

CHAPTER 9: RETURNS MANAGEMENT

Objectives

The objectives are:

- Defining Sales Return Management
- Setting up Returns Management
- Managing Returns from Customers
- Managing Returns to Vendors

Introduction

Sales returns management is an important part of superior customer and vendor relationships because timely repair, replacement of damaged items or crediting for returned items are perceived as a part of good customer service.

The key feature of the return functionality of Microsoft Dynamics™ NAV includes managing returns from customers and vendors.

Comprehensive demonstrations and examples are used throughout the chapter to explain how companies manage the tasks involved in return-related processes. For an overview of procedures associated with handling specific return-related tasks, refer to the respective topic in online Help.

Sales Return Management

From the company's perspective, the internal handling of return-related processes can seem extensive. In most cases, companies' processes include (but are not limited to):

- Adjusting customer (and vendor) balances
- Accounting for additional costs
- Updating inventory quantities and values
- Inspecting returned items
- Sending returned items to the vendor for repair

The scope of these processes depend on a variety of factors, such as:

- The customer's request
- Reason for return
- Item type and value
- Causes of damage
- Practices common in a specific line of business

The handling of these processes involves different tasks that are performed by various groups of employees: Order processors, warehouse workers, bookkeepers, purchasing agents, and inspectors. Although logically related, the tasks are not operationally dependent. For example, the replacement for a damaged item can be shipped to a customer before the damaged item is returned. Similarly, a customer can be credited for a returned item before the company inspects and approves the return.

In such a multi-process environment, the challenge is to ensure that all return-associated processes are completed in a timely manner and errors are easily recovered. Because of the complexity and scope of return-related processes, a company's costs can be significant. To control costs, companies must optimize their return management processes.

The Sales Return Order Management and the Purchase Return Order Management functionality offer a solution to help companies achieve responsive customer service by implementing cost-efficient customer and vendor return policies. The application is characterized by the following key features:

- Rapid response to customers' requests
- Flexibility
- Traceability and overview
- Automation of the return to vendor process

Personnel responsible for the customer interface can register the details of an agreement with the customer about the return and information relevant to handling the return with one entry point.

The application enables several return-related tasks to be performed at the same time. This gives priority to handling customer-oriented processes. (An activity diagram with an overview of the processes and their relationship is presented at the end of this chapter.) The program can handle sales return processes in different business environments.

The program provides full document traceability for an overview of the sales return history. This becomes important for customer inquiries and internal follow-up purposes. If companies handle items with warranties provided by vendors (a sales return with a return to vendor process), the program offers functionality that automates creating all relevant documents.

From version 5.0 and onward the application offers a more intuitive user interface for cost reversal during returns.

Setting Up Returns Management

The setup of returns management consists of two elements:

- **General setup.** The setup of the Sales Return Order Management and the Purchase Return Order Management functionality is defined by several fields on Sales & Receivables Setup and Purchases & Payables Setup.
- **Return Reasons setup.** A company can set up codes that specify the reasons for returning items. These apply to both customer and vendor returns. The user can select a return reason code when registering the agreement about a sales/purchase return in most sales/purchase documents.

General Setup

The setup of Sales Return Order Management is a part of the Sales & Receivables setup.

1. From the Sales & Marketing menu, click **SETUP→SALES & RECEIVABLES SETUP**.

Four fields on the **General** tab define the sales return management setup:

- **Return Receipt on Credit Memo**
- **Copy Cmts Ret. Ord. to Cr. Memo**
- **Copy Cmts Ret. Ord. to Ret. Rcpt**
- **Exact Cost Reversing Mandatory**

Selecting **Return Receipt on Credit Memo** automatically creates return receipt documents when a sales credit memo is posted. This field is clear if a company has not purchased the Sales Return Order Management functionality and uses the credit memo functionality.

The **Exact Cost Reversing** field defines whether a company wants to apply an exact cost reversing policy when processing inventory increases represented by the sales returns. (Companies generally implement the exact cost reversing policy by requiring that the sales return is valued at the same cost as the original sale when put back in inventory. If an additional cost is later added to the original sale, the program updates the value of the sales return.) Selecting this field indicates that the program prohibits a return transaction to be posted unless the **Appl.-from Item Entry** field on a corresponding order line contains an entry.

Instead of manually filling in the **Appl.-from/to Item Entry** fields for cost reversing, the Copy Documents function can be used to fill in the fields. After version 5.0, a new user interface is provided for the task of selecting one or more posted document lines for exact cost reversal.

The setup of Purchase Return Order Management is part of the general Purchases & Payables setup.

2. From the Purchase menu, click **SETUP→PURCHASES & PAYABLES SETUP**.

Four fields on the **General** tab define the purchase return management setup:

- **Return Shipment on Credit Memo**
- **Copy Cmts Ret. Ord. to Cr. Memo**
- **Copy Cmts Ret. Ord. to Ret. Shpt**
- **Exact Cost Reversing**

Setting Up the Return Reason Codes

Companies set up return reason codes to distinguish return situations encountered when dealing with customers and vendors. Because a return reason is copied to the item ledger entries, companies may use it for statistical purposes when evaluating their performance toward a customer or assessing their relationship with a specific vendor.

Cronus has set up six return reason codes.

1. From the Sales & Marketing menu, click ORDER PROCESSING→SETUP→RETURN REASONS. The **Return Reasons** window is displayed.

In addition to setting up the return reasons code and its description, companies can also link a default location code to it. This ensures that items returned because of a specific reason are, by default, always received and shipped from this location.

For example, companies may want to store items meant for repair in a dedicated position in a warehouse. This position can be set up as a location in the program to which all items to be repaired will be received and from which they cannot be sold. Similarly, special locations can be set up for damaged/defective items.

Cronus has decided to create a new location called Repair and set it up as the default in relation to S-REPAIR return reason code.

2. Create a new location card (location code REPAIR) and select as a default location for S-REPAIR code.

Selecting the **Inventory Value Zero** field indicates that the program automatically values inventory increases, such as sales return orders or purchase orders, at zero cost. This is relevant for customer item repairs.

Because the item is the customer's property, it is not included in the inventory value. Therefore, it makes sense to associate the option of valuing inventory at zero with the return reason code of Repair.

3. Select the **Inventory Value Zero** field.

NOTE: If an item's costing method is set up as Standard, it means the inventory increase is valued at a budgeted (standard) cost instead of at an acquisition cost, and the program ignores the **Inventory Value Zero** field.

Managing Returns from Customers

Compensating a dissatisfied customer is a necessary and important transaction. The faster and more accurately a company performs the return process, the more likely the company is to enhance the customer's perception of good customer service.

Typically, the order processor responsible for the interface with customers is also the person to receive complaints from customers about the items sold. In other cases, a company may have a dedicated person(s) dealing with returns, such as employees in the customer service department.

Managing returns from customers includes completing a series of tasks. The number and scope depends on a company's return policy and business practices. A customer-oriented return handling process may include the following tasks:

- Registering a compensation agreement with the customer
- Shipping a replacement item(s) to the customer (if replacement is part of the compensation agreement)
- Crediting the customer (either by a credit for physically returned items or a sales allowance where the customer is not required to physically return the items)
- Shipping a repaired item(s) to the customer (if repair is a part of a compensation agreement)
- Following up on the return status (if there are customer inquiries)

Related to the customer-oriented process, there are several internal handling tasks:

- Receiving returned items and inspecting them (if relevant)
- Applying restock charges
- Using the cost reversal process
- Shipping returned items to the vendor for repair
- Ensuring the accurate inventory value is set for the returned items

Sales Return Order Management in Microsoft Dynamics NAV enables companies to manage all these tasks in an efficient and accurate manner.

This section explains and illustrates handling of these processes in Microsoft Dynamics NAV using Cronus as an example.

Registering a Compensation Agreement with Customers

There are various ways to compensate a customer who is dissatisfied with the order delivery. The terms of a compensation agreement between the company and the customer frequently depend on the stated reason for return and the company-customer relationship. For example, the parties may agree that for wrongly ordered items, the customer returns them to the company against a credit, receives replacement items, and accepts that the company charges a certain restock fee.

In other situations, for example, where an item arrives at the customer slightly damaged, the customer may agree to receive a price deduction against the original sales order price. Meanwhile, where the sold item has a warranty, the company may offer the customer to take the malfunctioned/broken item in for repair.

In Microsoft Dynamics NAV, the sales return order is the central document that lets the user register an agreement with a customer. From here, the user can access other sales-related documents and enter and maintain the return-related information, the method of compensation, and the items in question.

The user can create return lines of different types to register aspects of a compensation agreement in the same return order. In return situations:

- Item type line represents a transaction where the item is physically returned to the company before the customer receives a credit.
- Charge (Item) and Account (G/L) type lines represent a financial transaction where a customer receives a credit (in the form of a sales allowance) for the item(s), without physically returning it to the company. The same type lines can be used for registering charges and fees associated with a return.

NOTE: To register details about a compensation agreement, the user can employ other standard documents (or combinations of them) in Microsoft Dynamics NAV. These documents are as follows: Sales credit memos, sales orders, and sales invoices.

In the return order/credit memo, a return transaction is expressed as a line with a positive quantity. In the sales order/invoice, a return is represented by a line with negative quantity. Refer to the example illustrating this principle in the topic titled "Sales Return Order" in online Help.

When deciding on which document to use as a preferred entry point for a compensation agreement, the user must be aware that, compared to a credit memo/invoice (where posting updates both quantity and value at the same time), the return/sales order can separate the quantity and value parts of the transaction. Therefore, companies where this flexibility is important may prefer using a return order instead of a credit memo.

In the sales return order, the user can create other return-related documents. These include a replacement sales order, and, where return to vendor is required, a purchase return order and a replacement purchase order.

The following demonstrations illustrate the handling of a situation involving a sales return and a sales allowance, and another where an item must be sent to the vendor for repair.

Demonstration – Using Sales Return and Sales Allowance

A representative from customer 10000 calls the order processor at Cronus and says that he received five units of item 70011 instead of item 70010 and that two units of item 1964-W were delivered damaged. The customer explains that the wrong delivery of item 70010 was his own fault, while item 1964-W appeared to have been damaged during shipment.

The order processor and the customer agree that item 70011 must be returned to Cronus and a replacement of the same quantity of item 70010 will be shipped to the customer. Cronus will charge the customer a restock fee of 5% of the original order amount.

Meanwhile, item 1964-W will not be returned, and Cronus will provide the customer with a sales allowance of 15% off the price of the item.

The order processor must register the compensation agreement that has been reached with the customer and process the return. The order processor must also make sure that the returned items, when put back on stock, are valued at the same unit cost as originally sold (according to Cronus internal policy about the inventory valuation).

The order processor must register the compensation agreement settled with customer 10000 about the return of a wrongly ordered item.

Steps

Create a sales return order for five units of item 70011 from customer 10000.

1. From the Sales & Marketing menu, click ORDER PROCESSING→RETURN ORDER. Press F3 to create a new order and enter the customer information in the return header.
2. Enter the item information and quantity on the line.

For each return line, the user can specify the reason for returning the item(s) by filling in the **Return Reason** field.

3. In the **Return Reason** field, click the **AssistButton**. The **Return Reasons** window appears.
4. Select WRONG as the return reason code and then click **OK**.

5. In the **External Document No.** field, enter SR024. This is the number that is used as a reference to the return document.

Entering an external document number is important for an overview of the return status. External document numbers help locate the sales documents created for a specific customer return.

The completed sales return order for the return of wrongly ordered item 70011 now looks as shown in Figure 9-1.

Type	No.	Description	Return Reason Code	Location	Quantity	Unit of M...	Unit Pric...
Item	70011	Glass Door	WRONG	BLUE	5 PCS	72.30	

FIGURE 9-1: SALES RETURN ORDER WINDOW

Using the Copy Documents Function

To fill in the return lines automatically, use the Copy Document function to copy information about the customer and the item from other documents. For sales returns, these documents can be either posted shipments or posted invoice documents.

If the **Exact Cost Reversing** field on the sales & receivables setup is selected, when the user copies information from a posted shipment, the program automatically fills in the **Appl.-from Item Entry** field on the return line with the corresponding entry.

Demonstration Continued

When entering a sales return line, the order processor must make sure that upon invoicing the order, the returned item is revalued at the unit cost of the original sales (instead of at the unit cost suggested by the program as based on either average or standard unit cost).

To do this, the order processor must assign exact cost reversing to this return line.

6. In the **Appl.-from Item Entry** field, click the **AssistButton**. The **Item Ledger Entries** window appears.

The window contains a list of records of all the negative entries made for the item in question.

7. In the **Item Ledger Entries** window, select the line. This is the entry representing the sales order that customer 10000 refers to as the one with the incorrect items. Click **OK**.

This finishes registration of the first part of the compensation agreement.

New User Interface

After version 5.0, a new user interface is provided for the task of selecting one or more posted document lines for exact cost reversal. Instead of using the Copy Documents function and the **Appl.-from Item Entry** field to look up the posted sales document lines, do the following:

8. From the Sales Return Order, click Functions and then Get Posted Document Lines to Reverse. This opens the Posted Sales Document Lines window.
9. Select the posted sales document line for item 70011 and pres **Enter**.

Document No.	Posting Date	Type	No.	Description	Unit of Measure	Quantity	Qty. Not Returned	Qty. Returned	Unit Cost (LCY)	Reverse Unit Cost (LCY)	Line Amount
103001	01/21/08	Resource	TIMOTHY	Assembling Furniture, Jan...	HOUR	25	0	0	31.90	0.00	1,350.00
	01/21/08	Resource	TIMOTHY	Assembling Furniture, Jan...	MILES	120	0	0	31.90	0.00	6,480.00
103005	01/06/08	Item	1968-S	MEXICO Swivel Chair, black	PCS	5	5	0	96.10	96.10	616.50
	01/06/08	Item	1996-S	ATLANTA Whiteboard, base	PCS	7	7	0	707.20	707.20	6,346.90
103018	01/16/08	Item	1964-W	INNENBRUCK Storage Unit/...	PCS	10	10	0	171.20	171.20	2,920.00
103023	01/24/08	Item	70010	Wooden Door	PCS	5	5	0	26.50	26.50	260.50
103024	01/24/08	Item	70010	Wooden Door	PCS	5	5	0	26.50	26.50	260.50
103025	01/24/08	Item	70011	Glass Door	PCS	5	5	0	36.90	36.90	361.50

FIGURE 9-2: POSTED SALES DOCUMENT LINES WITH THE POSTED SHIPMENTS VIEW

10. Enter the line in the **Sales Return Order** window together with some comment lines with additional information about the related posted invoice and shipment. This makes keeping track of the related documents in the returning process easier.

The new Posted Sales Document Lines function is available from return orders and credit memos on both the sales and purchase site. The function is especially useful when users need to copy one or more lines that appear in one or more posted documents.

The new window provides rich information about the status of posted quantities, displaying, for example, whether any have already been returned. It also contains the following:

- The **Unit Cost (LCY)** field, showing the current, potentially adjusted unit cost
- The **Reverse Unit Cost (LCY)** field, showing the original unit cost at which the item was originally sold and at which it must be reversed

At the top of the **Posted Sales Document Lines** window, users can place a check mark in the **Show Reversible Lines Only** field to see only lines with quantities that have not yet been returned.

The new field **Qty. Not Returned** is implemented in the item ledger entry table where the reversible quantity of an outbound item ledger is stored. The program will check during the posting of return orders that only the quantity remaining in relation to the original sales document line can be reversed. This ensures that users do not mistakenly return more than what was sold.

According to the demonstration "Sales Return and a Sales Allowance," the customer also requested a replacement of item 70011 with item 70010. The order processor can register this requirement in the sales return order by entering a line for the replacement item with a negative quantity.

11. In the Sales Return Order window, enter a line for item 70010 with a quantity of -5.

The advantage of doing this in the **Sales Return Order** window is that the order processor can register the customer's requests to receive a replacement in one window, instead of opening a new **Sales Order** window.

NOTE: To avoid confusion, remember that the sales return lines (of the item type) with positive quantities represent items that are being returned, while lines with negative quantities represent items that are to be replaced.

Next, according to the compensation agreement, the order processor applies a 5% restock fee to cover the physical handling of returning the item. The order processor can do this in the same sales return order by creating a charge (item) line for sales restock charge:

12. In the **Type** field, select Charge (Item) and in the **No. field**, select S-RESTOCK.
13. In the **Quantity** field, enter 5. In the **Unit Price Excl. VAT** field, enter -3.615. This is 5% of 72.30 LCY, which is the original unit price. (You can also enter a formula $72.30 * 5 / 100$ to calculate the amount.)

The program calculates the total restock fee amount equal to 18.08 LCY ($5 * 3.615$). Remember that the quantity of the restock charge must be positive. But the unit price must be negative for the customer to pay the restock charge.

1001 The Cannon Group PLC - Sales Return Order

General Invoicing Shipping Foreign Trade

No. 1001 Posting Date 01/24/08
Sell-to Customer No. 10000 Order Date 01/24/08
Sell-to Contact No. CT000001 Document Date 01/24/08
Sell-to Customer Name The Cannon Group PLC External Document No. SR024
Sell-to Address 192 Market Square Salesperson Code PS
Sell-to Address 2 Campaign No.
Sell-to Post Code/City B27 4KT Birmingham Responsibility Center BIRMINGHAM
Sell-to Contact Mr. Andy Teal Assigned User ID
Status Open

Type	No.	Description	Return Reason Code	Location ...	Quantity	Unit of M...	Unit Pric...	Line Amount ...
Item	70011	Glass Door	WRONG	BLUE	5	PCS	72.30	361.50
Item	70010	Wooden Door		BLUE	-5	PCS	52.10	-260.50
Charge (Item)	S-RESTOCK	Sales Restock Charge		BLUE	5		-3.615	-18.08

Ret. Order Line Functions Posting Print... Help

FIGURE 9-3: SALES RETURN ORDER WINDOW

To guarantee accurate sales statistics, the order processor assigns the restock charge to the return entry.

14. Select the sales restock line, and then click LINE→ITEM CHARGE ASSIGNMENT.

Assign the restock charge to the entry being returned.

15. In the **Item Charge Assignment (Sales)** window, on the first line in the **Qty. to Assign** field, enter 5.
16. Close the window.

NOTE: *As an alternative to creating a charge (item) line, the order processor can create an account (G/L) line for the amount of the restock fee and post the entry directly to the G/L account. However, the advantage of using an item charge is that item statistics are updated correctly.*

The order processor must record the agreement with the customer about the provision of a sales allowance of 15% for two units of the damaged item 1964-W. The sales return order can be used as an entry point for the details of this agreement. (An alternative entry point for a sales allowance is a sales credit memo.) The order processor must create a charge (item) line and assign the corresponding charge amount to the original sale of item 1964-W.

17. Create a charge (item) line. Select sales allowance as the item charge number. (Add extra information about this allowance in the **Description** field if desired.)
18. In the **Quantity** field, enter 2. This is the number of items that arrived damaged to the customer and for which the order processor provides an allowance.
19. Click **LINE→ITEM CHARGE ASSIGNMENT**.

Select the original sales entry receiving the allowance. This is represented by the posted shipment documents.
20. In the **Item Charge Assignment (Sales)** window, click **FUNCTIONS→GET SHIPMENT LINES**. The program lists all posted shipment lines related to the customer.
21. Select the shipment line for item 1964-W and then click **OK**.
22. In the **Item Charge Assignment** window, in the **Qty. to Assign** field for the shipment line, enter 2. Close the window.
23. In the **Sales Return Order** window, in the **Unit Price Excl. VAT** field, enter 43.80. This is 15% of 292.00 LCY, which was the original unit price at which the item was sold to the customer. (You can also enter a formula 292*15/100 to calculate the amount.)

The order processor finishes registration of the compensation agreement settled with the customer and continues to the processing of the return.

Demonstration – Processing the Sales Return

After the order processor registers the details of the compensation agreement in the program (in the sales return order), the next task is to actually perform the agreement. In the demonstration "Sales Return and Sales Allowance," this means that Cronus must:

- Ship the customer a replacement item
- Credit the customer for the returned items upon receipt at the company (with deduction for the restock charge)
- Provide a sales allowance for the items the customer is not required to return to Cronus

Unless the total order amount is negative, all the procedures can be performed at the same time, when the user posts the sales return order. However, if for example the replacement order needs to be shipped without waiting until the returned items are received, then the replacement line(s) (lines with negative quantities) can be moved to a regular sales order.

When a replacement is posted from the return order, the program does not create a separate posted shipment document for this shipment.

NOTE: Remember that the program does not allow posting of any orders with a negative total amount. According to general conventions in the program, the warehouse management functionality does not handle negative lines. For the warehouse, it does not make sense to pick a negative quantity. Therefore, when you are using warehousing, you must move negative lines to documents where they appear positive.

Suppose that in the demonstration "Sales Return and Sales Allowance" the order processor decides to move the negative line (representing a demand for a replacement) to a separate sales order. The **Move Negative Lines** function is a convenient way to do this task.

Steps

Perform the following to move the line:

1. In the **Sales Return Order** window, click **FUNCTIONS→MOVE NEGATIVE LINES**. The following window appears:

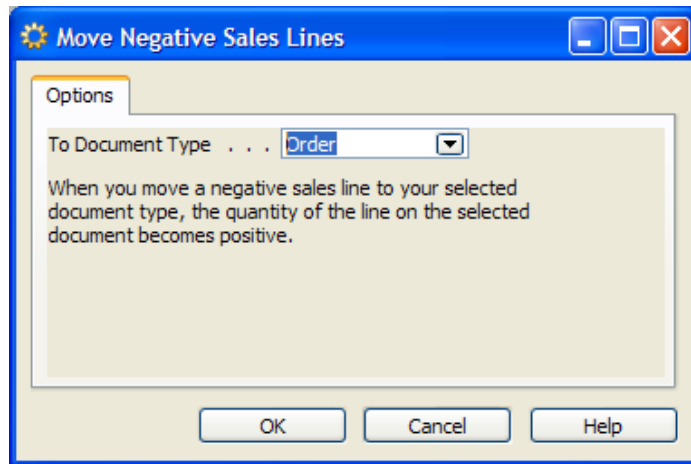


FIGURE 9-4: MOVE NEGATIVE SALES LINES WINDOW

In the **To Document Type** field, select which document type to receive the negatives lines. To learn about different options, refer to the topic "Move Negative Sales Lines Batch Job" in online Help.

2. In the **To Document Type** field, select **Order** and then click **OK**.

The program deletes the return line with the negative quantity and creates a new sales order. A message providing the new sales order number appears.

3. Click **Yes** to view the document.

The order can be processed in the usual manner.

4. Post the sales order.

Upon receipt of the returned item, the order processor posts the sales return order which creates the customer's account for: A) the value of returned item 70011, with a deduction of the restock charge; and B) the amount of the sales allowance provided for two damaged units of item 1964-W.

5. Post the sales return order.

The program creates a posted return receipt and a posted credit memo.

For an overview of a sales return status, the order processor can use the navigate function to find and access the sales documents created for the return. The external document number, provided by the customer as a reference to the return document, can be used as a search parameter.

View the status of the sales return initiated in the demonstration, "Sales Return and a Sales Allowance":

6. From the Sales & Marketing menu, click HISTORY→NAVIGATE. Click the **External** tab.

7. In the **Business Contact Type** field, select Customer, and in the **Business Contact No.** field select 10000. In the **Document No.** field, enter SR024. Click **Find**.

The program lists all the sales documents created to process the sales return initiated by customer 10000. These are the posted sales shipment and invoice for the replacement sales order and the posted return receipt and credit memo for the sales return order.

The next demonstration illustrates a situation where the customer returns an item to Cronus for repair at the company's vendor.

Demonstration – Returning Items for Repair at Vendor

A representative from customer 20000 calls the order processor at Cronus stating that she wants to return two units of item 80102-T ordered some time ago. The customer claims the items have a manufacturing defect and wants the items repaired.

The order processor and the customer agree that the items must be returned to Cronus, and Cronus will send them to the manufacturer for repair.

The order processor must register the compensation agreement and process the return.

Create a purchase order of 40 units of item 80102-T from vendor 50000 and a sales order of eight units for customer 20000. At Cronus, this item is tracked by serial numbers that are provided by the manufacturer (S/N-852CA1 .. S/N-852CA40 when purchased, S/N-852CA10 .. S/N-852CA17 when sold). The detailed procedures for handling items with serial numbers are described in the Inventory Management training manual.

Steps

Create a sales return order for two units of item 80102-T for customer 20000.

1. Fill in the sales return header and lines with the customer and item information respectively.

Because the item will be repaired at the vendor (manufacturer), the customer keeps the ownership of the item during the repair process. In this case, Cronus must exclude the item value from its own inventory value.

To do this, all the transactions with this item, such as receiving it at the company, shipping it to the manufacturer, and receiving it back and shipping it back to the customer, are performed with zero unit cost and unit price.

Instead of entering a zero amount in the **Unit Cost (LCY)** and **Unit Price Excl. VAT** fields manually on the sales return lines, the order processor may use the functionality available in the program to automate the process.

As described in the previous section, at Cronus, the option of valuating inventory at zero when handling returns for repair is linked to the return reason S-REPAIR. By selecting this return reason, the order processor accepts the option.

2. In the **Return Reason** field, select the S-REPAIR code.

The program automatically fills in the **Location Code** field with REPAIR, which is a default location for this return reason code

3. In the **External Document No.** field, enter R0015.

The completed sales return order of item 80102-T for repair looks as shown in Figure 9-5.

FIGURE 9-5: SALES RETURN ORDER WINDOW

Notice that the **Unit Price Excl. VAT** field does not contain an amount.

To continue with this return, several documents related to returning this item to the manufacturer and shipping it back to the customer upon repair must be created. These documents include:

- Purchase return order
- Purchase order
- Sales order

The handling of the sales returns for repair with regard to associated documents is shown in Figure 9-6.

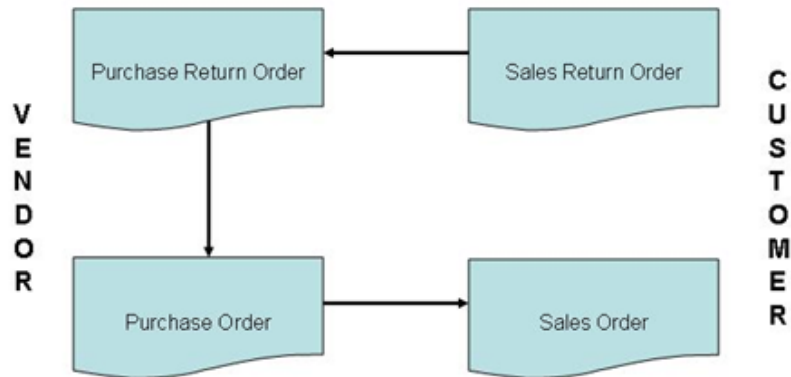


FIGURE 9-6: SALES RETURN DOCUMENTS

The function **Create Return-Related Documents** enables the order processor to create all these documents automatically.

4. In the **Sales Return Order** window, click **FUNCTIONS→CREATE RETURN-RELATED DOCUMENTS**. The following window appears:

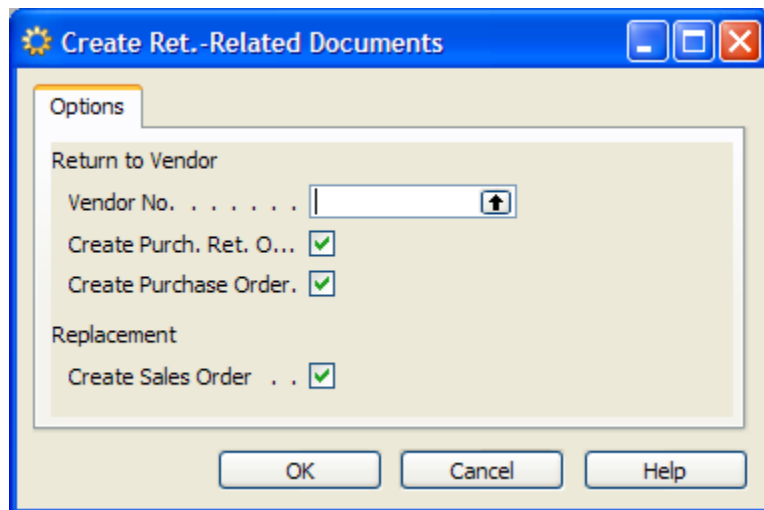


FIGURE 9-7: CREATE RETURN RELATED DOCUMENTS WINDOW

In this window, users can select which documents that they want the program to create to further handle the return. The user has the option of creating a purchase return order and a purchase order if the items are returned to and received from the vendor. The user can also create a replacement sales order. To create vendor-related documents, specify a vendor number.

5. In the **Vendor No.** field, select vendor 50000. Click **OK**.

The program creates the specified documents and lists them in the **Returns-Related Documents** window.

Purchase return orders and purchase orders with status Open indicate that the purchasing agent can initiate the return to vendor/purchase replacement process.

When the items arrive at Cronus, the order processor/warehouse worker enters the serial numbers (S/N-852CA15 and S/N852CA16).

Register the serial numbers for the arrived items in the **Item Tracking Lines** window, and post the receipt of the return order.

Lab 9.1 – Processing the Customer Return

Scenario: A representative from customer 10000 calls the order processor at Cronus and says that the complete delivery of 50 units (boxes) of item 80100 appears to be defective.

The order processor and the customer agree that the complete quantity of item 80100 must be returned to Cronus, and a replacement of the same quantity will be shipped to the customer. The customer gives the order processor a reference number to his own return document, which is R-0113.

To perform this return, create and post a sales order of 50 units (boxes) of item 80100 to customer 10000. Use location code Green, and remember to fill in the quantity to ship.

Challenge Yourself!

Your tasks are as follows:

1. Register the compensation agreement reached with the customer, using a sales order as an entry point.
2. Process the return, in terms of:
 - Receiving (possibly, use a special dedicated location for defective items) and crediting the customer for the returned items.
 - Ensuring that the returned items, when received from the customer, are valued at the same unit cost as originally sold (instead of the average cost).
 - Shipping the replacement sales order to the customer.
 - Creating a return-related document, which is a purchase return order, to indicate to the purchaser that a return to vendor process must be initiated.

Need a Little Help?

The solution is provided in Appendix C.

Managing Returns to Vendors

Receiving compensation from a vendor for an item you are dissatisfied with is important to recover costs and measure vendor relationships. Streamlining the return to vendor process helps companies greatly reduce the costs associated with returns.

Typically, the purchasing agent responsible for the interface with certain vendors also contacts the vendors when dissatisfied with purchased items.

Managing returns to vendors includes performing a series of tasks. The number and scope of the tasks depend on who initiates the return: The company (when, for example, dissatisfied with the quality of purchased items or if there is a wrong delivery) or a company's own customer. A vendor-oriented return process may include the following tasks:

- Registering the compensation agreement with the vendor.
- Debiting the vendor, either by receiving a credit for physically returned items or with a purchase allowance (if the company is not required to physically return the items).
- Creating a replacement purchase order(s) if replacement is in the compensation agreement.

Related to the vendor-oriented process, there are several internal handling tasks:

- Shipping items to the vendor if the purchase return that includes repair is part of a compensation agreement.
- Receiving replaced/repaired items.
- Ensuring that the accurate inventory value of the items is returned to the vendor.
- Combining several return shipments to the same vendor into one credit memo document.

Purchase Return Order Management in Microsoft Dynamics NAV enables companies to manage these tasks in an efficient and accurate manner.

This section explains and illustrates the handling of these processes, using Cronus as an example.

Registering Compensation Agreement with the Vendor

There are many ways a company expects compensation when it is dissatisfied with the received order or dissatisfied on behalf of its customers. The terms of compensation agreement depends on the reason for the return and the company-vendor relationship. For example, the parties may agree that if there is wrongly ordered or delivered item(s), the company returns the item to the vendor against receiving a credit and receives a replacement item.

In other situations, for example, where an item arrives at the company damaged, the company may require a price deduction against the original purchase order price. The same may be applied when a company provided a sales allowance for its own customers and wants to recover costs by requesting a purchase allowance from its vendor. Meanwhile, where the purchased item has a warranty, the company may ask the vendor to repair the malfunctioned/broken item.

In Microsoft Dynamics NAV, the purchase return order is the central document that lets the user register a compensation agreement. From here, the user can access other purchase-related documents and enter and maintain the return-related information about the vendor, the method of compensation, and the items in question.

NOTE: In addition to the purchase return order, to register details about a compensation agreement with the vendor, the user can employ other standard documents (or combinations) to register a return. These documents are as follows: Purchase credit memos, purchase orders, and purchase invoices.

The concept of creating different return line types and registering a compensation agreement with a vendor are the same as in sales return situations.

The principles of creating a purchase document to register a compensation agreement are explained in detail in the topics "Purchase Return Order" and "Posting a Purchase Return Order" in online Help.

The two demonstrations in this section illustrate the handling of an item returned to a vendor for repair and a purchase allowance.

Both returns have been initiated by the customer and are a logical continuation of the demonstrations presented in the previous section. As the same purchase return handling procedures apply, regardless of whether a company initiates a return itself or it has been initiated by the customer, the first case is not given a separate explanation in this section.

Demonstration – Returning Items to Vendor for Repair

This is a continuation of the demonstration titled "Customer Returns Item for Repair at Vendor."

For the return of two units of item 80102-T initiated by customer 20000, Cronus now has to ship the units back to the vendor for repair.

When registering a compensation agreement with this customer, the order processor ran the **Create Return-Related Documents** function. The program created the following documents: A purchase return order, a purchase order, and a sales order.

The purchasing agent contacts the vendor's representative (vendor 50000), and the parties agree on Cronus sending the item for repair. The purchasing agent now handles the return process.

To perform this return, create and post a purchase order of five units of item 80100 from vendor 50000, and create a purchase return order of one unit of the same item for the same vendor, using location code Blue and return reason Defective. Post the purchase return order as shipped.

Steps

Process the purchase return order for two units of item 80102-T for vendor 50000.

1. From the Purchase menu, click ORDER PROCESSING→RETURN ORDERS. Locate the return order for two units of item 80102-T the program created for vendor 50000.

Notice that the **Direct Unit Cost Excl. VAT** field is empty.

NOTE: To guarantee the accurate inventory value (at zero unit cost) of repair items without serial numbers, the order processor applies a purchase return entry for the sales return entry.

Complete filling in the purchase return order:

2. In the **Vendor Authorization No.** field, enter RO155. This is the number from the vendor authorizing the return.
3. In the **Expected Receipt Date** field on the **Shipping** tab, enter 01/27/08. This is the shipment date for the return order.
4. Click **Yes** to update the lines.
5. Enter the serial numbers (S/N-852CA15 and S/N852CA16) in the **Item Tracking Lines** window for the two items being shipped to the vendor.

6. Post the purchase return order as shipped. The program updates the available inventory and creates a posted return shipment.

Companies frequently establish a practice where it is cost-efficient to combine several return orders in one shipment. By posting a purchase return order as shipped, the user takes out the items to be returned to the vendor from the available inventory but does not actually ship (transport) the order.

When there are several orders (to be returned to the same vendor or be bundled in the same shipment), the user can combine them in one shipment and transport it to the vendor. The combined shipment is then invoiced as one purchase credit memo.

NOTE: Individual posted return shipment documents, when sent to the vendor, can be an indication for the vendor to send a replacement item(s) instead of the one returned at some later point.

There are more items to be returned to the same vendor for repair. The two return orders will be shipped in the same shipment. Upon receiving a credit memo from the vendor for this combined shipment, the two shipments can be paid (invoiced).

7. Create a new purchase credit memo for vendor 50000. Click FUNCTIONS→GET RETURN SHIPMENT LINES TO RETURN.

The **Get Return Shipment Lines** window contains a list of all the shipment lines that have not been invoiced.

8. Select the two lines from the list and then click **OK**. The program copies the lines to the purchase credit memo.
9. In the **Vendor Cr. Memo No.** field, enter CM1305 and invoice the credit memo.

When the vendor has repaired the items and delivered them to Cronus, the purchasing agent posts the corresponding purchase order (created because of running the Create Return-Related Documents function when registering the sales return from the customer). A sales order for the same items can then be shipped back to the customer.

There may be a need to trace the purchase return to the original sales return. For example, when a vendor repairing a returned item needs additional information from the customer about item exploitation. In these cases, the user can view the item's transaction history in item tracking entries and locate the relevant document(s).

Open the item tracking entries for item 80102-T:

10. Open the item card for item 80102-T. Click ITEM→ENTRIES→ITEM TRACKING ENTRIES.

The last two lines specify an inventory increase by two units of item 80102-T with serial numbers S/N-852CA15 and S/N-852CA16 (the **Positive** field is selected). The user can locate the associated document, represented by a sales return order.

NOTE: To guarantee the full traceability of an item with a serial number, remember to assign the item an item tracking code that requires the entry of serial numbers at the point of inbound sale (sales return) and outbound purchase (purchase return). Read more about how to set up item tracking codes in the Inventory Management training manual.

Demonstration – Using Purchase Allowance

This is a continuation of the demonstration titled "Item Returned to Vendor for Repair."

The order processor was told by customer 10000 that two units of item 1964-W were damaged in shipment. Instead of returning the items, the customer was given a 15% sales allowance.

Because the carrier is responsible, Cronus wants to recover the costs associated with this damage. The transportation coordinator contacts the carrier's representative (the carrier (vendor) number is 49989898), and the parties agree on Cronus making a freight claim toward the carrier. The amount of the claim is equal to the amount of the sales allowance offered to the customer (87.60 LCY).

The transportation coordinator decides to issue a freight claim toward vendor 49989898 from a purchase credit memo (alternatively, the purchase return order may be used).

Steps

Perform the following steps to issue the purchase allowance:

1. Create a new purchase credit memo and fill in the header with the vendor information.
2. In the **Vendor Authorization No.** field, enter R123. This is the number the Transportation Coordinator receives from the carrier (vendor) authorizing the claim (return).
3. In the **Vendor Cr. Memo No.** field, enter CM478.
4. Create a credit line. In the **Type** field, select G/L Account, and in the **No.** field, select account 6810.
5. In the **Quantity** field, enter 1 and in the **Direct Unit Cost Excl. VAT** field, enter 87.60.
6. Post the purchase credit memo.

Lab 9.2 – Processing the Customer Return, II

Scenario: (Continuation of Lab 9-1 – Processing the Customer Return)

For the return of 50 units (boxes) of item 80100 initiated by customer 10000, Cronus wants to return the defective items to the original vendor and receive replacements.

When registering the compensation agreement, the order processor created a purchase return order. This serves as an indication to the purchaser that the items must be returned to the vendor.

The purchasing agent contacts the vendor's representative (vendor 45858585), and the parties agree that Cronus will send the item back for replacement. The vendor gives the purchasing agent a return authorization number, which is PR0558.

Locate the existing purchase order No. 6001 and post it as invoiced.

Challenge Yourself!

Your task is to handle the return to vendor process for:

- Shipping the defective items to the vendor and receiving credit.
- Ensuring that the items returned to the vendor are valued at the same unit cost as originally purchased instead of the average cost suggested by the program (refer to the purchase order No. 6001).
- Receiving a replacement from the vendor.

Need a Little Help?

The solution is provided in Appendix C.

Activity Diagram for Return Management

The activity diagram is helpful for the order processor to maintain the overview of the return process in each of the different situations.

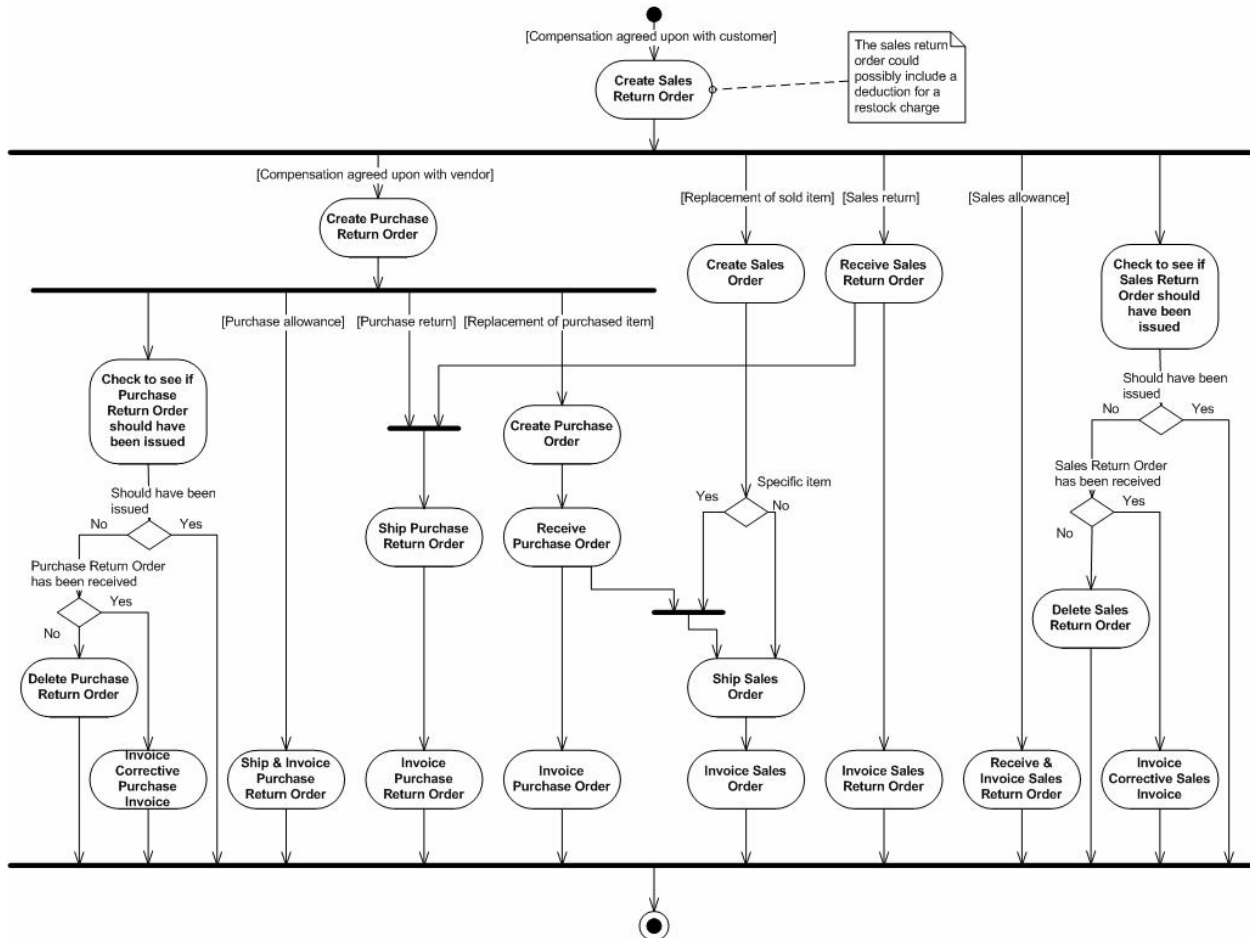


FIGURE 9-8: RETURN MANAGEMENT ACTIVITY DIAGRAM

Conclusion

Handling returned items from customers and vendors correctly and in a timely manner is a crucial element in establishing good business relationship.

In Returns Management, the general set up and return reasons set up was presented. Then the two main topics on management of returns from customers and vendors were explained thoroughly by several, detailed demonstrations. The functionality enhancement regarding cost reversal, for both sales and purchase return processing, created for version 5.0, were included in the first demonstration, "Sales Return and a Sales Allowance".

Quick Interaction: Lessons Learned

Take a moment and write down three key points you have learned from this chapter:

1.

2.

3.
