

How to Record Opening and Closing Stock

By using Opening \ Closing journals you can accurately record the amount of stock used in the relevant period.

If there are no journals posted, when you run a Profit and Loss report any purchases made for the period are deducted from the sales to give a Gross Profit figure which does not take into account any unsold stock.

To ensure that the Profit and Loss report records the correct value of stock used within a period, opening and closing stock journals need to be entered in the program.

This article contains the following sections:

Cost of Sales Calculation – This section shows how the cost of sales is calculated.

Nominal Codes – This section lists the nominal codes which should be used when posting opening and closing journals for stock.

Monthly Postings – This section explains how the monthly opening and closing stock journals should be recorded.

Month 2 and subsequent months postings – This section shows the journals that should be entered for month 2 and following months.

Nominal Codes at year end – This section explains what happens to the nominal codes when the year end is run.

Common Scenarios – This sections describes some common scenarios and how to deal with them.

Cost of Sales Calculation

Cost of Sales represents the financial cost to the business of the goods sold in a period, and is calculated as follows:

$$\text{Opening stock} \textit{ plus} \text{ Purchases} \textit{ minus} \text{ Closing Stock}$$

This appears on the profit and loss as part of the **Purchases** section, and is achieved by posting a series of journals between various nominal codes.

Nominal Codes

The following nominal codes should be used:

1001 - Stock Asset Account

This is a **balance sheet** account and shows the value of the stock held; it is an asset account and should normally have a *debit* balance.

5200 - Opening Stock Account

This is a **profit and loss** account. It holds the opening stock journalled from the stock asset account at the start of the year; it should be a *debit* balance which remains the same all year.

5201 - Closing Stock Account

This is a **profit and loss** account. At the start of any period (not including month 1) the balance on the stock asset account is moved to the closing stock account and then at the end of the period the new closing stock balance is moved from this account to the stock asset account. The monthly balance left on this account is the stock value at the start of the month less the stock value at the end of the month, or the value of the stock used in that particular period.

Monthly Postings

The monthly opening and closing stock journals should be recorded as follows:

Month 1 postings

| | | | | | |
|------------------------|----|---|------|---|----------------------|
| Start of Month: | Dr | - | 5200 | - | opening stock figure |
| | Cr | - | 1001 | - | opening stock figure |

This moves the balance of the stock from the balance sheet asset account to the opening stock on the profit and loss; there are no further postings during the year to nominal code 5200

| | | | | | |
|----------------------|----|---|------|---|------------------------------|
| End of month: | Dr | - | 1001 | - | month 1 closing stock figure |
| | Cr | - | 5201 | - | month 1 closing stock figure |

This moves the closing stock for the month back on to the balance sheet as an asset, the profit and loss accounts 5200 and 5201 show the movement for stock for the month, e.g. the opening less the closing stock

Month 2 and subsequent months postings

Start of Month: Dr - 5201 - closing stock figure from previous month
Cr - 1001 - closing stock figure from previous month

This moves the value of the stock out of the asset account and back on to the profit and loss

End of month: Dr - 1001 - closing stock figure for current month
Cr - 5201 - closing stock figure for current month

This moves the closing stock figure for the month back onto the balance sheet as an asset.

The Profit and Loss now shows the MTD figure of the opening stock for the month less the closing stock for the month, or the movement for the month.

The Profit and Loss YTD figure is the balance of the opening stock for the year plus / less any movement in stock for subsequent months.

Nominal codes at the year end

At Year End there will be a balance on:

1001 – Balance sheet asset account

This is the stock closing balance at the end of the year. It is a balance sheet account and is not cleared by the Year End option. In the new year the balance on this account is the opening stock balance.

5200 – Profit and Loss Opening Stock Account

At the year end the balance on this account is still the opening balance from the start of the year. This is a profit and loss account and is zeroed at the year end.

5201 Profit and Loss Closing Stock Account

At the year end the balance on this account is the sum on the monthly stock movements. This is a profit and loss account and is zeroed at the year end.

5200 and 5201 – Effect of these accounts being cleared at the year end

The sum of the values cleared from these two accounts at the year end is the opening stock for the year less the monthly stock movements; this gives the stock usage for the year, for example:

If the opening stock for a year is **1000** and the monthly stock movements are:

Month 1 (100) - **Stock Out**
Month 2 (200) - **Stock Out**
Month 3 600 - **Stock In**
Month 4 (400) - **Stock Out**

The sum of the months is (100) which gives a final stock figure of **900**

Common Scenarios

What should I do if I have not entered stock journals and want to start now?

You will require an opening stock figure which should have been entered as part of the opening Trial Balance. If you do not have this figure you must obtain it.

To enter the figure use the o/bal button on the Nominal Record, this posts the opposite entry to the Suspense nominal code and you can follow the Opening / Closing Stock journals as normal.

What should I do if there was no opening stock, but I have subsequently purchased stock and want to enter it?

You do not need to enter an opening stock figure, as you did not have any opening stock.

You should now:

- Record any purchases made during the month by posting purchase invoices.
- Then follow the Opening / Closing Stock journals as normal.

What if I only want to post opening / closing stock journals and the beginning and end of each year?

Post the following journals:



At the beginning of the year

Dr - 5200 opening stock balance for the year
Cr - 1001 opening stock balance for the year

At the end of the year

Dr - 1001 closing stock figure for the year
Cr - 5201 closing stock figure for the year

Author: Sage 50 Support Team
Product & Version: Instant V15, V16. Sage 50 V2009, V2010, 2011
Revision Date: Sep 2010
Publication Number: N1145