

Understanding the COGS Reconciliation Process

Last Modified on 01/03/2022 4:25 pm EST

This guide explains what the aACE COGS process does and how you can use it. It is intended for advanced users.

Note: This explanation of the cost of goods sold (COGS) process assumes that you understand the relationships between [aACE inventory lot, usage, and transaction records](http://aace5.knowledgeowl.com/help/understanding-the-relationship-among-inventory-lots-usage-and-transactions) (<http://aace5.knowledgeowl.com/help/understanding-the-relationship-among-inventory-lots-usage-and-transactions>).

The COGS process allocates inventory usage records to inventory lot records using the applicable actual cost method (e.g. FIFO, LIFO, or specific-unit logic). This enables aACE to determine the true cost of goods and to create the necessary COGS GL entries. The COGS reconciliation process requires that your aACE system is [set up for inventory tracking](http://aace5.knowledgeowl.com/help/setting-up-inventory-tracking) (<http://aace5.knowledgeowl.com/help/setting-up-inventory-tracking>).

COGS Process Walk-thru

Using a sample inventory product, we'll trace the three aspects of the COGS process:

1. Inventory Lots
2. Inventory Usage
3. COGS Entries

Inventory Lots

aACE generates inventory lot records whenever inventoried LICs are procured or produced.

For this example, the Inventory Lots module shows that we have received a partial shipment of ten textbooks into current inventory. There are 90 more still on order. Each textbook is valued at \$29.99. The Inventory COGS section at the bottom displays no entries.

Inventory Lot: TB-FRNCH3 (50039) OPEN

Purchase Inventory Lot Notices | Emails | Docs

General Info Serialized Track by Mfr Lot

Trans ID >	Date	Office >	Line Item Code >	Code Description	Reference #(s)
PO-50033	07/10/19	AI	TB-FRNCH3	J'Apprends: I Learn French 3rd Edition	

Ordered / Purchased			
	Quantity	Each	Value
Ordered	100	29.99	2,999.00
Purchased	0	29.99	0.00
Purchased Remaining	100		2,999.00

Ordered / Received		
	Quantity	Value
Ordered	100	2,999.00
Received	10	299.90
Received Remaining	90	2,699.10

Accrued Inventory		
	Quantity	Value
Received	10	299.90
Purchased	0	0.00
Accrued Inventory	10	299.90

Current Inventory		
	Quantity	Value
Received	10	299.90
Used	0	0.00
Current Inventory	10	299.90

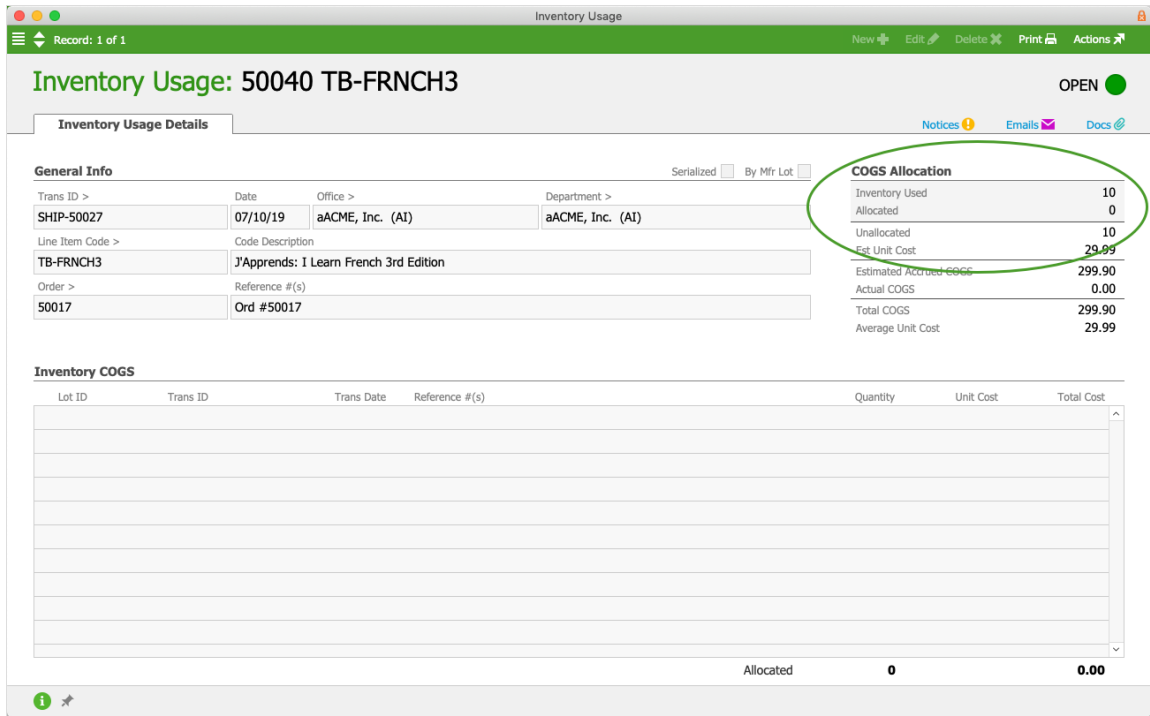
Inventory COGS *Note: The Est Unit Cost is used until the Act Unit Cost is final (i.e. the related PO is closed).*

Usage ID	Trans ID	Trans Date	Reference #(s)	Quantity	Est Unit Cost	Total Cost
Used				0		0.00

Inventory Usage

aACE generates inventory usage records whenever inventoried items are part of out-going shipments.

Continuing our example, suppose a sales order for ten textbooks is shipped. This creates the following inventory usage record, showing that ten units have been used, but none of them have been allocated. The Inventory COGS section at the bottom displays no entries.



COGS Entries

The COGS reconciliation process allocates inventory usage records to inventory lot records in order to calculate the actual cost.

When the COGS process runs, it updates the inventory usage record so the ten used units now show as allocated. The Inventory COGS section now displays the relevant inventory lot and purchase order.

Inventory Usage: 50040 TB-FRNCH3 CLOSED

Inventory Usage Details Notices | Emails | Docs

General Info Serialized By Mfr Lot

Trans ID >	Date	Office >	Department >
SHIP-50027	07/10/19	aACME, Inc. (AI)	aACME, Inc. (AI)
Line Item Code >	Code Description		
TB-FRNCH3	J'Apprends: I Learn French 3rd Edition		
Order >	Reference #(s) <i>Released to general inventory</i>		
50017	Ord #50017		

COGS Allocation	
Inventory Used	10
Allocated	10
Unallocated	0
Est Unit Cost	29.99
Estimated Accrued COGS	0.00
Actual COGS	299.90
Total COGS	299.90
Average Unit Cost	29.99

Inventory COGS

Lot ID	Trans ID	Trans Date	Reference #(s)	Quantity	Unit Cost	Total Cost
> 50039	> PO-50033	07/10/19		10	29.99	299.90
				Allocated	10	299.90

The COGS process also updates the inventory lot record. Current inventory has been depleted and the units are now noted as used. The Inventory COGS section now links to the relevant inventory usage and out-going shipment.

Inventory Lot: TB-FRNCH3 (50039) OPEN

Purchase Inventory Lot Notices | Emails | Docs

General Info Serialized Track by Mfr Lot

Trans ID >	Date	Office >	Line Item Code >	Code Description	Reference #(s)
PO-50033	07/10/19	AI	TB-FRNCH3	J'Apprends: I Learn French 3rd Edition	

Ordered / Purchased				Ordered / Received			
	Quantity	Each	Value		Quantity	Value	
Ordered	100	29.99	2,999.00	Ordered	100	2,999.00	
Purchased	0	29.99	0.00	Received	10	299.90	
Purchased Remaining	100		2,999.00	Received Remaining	90	2,699.10	

Accrued Inventory			Current Inventory		
	Quantity	Value		Quantity	Value
Received	10	299.90	Received	10	299.90
Purchased	0	0.00	Used	10	299.90
Accrued Inventory	10	299.90	Current Inventory	0	0.00

Note: The Est Unit Cost is used until the Act Unit Cost is final (i.e. the related PO is closed).

Inventory COGS

Usage ID	Trans ID	Trans Date	Reference #(s)	Quantity	Est Unit Cost	Total Cost
> 50040	> SHIP-50027	7/10/2019	Ord #50017	10	29.99	299.90
				Used	10	299.90

The COGS reconciliation process also makes entries in the General Journal, removing ten textbooks from inventory and expensing them to the GL account Cost of Sales:

General Journal - 2
Record: 1 of 1
New + Edit ✎ Delete ✕ Print 🖨 Actions ⚙

General Journal: 50011 COGS Reconciliation 07/10/2019 POSTED

COGS Reconciliation Details Notices 📢 Emails ✉ Docs 📄

General Info Auto-Generated Description

Type Reference ID

COGS

Entry Items Related GJ Entries

GL Account	Office	Department	Order	Line Item Code	Debit	Credit
1 > 5001 Cost of Sales	> AI	> AI	> 50017	> TB-FRNCH3	299.90	
2 > 1307 Textbook Inventory	> AI		> 50017	> TB-FRNCH3		299.90
Out Of Balance					299.90	299.90
						0.00

Out Of Balance 299.90 299.90 0.00

Running the COGS Process

The COGS reconciliation process typically runs as part of the Generate COGS Reconciliation [automation schedule](http://aace5.knowledgeowl.com/help/configuring-automation-schedules) (<http://aace5.knowledgeowl.com/help/configuring-automation-schedules>), but it can also be run manually.

COGS Process Automation

System administrators can set up your system to run the COGS process automatically (Menu > System Admin > Preferences > Automation Schedules). There are two schedules titled Generate COGS Reconciliation. By default, one schedule runs every Sunday evening, while the other runs on the last night of every month. These automated entries always use the current date for the resulting General Journal entries.

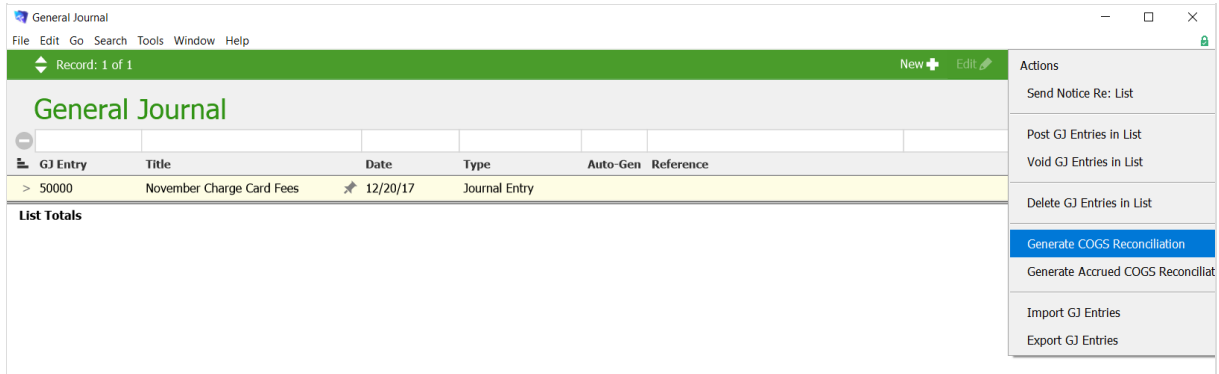
If you customize the timing of these schedules, be aware that they can take a long time to complete. We recommend running them *after* work hours in order to avoid interfering with users' daily workflows.

Manually Running the COGS Process

If you execute this process manually, remember to also run the Generate Accrued COGS Reconciliation (available in the same GJ Actions list). If you run the COGS Reconciliation process without running the Accrued COGS Reconciliation process, your financials may become skewed by the sales and costs from unallocated inventory usage being accounted for in different periods. Conversely, if you run the Accrued COGS Reconciliation process *without*

running the COGS Reconciliation process first, it may create accrued COGS entries for inventory usage records that could be allocated during the COGS reconciliation process.

1. Navigate from **Main Menu > Accounting > General Journal**.
2. At the list view, click **Actions > Generate COGS Reconciliation**.



3. If applicable, enter the **Limit-To Date** (see below for important details), then click **Yes**.

Limit-To Date

The Limit-To Date allows you to backdate a COGS reconciliation:

- **Limit-To Date used** – The process uses the specified date for the General Journal entry. It considers *all* inventory lot and inventory usage records dated *on or before* that date. Note: Including a Limit-To Date lengthens the processing time significantly and can tie up your machine for systems with larger data sets. We recommend starting the process at the end of the day when you leave your desk.
- **Limit-To Date blank** – The process uses the current date for the General Journal entry. It considers only inventory lot and inventory usage records that are new or have been changed since the last time the process was run. Note: Running the process without a Limit-To Date runs much faster, but on large data sets it may still slow down your machine.