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## **Hierarchy of Costs Training Doc**

The valuation method of an item affects the order in which each type of cost is used in the Sales Order, Purchase Order, and Inventory Management modules.

In the Purchase Order module, the valuation method of an item determines what cost is used in Automatic Reorder Selection, Auto Generate Orders Selection, Purchase Order Entry, Receipt of Goods Entry, Return of Goods Entry, and Material Requisition Issue Entry. In the Purchase Order Module, the hierarchy begins with vendor prices levels. If vendor price levels do not exist, then the Vendor Last Cost in Inventory is used. If the Vendor Last Cost is zero or no vendor is assigned to the item, then the Last Cost is used. If the Last Cost is zero, then the cost hierarchy specified for each valuation method is followed.

NOTE For standard and average cost items in Purchase Order Entry, Receipt of Goods Entry, Return of Goods Entry (no purchase order specified), the cost hierarchy for each valuation method is followed. In Material Requisition Issue Entry (one-step) and material requisitions entered in Purchase Order Entry, the cost hierarchy for each valuation method is followed. In the Sales Order module, the valuation method of an item determines what cost is applied during the Sales Journal update. When using a pricing method that is a markup percentage or a markup amount and the standard cost is zero, then the cost hierarchy is followed to determine the unit price.

In the Inventory Management module, the valuation method of an item determines what cost is used in Inventory Transaction Entry for all transaction types.

### Valuation Methods

#### Standard Valuation

The standard cost from the Inventory master file is used. If the standard cost is zero, the unit cost defaults to

the last cost. If the last cost is zero, the unit cost defaults to the warehouse average cost. If the warehouse

average cost is zero, the unit cost defaults to the item average cost.

#### Average Valuation

The warehouse average cost from the Inventory master file is used. If the warehouse average cost is zero, the

unit cost defaults to the item average cost. If the item average cost is zero, the unit cost defaults to the last

cost. If the last cost is zero, the unit cost defaults to the standard cost.

### LIFO/Lot/Serial Valuation

The last cost from the Inventory master file is used. If the last cost is zero, the unit cost defaults to the standard cost. If the standard cost is zero, the unit cost defaults to the warehouse average cost. If the warehouse average cost is zero, the unit cost defaults to the item average cost.

### FIFO Valuation

The last cost from the Inventory master file is used. If the last cost is zero, the unit cost defaults to the standard cost. If the standard cost is zero, the unit cost defaults to the warehouse average cost. If the warehouse average cost is zero, the unit cost defaults to the item average cost.