CHAPTER 8: RETURNS MANAGEMENT

Objectives

The objectives are:

- Review a returns management activity diagram.
- Describe the returns management setup for sales and purchases.
- Explain and demonstrate how to manage customer returns.
- Explain and demonstrate how to manage returns to vendors.

Introduction

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

From the company's perspective, the internal management 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 depends 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 customer returns the damaged item. Similarly, a customer can be credited for a returned item before the company inspects and approves the return.

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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 in Microsoft Dynamics® NAV 2009 offers 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 customer relationships can register the details of an agreement with the customer about the return and information relevant to handling the return with one entry point.

Several return-related tasks can be performed at the same time in Microsoft Dynamics NAV. This gives priority to handling customer-oriented processes. The program can manage 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 manage 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.

NOTE: To guarantee the full traceability of an item with a serial number, 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 in Microsoft Dynamics® NAV 2009" training material.

Activity Diagram for Returns Management

The Return Management Activity Diagram is helpful for the order processor to maintain an overview of the return process in each of the different situations.

FIGURE 8.1 RETURN MANAGEMENT ACTIVITY DIAGRAM

For an overview of procedures associated with handling specific return-related tasks, refer to the respective topic in online Help.

Returns Management Setup

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.

Procedure: Review Sales Return Order Setup

Follow these steps to review the general setup of Sales Return Order Management:

1. On the navigation pane, click **Sales & Marketing**.
2. On the **Sales & Marketing** page, click **Administration** and then click **Sales & Receivables Setup**.

Four fields on the **General** FastTab 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**

When you select the **Return Receipt on Credit Memo** check box, the program automatically creates return receipt documents when a sales credit memo posts.

When you select the **Copy Cmts Ret. Ord. to Cr. Memo** and **Copy Cmts Ret. Ord. to Ret. Rcpt** check boxes, the program copies comments from the return orders to the credit memo or return receipt documents.

The **Exact Cost Reversing Mandatory** field defines whether a company wants to apply an exact cost reversing policy when processing inventory increases represented by the sales returns. This means that when inventory is returned to stock, the program values the items on the sales return at exactly the same cost as the original sale. If an additional cost is later added to the original sale, the program updates the value of the sales return respectively. Selecting this check box indicates that the program prohibits a return transaction to post unless the **Appl.-from Item Entry** field on a corresponding order line contains an entry.

Procedure: Review Purchase Return Order Setup

Follow these steps to review the general setup of Purchase Return Order Management:

1. On the navigation pane, click **Purchase**.
2. On the **Purchase** page, click **Administration** and then click **Purchases & Payables Setup**.

Four fields on the **General** FastTab 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 Mandatory**

When you select the **Return Shipment on Credit Memo** check box, the program automatically creates return shipment documents when a purchase credit memo posts.

When you select the **Copy Cmts Ret. Ord. to Cr. Memo** and **Copy Cmts Ret. Ord. to Ret. Shpt** check boxes, comments copy from the return orders to the credit memo or return shipment documents.

The **Exact Cost Reversing Mandatory** field defines whether a company wants to apply an exact cost reversing policy in connection with purchase returns. This means that when inventory is removed from stock, the program values the items on the purchase return at exactly the same cost as the original purchase. If an additional cost is later added to the original purchase, the program updates the value of the purchase return respectively. Selecting this check box indicates that the program will not allow a return transaction to post unless the **Appl.-to Item Entry** field on the purchase order line contains an entry.

Procedure: Review Return Reason Code Setup

Companies set up return reason codes to distinguish return situations encountered when it deals with customers and vendors. Because a return reason copies 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.

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To review the return reason codes set up in CRONUS International Ltd., on the **Sales & Marketing** page, click **Administration** and then click **Return Reasons**.
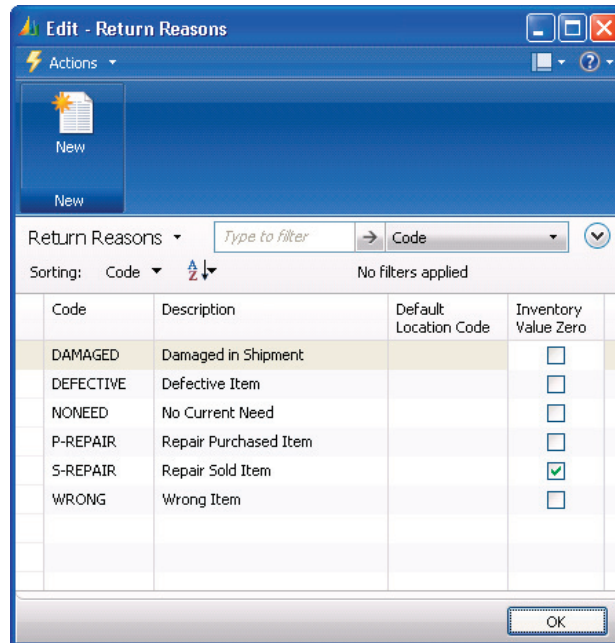

FIGURE 8.2 RETURN REASONS

In addition to setting up the return reasons code and its description, companies also can 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.

Demonstration: Create a Return Location and Assign to a Return Reason Code

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

Follow these steps to complete this setup:

1. On the navigation pane, click **Warehouse**.
2. On the **Warehouse** page, click **Administration** and then click **Locations**.
3. Click **New**.
4. In the **Code** field, type Repair.
5. In the **Description** field, type Repair Warehouse.

6. Click **OK** to close the Location Card and then close the **Location List** page.
7. On the navigation pane, click **Sales & Marketing**.
8. On the **Sales & Marketing** page, click **Administration** and then click **Return Reasons**.
9. In the **Default Location Code** field on the line for the S-REPAIR return reason code, enter REPAIR.
10. Ensure that the **Inventory Value Zero** check box is selected.

Selecting the **Inventory Value Zero** check box 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.

*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.*

Manage Customer Returns

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 customer interaction is also the person to receive complaints from customers about the items purchased. 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.

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

There are three methods of assigning exact cost reversing to a return line:

- Fill in the return order line manually, add the **Appl.-from Item Entry** field using the Choose Columns feature and then select the relevant line from the **Item Ledger Entries** page.

- Use the Copy Document function to fill in the return order automatically from another posted shipment or invoice document. If the **Exact Cost Reversing Mandatory** check box is selected on the Sales & Marketing Setup, the **Appl.-from Item Entry** field automatically populates on the return line with the corresponding entry.

- Use the Get Posted Document Lines to Reverse function to select one or more posted document lines for exact cost reversal. This function is especially useful when users need to copy one or more lines that appear in one or more posted documents.

The Get Posted Document Lines to Reverse function uses the **Posted Sales Document Lines** page to select from multiple posted documents. This page provides rich information about the status of posted quantities, displaying, for example, whether any have already been returned.

FIGURE 8.3 POSTED SALES DOCUMENT LINES WITH THE POSTED INVOICES VIEW

The **Options** FastTab includes the following fields:

- Select the **Show Reversible Lines Only** check box to see only lines with quantities that have not yet been returned.
- Select the **Return Original Quantity** check box to use the original quantity. This allows you, for example, to receive quantities associated with specific shipments. Otherwise the program will use the remaining quantity when you create the lines.

On the left side of the page, the different document types are listed, and the number in parentheses shows the number of documents available of each document type. In the **Document Type Filter** field, select the type of posted document lines to use.

In the lines, the **Unit Cost (LCY)** field shows the current, potentially adjusted unit cost, and the **Reverse Unit Cost (LCY)** field shows the original unit cost at which the item was originally sold and at which it must be reversed.

The **Qty. Not Returned** field is implemented in the item ledger entry table where the reversible quantity of an outbound item ledger is stored. The program verifies 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.

For more information about each cost reversal method, refer to the topic called "Assigning Exact Cost Reversing" in the online Help.

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Register 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 G/L Account 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 use other standard documents (or combinations of them) in Microsoft Dynamics NAV. These documents are 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: Create a Sales Return Order

Scenario: A representative from customer 10000 calls Susan, the order processor at CRONUS, and says that he or she 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 or her own fault, while item 1964-W appeared to have been damaged during shipment.

Susan 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 five percent 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 percent off the price of the item.

Susan must register the compensation agreement that has been reached with the customer and process the return. She must also ensure 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).

Finally, Susan must register the compensation agreement settled with customer 10000 about the return of a wrongly ordered item.

Steps: Create Sales Return Order Header

Follow these steps to create the sales return order from customer 10000 for five units of item 70011:

1. On the **Sales & Marketing** page, click **Order Processing** and then click **Sales Return Orders**.
2. Click **New** and then press ENTER or TAB.
3. In the **Sell-to Customer No.** field, enter 10000.
4. In the **External Document No.** field, type SR024. This is the number the program uses as a reference to the return document.

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

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Steps: Add Line with Exact Cost Reversal

Susan must now enter the sales return line, ensuring that upon invoicing the order, the returned item is revalued at the unit cost of the original sale. She chooses to use the automated Get Posted Document Lines to Reverse function.

Follow these steps to use the Get Posted Document Lines to Reverse function to enter the sales return line:

1. On the Action Pane, click **Get Posted Document Lines to Reverse**.
2. In the **Document Type Filter** field, select Posted Shipments.
3. Click the line with Document No. 102029 for item 70011 and then click **OK**.

The shipment number information is added on the top line and then a separate return line is added on the next line, with the **Appl.-from Item Entry** field automatically populated.

4. In the **Return Reason Code** field, enter WRONG.

FIGURE 8.4 SALES RETURN ORDER WITH LINE INFORMATION FROM THE GET POSTED DOCUMENT LINES TO REVERSE FUNCTION

If necessary, add some comment lines with additional information about the related posted invoice and shipment. This makes tracking the related documents in the returning process easier.

> 5. On the **Lines** FastTab, click **Actions**, point to **Line**, and then click **Comments**.
> 6. Close the **Comment Sheet** page.

Steps: Create Replacement Order Line

The customer also requested a replacement of item 70011 with item 70010. Susan can register this requirement in the sales return order by entering a line for the replacement item with a negative quantity.

Follow these steps to add the replacement item to the return order:

> 1. On a new line, in the **No.** field enter 70010.
> 2. In the **Quantity** field, type -5.

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

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.

The process of creating the replacement sales order is performed in the "Process the Sales Return" demonstration.

Steps: Apply Restock Fee

Next, according to the compensation agreement, Susan applies a five percent restock fee to cover the physical handling of returning the item. She can do this in the same sales return order by creating a charge (item) line for sales restock charge.

Follow these steps to assign a restock fee charge on the return order:

> 1. On a new line, in the **Type** field, enter Charge (Item).
> 2. In the **No.** field, enter S-RESTOCK.
> 3. In the **Quantity** field, type 5.
> 4. In the **Unit Price Excl. VAT** field, type -3.615. This is five percent of 72.30 LCY, which is the original unit price.

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.

FIGURE 8.5 SALES RETURN ORDER WITH RETURNED ITEM, REPLACEMENT ITEM, AND RESTOCK CHARGE

To guarantee accurate sales statistics, Susan assigns the restock charge to the return entry by following these steps:

1. On the **Lines** FastTab, click **Actions**, point to **Line** and then click **Item Charge Assignment**. The **Item Charge Assignment (Sales)** page appears.
2. On the line for 70011, type 5 in the **Qty. to Assign** field.
3. Click **OK** to close the page. The **Qty. to Assign** field on the restock charge line updates accordingly.

NOTE: As an alternative to creating a charge (item) line, the order processor can create a G/L account 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 update correctly.

Steps: Record Sales Allowance

Susan must record the agreement with the customer about the provision of a sales allowance of 15 percent for two units of the damaged item 1964-W. She will use the sales return order as an entry point for the details of this agreement. (An alternative entry point for a sales allowance is a sales credit memo.)

Susan must create a charge (item) line and assign the corresponding charge amount to the original sale of item 1964-W by following these steps:

1. On a new line, in the **No.** field, enter S-ALLOWANCE. (Add extra information about this allowance in the **Description** field if desired.)
2. In the **Quantity** field, type 2. This is the number of items that arrived damaged to the customer and for which the order processor provides an allowance.
3. On the **Lines** FastTab, click **Actions**, point to **Line**, and then click **Item Charge Assignment**.
4. On the **Actions** menu, point to **Functions** and then click **Get Shipment Lines**. The program lists all posted shipment lines related to the customer.
5. Select the shipment line for item 1964-W and then click **OK**.
6. On the shipment line in the **Item Charge Assignment (Sales)** page, type 2 in the **Qty. to Assign** field.
7. Click **OK** to close the page. The **Qty. to Assign** field on the sales allowance line updates accordingly.
8. On the sales allowance line, type 43.80 in the **Unit Price Excl. VAT** field. This is 15 percent of 292.00 LCY, which was the original unit price at which item 1964-W was sold to the customer.

Demonstration: Process the Sales Return

Scenario: After Susan registers the details of the compensation agreement in the sales return order, the next task is to process the return. In the "Create a Sales Return with Sales Allowance" demonstration, 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, Susan can perform all the procedures at the same time, when she posts the sales return order. However, if for example, the replacement order needs to ship 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: 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 manage 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.

Steps: Create Replacement Sales Order

Susan decides to move the negative line (representing a demand for a replacement) to a separate sales order using the **Move Negative Lines** function.

Follow these steps to move the negative line to create the replacement sales order:

1. Open the sales return order created in the "Create a Sales Return Order" demonstration.
2. On the **Actions** menu, point to **Functions** and then click **Move Negative Lines**.

The document to receive the negative lines is defined in the **To Document Type** field. To learn about different options, refer to the topic "Move Negative Sales Lines Batch Job" in online Help.

3. Ensure that the **To Document Type** field is set to 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.

4. Click **Yes** to view the created document. Susan can process the order in the usual manner.
5. On the Action Pane, click **Post**.
6. Click **OK** to ship and invoice the order.

Steps: Post Sales Return Order

Upon receipt of the returned item, Susan 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.

Follow these steps to post the sales return order:

1. On the Action Pane of the sales return order, click **Post**.
2. Click **OK** to receive and invoice the return order.

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

Steps: Review Posted Sales Return Order

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

Follow these steps to view the status of the sales return:

1. On the navigation pane, click **Sales & Marketing**.
2. On the **Sales & Marketing** page, click **Tasks** and then click **Navigate**.
3. Click the **External** tab at the bottom of the page.
4. In the **Business Contact Type** field, enter Customer.
5. In the **Business Contact No.** field enter 10000.
6. In the **Document No.** field, type SR024.
7. On the Action Pane, 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.

FIGURE 8.6 NAVIGATION RESULTS OF POSTED SALES RETURN TO CUSTOMER 10000 WITH DOCUMENT NUMBER OF SR024

> *NOTE: You also can trace where specific serial or lot numbers were used with the Navigate and Item Tracing features. For more information about handling serialized return items, refer to the "Processing Sales Returns," "Processing Purchase Returns," and "Tracing Item-Tracked Items" topics in the online Help.*

Returned Items for Vendor Repair

When a customer returns an item for repair at the company's vendor, an order processor creates a sales return order and several documents related to returning the item to the manufacturer and shipping it back to the customer upon repair. These documents include:

- Purchase return order
- Purchase order
- Sales order

The management of the sales returns for repair with regard to associated documents is shown in the Sales Return Documents Flow figure.
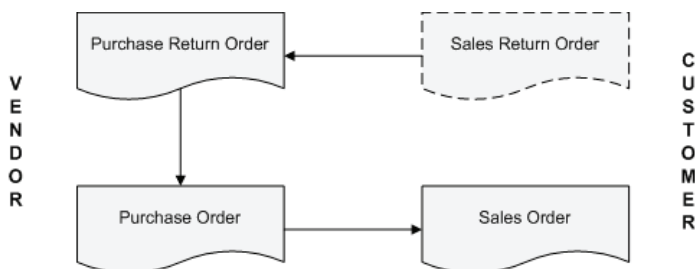

FIGURE 8.7 SALES RETURN DOCUMENTS FLOW

The Create Return-Related Documents function enables users to create all these documents automatically.

The next demonstration illustrates a situation where the customer returns an item to CRONUS for repair at the company's vendor and uses the Create Return-Related Documents function.

Demonstration: Return Items to Vendor for Repair

Scenario: Alicia, the purchasing agent at CRONUS, orders 40 units of item 80102 from vendor 50000 on December 15, 2009. On January 4, 2010, customer 20000 orders eight units of item 80102.

On January 28, 2010, Susan receives a call from a representative from customer 20000 stating that two units of item 80102 must be returned due to manufacturing defects.

Susan and the customer agree that the items must be returned to CRONUS, and CRONUS will send them to the manufacturer for repair. Susan must register the compensation agreement and process the return.

Susan creates the return documents to prompt Alicia to contact the vendor regarding the defective items. John, the warehouse worker, receives the items from the customer on February 1, 2010. He informs Susan of the return receipt so that she can post the return and create the sales credit memo.

Steps: Process Purchase Order

Follow these steps to process the purchase order:

1. Change the work date to 12/15/09.
2. On the navigation pane, click **Purchase** and then click **Order Processing**.
3. On the **Order Processing** page, click **Purchase Orders**.
4. Click **New** and then press ENTER or TAB.
5. In the **Buy-from Vendor No.** field, enter 50000.
6. In the **Vendor Invoice No.** field, type 11619.
7. On the **Lines** FastTab, in the **Type** field, enter Item.
8. In the **No.** field, enter 80102.
9. In the **Location Code** field, enter BLUE.
10. In the **Quantity** field, type 40.
11. On the Action Pane, click **Post**.
12. Click **OK** to receive and invoice the order.

Steps: Process Sales Order

Follow these steps to process the sales order:

1. Change the work date to 01/04/10.
2. On the navigation pane, click **Sales & Marketing** and then click **Order Processing**.
3. On the **Order Processing** page, click **Sales Orders**.
4. Click **New** and then press ENTER or TAB.
5. In the **Sell-Customer No.** field, enter 20000.
6. On the **Lines** FastTab, in the **Type** field, enter Item.
7. In the **No.** field, enter 80102.
8. In the **Location Code** field, enter BLUE.
9. In the **Quantity** field, type 8.
10. On the Action Pane, click **Post**.
11. Click **OK** to ship and invoice the order.

Steps: Create Return Order

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, the program performs 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, at 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, Susan may use the functionality available in the program to automate the process.

As described in the "Create a Return Location and Assign to a Reason Code" demonstration, the option of valuating inventory at zero when the user manages returns for repair is linked to the return reason S-REPAIR. By selecting this return reason, Susan accepts the option.

Follow these steps to create a sales return order for customer 20000 for two units of item 80102:

1. Change the work date to 01/28/10.
2. On the navigation pane, click **Order Processing** under Sales & Marketing.
3. On the **Order Processing** page, click **Sales Return Orders**.
4. Click **New** and then press ENTER or TAB.
5. In the **Sell-to Customer No.** field, enter 20000.
6. In the **External Document No.** field, type R0015. This is the number that is used as a reference to the return document.
7. On the **Lines** FastTab, in the **Type** field, enter Item.
8. In the **No.** field, enter 80102.
9. In the **Return Reason Code** field, enter S-REPAIR.

The **Location Code** field automatically populates with REPAIR, which is the default location for this return reason code.

   10. In the **Quantity** field, type 2.

FIGURE 8.8 SALES RETURN ORDER WITH ITEM SET UP FOR REPAIR PROCESSING

The **Unit Price Excl. VAT** field does not contain an amount.

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Steps: Create Return-Related Documents

Now that CRONUS has received the items from customer 20000, Susan creates the return-related documents:

1. On the Action Pane, click **Create Return-Related Documents**.
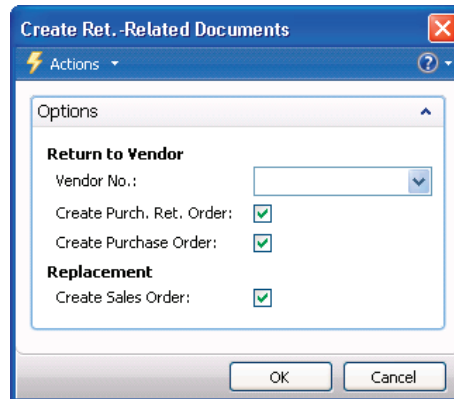
FIGURE 8.9 CREATE RETURN RELATED DOCUMENTS PAGE

In the **Create Ret.-Related Documents** page, users select which documents the program needs to create to further manage the return. There is an option of creating a purchase return order and a purchase order if the items are returned to and received from the vendor, and a replacement sales order can be created if necessary.

2. In the **Vendor No.** field, enter 50000.
3. Click **OK** and accept any credit limit warnings that appear.

The created documents are listed in the **Returns-Related Documents** page.

4. Click **OK** to close the **Returns-Related Documents** page.

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

Steps: Receive Defective Items

When the items arrive at CRONUS, John informs Susan, who then posts the return order to create the sales credit memo.

Follow these steps to receive and credit the returned items.

1. In the **Posting Date** field, enter 02/01/10.
2. On the Action Pane, click **Post**.
3. Click **OK** to receive and invoice (credit) the order.

You can review further processing of this return in the "Manage Returns to Vendors" lesson.

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Lab 8.1 - Process a Customer Return

Scenario

You are the order processor at CRONUS. A representative from customer 10000 calls and says that the complete delivery of 50 units (boxes) of item 80100 from the Green Warehouse appear to be damaged.

You and the customer agree that the complete quantity of item 80100 must be returned to CRONUS, and a replacement of the same quantity will ship to the customer immediately. The customer provides a reference number to his or her own return document, which is R-0113.

To perform this return, you must first create the sales order to customer 10000 for 50 boxes of item 80100 from the Green Warehouse.

When creating the return order, you must:

- Find the returned items from a list of posted shipments and ensure that they are valued at the same unit cost as originally sold.
- Create and post a replacement sales order to the customer using the Move Negative Lines function.
- Create a purchase return order to vendor 45858585.
- Receive and invoice the sales return order.

You can review further processing of this return in the "Process a Vendor Return" lab.

Challenge Yourself!

1. Create the sales order of 50 boxes of item 80100 to customer 10000.
2. Create the sales return order to customer 10000 for 50 boxes of item 80100.
3. Create and post the order for the replacement quantity.
4. Create the purchase return order to vendor 45858585.
5. Post the sales return order.

Need a Little Help?

1. Create the sales order to customer 10000 for 50 boxes of item 80100 from the Green Warehouse.
2. Create the sales return order to customer 10000 with customer reference number R-0113.
3. Use the Get Posted Document Lines to Reverse function to access the shipment line for item 80100.

4. Assign the defective warehouse to the return item.
5. Add a replacement line for two of item 80100 from the Green Warehouse.
6. Run the Move Negative Lines function.
7. Ship and invoice the sales replacement order.
8. Run the Create Return-Related Documents function and create a Purchase Return Order to vendor 45858585.
9. Receive and invoice the sales return order.

Step by Step

Follow these steps to create the sales order of 50 units of item 80100 to customer 10000:

1. On the navigation pane, click **Sales & Marketing** and then click **Order Processing**.
2. On the **Order Processing** page, click **Sales Orders**.
3. Click **New** and then press ENTER or NEW.
4. In the **Sell-to Customer No.** field, enter 10000.
5. On the **Lines** FastTab, in the **Type** field, enter Item.
6. In the **No.** field, enter 80100.
7. In the **Location Code** field, enter GREEN.
8. In the **Quantity** field, type 50.
9. In the **Unit of Measure** field, enter BOX.
10. In the **Qty. to Ship** field, type 50 then click **OK** to accept the warehouse message.
11. On the Action Pane, click **Post**.
12. Click **OK** to ship and invoice the order.

Follow these steps to create the sales return order:

1. On the navigation pane, click **Sales & Marketing** and then click **Order Processing**.
2. On the **Order Processing** page, click **Sales Return Orders**.
3. Click **New** and then press ENTER or TAB.
4. In the **Sell-to Customer No.** field, enter 10000.
5. In the **External Document No.** field, type R-0113.
6. On the Action Pane, click **Get Posted Document Lines to Reverse**.
7. In the **Document Type Filter** field, select Posted Shipments.
8. Click the line for item 80100 and then click **OK**.
9. In the **Return Reason Code** field, enter DAMAGED.

Follow these steps to create the order for the replacement quantity:

1. On a new line, in the **No.** field, enter 80100.
2. In the **Location Code** field, enter GREEN.
3. In the **Quantity** field, type -50.
4. In the **Unit of Measure** field, enter BOX.
5. On the **Actions** menu, point to **Functions** and then click **Move Negative Lines**.
6. Ensure that Order is selected in the **To Document Type** field and then click **OK**.
7. Click **Yes** to view the created document.
8. In the **Qty. to Ship** field, type 50 and then click **OK** to accept the warehouse message.
9. On the Action Pane of the sales order, click **Post**.
10. Click **OK** to ship and invoice the order.

Follow these steps to create the purchase return order:

1. On the Action Pane of the sales return order, click **Create Return-Related Documents**.
2. In the **Vendor No.** field, enter 45858585.
3. Clear the **Create Purchase Order** and **Create Sales Order** check boxes.
4. Click **OK** to create the orders.
5. Click **OK** to close the **Returns-Related Documents** page.

Follow these steps to post the sales return order:

1. In the **Return Qty. to Receive** field, type 50 and then click **OK** to accept the warehouse message.
2. On the Action Pane, click **Post**.
3. Click **OK** to post the order.

Manage 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 vendor interaction 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, several internal handling tasks exist:

- 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.

Register a 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 a 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 use other standard documents (or combinations) to register a return. These documents are 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 following demonstrations 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. Because 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 lesson.

Demonstration: Return Items to Vendor for Repair

This is a continuation of the "Returns Items to Vendor for Repair" demonstration.

Scenario: For the return of two units of item 80102 initiated by customer 20000, CRONUS now has to ship the units back to vendor 50000 for repair.

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

Alicia, the purchasing agent, contacts the vendor's representative and the parties agree on CRONUS sending the item for repair. She is given the return authorization number of RO155 to reference on the order and now performs the return process.

Follow these steps to process the purchase return order:

1. On the navigation pane, click **Purchase** and then click **Order Processing**.
2. On the **Order Processing** page, click **Purchase Return Orders**.
3. Open the order to vendor 50000 created in the "Return Items to Vendor for Repair" demonstration.

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.

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4. In the **Vendor Authorization No.** field, type RO155.
5. Expand the **Shipping** FastTab.
6. In the **Expected Receipt Date** field, enter 02/02/10. This is the shipment date for the return order.
7. Click **Yes** to update the lines.
8. On the Action Pane, click **Post**.
9. Click **Ship** and then click **OK** to ship the return. The program updates the available inventory and creates a posted return shipment.

Demonstration: Combine Return Shipments

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.

Scenario: On January 25, 2010, five units of item 80100 were purchased from vendor 50000. During put-away, John, the warehouse worker notices that one pallet was damaged and needs to be returned. He contacts Alicia, who contacts the vendor and then creates the purchase return order.

Because more items need to be returned to the same vendor for repair, the items are shipped in the same shipment. Upon receiving a credit memo from the vendor for this combined shipment, Alicia invoices the two shipments on a single purchase credit memo.

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Steps: Process Purchase Order

Follow these steps to process the purchase order:

1. Change the work date to 01/25/10.
2. On the navigation pane, click **Purchase** and then click **Order Processing**.
3. On the **Order Processing** page, click **Purchase Orders**.
4. Click **New** and then press ENTER or TAB.
5. In the **Buy-from Vendor No.** field, enter 50000.
6. In the **Vendor Invoice No.** field, type 11624.
7. On the **Lines** FastTab, in the **Type** field, enter Item.
8. In the **No.** field, enter 80010.
9. In the **Location Code** field, enter BLUE.
10. In the **Quantity** field, type 5.
11. On the Action Pane, click **Post**.
12. Click **OK** to receive and invoice the order.

Steps: Process Return Order

Follow these steps to create a purchase return order to vendor 50000 for one pallet of item 80100:

1. Change the work date to 01/28/10.
2. On the navigation pane, click **Order Processing** under Purchase.
3. On the **Order Processing** page, click **Purchase Return Orders**.
4. Click **New** and then press ENTER or TAB.
5. In the **Buy-from Vendor No.** field, enter 50000.
6. In the **Vendor Authorization No.** field, type RO158.
7. On the Action Pane, click **Get Posted Document Lines to Reverse**.
8. In the **Document Type Filter** field, select Posted Receipts.
9. Click the line for item 80100 and then click **OK**.
10. In the **Return Reason Code** field, enter DAMAGED.
11. In the **Quantity** field, type 1.
12. Expand the **Shipping** FastTab
13. In the **Expected Receipt Date** field, enter 02/02/10.
14. Click **Yes** to update the lines.
15. On the Action Pane, click **Post**.
16. Click **Ship** and then click **OK**.

Steps: Process Combined Return Shipment

Follow these steps to create the combined return shipment:

1. On the navigation pane, click **Order Processing** under Purchase.
2. On the **Order Processing** page, click **Purchase Credit Memos**.
3. Click **New** and then press ENTER or TAB.
4. In the **Buy-from Vendor No.** field, enter 50000.
5. In the **Vendor Cr. Memo No.** field, enter CM1305.
6. On the **Lines** FastTab, click **Actions**, point to **Functions** and then click **Get Return Shipment Lines**.

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

7. Select both lines in the list and then click **OK**.

FIGURE 8.10 PURCHASE CREDIT MEMO WITH COMBINED RETURN SHIPMENT LINES

8. On the Action Pane, click **Post**.
9. Click **Yes** to post the credit memo.

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When the vendor has repaired the items and delivered them to CRONUS, Alicia 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.

Demonstration: Process a Purchase Allowance

This is a continuation of the "Create a Sales Return Order" demonstration.

Scenario: Susan, 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 percent sales allowance.

Because the carrier is responsible, CRONUS wants to recover the costs associated with this damage. Ted, 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).

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

Follow these steps to issue the purchase allowance:

1. On the navigation pane, click **Order Processing** under Purchase.
2. On the **Order Processing** page, click **Purchase Credit Memos**.
3. Click **New** and then press ENTER or TAB.
4. In the **Buy-from Vendor No.** field, enter 49989898.
5. In the **Vendor Authorization No**. field, type R123. This is the number that Ted received from the carrier (vendor) authorizing the claim (return).
6. In the **Vendor Cr. Memo No.** field, type CM478.
7. On the **Lines** FastTab, in the **Type** field, enter G/L Account.
8. In the **No.** field, enter 6810.
9. In the **Quantity** field, type 1
10. In the **Direct Unit Cost Excl. VAT** field, type 87.60.
11. On the Action Pane, click **Post**.
12. Click **Yes** to post the purchase credit memo.

Lab 8.2 - Process the Vendor Return

Scenario

For the return of 50 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, you, as the order processor, created a purchase return order. Now you are the purchasing agent. You contact the vendor's representative (vendor 45858585), and you both agree that CRONUS will send the item back for replacement. The vendor provides a return authorization number, which is PR0558.

To perform this return, you must first post the existing purchase order for vendor 45858585, number 6001.

When processing the return order, you must:

- Manually assign the original receipt line to ensure that the items are valued at the same unit cost as originally purchased instead of the average cost.
- Post and receive a replacement from the vendor using vendor invoice number 522891.
- Ship the damaged items to the vendor and receive credit memo number CM0058.

*HINT: Add the **Appl.-to Item Entry** field using the Choose Columns function.*

Challenge Yourself!

1. Post purchase order number 6001.
2. Process the purchase return order to vendor 45858585.
3. Post the order for the replacement quantity of 50 boxes of item 80100.
4. Post the purchase return order.

Need a Little Help?

1. Open and then post purchase order 6001 to vendor 45858585.
2. Open the purchase return order created in the "Process a Customer Return" lab.
3. Add the **Appl.-to Item Entry** field to the lines using the Choose Columns function.

4. Fill in the **Appl.-to Item Entry** field with the purchase receipt created from purchase order 6001.

5. Add a replacement line for 50 boxes of item 80100 to the Green Warehouse.

6. Run the Move Negative Lines function.

7. Fill in the **Qty. to Receive** field and then receive and invoice the purchase replacement order.

8. Fill in the credit memo number and **Return Qty. to Ship** field and then ship and invoice the purchase return order.

Step by Step

Follow these steps to post purchase order number 6001:

1. On the navigation pane, click **Purchase** and then click **Order Processing**.

2. On the **Order Processing** page, click **Purchase Orders**.

3. Open purchase order number 6001.

4. On the Action Pane, click **Post**.

5. Click **OK** to receive and invoice the order.

Follow these steps to process the purchase return order:

1. On the **Order Processing** page, click **Purchase Return Orders**.

2. Open the return order to vendor 45858585 created in the "Process a Customer Return" lab.

3. In the **Vendor Authorization No.** field, type PR0558.

4. Add the **Appl.-to Item Entry** field to the lines using the Choose Columns function.

5. In the **Appl.-to Item Entry** field, click the drop-down arrow and select the purchase receipt created from purchase order 6001 (use the Navigate feature to open the posted purchase receipt) and then click **OK**.

Follow these steps to create and post the order for the replacement quantity:

1. On the next line, in the **No.** field, enter 80100.

2. In the **Location Code** field, enter GREEN.

3. In the **Quantity** field, type -50.

4. In the **Unit of Measure** field, enter BOX.

5. On the **Actions** menu, point to **Functions** and then click **Move Negative Lines**.

6. Ensure that Order is selected in the **To Document Type** field and then click **OK**.

7. Click **Yes** to view the created document.

8. In the **Vendor Invoice No.** field, type 522891.
9. In the **Qty. to Receive** field, type 50 and then click **OK** to accept the warehouse message.
10. On the Action Pane of the purchase order, click **Post**.
11. Click **OK** to receive and invoice the order.

Follow these steps to post the purchase return order:

1. In the **Vendor Cr. Memo No.** field, type CM0058.
2. In the **Return Qty. to Ship** field, type 50 and the click **OK** to accept the warehouse message.
3. On the Action Pane, click **Post**.
4. Click **OK** to post the order.

Summary

The return order is the central document in Microsoft Dynamics NAV that allows the user to register a compensation agreement settled with a customer or vendor. From here, the user can access other sales-related or purchase-related documents, and enter and maintain:

- The return-related information concerning the customer or vendor.
- The method of compensation.
- The items in question.

Superior customer service is a key strategic objective of companies that strive for a high level of customer loyalty. For many wholesalers and distributors, sales returns are a standard element of their customer service policy, which directly influences the customer's perception of the service level.

Timely crediting for returned items, repairing/replacing a damaged item, and replacing a wrong item are among those aspects of handling returns that a customer associates with good service. The more seamless and efficient these return procedures appear to the customer, the more likely it is that the customer will rate the company's customer service highly.

Test Your Knowledge

Test your knowledge with the following questions.

1. How do you ensure that Microsoft Dynamics NAV automatically values inventory increases at zero cost?

_____

_____

_____

_____

2. What is the purpose of selecting the **Exact Cost Reversing Mandatory** check box in either the Sales & Receivable Setup or Purchases & Payables Setup?

_____

_____

_____

_____

3. Which of the following return-related documents can be created from the sales return order? (Select all that apply)

    ( ) Purchase Order

    ( ) Sales Order

    ( ) Purchase Credit Memo

    ( ) Purchase Return Order

4. When you create a sales return order, which line types represent a financial transaction where a customer receives a credit (in the form of a sales allowance) for the item(s). (Select all that apply)

( ) Charge (Item)

( ) Item

( ) G/L Account

( ) Fixed Asset

5. Which of the following procedures allows you to ensure that a returned item is revalued at the unit cost of the original sale? (Select all that apply)

( ) Fill in the return order line manually and enter the relevant item ledger entry in the **Appl.-from Item Entry** field.

( ) Use the Get Exact Cost function to automatically populate the return order line from the posted shipment or invoice document.

( ) Use the Copy Document function to fill in the return order automatically from another posted shipment or invoice document.

( ) Use the Get Posted Document Lines to Reverse function to select one or more posted document lines.

Quick Interaction: Lessons Learned

Take a moment and write down three Key Points you have learned from this chapter:

1.

2.

3.

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Solutions

Test Your Knowledge

1. How do you ensure that Microsoft Dynamics NAV automatically values inventory increases at zero cost?

   MODEL ANSWER: Select the Inventory Value Zero check box on the relevant Return Reason Code.

2. What is the purpose of selecting the **Exact Cost Reversing Mandatory** check box in either the Sales & Receivable Setup or Purchases & Payables Setup?

   MODEL ANSWER: It ensures that an exact reversing policy is applied in returns processing by prohibiting the posting of a return transaction unless the **Appl.-from Item Entry** field (for sales returns) or the Appl.-to Item Entry field (for purchase returns) on the corresponding return order line contains an entry.

3. Which of the following return-related documents can be created from the sales return order? (Select all that apply)

   (√) Purchase Order

   (√) Sales Order

   ( ) Purchase Credit Memo

   (√) Purchase Return Order

4. When you create a sales return order, which line types represent a financial transaction where a customer receives a credit (in the form of a sales allowance) for the item(s). (Select all that apply)

   (√) Charge (Item)

   ( ) Item

   (√) G/L Account

   ( ) Fixed Asset

5. Which of the following procedures allows you to ensure that a returned item is revalued at the unit cost of the original sale? (Select all that apply)

   (√) Fill in the return order line manually and enter the relevant item ledger entry in the **Appl.-from Item Entry** field.

   ( ) Use the Get Exact Cost function to automatically populate the return order line from the posted shipment or invoice document.

   (√) Use the Copy Document function to fill in the return order automatically from another posted shipment or invoice document.

   (√) Use the Get Posted Document Lines to Reverse function to select one or more posted document lines.