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10 Easy Tips to Avoid NetSuite Negative Inventory

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Introduction

NetSuite negative inventory is something we see time and time again, unfortunately. It seems that no matter how vigilant you are, you still find yourself with a negative inventory. I know how frustrating that can be.

Negative inventory occurs when NetSuite shows that you do not have an item in stock (on-hand quantity) for which a sale is created. In other words, the data in NetSuite is showing that for a particular item, the inventory (on-hand quantity) is below zero.

Best practice dictates that you should avoid selling an item for which the on-hand count is less than or equal to zero.

But mistakes happen, sales transactions are created, and your numbers are out of balance.

When there is negative inventory, NetSuite has difficulty calculating the cost of the item on any sales transactions containing that item and that can lead to skewed reporting and inventory data.

In this post, we will be covering 10 easy tips to avoid NetSuite negative inventory so that you can maximize efficiency, decrease inventory management issues as well as reduce time and effort spent fixing issues after they occur.

Let's keep your inventory positive so you can focus on what really matters, your customers.

Why is NetSuite Negative Inventory Important?

When there is NetSuite negative inventory, costing information at the time of the sale is shifted to another date. This is extremely important to understand.

When there is NetSuite negative inventory, the estimated cost is calculated based on the last known cost when the item was in stock.

This doesn't sound so bad, but trust us when we say that it can be.

Use Case

Let's consider a use case where a Seller has entered the following:

- Invoice 001: January 31st, an invoice is entered for 10 widgets
 - Previous On-hand count: 0
 - Invoice: (10) widgets (minus)
 - Current On-hand count: (10) widgets

Based on the historical costing of the widget, the cost of goods sold is estimated at 5\$ each.

- Invoice 001

- COGS (**estimated**): $5\$ \times 10 = 50\$$

On February 5th, a Purchase Order is received for 10 widgets at 10\$ each ($10\$ \times 10 = 100\$$). **NetSuite enters an adjustment of 50\$ to correct the purchase price of the widgets.**

Can you see now how this could impact your inventory valuation and all of the financial reporting that goes with it? That's what I thought.

Furthermore, the impact of that adjustment can be spread across periods. In this case, we have a sale in the January period and a receipt in the February period. Thus, the adjustment is in the February period. This will skew financial reporting and you will have inaccurate results.

If you consider both periods together, it will all balance. But if you are looking at either January or February reporting separately, then there will be discrepancies.

Note: If an item has no purchase history, the COGS will be 0\$!

With negative NetSuite inventory, your data is not accurate and your records are most definitely going to raise eyebrows with the auditors.

10 Easy Tips to Avoid NetSuite Negative Inventory

To avoid NetSuite negative inventory, the best thing to do is to map out your inventory management processes to find the points of concern.

Here are 10 easy tips that can help once that is done:

- Create a warning for an item that is not in stock when entering a sales transaction.
- Create Item Receipts **when they are actually received.**
- When creating Item Receipts, **the date entered should be the date when the goods were received. Not the entry date of the transaction.**
- Create Sales Orders as sales transactions (instead of Invoices or Cash Sales).
- Create Item Fulfillments, **when the goods are actually fulfilled.**
- When creating Item Fulfillments, **the date entered should be the date when the goods were fulfilled. Not the entry date of the transaction.**

- Set the “Fulfill Based on Commitment” preference to **Limit to Committed** (for use with Sales Orders).
- Avoid entering standalone transactions (Invoices & Cash Sales).
- Use the Inventory Level Warnings preference (you can set that up by navigating to **Home -> Settings -> Set Preferences -> Transactions -> Inventory Level Warnings**).
- Perform a physical count of your inventory on a regular basis and compare it with NetSuite inventory levels. Adjust as necessary (**try to trace back in NetSuite what went wrong instead of creating Inventory Adjustments**)
- Use the Review Negative Inventory page to identify inventory items that are negative (you can get there by navigating to **Transactions -> Inventory -> Review Negative Inventory**).

Conclusion

Maybe you’ve been a victim of NetSuite negative inventory, and haven’t been able to implement a successful inventory management strategy. Give these tips a try, they are a great starting point for getting your inventory back under control. That’s what’s called having preventative measures in place to mitigate against NetSuite negative inventory. Start making your inventory work for you, not the other way around!