put his business on a more professional footing, Justin purchased MYOB Accounting. Justin records the purchase of raw materials, setting up each large piece of salvaged or milled timber as an item in the **Inventory** command centre. At first, Justin was surprised to see the high dollar value held in raw materials and how many large pieces of valuable timber sat unused for years at a time. Forced to start trading more profitably, Justin has rationalised his timber holdings and if a piece of timber sits in the warehouse for too long, he invents a project to put it to use.

Justin has also started to record sales in the **Sales** command centre. He never used to worry about maintaining customer details, as he saw every job as a one-off event. However, now that MYOB software maintains a client database for him, he keeps in contact with clients regarding special offers or exhibitions. The response has been a vast increase in repeat orders.

© MYOB Technology Pty Ltd

Probably the most important decision you'll make when setting up your MYOB software is how to track inventory. There are many different ways of working; the right way depends on your business and circumstances.

- **No inventory tracking at all**. Very small manufacturers making lots of one-off items probably won't want to use inventory features at all. Such businesses would include potters, jewellery makers, sculptors or sellers of home-sewn clothing.

- **Inventory tracking for finished items only.** Some manufacturers find it makes sense to track the quantities and costs of finished items, but not to track the components from which these items are made. Such businesses could include manufacturers of gourmet food lines, furniture-makers or any manufacturer who makes a diverse range of items within which the components vary from item to item.

- **Inventory tracking for component items as well as finished items**. Some manufacturers find it makes sense to track inventory from the purchase of raw materials right through to the transformation of raw materials into finished items. This method works well if you manufacture a small range of products using the same components every time.

The next few sections deal with setting up your items list for items that you buy (should you wish to track these) and for items that you sell. For information about creating an item that is made up of other component items, see the *Creating assemblies and auto-builds* section on page 24.

Creating a new item

To create a new item, go to the Inventory command centre, click **Items List**, click **New** and then follow the simple steps below.

1. Enter an **Item Number** followed by a **Name**. (The item number doesn't have to be a number; you may find it makes more sense to use letters instead.)
2. Tick the relevant checkboxes to indicate whether you buy, sell or inventory this item. (If you're not sure what to select, refer to the sections *Setting up raw materials* and *Setting up items that you sell but don't buy* on page 20.

3. Complete the income, cost of sales and asset accounts fields.
4. Go to the **Selling Details** tab (see *Setting up item selling details* on page 19 for more details). (You won't need to set up selling details for raw materials.)
5. Go to the **Buying Details** tab (see *Setting up item buying details* on page 19 for more details). (If this is an item that you manufacture, rather than buy, you won't need to set up buying details.)
6. Click **OK** to record this new item and return to the Items List.

Creating a new item (don't forget to complete the Buying Details and Selling Details tabs also)

© MYOB Technology Pty Ltd

By the way, if you already have your inventory listing in another program, such as a database, spreadsheet or even as a word processing document, then you don't need to re-type everything. It's almost always possible to get this information into a format where you can automatically import it into your Items List using the Import and Export data commands found in the File menu.

Setting up item buying details

When you create a new item, click the **Buying Details** tab to set up information about suppliers and restocking quantities.

Here's what you need to know:

- The only essential field to complete is the **Tax Code When Bought**.
- Don't worry that you can't enter a figure in the **Last Purchase Price** when you first create a new item. As soon as you record your first purchase for this time, this price will be updated.
- The **Buying Unit of Measure** is a descriptive term, such as **Each, Pair, Case**, and so on.
- The **Number of Items per Buying Unit** is the number of items that will add to your on-hand inventory for each unit sold. Always express your buying unit as a multiple of the smallest unit that the item can be sold in.
- The minimum stock level acceptable is your **Minimum Level for Restocking Alert**.
- Your **Primary Supplier for Reorders** should be the main supplier for that item. It doesn't matter if you sometimes buy from someone else; you can always edit the purchase order that your MYOB software automatically generates.
- If it's useful for your reference or for purchase orders, enter your supplier's code for this item in the **Supplier Item Number** field.
- As the **Default Reorder Quantity**, enter the smallest multiple you would ever order for that item. (For example, if you buy water filters in batches of 50, and your minimum stock level is 25, when your stock level falls to 23, your MYOB software will generate a pending purchase order for 50 filters, not for two filters.) Once restocking details are in place, your MYOB software automatically generates purchase orders for stock items that fall below minimum stock levels.

Setting up item selling details

To record selling prices and unit details:

1. Double-click the item from your **Items List** and click the **Selling Details** tab.
2. Mark the **Tax Code When Sold** checkbox.
3. The **Base Selling Price** should be the base price that you sell this item for, including **GST** if the Tax Inclusive checkbox is marked.
4. The **Selling Unit of Measure** should be a descriptive term, such as **Each, Pair, Case**, and so on.
5. The **Number of Items per Selling Unit** is the number of items that will be subtracted from inventory for each unit sold. For example, if you sell shoes in

© MYOB Technology Pty Ltd

pairs, the **Number of Items per Selling Unit** would be 1, and the **Selling Unit of Measure** would be 'Pair'.

Setting up raw materials

If you want to set up raw materials as items, you can set them up in one of two ways:

- **As items that you buy only.** If you have decided to choose no inventory tracking at all, or inventory tracking for finished items only (see *Setting up inventory* on page 18), then you have already decided that you don't want to track the quantities of raw materials. However, you can still set up raw materials as items in your Items List, by marking the **I Buy This Item** checkbox only. By working in this manner, you can still use MYOB software to generate purchase orders and keep track of item costs.

- **As items that you use as components for manufacturing other items.** In this scenario, you set up raw materials as items in your Items List, by marking the **I Buy This Item** and **I Inventory This Item** (but not **I Sell This Item**) checkboxes.

Setting up items that you sell but don't buy

The very nature of manufacturing is that you sell items that you don't buy, but that you have made. You can set up the items that you sell in any one of three ways:

- **As items that you sell only**. If you have decided to choose no inventory tracking at all (see *Setting up inventory* on page 18) then you have already decided that you don't want to track raw materials and the manufacturing process. However, you can still set up the goods that you sell as items in your Items List, by clicking the **I Sell This Item** checkbox only. By working in this manner, you can still use MYOB software to generate invoices and keep track of sales history.

- **As items that you buy 'from yourself' and then sell**. If you have decided to choose inventory tracking for finished items only, then you face the complicated scenario of wanting to have quantity tracking for items that you don't actually buy! When creating items in your Items List, mark the **I Sell This Item**, **I Buy This Item** and **I Inventory This Item** checkboxes. Then, create a supplier card in your own name, and every time you manufacture goods, record their creation by creating a 'purchase' from yourself. Keep the **Price** as $0.00 and this purchase won't appear as an amount owing, but the quantities of finished items will be correct.

- **As items that you auto-build from raw materials**. If you have decided to choose inventory tracking for component items as well as finished items, then mark the **I Sell This Item**, **I Buy This Item** and **I Inventory This Item** checkboxes when you set up the items you sell. Then, click the **Auto-Build** tab on each item and specify the components. See the section *Creating assemblies and auto-builds* on page 24 for more information.

© MYOB Technology Pty Ltd

Setting up one-off custom items

The easiest way to record sales of custom-made goods is to create a new item with an **Item #** called "Custom". Leave the **Name** and **Selling Price** fields blank.

Each time you sell one-off goods you can select "Custom" in the **Item #** column of the sales invoice. The **Description** field will always come up blank, and here you can type in a unique description and then tab across to fill in the **Price**.

Note that if an entire invoice consists of a one-off custom product, and if you require a lengthy description for this, then you might be better using a **Service** type invoice rather than an **Item** type invoice.

Creating product groups and categories

You can further group each item using custom lists, found under the **Item Details** tab. You can categorise items in any way you like -- anything from colour to size, from model to grade.

In order to take advantage of custom lists, follow these three steps:

1 Go to the **Lists** menu, choose **Custom List & Field Names**, and then choose the **Item** tab. Specify what labels you require for your custom lists, e.g. colour, size or type.

2 Still in your **Lists** menu, go to **Custom Lists** and then **Items**. Add new entries for each category. For example, if the category were colour, you might add entries for Blue, Red and Yellow.

3 Now return to your **Items List** and for each item, click the **Item Details** tab. For each custom list category, select the relevant entry. The screenshot below shows how this might appear.

Adding custom information to inventory items opens up whole new worlds of possibilities

To print this custom information on your invoices, take one more step. Go to the **Sales** command centre, click **Print Invoices**, select **Item** as your Form Layout and click **Customise**. Scroll beyond the right-hand margin of the invoice until you see boxes labelled [Item Custom List 1], [Item Custom List 2], and so on. Double-click on the list you want to print and mark the **Field is Active** checkbox. Then drag the field over to the left so that it appears in the main body of your invoice.

© MYOB Technology Pty Ltd

By the way, if a particular report doesn't show the custom list information you require, select the report, click **Customise** and then select the **Reports Field** tab. You'll almost certainly find this custom information listed as an optional report column.

Selecting items by name or by number

If you prefer, you can select items by their name rather than by their number. Go to the **Setup** menu, choose **Preferences** and then click the **Windows** tab. Mark the **Select Items by Item Name, Not Item Number** checkbox. This complete, you can now select an item simply by typing the first letters of the **Item Name**.

© MYOB Technology Pty Ltd

Business Name: Eco Lifestyles

Business Overview: Eco Lifestyles import recycled paper from overseas from which they manufacture a range of stationery.

Eco Lifestyles use MYOB Premier to manage all aspects of their business, including sales, purchases, payroll, banking and inventory.

Raw materials are set up as items in inventory and all finished items are set up as assemblies, so that the components are automatically drawn out of raw materials when items are manufactured. This way, Eco Lifestyles monitors the quantities on hand of both raw materials and finished goods, and keeps a close eye on final costs. (Final costs include all materials, but don't include wastage, overheads or labour.)

Eco Lifestyles sell to three large Australian distributors and to a distributor in Singapore and Hong Kong. At any one time, the production manager can see the value of outstanding orders against the quantity on hand, along with promised delivery dates.

The financial controller has found the way MYOB Premier integrates information ideal, because she can call up a Profit & Loss every day, every week or every month. By working with financial ratios and analysing their business performance, Eco Lifestyles has been able to make some hard decisions regarding profit margins and overseas pricing, slowly turning their business around so it's on a more solid footing.

© MYOB Technology Pty Ltd

Creating assemblies and auto-builds

The auto-build feature is fantastic if you want to create an item that is made up of other items. For example, you may sell a dining table suite that always consists of a single table plus six chairs, or you might 'manufacture' a drum kit that consists of a snare drum, a hi-hat, a bass drum and a stand.

Imagine you were going to create a first-aid kit that consisted of two bandages, a packet of band-aids and some scissors. Here's what you would do:

1. Start by setting up a new item for each individual component, so that you have an item for bandages, an item for band-aids, and so on.

2. Create a new item called 'First-aid Kit', making sure you mark the **I Inventory This Item** checkbox.

3. Click the **Auto-Build** tab.

4. Click Edit List and type the **Item Number** and **Quantity** for all the items that make up the kit of this finished item. Click **OK** and you're done.

Creating sub sub assemblies

Occasionally, you might need to create an assembly within an assembly. For example, you could have a Water Cooler package that includes a filter unit, and a filter repair kit. The filter repair kit could include a tool set, and 5 spare filters. The tool set could include a spanner and two screwdrivers. And so on...

Although MYOB software allows sub sub assemblies, you won't find extensive reporting in this area. The core report is the Auto-Build report, which tells you what components are required to make up all finished goods. However, using our above example, this report would tell the user that a Water Cooler package includes a filter unit and a filter repair kit, but would not then indicate what components make up the filter repair kit.

If you are uncertain whether MYOB software can meet your needs in this regard, or whether you might be better with Materials Requisition Planning software, your best bet is to talk to an MYOB Certified Consultant to assess your best course of action.

Showing groups of items on sales invoices

Sometimes, manufacturers sell kits of items but want to list each component on the sales invoices. For example, you might sell D-I-Y rocking chair kits, which always include 12 timber pieces, screws, sandpaper, varnish and flower stencils. Although you're selling a finished kit, you want to print quantities and description of each kit component separately on every sale so that your customer can see what they're receiving.

Although the **Auto-Build** feature assembles kits from individual items, when you come to sell a kit, it will only print the **Item Name** as the description, rather than printing all the components. However, the work around (available in MYOB Premier and MYOB AccountEdge) is to list the components in the additional **Item Description** field under the **Item Details** tab. Then simply customise your invoice layout to include both the **Item Name** and the additional **Item Description**.

© MYOB Technology Pty Ltd

Costing finished items

When you create assemblies using components, it's good practice to check that the final cost price makes sense (if not, then you may have made a mistake when setting up the auto-build information!). To check final costs, first create at least one unit of the finished item. (Go to the **Inventory** command centre, click **Auto-Build Inventory**, locate the item you wish to create, specify a quantity in the **Qty to Build** column, and then click **Build Items**.)

Next, go to the **Inventory** command centre, click **Set Item Prices**, and select **Avg Cost**. This will show you the cost of creating the finished item, based on the average cost of all its components. Alternatively, you can go to the **Inventory** tab of the **Index to Reports** window and select the **Auto-Build** report to view average costs of all manufactured products.

© MYOB Technology Pty Ltd

Managing your inventory

If you are like most manufacturers, then the value of your inventory represents your largest single asset. Successful control of inventory costs and quantities defines the difference between business success and failure.

Analysing stock levels

To see what stock you have on hand, simply go to the **Analysis** menu in the Command Centre and select **Inventory**. You'll see a report similar to the one shown below. The **On Hand** column shows the quantity you currently have in stock, the **Committed** column shows the quantity outstanding on current customer sales orders, the **On Order** column shows the quantity you currently have on order with suppliers and the **Available** column shows what you would have left should all orders (both customers and suppliers) be fulfilled.

See how much stock you have on hand, what's on order and what's available

Tracking stock in more than one location

If you have stock in a number of locations and want to track what stock you have where, you can set up some very clever systems that gives you full stock reporting in each location. You might want to adapt the finer detail to your particular circumstances, but here's one possible framework to get your started:

1. Go to the **Lists** menu, choose **Custom List & Field Names**, and then choose **Items**. As the **Name of Custom List #1**, type 'Location'.

2. Go to the **Setup** menu, choose **Preferences**, and then click the **System** tab. Mark the **Turn on Category Tracking** checkbox.

3. Go to the **Lists** menu and choose **Categories**. Create a new category for each location where you want to track stock.

4. Go to your **Items List** and adapt all **Item Numbers** so that the last two letters indicate the location (you can see how this might work in the screenshot below). Leave the **Item Name** the same, regardless of the location.

5. Still in your **Items List**, go to the **Item Details** tab and select the appropriate location for each item in the custom lists.

6. In the **Count Inventory** menu, enter stock counts for all items in each location.

© MYOB Technology Pty Ltd

Adapting Item Numbers so that they reflect the location

With this setup complete, you can now proceed to run stock for a number of locations. Here are a couple of examples of how it works:

- When invoicing, pick the correct stock code according to the location (for example, if you're selling goods from the Brisbane location, you select the item with the Brisbane code as part of its **Item Number**).
- If you transfer stock from one location to another, go to the **Inventory** command centre, click **Transfer Inventory** and record a negative quantity for the **Item Number** that relates to the departure location, and a positive quantity for the **Item Number** that belongs to the receiving location.
- By always completing the **Category** field at the bottom of each transaction to indicate what location this transaction took place in, you can generate **Profit & Loss** reports and **Balance Sheets** for each location.
- To print stock reports that are itemised according to location, simply click **Customise** when generating the report and select the relevant location. You can see how this might look in the screenshot below.

You can print reports that group stock by location

© MYOB Technology Pty Ltd

Printing production job sheets

The easiest way to create a job sheet is to create a sales order when jobs are scheduled for production. You can then create a special invoice layout customisation so that the order prints with the information that production require.

To create a sales order, go to the **Sales** window in the same way as you normally would, but select **Order** as the status in the top left corner. (Later, once production is complete, you can change this sale from an order to an invoice.)

Next, go to the **Sales** command centre and click **Print Invoices**, select Item as the **Form Layout**, and click **Customise**. Customise the sales order to include whatever types of information you require and once complete, click **Save As** and save this form with a meaningful name such as 'Job Sheet'.

If you need to generate production schedules in a spreadsheet or database format, you can export details of outstanding orders. To do this, go to the **File** menu, choose E**xport Data**, **Sales**, and then **Item Sales**. Select **Orders** as the **Status**. Note that the **Promised Date** field on your **Item** invoice can be used as the due date for the order, and this information can be exported to your production schedule.

© MYOB Technology Pty Ltd

Inventory adjustments and transfers

However perfect your bookkeeping and administration, from time to time you'll have to adjust quantities on hand or inventory unit costs. The following procedures explain just what to do.

Adjusting for missing or damaged stock

Go to the Inventory command centre, click **Count Inventory**, locate the item for which the quantity is wrong and type the correct quantity in the **Counted** column. The **Difference** column will reflect the quantity you want to adjust.

Click **Adjust Inventory** and you'll be asked for a **Default Adjustment Account**. In most situations, the best way to allow for small stock variations is to create a cost of sales account (5-) called 'Stock Adjustments', but if you're not sure about this, ask your accountant for their opinion.

Click **Continue** to get to the Inventory Adjustment window. All you have to do next is check the **Date** and write a **Memo**, always recording a clear, concise description if you can. Enter job or category information, if required, and click **Record**.

Adjusting the unit costs of inventory items

This scenario is the trickiest of all, and only arises if you know that the average cost of an item is wrong, but that the quantity is correct. Here's what to do:

1. Go to the Inventory command centre and click **Adjust Inventory**. Enter the **Date** along with a concise explanation in the **Memo**.

2. Work out the total adjustment you need to make. For example, if you want to raise the unit cost from $6 to $10 and you have 20 items in stock, you need to make a positive adjustment for $80 ($4 difference x 20). Enter $80 in the **Amount** column, and 0 in the **Quantity** column.

3. Enter job or category information, if required, and click **Record**.

Adjusting the unit cost without affecting the quantity

For all adjustments, you need to select something in the **Account** column. 'Cost of goods sold', 'write-down of obsolescent stock' or 'stock adjustment account' are all likely candidates. Just be careful never to use your inventory account here, as this will throw your inventory out of balance.

© MYOB Technology Pty Ltd

Inventory adjustments and transfers

Creating credit notes when inventory returns to zero

Sometimes, when you try to put a credit note through for inventory items, you will get a message saying that 'The purchase of this item would value your inventory at less than $0.00'.

This message appears because if you want to put a credit note through that will reduce stock levels of that particular item down to zero, the credit note must equal the value that you already have on that stock item. However, prices are always changing, so it is highly probable that the unit cost that comes up in your credit note doesn't equal your existing average unit cost.

Here's what to do to fix the problem:

1 Go to the Inventory command centre, click **Set Item Prices** and then click **Avg Cost**. Note the **Average Cost** for the item you are crediting, down to the last decimal point (if the price is $22.50234, then note this down exactly).

2 Return to your credit note, and use this **Average Cost** as the **Price**.

3 Note the **Total Amount** of this credit note and calculate the difference between this and the total on the credit note you have received. Then click **Record**.

4 You will need to put through an adjustment for the difference. To do this, create a new purchase, click **Layout** and select **Miscellaneous**.

5 Use a cost of sales account as the **Allocation Account**, and write the credit note number in the **Memo** field. Remember to put a minus figure in the **Amount** column if you are doing a further credit adjustment.

Journaling stocktake totals when you don't use inventory

Just because you don't use MYOB's inventory module, doesn't necessarily mean that you don't have inventory (maybe you have an independent Point of Sale system, or you've decided not to track inventory on an ongoing basis). However, you may want to show the value of stock movements on a regular basis, so that your Profit & Loss remains accurate. Here's what to do:

1. First, check out the layout of your **Accounts List**. It is simplest to have only one asset account called Inventory or Stock on Hand, and one cost of sales account called Purchases. (This is preferable to the traditional 'Trading Profit & Loss' format, which includes Opening Stock, Closing Stock and Purchases in the Profit & Loss.)

2. Next, perform your manual stocktake and calculate the value of your stock on hand.

3. Go to the **Accounts** command centre and click **Record Journal Entry**. Give the journal the date of the stocktake and write a detailed **Memo**. Calculate the difference between your opening stock at the beginning of the period and your closing stock at the end of the period. If the value of your inventory has increased, debit Stock on Hand and credit Purchases. If the value of your inventory has decreased, debit Purchases and credit Stock on Hand.

© MYOB Technology Pty Ltd

4. Check that this journal is correct by printing a Balance Sheet for the month in which the stocktake was performed. If the value of your Inventory account equals the value of your manual stocktake, then you know you got the journal right!

You can still adjust for stocktake values, even if you don't use MYOB's inventory features

Incorporating the cost of labour into item costs

The labour question is a little fraught with peril, as by necessity your transactions become complicated. How you account for time spent building items, whether you plan to record standard times or actual times, and whether you choose to include on-costs in your labour price, are just some of the issues you'll have to deal with. You're probably best to consult with your accountant or an MYOB Certified Consultant before embarking on any system that is too complex.

However, here's one possible framework for including labour in your item costs. You can try this method and then adapt it to your particular circumstances:

1 Set up a new item called Labour. Click on **I Inventory This Item**, and link the **Asset Account** for this item to your Production Wages expense account.

2 Do an **Inventory Adjustment** to credit this item with 100 or so units, choosing as your **Unit Cost** the hourly rate, including on-costs such as super.

3 Adjust the Auto-Build information for all items that have a set labour component, showing time taken (in hours) in the **Quantity** column.

4 When you build items, do an Auto-Build transaction as per normal. MYOB will re-allocate the cost of labour, shifting it out of your Production Wages expense account and into the value of inventory.

By the way, to check 'behind-the-scenes' information on any transaction (particularly useful when dealing with complicated inventory adjustments), simply press Ctrl-R (the recap command) while displaying the transaction. You'll see details of all the debits and credits involved.

Incorporating freight into item costs

There are a couple of different ways to incorporate freight or shipping costs into your unit costs, if desired. See the MYOB Software for Wholesalers guide for more details.

© MYOB Technology Pty Ltd

Keeping an eye on costs is essential and you want to make updating prices as easy and as efficient a process as possible. Here's how:

Calculating average and last cost

If you go to the **Set Item Prices** menu in the **Inventory** command centre, you'll notice that you can choose to view items either by **Average Cost** or by **Last Cost**.

Average Cost is calculated by dividing the current inventory value by the number of units in inventory. It's as simple as that! In accordance with Australian accounting standards, MYOB software uses **Average Cost** to calculate the total value of your inventory.

Last Cost is the equivalent of your supplier's list price, and does not include supplier discounts, freight or early payment discounts.

Remember! Be careful when relying on **Average Cost** or **Last Cost** information when setting prices. **Average Cost** includes supplier discounts, but doesn't include GST. **Last Cost** includes GST, but doesn't include supplier discounts. Neither cost includes freight or early payment discounts.

Setting up multiple selling prices

Only MYOB Premier and MYOB AccountEdge allow for multiple selling prices per item. Click the **Selling Details** tab of any item and you'll notice that you can have up to six pricing levels for each item. By default, these levels are labelled A through F, but you can label your pricing levels in whatever way makes the most sense for your business. For example, you might have Retail, Wholesale, Trade 1, Trade 2, Staff and Special as your price levels. That way, you can keep separate selling prices for different types of customers.

It's a good idea to change the price level labels so that they are more meaningful for your business. Go to the **Lists** menu, choose **Custom Lists & Field Names**, and then click the **Price Level** tab.

Setting up price levels and quantity breaks in MYOB Premier and AccountEdge

If you offer discounts for certain quantities, you can set up quantity breaks using the **Quantity Over** field. For example, if you want to create pricing levels for sales of this item in quantities of 25 or more, enter 25 in this field. If you intend to offer further discounts for sales of this item in quantities of 50 or more, enter 50 in the next field.

The last stage of setting up multiple selling prices is to specify what price level each customer belongs to. Go to the **Card File** command centre, click **Cards** and edit your customers one by one. Go to the **Selling Details** tab and select the appropriate **Price Level**.

© MYOB Technology Pty Ltd

Updating prices

To update selling prices, go to the Inventory command centre and click **Set Item Prices**. If you only wish to change a few prices, mark each item you wish to update by clicking against them, then click the **Shortcuts** button. To set new prices for the entire list, just click **Shortcuts**.

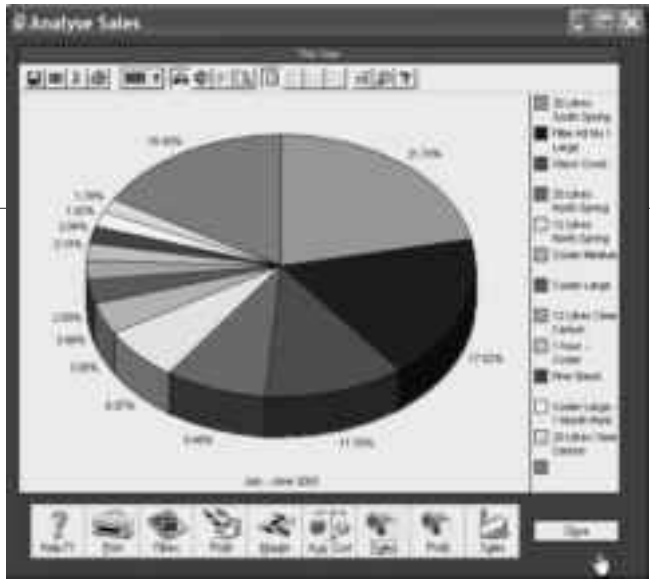
Work through this dialogue box from the bottom up, starting with the **Basis for Calculation**. Choose whether you wish to refer to **Average Cost** or to **Last Cost**, and whether you want to calculate profit based on **Margin**, **Markup** or **Gross Profit**. State whether you want to round prices **Up** or **Down**, or to the nearest specified unit.

The differences between **Percent Margin, Percent Markup** and **Gross Profit** can be confusing. Use **Percent Margin** if you think of profit as a percentage of the final selling price. Use **Percent Markup** if you think of profit as a percentage of the buying price. Use **Gross Profit** if you think of profit as a fixed dollar amount per item.

Analysing profit on each stock line

To see how much profit you're making on each individual stock line, do the following:

1. Go to the **Analysis** menu and select **Sales**.
2. Click **Filters** and select **All Items**.
3. Select your desired date range, and click **OK**.
4. Click the **Profit** button to analyse the profit contributed from each stock line, or click **Margin** to see this as a percentage. Click the **Avg Cost** button to see total sales of each line, along with the number of units sold.
5. Click the graph buttons (**Sales** and **Profit**) to see this information in pictorial format, similar to the screenshot below.



You can analyse sales in many different ways

© MYOB Technology Pty Ltd

Analysing your profitability

One of the fantastic things about MYOB software is that every transaction can be coded in several different ways. For example, in the Spend Money transaction below, the Card shows the name of the supplier; the Acct# field shows the type of expense, the Job column shows the cost centre and the Category shows the location.

You can use accounts, jobs and categories to analyse business profitability

When you first set up your system, it's worth taking some time to figure out how you might take advantage of the job and category features. By analysing how much money you're making (or losing!) on everything you do, you can fine-tune your business to maximise your chances of success.

Analysing profitability by accounts

The first (and possibly the easiest) way to analyse where you make your money is to set up your Accounts List so that it reflects the many activities of your business. For example, if you sell three kinds of products your income accounts might include **Income Product A, Income Product B,** and **Income Product C**. Alternatively, if you deal with different types of customers, your income accounts might include **Income Customer Type A, Income Customer Type B** and **Income Customer Type C**. (Note that it is always good to try and divide your income into several different accounts, rather than lumping it all together as one.)

Analysing profitability by jobs or cost centres

The second way to analyse where you make your money is to divide your business into different cost centres by creating a job for each one. You can then generate a Profit & Loss report for each cost centre, as well as a Profit & Loss report for your business as a whole. Alternatively you can use MYOB Accounting, MYOB Accounting Plus, MYOB Premier and MYOB AccountEdge's categories feature for more advanced cost centre management.

Here are some real-life examples of how manufacturers use job numbers to help them manage their business:

- An established manufacturer sold direct to Australia, France and Canada. By giving each country its own job number, he could see the income and expenses generated from each country.

- A vineyard manufactured both organic wine and organic grape juice. By giving each product a job code and allocating job codes to income and expenses, the vineyard could see how much profit (not just how much income) each product generated.

© MYOB Technology Pty Ltd

- A manufacturer was eligible for an AusTrade export grant that refunded 50% of all marketing expenses that related to exports. By creating a job number for AusTrade, and coding all eligible marketing expenses, he could print a job report that detailed all expenses at the drop of a hat, ready for his annual grant submission to AusTrade.

Jobs can be used creatively to analyse all types of information

Analysing profitability by category or location

If you operate from more than one location, you can use categories to analyse the profitability of each branch. For example, you might have one warehouse in Sydney and another in Melbourne. If you code every transaction with a category that indicates which branch it came from, you can assess the profitability of each branch independently of the other.

To use categories, you need to turn on category tracking. Go to the **Setup** menu, choose **Preferences**, and then click the **System** tab. Mark the **Turn on Category Tracking** checkbox. If you want to be forced to enter a category for every transaction, select the **Categories are Required** option, rather than the **Categories are Not Required** option.

By the way, if you're unsure of whether to use jobs or categories to analyse profitability, bear in mind that you can split a single transaction across several jobs, but you can't select more than one category for a single transaction.

© MYOB Technology Pty Ltd

MYOB software makes accounting for GST about as easy as something so complex could be. So long as you record all your transactions and allocate the right tax code to each one, there's not a great deal that can go wrong. The main thing to remember is to allocate the right tax code when recording transactions. This done, everything else should fall into place.

Recording GST

Whenever you record a transaction, you can choose whether to enter the amount as tax-inclusive or tax-exclusive by toggling the **Tax Inclusive** checkbox in the top right of every window. (When recording payments or receipts in MYOB BusinessBasics and MYOB FirstEdge, you may have to click the **Split** button in order to view this option.)

Usually, you'll find it easiest to mark the **Tax Inclusive** checkbox and enter all amounts including tax. You'll find that the GST calculates automatically and you don't have to go looking up every receipt to double-check the tax total.

You can make life easy for yourself by going to your Accounts List and, one by one, double-clicking each account and checking the linked **Tax Code**. This way, the correct tax codes appear automatically when you record sales, purchases or Spend Money transactions.

Deciding what GST codes you need

Most manufacturers find that they only need six tax codes: CAP; FRE; GST; ITS; N-T and QUE. Importers may also need the additional tax code IMP and exporters need the additional tax code EXP (for more information about these codes, check out the MYOB Software for Importers and Exporters guide).

To review your codes, go to the **Lists** menu and choose **Tax Codes**. Comparing your list with the list shown below, delete any codes you don't need (they'll only serve to cause confusion) and add any codes that are missing. For all tax codes, the **Linked Account for Tax Collected** should be GST Collected from Sales and the **Linked Account for Tax Paid** should be GST Paid on Purchases. Once you're finished, your tax code list should look similar to the one below:

Your tax code list should look something like this

What do the different codes mean? Here's an explanation:

CAP (GST on capital acquisitions)

If you buy new tools, equipment or vehicles that cost more than $1,000 before GST (assuming you're part of the Simplified Tax System) or if you buy any new tools, equipment or vehicles at all (if you're not part of the Simplified Tax System), you need to report these purchases separately on your Business Activity Statement. To do this, you need a separate tax code called CAP. If you're not whether or not you're part of the Simplified Tax System, ask your accountant.

© MYOB Technology Pty Ltd

FRE (GST-free goods and services)

Even if you don't sell any GST-free goods or services, you're bound to end up purchasing GST-free supplies such as bank charges, donations or government charges. If you employ any subcontractors who have an ABN but aren't registered for GST, use FRE as the tax code for their payments.

GST (Goods and Services Tax)

GST is the tax code that you'll use for most sales and purchases.

ITS (input taxed sale)

Use this code for interest and dividend income and rental income from residential property investments.

N-T (not reportable)

N-T stands for not reportable and is the code you use for everything that falls outside the GST net, such as wages; superannuation; loan repayments; bank transfers and personal spending.

QUE (query)

Use the query code whenever you're not sure what code to use. That way, when you get to the end of the quarter, you can print a report for all transactions coded QUE and ask your accountant or MYOB Certified Consultant to give you a hand choosing the correct codings.

Deciding what codes to use when

One of the tricky things when first recording income and expenses is to figure about what tax code to use when. Here are tips to help you out, written especially with manufacturers in mind:

Income

- All taxable items should have GST as the tax code.
- All non-taxable items (food, medical supplies, educational materials, etc) should have FRE as the tax code.
- All exports should have EXP as the code.
- All interest income should have ITS as the tax code.
- If you receive money from a personal source and it isn't really income (for example, a family loan, a gift, a tax refund or a transfer between bank accounts), select N-T as the tax code.

Expenses

- All purchases of taxable items should have GST as the tax code.
- All purchases of non-taxable items should have FRE as the tax code.
- Most expenses should have GST as the tax code, including things such as advertising, electricity, postage and telephone.
- If you're registered for the Simplified Tax System, if you buy new tools or equipment that cost over $1,000, select CAP as the tax code (CAP stands for 'GST on capital acquisitions').

© MYOB Technology Pty Ltd

- If you're not registered for the Simplified Tax System, select CAP as the tax code for all new tools or equipment, regardless of cost.
- Donations should have FRE as the tax code, as should almost all bank charges and interest expense. However, watch out, as merchant fees should have GST as the tax code.
- Hire purchase and lease payments depend on what you're paying off, when you bought it and how your accountant intends to treat it. Ask your accountant.
- Insurance is tricky, because almost every insurance policy is a mixture of taxable and tax-free (stamp duty doesn't have GST on it). Enter QUE as the tax code for insurance expense, then double-check the exact amount of GST on every insurance payment when you record it.
- Milk, tea, coffee and some first aid supplies should have FRE as the tax code.
- Residential rents should have ITS as the tax code, commercial rent should have GST as the tax code.
- Domestic travel should have GST as the tax code, overseas travel should have FRE as the tax code.
- Government charges are almost all GST-free, and include licence renewals, motor vehicle registration, council rates, water rates, land tax and stamp duty

Private expenses

- Private expenses should have N-T as the tax code, as should wages and superannuation.

© MYOB Technology Pty Ltd

Budgeting for tax

One of the harder aspects of running your own small business is keeping track of how much tax you owe, and making sure that you have sufficient funds available when tax bills fall due.

Fortunately, MYOB has developed the M-Powered® MoneyController service which helps you save for your tax bills.

Created in partnership with Macquarie Bank, M-Powered MoneyController can help you better manage your cashflow, by assisting to provide for your business's tax obligations and investing any surplus cash you may have:

- Analyse your current tax and payroll obligations.
- Securely transfer funds from your everyday business account to a high-interest MoneyController Provision Account straight from your MYOB software.
- Make ATO payments from your Provision Account with Macquarie Bank.
- Analyse your business's investment capacity.
- Transfer surplus cash into a high-interest MoneyController Investment Account with Macquarie Bank.

To find out more about M-Powered MoneyController and to read the Product Disclosure Statement, simply visit **www.myob.com.au/m-powered/** .

Alternatively, you can use the MYOB software's financial reports to help you budget for tax, avoiding any nasty surprises. The best way to avoid getting in a pickle with GST and employee tax is to open a savings account that links to your business cheque account, so that you can transfer money between accounts easily by phone or over the internet.

This done, try to keep your accounts right up-to-date and then at the end of every week, do the following:

1. Print your GST [Summary - Accrual] or GST [Summary - Cash] report (depending on whether you report on an accrual or a cash basis). The difference between Tax Collected and Tax Paid is the amount of GST you owe the tax office.
2. Next, if you have any employees, print a Payroll Register Summary report and note down the totals for tax and superannuation.
3. Add together the GST, tax and superannuation and transfer the total of these three amounts into your savings account.
4. Finally (and this is the tricky bit!), don't touch your savings account except for when it's time to pay your Business Activity Statement or superannuation.

Print a GST Summary report regularly to help you budget for tax

© MYOB Technology Pty Ltd