# Reconciling Inventory with the GL

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This guide explains how to audit your inventory and reconcile inventory variances. It is intended for advanced users.

aACE tracks data that can help you identify problems in your business. Auditing inventory can both help you confirm accurate numbers and also identify weaknesses in your workflows. We recommend that you audit inventory quarterly.

This is a guide for auditing your inventory values as they compare to the general ledger. The goal is to reach a point where you can reconcile the value of the open inventory lots to the asset value for inventory in GL Accounts. By reconciling inventory with the GL, you will be able to explain any differences between these two values.

Since inventory and GL balances are moving targets, we recommend first conducting a preliminary audit in a backup copy of your system. This allows you to preview the accounting impact of the entries, identify data that needs to be fixed, and so forth. Then you can replicate the entire process in the live system with confidence.

## Steps of the Inventory GL Audit Process

- 1. <u>Review the Underlying Concepts</u> (https://aace5.knowledgeowl.com/help/reconciling-inventory-with-thegl#ReviewTheUnderlyingConcepts)
- 2. <u>Run the COGS Process Twice</u> (https://aace5.knowledgeowl.com/help/reconciling-inventory-with-thegl#RunTheCOGSProcessTwice)
- 3. <u>Resolve Unallocated Inventory Usage</u> (https://aace5.knowledgeowl.com/help/reconciling-inventory-with-thegl#ResolveUnallocatedInventoryUsage)
- 4. <u>Eliminate Accrued COGS</u> (https://aace5.knowledgeowl.com/help/reconciling-inventory-with-the-gl#EliminateAccruedCOGS)
- 5. <u>Reconcile Inventory Lots and GL Inventory Account(s)</u> (https://aace5.knowledgeowl.com/help/reconcilinginventory-with-the-gl#RecInvLotsAndGLInvAccounts)
- 6. <u>Reconcile Products with Variances</u> (https://aace5.knowledgeowl.com/help/reconciling-inventory-with-thegl#ReconcileProductsWithVariances)
- 7. <u>Reverse Manual Entries</u> (https://aace5.knowledgeowl.com/help/reconciling-inventory-with-the-gl#ReverseManualEntries)
- 8. <u>Resolve Incorrectly Assigned Asset Accounts</u> (https://aace5.knowledgeowl.com/help/reconciling-inventory-withthe-gl#ResolveIncorrectlyAssignedAssetAccounts)
- 9. <u>Confirm Results</u> (https://aace5.knowledgeowl.com/help/reconciling-inventory-with-the-gl#ConfirmResults)

## 1. Review the Underlying Concepts

This guide assumes that you are conversant with the following aACE concepts:

## **Understand the Quantity Values**

Correctly interpreting the audit and resolving issues depends on your understanding of inventory lot, usage, and transaction quantities:

Inventory Transactions On Hand balance	=	Inventory Lot quantities (source of goods)	-	Inventory Usage quantities (use of goods)
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If needed, review the <u>relationships between inventory lot</u>, <u>usage</u>, <u>and transaction records</u> (http://aace5.knowledgeowl.com/help/understanding-the-relationship-among-inventory-lots-usage-and-transactions).

## Understand Unallocated Inventory Usage

Unallocated inventory usage is when the <u>COGS Reconciliation process</u> (http://aace5.knowledgeowl.com/help/understanding-the-cogs-reconciliation-process) cannot find an inventory lot record to associate with an inventory usage record.

If needed, review the details of <u>unallocated inventory usage</u> (http://aace5.knowledgeowl.com/help/understanding-unallocated-inventory-usage) and of <u>resolving unallocated inventory</u> usage with inventory adjustments (http://aace5.knowledgeowl.com/help/resolving-unallocated-inventory-usage).

## **Understand Accrued COGS**

Unallocated inventory usage represents the use of a product that cannot be accurately accounted for as a cost of goods sold (COGS) entry in the GL because an inventory lot cannot be found. However, *not* accounting for the cost of this usage in some way carries the immediate risk of skewing your financials.

The <u>accrued COGS reconciliation process</u> (http://aace5.knowledgeowl.com/help/understanding-the-accrued-cogsreconciliation-process) minimizes the potential impact of unallocated inventory usage by creating temporary entries in the GL for the estimated COGS. These entries are automatically reversed once the true cost is found.

# 2. Run the COGS Process Twice

#### Manually run the COGS reconciliation process (http://aace5.knowledgeowl.com/help/understanding-the-cogs-

reconciliation-process#ManuallyRunCOGS), entering today's date for the Limit-To Date. Entering a Limit-To Date causes the process to evaluate *every* inventory lot record in the system. Depending on the amount of data in your system, this process may take a substantial amount of time to complete. Be sure to plan accordingly.

After the first process is complete, run the COGS reconciliation process again *without* a Limit-To Date, which should run relatively quickly. This second run without the Limit-To Date helps ensure that any post-dated records are evaluated.

Note: Throughout your audit process, you will also need to re-run the COGS reconciliation process any time you create or adjust inventory transactions. These ad-hoc reconciliations do not need to have the Limit-To Date set, so they should run quickly.

# 3. Resolve Unallocated Inventory Usage

Review the Inventory Usage module to find and resolve any <u>unallocated inventory usage</u> (http://aace5.knowledgeowl.com/help/understanding-unallocated-inventory-usage). Remember that unallocated usage is a symptom of an underlying problem with your business processes or data. Be sure to identify and correct the root causes.

Note: If this step required you to create or adjust any inventory transactions, re-run the COGS reconciliation process.

## 4. Eliminate Accrued COGS

After you resolve unallocated inventory usage, it may be necessary to zero out accrued COGS entries in your system (if any).

To determine whether your system has accrued COGS entries, navigate to the General Journal module, set the Type search field to "Accrued COGS", and click the Search icon ( <a>o</a> ).

•••				General Journ	al						<b>_</b>
🔶 Record:	: 1 of 4					N	ew 🕂 🛛 Edit 🖋		Print 🖶	Actions	<b>7</b>
Gene	ral Journal										
0			Accrued COGS							(	۹ 🗸
GJ Entry	Title	Date	Туре	Auto-Gen	Reference			Amount	Status		
> 50000	Accrued COGS Reconciliation	* 07/30/19	Accrued COGS	<ul> <li>Image: A second s</li></ul>				270.00	POSTED	0,	ज्ञ – <sup>1</sup> रू
> 50001	Accrued COGS Reconciliation	# 06/28/19	Accrued COGS	<ul> <li>Image: A second s</li></ul>				300.00	POSTED	$\bigcirc$	- FR
> 50003	Accrued COGS Reconciliation	* 07/30/19	Accrued COGS	<ul> <li>Image: A second s</li></ul>				300.00	POSTED	$\bigcirc$	<del>ज्</del> र –
> 50004	Accrued COGS Reconciliation	* 08/06/19	Accrued COGS	<ul> <li>Image: A second s</li></ul>				1,574.40	POSTED	0,	<u>,</u> , , , , , , , , , , , , , , , , , , ,
List Totals								2,444.40			
Show All	Exclude Auto-Generated Entries from List	Related Records	•							3	¢-

If the search shows any Pending entries, delete them. If there are any Posted entries, manually run the <u>accrued COGS reconciliation process</u> (http://aace5.knowledgeowl.com/help/understanding-theaccrued-cogs-reconciliation-process#ManuallyRunAccruedCOGS) with the Limit-To Date left blank. (As noted above, leaving this date blank focuses on records that have changed since the last time the process was run, resulting in a quicker process.) This reverses any accrued COGS entries associated with the previously unallocated inventory usage you resolved in Step #3.

If there are no accrued COGS entries in your system, proceed to Step 5.

## 5. Reconcile Inventory Lots and GL Inventory Account(s)

Your goal with this audit process, as mentioned earlier, is to explain the variance between the value of the open inventory lots and the asset value for inventory in your GL accounts. The overall strategy is to identify products that have the greatest variance (with Step #5) and then resolve those issues (with Step #6). Then we will repeat these two steps for additional products. This iterative approach is helpful because correcting the issues for one product sometimes resolves other variances.

You can easily identify products that have variance by <u>generating the Inventory Lot / GL</u> <u>Reconciliation Report</u> (https://aace5.knowledgeowl.com/help/reconciling-inventory-with-thegl#GenerateTheInventoryLotGLReconciliationReport</u>).

### Understanding the Inventory Lot / GL Reconciliation Report

This report compares the inventory lot value for each product listed with the corresponding values in the GL, presenting the results in five columns. The following screenshot shows that the French textbooks have some variances. The total values are displayed on the last page of the report:

Inventory Lat / GL Reconciliation by Type Code as of 08/16/2010

						Acceld COCC
Description	Line Item Code	Lot Value	GL Value	Varlance	True GL Var*	
Brush		120.00	120.00	0.00	0.00	0.00
1/2" Hake Brush	Se-B-H	50.00	50.00	0.00	0.00	0.00
Goat hair bamboo brush size 4	Se-B-G4	40.00	40.00	0.00	0.00	0.00
Rabbit hair bamboo brush size 1	Se-B-R1	10.00	10.00	0.00	0.00	0.00
White bristle bamboo brush size 2	Se-B-WB2	20.00	20.00	0.00	0.00	0.00
Finished Goods		0.00	0.00	0.00	0.00	0.0
Printer Pack Special	HP-PPS-IAI	0.00	0.00	0.00	0.00	0.0
Printer		390.00	390.00	0.00	0.00	0.0
HP 250 Printer	HP250	90.00	90.00	0.00	0.00	0.0
HP 290 Printer	HP290	100.00	100.00	0.00	0.00	0.0
HP 300 Printer	HP300	200.00	200.00	0.00	0.00	0.0
Technology		1,491.89	1,491.89	0.00	0.00	0.0
Dry Erase Markers	Tech-001d	8.99	8.99	0.00	0.00	0.0
Electronic Whiteboard Connection Panel	Tech-003b	49.95	49.95	0.00	0.00	0.0
Electronic Whiteboard Screen	Tech-003a	399.99	399.99	0.00	0.00	0.0
Electronic Whiteboard, mounted	Tech-002x	0.00	0.00	0.00	0.00	0.0
Electronic Whiteboard, refurbished	Tech-003	0.00	0.00	0.00	0.00	0.0
Mounting Kit	Tech-002b	4.99	4.99	0.00	0.00	0.0
Student Tablet, 7" case	Tblt-7C	12.99	12.99	0.00	0.00	0.0
Student tablet, 7" screen	Tblt-1	300.00	300.00	0.00	0.00	0.0
Student Tablet, 8" case	Tblt-8C	14.99	14.99	0.00	0.00	0.0
Student Tablet, 8" screen	Tblt-2	300.00	300.00	0.00	0.00	0.0
Student Tablet, 9" Screen	Tblt-3	399.99	399.99	0.00	0.00	0.0
Textbook		3,244.01	1,857.40	1,386.61	1,459.09	0.0
Astronomy for Beginners, 4th Edition	TB-SCI4	149.99	149.99	0.00	0.00	0.0
Beowulf - A New Translation and Commentary	TB-Lit130	39.99	39.99	0.00	0.00	0.0
Complete Poems of Gerard Manley Hopkins	TB-Lit120	29.99	29.99	0.00	0.00	0.0
Introduction to Computer Science	X-50003	0.00	0.00	0.00	0.00	0.0
J'Apprends: I Learn French 3rd Edition	TB-FRNCH3	1,277.51	1,349,99	(72.48)	0.00	0.0
J'Apprends: I Learn French Teacher's Manual	TM-FRNCH3	74.99	74.99	0.00	0.00	0.0
J'Apprends: I Learn French Workbook	WB-FRNCH3	1,459.09	0.00	1,459.09	1,459.09	0.0
Lab notebooks / journals	Ntbk-011	2.50	2.50	0.00	0.00	0.0
Middle Grade Math 6th Edition	TB-MTH6	24.99	24.99	0.00	0.00	0.0
Middle Grade Math 7th Edition	TB-MTH7	24.99	24.99	0.00	0.00	0.0
Shakespeare's Comedies	TB-Lit104	39.99	39.99	0.00	0.00	0.0
Shakespeare's Tragedies	TB-Lit106	39.99	39.99	0.00	0.00	0.0
The Complete Works of Shakespeare	TB-LIT102	79.99	79.99	0.00	0.00	0.0

"Lot Qty" is based on related inventory lots; "Lot Value" is based on related inventory lots; and "GL Value" is based on general ledger activity. This report is sub-summarized by LI Code Type.

\*True GL Var: Inventory lots use the Estimated Unit Cost of the related PO until the PO is closed. However, this can cause a perceived reconciliation error while the PO is open if inventory is purchased at a different unit cost. It's also possible for purchased-but-not-received inventory for closed POs to create perceived errors in lots. The "True GL Var" value takes these values into consideration.

This report excludes "Accrued COGS" in its GL Value calculation.

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## Inventory Lot / GL Reconciliation by Type, Code as of 08/16/2019

Description	Line Item Code	Lot Value	GL Value	Variance	True GL Var*	Accr'd COGS
Toner		45.00	45.00	0.00	0.00	0.00
HP 200 Series Toner Cartridge	HP200T	20.00	20.00	0.00	0.00	0.00
HP 250 Series Toner Cartridge	HP250T	25.00	25.00	0.00	0.00	0.00
Grand Total		5,290.90	3,904.29	1,386.61	1,459.09	0.00

Understanding what the columns of this report represent can help you interpret it correctly.

#### Lot Value Column

This column displays the sum of ~Current Values in each listed product's open inventory lots.

To manually calculate this total value, navigate to the Inventory Lots module and click the footer link to Find Open Inventory Lots. The total value is displayed at the bottom of the list. This screenshot shows that the module also has the total value for open inventory lots as \$5,290.90.

•••					Inventory	/ Lots								
🔷 Record	1: 1 of 48											Print 🖶	Actions 🛪	
Inve	ntory Lots Uns	orted												
0													Q	•
Lot	Line Item Code	Transaction ID	Date 00/15/19	Office	Ref #(s)	7	Lot Qty	Lot Value	Curr Qty	~Curr Value	Accr Value	Status		_
> 50041	> HP250	> PO-50006	08/15/19	AI		*	1	90.00	1	90.00	0.00	OPEN	₩.	-
> 50042	> HP290	> PO-50006	08/15/19	AI		*	1	100.00	1	100.00	0.00	OPEN	۳ 🔴	-
> 50043	> HP200T	> PO-50006	08/15/19	AI		*	1	20.00	1	20.00	0.00	OPEN	اتر 🔴	-
> 50044	> HP250T	> PO-50006	08/15/19	AI	6151615161	*	1	25.00	1	25.00	0.00	OPEN	اتر 🔴	-
> 50045	> HP300	> PO-50006	08/15/19	AI	02020	*	1	200.00	1	200.00	0.00	OPEN	۳ 🔴	-
> 50046	> Tech-001d	> PO-50006	08/15/19	AI	94123	*	1	8.99	1	8.99	0.00	OPEN	۳ 🔴	-
> 50047	> TB-SCI4	> PO-50006	08/15/19	AI		$\star$	1	149.99	1	149.99	0.00	OPEN	۳ 🔴	-
List Totals							493	16,507.53	204	5,290.90	0.00	1		
										$\sim$				
Show All	Find Open Inventory Lots	Related Records 💌												

You can also manually calculate the inventory lot value for a single product — in the Inventory Lots module, search the Line Item Code field for the LIC's code:

					Inventory Lots				_	_		_		
🔶 Record: :	1 of 6									New 🖶 🛛 Edit 🖉	Delete 🗶	Print 🖶	Action	s 🖈
Inven	tory Lots Sorte	ad by Line Item Code												
	WB-FRNCH3	eu by Line Rein Code												Q .
Lot	Line Item Code	Transaction ID	Date	Office	Ref #(s)	Lo	t Qty	Lot Value	Curr Qty	~Curr Value	Accr Value	Status		
WB-FRNCH3	J'Apprends: I Learn Fr	ench Workbook												
> 50002	> WB-FRNCH3	> PO-50000	08/15/19	AI	k	t i	30	599.70	0	0.00	0.00	CLOSED	0	Ā
> 50009	> WB-FRNCH3	> PO-50001	08/15/19	AI	k	t i	30	479.70	0	0.00	0.00	CLOSED	0	۳,
> 50012	> WB-FRNCH3	> PO-50002	08/15/19	AI	k	t i	30	479.70	0	0.00	0.00	CLOSED	0	۳ <sub>κ</sub>
> 50015	> WB-FRNCH3	> PO-50003	08/15/19	AI	k	t i	5	109.95	0	0.00	0.00	CLOSED		7
> 50017	> WB-FRNCH3	> PO-50005	08/15/19	AI	k	t i	90	1,439.10	90	1,439.10	0.00	OPEN		r,
> 50026	> WB-FRNCH3	> PO-50006	08/15/19	AI	k	t i	1	19.99	1	19.99	0.00	OPEN		PK.
WB-FRNCH3 J'A	pprends: I Learn French Wo	orkbook					186	3,128.14	91	1,459.09	0.00	)		
List Totals							186	3,128.14	91	1,459.09	0.00	)		
Show All	Find Open Inventory Lots	Related Records V												

#### GL Value Column

This column displays the sum of the asset entries for the product in the GL (excluding

<u>accrued COGS entries</u> (http://aace5.knowledgeowl.com/help/understanding-the-accrued-cogs-reconciliation-process), which function as temporary placeholders).

To manually calculate this total value, navigate to the GL Accounts module and locate the primary inventory account (e.g. Inventory Assets). This screenshot shows that the module also has the total balance in the Inventory Assets account as \$3,904.29.

Record: 1 of	f 93		New 🖶	Edit 🖋 Delete 🗶 🏻 Print 📇	Actions 🖈
GL Acc	ounts Sorted by Account ID			AI Office	Only
				ACTIVE	Q 1
Account	Account Name	Account Type	Cash Flow Section	Balance Status	
> 1204	Due from AI (A/R)	Receivables		ACTIVE	- Fr 🔴
> 1205	Due from FE (A/R)	Receivables		ACTIVE	- Fr 🔴 -
> 1300	Inventory Assets	Inventory		3,904.29 ACTIVE	- Fr 🔴
1301	Uncategorized Inventory	Inventory	Other Assets	3,901.79 ACTIVE	- Fr 🔴
1303	Work In Process	Inventory	Other Assets	ACTIVE	۳ 🕞
1304	Raw Materials	Inventory	Other Assets	ACTIVE	۳ 🕞
1305	Finished Goods	Cash	Other Assets	ACTIVE	۳
1306	Inter Office Inventory Transfers	Cash	Other Assets	ACTIVE	下 🔴
1307	Textbook Inventory	Inventory		2 50 ACTIVE	<b>•</b> 3

You can also manually calculate the asset GL Value for a single product — in the General Ledger module, search the Account field for "1\*" and the Line Item Code field for the LIC's code. Searching for "1\*" (see screenshot below) uses the asterisk is an <u>operator</u>

(http://aace5.knowledgeowl.com/help/using-search-operators-for-better-results) that represents any number of additional characters. This search will display all GL accounts that begin with a '1', which is the asset series:

•							General Lo	edger							-
÷	Record: 1	of 5									New 🖶 🛛 Edit	🖋 🛛 Delete 🗶	Print 🖶	Actions ;	۳,
(	Genera	al Ledger										AI O	ffice	Only	y
0	1*						Ntbk-011							C	<b>1</b> -
≞.,	Account	Transaction ID		Date	Office	Dept	Line Item Code $\ \ \bigcirc$	Order	PO	Debit	Credit	Debit Balance	Status		
>	1305	> PO-50001	*	08/05/19	AI	AI	> Ntbk-011		> 50001	250.00		250.00	OPEN	k 🕘 🗌	- 5
>	1305	> PUR-50001	*	08/05/19	AI	AI	> Ntbk-011		> 50001	250.00		250.00	OPEN	k 🔴	- 5
>	1305	> PO-50001	*	08/05/19	AI	AI	> Ntbk-011		> 50001		250.00	250.00 CR	OPEN	k 🕘	- 5
>	1305	> PUR-50009	*	08/07/19	AI	AI	> Ntbk-011		> 50007	250.00		250.00	OPEN	k 🕘	- 5
>	1305	> PO-50007	*	08/07/19	AI	AI	> Ntbk-011		> 50007		250.00	250.00 CR	OPEN	k 🕘 🗌	- 5
List	Totals									750.00	500.00	250.00			
s	Show All	Constrain to B/S Account		Constrain to I	/S Accounts	Constrain	to Inventoried Items Or	nit Inventoried	items Omit A	uto-Generated GJ E	ntries Relat	ted Records			

If your system has <u>accrued COGS</u> (http://aace5.knowledgeowl.com/help/understanding-the-accrued-cogs-reconciliation-process) features enabled, you must exclude any accrued COGS entries in order to get an accurate value. For small data sets, you can manually remove the transactions associated with accrued COGS. For larger data sets, it is easier to use an Advanced Search query using these three criteria:

- 1. General Ledger section, General Info Notes field "Accrued COGS"
- 2. Matching Records toggle **Omit**
- 3. FM Menu Bar Search > **Constrain Found Set**

ile Edit	Search Tools Wir	ndow	Help							5	* ≈ ▲ ◄
	Add New Request	ЖN				General L	.edger				
< >	Duplicate Request Delete Request	¥D ж≪	<b>Q</b> <sup>+</sup> <b>C</b>		Q	×					<b>*</b> *
	Go to Request	•	New Request Delete I		Perform Find						Saved Fir
ayout: GL:	Find All Records	жJ	Matching Record		Omit Insert:	Operators					
Advance	Saved Finds	•		2		Record ID	۹	Created Q		Modified Q	
Gen	Perform Find	-		Transa	ction Source Typ	9		Transaction Record Type	٩	General Ledger Stat	ue Q
General	Constrain Found Se	13		11 d113d	cuon source ryp	e .		Transaction Record Type	Accrued COGS	General Leuger Stat	us -
Account II	Extend Found Set		Date Offic	ce Abbr Der	ot Abbr	Line Item Co	de	Order ID	Debit	Credit	Debit Balance
Q	Cancel Find	ЖΒ	Q 🗉 Q	Q		Q.		Q	Q Q		Debie balance
	count General Info								Q Notes		
Account ID	Account Name		Account Type	Bank Ac	count Number	Header /	Account ID	Header Account Name	Header Account Type	Cash Cro	edit Card Bank
General	ted Orders							Order Record Type	Q Notes	Order Stat	
Order ID			Order Date				Order Title				
Bill To				2017-0-01			Ship To	100 Day 204 2			
Company	Туре		Group	Sub	group		Company Q	Type	Group	Subgrou	p
Billing A	ddress						Shipping A	ddress			
Q Title							Q Title				
Q Street							Q. Street				
Q. City			Q State or Prov	C	Postal Code		Q City		Q State or Prov	Q Po	stal Code
Q Country	У		Q Postal Format				Q Country		9 Postal Format		
	ted Compa	ny								Company Stat	us Q
Company				۵ŀ	hr	Type		Group		Subaroun	
Log Entry	Q.										

#### Variance & True GL Var Columns

These two columns are calculated for each inventoried item using separate formulas:

- Variance: Inventory Lot ~Curr Value GL value Note: ~Curr Value = inventory lot Curr Qty \* inventory lot unit cost
- True GL Var: Purchased/Produced Value + Accrued Value COGS Value

This slight difference in calculations is designed to highlight variances resulting from the <u>unit</u> <u>cost calculation (https://aace5.knowledgeowl.com/help/understanding-the-unit-cost-logic-in-the-cogs-reconciliation-process)</u> for open POs. For more details on how this calculation can affect variances, see Step #6 Example #1.

Note that a value in the Variance column *might not* signify an error — a PO may need to stay open for additional purchasing or receiving activity, as illustrated in the aforementioned example.

In contrast, a value in the True GL Var column *always* signifies an error, since the values used for this calculation (in the inventory lot) should have equivalent values in the general ledger.

#### Accrued COGS Column

This column displays the sum of <u>accrued COGS entries (http://aace5.knowledgeowl.com/help/understanding-the-</u>

<u>accrued-cogs-reconciliation-process</u>) (if any) associated with the product. Because in Step #4 of this process you reversed accrued COGS entries, this column should typically be zero.

### Generate the Inventory Lot / GL Reconciliation Report

When you run this report from the Line Item Codes module list view, it generates results for the items currently shown in the list. This enables you to generate quicker reports on smaller found sets. However, be sure your found set includes both active and inactive versions of the desired LICs because inactive items may still be affecting the GL balances. You can also run the report from the detail view to inspect variances for a single item.

1. Locate the desired found set of LICs.

Note: If you are conducting a full audit, click the footer link to **Find Inventoried Items**.

- In the menu bar, click Print > Open Report Selector > Inventory Lot / GL Reconciliation by Type, Code.
- 3. From the Omit Variance dialog, enter the amount of variance that can be ignored, then click **OK**. (See below for details.)

00	Message	
Please enter an option this report.	al maximum variance value to omit from	
•	lude all categories regardless of variance. Il categories with a 0.00 variance.	
Omit Variance		
	ОК	

4. Enter a title for the report and click **Continue**.

The Omit Variance dialog allows you to constrain the report to products with a total variance *greater than* the Omit Variance value. It enables you to exclude products with small differences between the inventory lot value and the GL inventory account value (e.g. variances of less than a dollar, which are often due to rounding differences). This helps focus attention on problem records. (Note: If you leave the Omit Variance field blank, the report will include *all* products in the current found set.)

We recommend initially running the report with an Omit Variance value of "1" to exclude products with a variance less than \$1.00. If using "1" yields too many records to work with effectively, you can re-run the report with a larger Omit Variance value. This will winnow

the list to a smaller number of products, which you can then audit one-by-one.

For each product with a meaningful variance, conduct an audit using the instructions in Step #6 below. As you resolve the variance with one product, it may resolve others. We recommend starting with products that have a higher variance value since larger errors are often easier to identify and are more likely to have a significant impact on your financials.

## 6. Reconcile Products with Variances

To help audit a specific inventoried item, aACE provides the Detailed Inventory Lot Reconciliation Report. This report helps clarify the cause of inventory problems because the product-level discrepancy you are looking for often arises from one of these four sources of error:

- COGS The cost of goods sold in the open inventory lots is at variance with the GL.
- Pur/Prd Value The purchased/produced value in the open inventory lots is at variance with the GL.
- Accrued Value The accrued value in the open inventory lots is at variance with the GL.
- Act/Rcvd Value The purchased/produced value in the open inventory lots is at variance with the value of inventory received.

> 1	1 Total	<b>A</b>						
Pag			Print Page Setup					
: INVTRYLor R	eport 🗸 View As: 🗆 📰 🛛 Exit F	Preview						
			<b>_</b>					
Detailed	Inventory Lot Recon							
		cog		Pur/Prd V				<ul> <li>Act/Rcvd Value —</li> </ul>
Code (Lot ID)	Code Name (Tran. Ref)	Amount	GL Variance	Amount	GL Variance	Amount	GL Varlance	Act vs. Rcvd Var
HP200T	HP 200 Series Toner Cartridge	0.00	0.00	20.00	0.00	0.00	0.00	0.00
50027	PO-50001	0.00	0.00	20.00	0.00	0.00	0.00	0.00
Grand Total		0.00	0.00	20.00	0.00	0.00	0.00	0.00

## Generate the Detailed Inventory Lot Reconciliation Report

- 1. From the Inventory Lots module list view, locate all the inventory lot records for a single product.
- 2. In the menu bar, click Print > Open Report Selector > Detailed Inventory Lot

#### **Reconciliation Report.**

3. Enter a title for the report and click **Continue**.

This report highlights variances in inventory lots. You can often identify the cause of an error by examining the related transactions. If you identify and resolve an error, you should also implement a long-term solution to prevent future problems.

### **Examples of Resolving Variances**

Many variances are easy to identify and resolve by reviewing the related records. When reviewing transactions, it's helpful to ask the following questions:

- Are there missing records, such as incoming shipments that weren't entered?
- Are there incomplete transactions, such as open purchase orders that should have been closed?
- Are there erroneous transactions, such as Beginning Balance adjustments that credit an inventory account?
- Are there incorrect configurations, such as LICs with GL cost accounts specified in the Inventory Account field?

One type of problem will often affect multiple records/transactions and cause multiple variances. Once you identify and correct the first instance, you should review your system for additional records or transactions with the same problem.

### Example 1: Act/Rcvd Value Variance – Act vs Est Unit Cost from Open PO

#### Summary

The most common source of variance in the Act/Rcvd Value column arises from a difference between the estimated unit cost in the PO and the actual unit cost in the related purchase(s). While the PO is open, an inventory lot's ~Current Value is calculated using the PO's estimated unit cost, but if the inventory is purchased at a different unit cost, it creates a temporary variance. When the PO is closed, the inventory lot's value is recalculated using the actual purchase amount and the variance disappears.

#### **Example Situation**

Suppose aACME Education created a PO for 50 textbooks with a unit cost of \$25.99. This creates an inventory lot record:

Date 08/15/19	Office >	Line Item Code >	Code Description	Reference		Track by Mfr Lot
			Code Description	Reference		Track by Mfr Lot
			Code Description	Reference	41/->	
08/15/19	AI				#(S)	
		TB-FRNCH3	J'Apprends: I Learn French 3rd Edition			
	-		Ordered / Received			
						Value
						1,299.50
						0.00
	50	1,299.50	Received Remaining	50		1,299.50
			Current Inventory			
						Value
						0.00
						0.00
	0	0.00	Current Inventory	0		0.00
			Note: The Est Unit Cost is use	d until the Act Unit Cost	is final (i.e. the relat	ed PO is closed).
D	Trans Date	Reference #(s)		Quantity E	Est Unit Cost	Total Cost
		Quantity 50 0 50 Quantity 0 0 0	50         25.99         1,299.50           0         0.00         0.00           50         1,299.50         1,299.50           Quantity         Value         0           0         0.00         0.00           0         0.00         0.00	Quantity         Each         Value           50         25.99         1,299.50         Ordered           0         0.00         1,299.50         Received           50         1,299.50         Received         Current Inventory           Quantity         Value         Value         Current Inventory           Quantity         Value         Value         Current Inventory           0         0.00         Used         Used	Quantity         Each         Value         Quantity         Quantity           50         25.99         1,299.50         Ordered         50           0         0.00         1,299.50         Received         0           Quantity         Value         Value         0           Quantity         Value         0         0           Quantity         Value         Current Inventory         50           Quantity         Value         Value         Quantity           Quantity         Value         0         0           Quantity         Value         Quantity         Quantity           Quantity         Quantity         Quantity         Quantity	Quantity         Each         Value         Quantity         Quantity           50         25.99         1,299.50         Ordered         50           0         0.00         1,299.50         Received         0           50         1,299.50         Received Remaining         50           Current Inventory           Quantity         Value         Quantity           Quantity         Value         Quantity           Quantity         Value         Quantity           Quantity         Value         Quantity           Quantity         Value         Quantity

However, the vendor has trouble filling the order and is only able to ship 48 textbooks at a slightly higher cost of \$27.50. When the purchase is recorded and the partial shipment is received, aACE updates the inventory lot. But the PO remains open because POs with any variance between the expected and actual quantities do *not* auto-close. With the PO still open, the initial estimated unit cost (in bold) is still used. The note displayed in the lower-right also highlights this detail:

Purchase Inve							Notices 🔒	Emails 🞽	Doc
							Nouces 😈	Emails -	DOC
General Info							Serialized	Track b	y Mfr Lot
Trans ID >	Date	Office >	Line Item C	lode >	Code Description	Referen	ce #(s)		
PO-50004	08/15/19	AI	TB-FRNCH	-13	J'Apprends: I Learn French 3rd Edit	tion			
			_						
Ordered / Purchas	sed	Quantity	Each	Value	Ordered / Received	Quantity			Valu
Ordered		50	25.99	1,299.50	Ordered	50			1,299.5
Purchased		48	27.50	1,320.00	Received	48			1,247.5
Purchased Remaini	ng	2		51.98	Received Remaining	2			51.98
Accrued Inventory	1				Current Inventory				
		Quantity		Value		Quantity			Valu
Received		48		1,247.52	Received	48		:	1,247.5
Purchased		48		1,320.00	Used	0			0.0
Accrued Inventory		0		0.00	Current Inventory	48		:	1,247.5
Inventory COGS					Note: The Est Unit Cost is				
inventory cods		Trans Date	Reference #(	->	Note: The Est Onic Cost is	Occupation	Ech Lipit Coch		s closed).
Lisses ID			Reference #()	5)		Quartery.	EDE OTHE ODDE		rear cost
Usage ID	Trans ID	Turio Date							

Audit Reports Highlighting This Variance

The Inventory Lot / GL Reconciliation Report shows the variance — the GL value is \$72.48 higher than the inventory lot value. In contrast, the True GL Var column is \$0.00 because the purchase value matches the GL value.

> 1 1 Total		ē	1.			
	ve as Excel Save as PDF	Print Page	Setup			
CAT: Invenciliation 🗸   View As: 🖂	Exit Preview					
nventory Lot / GL Re	conciliation b	v Type, C	ac aho	of 08/1	5/2019	
Description	Line Item Code	Lot Value	GL Value	Variance		Accr'd COGS
extbook	Line Kem Code	1.247.52	1,320.00	(72.48)	0.00	0.00
J'Apprends: I Learn French 3rd Edition	TB-FRNCH3	1,247.52	1,320.00	(72.48)		0.00
		1,247.52	1,320.00	(72.48)	0.00	0.00
Grand Total						
Grand Total		1,247.52	1,020100	$\sim$		
Grand Total		1,247.52	.,	$\bigcirc$		
Srand Total		1,247.32	1,020100			
Srand Total		1,247.32	1,020100			

The Detailed Inventory Lot Reconciliation Report also shows the \$72.48 variance. The report also includes a note adjacent to the PO transaction reference (e.g. "PO-50004") that the estimated unit cost is being used. This helps you quickly identify instances where the cause of the variance could be an open PO:

(Lot ID)         Code Name (Tran. Ref)         Amount         GL Variance         Amount         GL Variance         Amount         GL Variance         Act vs. Ref           NCH3         J'Apprends: I Learn French 3rd Edition         2,569.05         0.00         3,889.05         0.00	COGS         Pur/Prd Value         Accrued Value         Accrued Value         Act/Rcvd Value           unt         GL Variance         Amount         GL Variance         Act/s. Rcvd Var           005         0.00         3,889.05         0.00         0.00         72.48           170         0.00         899.70         0.00         0.00         0.00         0.00           170         0.00         779.70         0.00         0.00         0.00         0.00           170         0.00         779.70         0.00         0.00         0.00         0.00
NCH3 J'Apprends: I Learn French 3rd 2,569.05 0.00 3,889.05 0.00 0.00 0.00 0.00 Edition	0.05         0.00         3,889.05         0.00         0.00         0.00         72.48           1.70         0.00         899.70         0.00         0.00         0.00         0.00           1.70         0.00         779.70         0.00         0.00         0.00         0.00           1.70         0.00         779.70         0.00         0.00         0.00         0.00           1.70         0.00         779.70         0.00         0.00         0.00         0.00
Edition	70         0.00         899.70         0.00         0.00         0.00           70         0.00         779.70         0.00         0.00         0.00         0.00           70         0.00         779.70         0.00         0.00         0.00         0.00
00 PC-50000 899.70 0.00 899.70 0.00 0.00 0.00	70         0.00         779.70         0.00         0.00         0.00         0.00           70         0.00         779.70         0.00         0.00         0.00         0.00
	.70 0.00 779.70 0.00 0.00 0.00 0.00
07 PO-50001 779.70 0.00 779.70 0.00 0.00 0.00	
10 PO-50002 779.70 0.00 779.70 0.00 0.00 0.00	95 0.00 109.95 0.00 0.00 0.00
13 PO-50003 109.95 0.00 109.95 0.00 0.00 0.00	100 100 0.00 0.00 0.00 0.00
16 PO-50004 Est Unit Cost 0.00 0.00 1,320.00 0.00 0.00 0.00 0.00	.00 0.00 1,320.00 0.00 0.00 0.00 72.48

#### **Immediate Resolution**

Closing the PO will resolve this variance. This updates the inventory lot value to use the cost recorded in the PO's purchase(s), which matches the GL's value. The inventory lot now highlights the Purchased cost in bold as the amount being used for calculations, and the note regarding the estimated unit cost is gone:

i di citabe anivei	ntory Lot				Notices	Emails 🎽 🛛 Docs
General Info					Seria	alized Track by Mfr Lot
Trans ID >	Date	Office >	Line Item Code >	Code Description	Reference #(s)	
PO-50004	08/15/19	AI	TB-FRNCH3	J'Apprends: I Learn French 3rd Edition		
Ordered / Purchas	ed			Ordered / Received		
		Quantity	Each Value	· · · · · · · · · · · · · · · · · · ·	Quantity	Value
Ordered		48	25.99 1,247.52	Ordered	48	1,247.52
Purchased		48	27.50 1,320.00	Received	48	1,320.00
Purchased Remaining	ng	0	0.00	Received Remaining	0	0.00
				Current Inventory		
Accrued Inventory	,					
Accrued Inventory	,	Quantity	Value		Quantity	Value
Accrued Inventory Received	,	Quantity 48	Value 1,320.00	Received	Quantity 48	Value 1,320.00
,	<u>,</u>					
	,	48	1,320.00	Received	48	1,320.00
Received Purchased Accrued Inventory	,	48 48	1,320.00 1,320.00	Received Used	48 0	1,320.00 0.00
Received Purchased	r Trans ID	48 48	1,320.00 1,320.00 0.00	Received Used	48 0	1,320.00 0.00 1,320.00

### **Expanded Resolution**

After you find one PO that should have been closed, you should search for other POs that can and should be closed. Identifying and closing these records may help resolve other variances.

Note: You might not be able to eliminate some variance values. POs causing this type of variance may need to stay open because additional purchasing or receiving activity needs to happen.

#### **Long-Term Solution**

The final step for this example might be to assign a team member to periodically review POs such as these and close them out.

#### Example 2: Pur/Prd Value Variance — Incorrect GL Account Assigned to LIC

#### Summary

For inventoried items, the LIC record should be configured with a Cost Account from a "5-" or "6-" series account, while the Inventory Account should have a "1-" series asset account. This helps ensure that the GL properly reflects inventory values. Mis-configuring an LIC will result in reconciliation errors.

#### **Example Situation**

Suppose that an LIC for one of aACME Education's textbooks had the Inventory Account mistakenly set to the "5001" Cost of Sales account:

Inventoried	l Item											Notice	s 🔒	Emails 🚩	Docs (
General Info					nventor		Serializ	ul Trade	by Mfr L	.ot Discontinued	0.	der Item No	ator	Pictures	
	Est Unit Cost	Data Tura	Rate Value		On Hand >	-		Available	-	rder > Total	- On	aer item wo	Jies	Pictures	
Type Textbook		Mark Up %	25.00%	VUS		0	na >	Available							
Price		Comm Type	Comm Value		Cycle	Last Cou	-	Next Serial		0 0					
24.99	PIDICE	Not Applicable	Comm value		21	Last Cot	E	Next Serial							
					<b>-</b>										
levenue Account > 1001 Uncategori		Cost Account > 5001 Cost of S	ales		L	W	Н	Weight (Net	Gross)	Barcode Input 9780199731985					
			dies		×	X NON		_	10.1						
inventory Account : 5001 Cost of Sal		Department >		SI	0.00	UOM		Case Qty (Sal	e   Pur)	SKU					
JUUI COSC OF Sal	es				0.00										
Options	Custom Price	es Vendors	Bin Bala	nces Of	ffices										
Line Item	Code ≞.	Description			Quantit	y 🗎 i	Alternate	Upgrade N	otes						ж.
															~
references															
Show in entry	list. Causes the	code to appear in o	rder, estimate, o	uote, and invo	ice value li	ists.		Exclude	custon	ner discount. Prevents	the customer d	iscount from be	eing applie	d to this code	at entry.
Enforce rate c	ard billing. Pre	vents users from cha	nging the price	at entry.						ost rate based on pure			last num	ber of days:	0
		nd invoice items to A	unTay Ontional	codo:				Updates	the estir	mated cost rate to avera	ge of recent pu	rchases.			

When a purchase is entered for this item, the Cost account is debited instead of an inventory account. This results in no increase in the GL's inventory value:

• • •					Gener	al Ledger						
🜩 Record: 1	1 of 2								New 🖶 🛛 Ed	it 🖋 🛛 Delete 🗙	Print 🖶	Actions 🖈
Gener	al Ledger	Sorted by Account	ID							AI O	ffice	Only
0	pur-50005											Q 1
Account	Transaction ID	Date	Office	Dept	Line Item Code $\ \ \bigcirc$	Order	PO	Debit	Credit	Debit Balance	Status	
2101 Account	ts Payable											
> 2101	> PUR-50005	🖈 08/15/19	AI	AI			> 50005		1,439.10	1,439.10 CR	OPEN	- 🕅 🔿 -
2101 Accounts F	Payable								1,439.10	1,439.10 CR		
5001 Cost of > 5001	Sales > PUR-50005	× 08/15/19	AI	AI	> WB-FRNCH3		> 50005	1,439.10	)	1,439.10	OPEN	· K ●
5001 Cost of Sa	lles							1,439.10	/	1,439.10		
List Totals								1,439.10	1,439.10	0.00		
Show All	Constrain to B/S Account	ts Constrain to	I/S Accounts	Constrain	n to Inventoried Items	Omit Inventor	ied Items	Omit Auto-Generated GJ	Entries Rel	ated Records 💌		

#### **Audit Reports**

The Inventory Lot / GL Reconciliation Report shows a variance in the True GL Var column:

Total Pages Sav	Ve as Excel Save as PDF		Setup			
CAT: Invenciliation 🗸   View As: 🖂	Exit Preview					
Inventory Lot / GL Re	conciliation b	ov Type, C	ode as	of 08/1	5/2019	
Description	Line Item Code	Lot Value	GL Value	Variance	True GL Var*	Accr'd COGS
Fextbook		1,439.10	0.00	1,439.10	1,439.10	0.00
J'Apprends: I Learn French Workbook	WB-FRNCH3	1,439.10	0.00	1,439.10	1,439.10	0.00
Grand Total		1,439.10	0.00	1,439.10	1,439.10	0.00
					$\smile$	

The Detailed Inventory Lot Reconciliation Report narrows down the possible causes for the variance, identifying that it's arising from the purchase value:

Pag t: INVTRYLor Re			Print Page Setup					
Detailed	Inventory Lot Reco	nciliation	Report					
Detanea		COG	•	Pur/Prd \	'alue ——— —	— Accrued	/alue	— Act/Rcvd Value —
Code (Lot ID)	Code Name (Tran. Ref)	Amount	GL Variance	Amount	GL Variance	Amount	GL Variance	Act vs. Rcvd Var
WB-FRNCH3	J'Apprends: I Learn French Workbook	1,669.05	0.00	3,108.15	1,439.10	0.00	0.00	0.00
50002	PO-50000	599.70	0.00	599.70	0.00	0.00	0.00	0.00
50009	PO-50001	479.70	0.00	479.70	0.00	0.00	0.00	0.00
50012	PO-50002	479.70	0.00	479.70	0.00	0.00	0.00	0.00
50015	PO-50093	109.95	0.00	109.95	0.99	0.00	0.00	0.00
50017	( PO-50005 )	0.00	0.00	1,439.10	1,439.10	0.00	0.00	0.00
Grand Total	$\bigcirc$	1,669.05	0.00	3,108.15	1,420.40	0.00	0.00	0.00

#### Additional Research

Drilling down to the PO and purchase record, we observe that the GL account from the purchase was *not* an inventory account:

Record: 1	of 1			Purchases		N	ew 🖶 Edit 🖈	Delete 🗶 Prir	nt 🖶 Actions	s a
· · · · · · · · · · · · · · · · · · ·		5 Mac	millan Mac	beth-Corridor 8/15/	2019				CLOSED (	C
Purcha	se Details						Notic	es 🔒 Emails	s 🞽 🛛 Docs	s (
Vendor			*	Description			Payment Con	nments		
Vendor >		Contact >								
Macmillan M	acbeth-Corridor	Bridget Sir	monford							
Recur Transac	tion >	Vendor Inv		Additional Info						
			@ 08/15/19							
Pur Order >	Payment Terms Net 30	Payment Du 09/14/19	e Pmt Expected 09/14/19							
1 > WB-	FRNCH3	5001	J'Apprends: I Learn Fr	rench 🖈 > 50005	AI	90	15.99	1,439.10	下 00.0	
		$\bigcirc$		50005						
						s	ubtotal	1,439.10	0.00	
Disburse	ments Adjust	tments	Refunds				reight	0.00 —		
<ul> <li>Disbursem</li> </ul>	ent Di	ate l	Memo	Payment Ref	Amount	_	hipping Exp ax 0%	0.00		
> 50005	04	8/15/19	Macmillan Macbeth-Co	rridor DISB-50005	* 1,439.10 ^		otal	1,439.10		
							alance	0.00 0%	ò	
					~	-	ugg Disc	0.00		
						U	se Tax	0.00		
🕽 🖈 Dep	t AI	Assigned	To Denise James	Tracking Status						Ľ

We can also verify this erroneous configuration from the GL transactions for the purchase:

				General	Ledger							-
1 of 2								New 🖶 🛛 Edit d	🕨 Delete 🗙	Print 🖶	Actions	<b>۳</b>
ral Ledger	Sorted by Account i	ID							AI O	ffice	Only	у
pur-50005											C	۹ 🗸
Transaction ID	Date	Office	Dept	Line Item Code $\ \ \bigcirc$	Order	PO	Debit	Credit	Debit Balance	Status		
its Payable												
> PUR-50005	🖈 08/15/19	AI	AI			> 50005		1,439.10	1,439.10 CR	OPEN	- 🔵 🕫	a –
Payable								1,439.10	1,439.10 CR			
Sales							$\frown$					
> PUR-50005	📌 08/15/19	AI	AI	> WB-FRNCH3		> 50005	1,439.10	1	1,439.10	OPEN	<b>)</b>	- Th
lles							1,439.10	)	1,439.10			
							1,439.10	1,439.10	0.00	,		_
Constrain to B/S Account	to Constrain to i		Constrai	in to Inventoried Items	halt Texaster		Auto Concepted C1	Entrice Delate	d Decorde			
P	ral Ledger 2 pur-50005 Transaction ID ts Payable > PUR-50005 Payable Sales > PUR-50005 les	al Ledger Sorted by Account . pur-50005 Transaction ID Date ts Payable > PUR-50005	Control of the second by Account ID       pur-50005     Date       Transaction ID     Date       Stapable     08/15/19       > PUR-50005     Image: Control of the second secon	Solution ID     Date     Office     Dept       Transaction ID     Date     Office     Dept       ts Payable     >     PUR-50005     ★     08/15/19     AI     AI       > PUR-50005     ★     08/15/19     AI     AI	t of 2 al Ledger Sorted by Account ID pur-50005 Transaction ID Date Office Dept Line Item Code Q ts Payable > PUR-50005 Sales > PUR-50005 ★ 08/15/19 AI AI WB-FRNCH3 Hes	Sorted by Account ID         pur-50005       Date       Office       Dept       Line Item Code Q.       Order         Transaction ID       Date       Office       Dept       Line Item Code Q.       Order         Sapable       ØB/15/19       AI       AI       ✓         Sales       >       OB/15/19       AI       AI       >       WB-FRNCH3         les       ØB/15/19       AI       AI       >       WB-FRNCH3	tof2  al Ledger Sorted by Account ID  pur-50005  Transaction ID Date Office Dept Line Item Code Q Order PO ts Payable  > PUR-50005	1 1 1 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	tod 2 Nor	t of 2	to d'2	L of 2     New ● Edit ● Delets ★ Print ▲ Actions       Cal Ledger     Sorted by Account ID     Al Office Only       pur-50005     Transaction ID     Date     Office     Dept     Line Item Code Q     Order     PO     Debit     Credit     Debit Balance     Status       ts Payable

In the above screenshot, the debit should have been to an inventory account rather than a cost account. These details show that the cause of the variance is 'prior' to the PO, in the LIC record where the incorrect GL account was set for the Inventory Account field.

#### **Immediate Resolution**

The first step for resolving this incorrect configuration is to edit the LIC record, specifying an appropriate Inventory Account. This ensures that subsequent purchases of the product route the funds to the correct accounts.

The purchase causing the variance is still on the books though. To correct this, you must reassign the GL account for the posted transaction (http://aace5.knowledgeowl.com/help/reassigning-gl-accounts-to-

#### posted-transactions).

#### **Extended Resolution**

After you find one LIC that has an incorrect Inventory Account, you should review all LIC records and verify that they are associated with the correct inventory GL accounts. From the Line Item Codes module list view, click the footer link to Find Inventoried Items, then click Sort Options ( ) > Inventory Account. This will display all inventoried LICs grouped according to the GL account specified in the Inventory Account field.

Fix each incorrect configuration as noted in the Immediate Resolution above.

#### **Long-Term Solution**

The final step for this example might be to train the team members who create LICs, helping them understand which accounts are appropriate for the Inventory Account field.

### **Reconcile the Next Product with Variances**

After you resolve the variance issue with one product, repeat Steps 5 and 6 until all variances have been addressed.

After you have resolved as many variances as possible, if there are remaining issues where the cause and solution are not clear, contact your system administrator.

## 7. Reverse Manual Entries

After resolving discrepancies arising from your inventoried products, you can be confident that the GL is accurate on a product-by-product basis. As mentioned previously, the inventory audit's goal is for inventory GL accounts to match the GL Value column in the Inventory / Lot GL Reconciliation Report.

The next step is to make sure the inventory GL value isn't being affected by entries that aren't associated with inventoried products (e.g. manual entries to inventory accounts). In other words, all entries in your inventory GL accounts should be linked to inventoried LICs. Therefore, we need to double-check these entries and make sure they have been handled correctly:

## Identify Manual Entries in Inventory GL Accounts

- 1. Navigate from Main Menu > Accounting > General Ledger.
- At the list view, find all GL entries belonging to inventory-series accounts. Note: Inventory accounts are typically set up with a consistent 2- or 3-digit prefix (e.g. "13-"). Searching the Account column for this prefix and the asterisk wildcard (e.g. "13\*") will find all the inventory-series entries.
- 3. In the footer, click the link to **Omit Inventoried Items**, then sub-summarize by **Account**.

This yields a list of GL entries which did *not* appear in the Inventory / Lot GL Reconciliation Report from Step #5. The net balances must all be reversed:

### **Reverse Manual Entries in Inventory GL Accounts**

- 1. Navigate from Main Menu > Accounting > General Journal.
- 2. In the menu bar, click **New > Journal Entry**.
- 3. Enter a relevant title (e.g. "Inventory Audit Reverse Manual Entries").
- 4. In the Entry Items list, create the off-setting entries:
  - For *each* GL account you identified above, enter a reversing entry for the same amount. (If the GL included entries with multiple values in the Office column, reverse them with a *separate* entry item for each GL Account / Office combination.)
  - For the total value of these reversing entries, enter a balancing entry. (If you are unsure of which account to use, inspect the initial manual entries and use the account specified there.)
- 5. Click Save.

## **Example of Reversing Manual Entries**

Suppose that after an inventory count was completed for June, a user tried to adjust inventory downward by manually crediting certain inventory accounts, and a similar manual entry was created after the July inventory count.

Notices \rm 🕘 Emails 🎽 Docs 🖉
ent Order Line Item Code Debit Credit 🖈
10,000.00 🗶 ^
5,000.00 💥
15,000.00 🔀

During the August inventory audit, these manual entries would cause credit balances not assigned to inventoried products to show up in the GL's inventory accounts. These values would *not* appear on the Inventory / Lot GL Reconciliation Report in Step #5. This screenshot shows \$27,500.00 in inventory accounts, but not associated with an inventoried LIC:

Record:	1 of 4				General	Ledger			New 🖶 Edi	t 🖋 🛛 Delete 🗙	Print 🖶	Actions	₹
Gener	ral Ledger	Sorted by Accou	nt ID		$\frown$					AI O	ffice	Onl	у
13*					$\langle \rangle$							9	۹.
Account	Transaction ID	Date	Office	Dept	Line Item Code 🔍	Order	PO	Debit	Credit	Debit Balance	Status		
1303 Work I	n Process												
> 1303	> GJ-50004	* 06/30/19	AI						10,000.00	10,000.00 CR	OPEN	- 🔵 🦻	7
> 1303	> GJ-50005	* 07/30/19	AI						8,000.00	8,000.00 CR	OPEN	- 🔵 🦻	π.
1303 Work In P	rocess								18,000.00	18,000.00 CR			
1305 Finishe	d Goods												
> 1305	> GJ-50004	* 06/30/19	AI						5,000.00	5,000.00 CR	OPEN	- 🔵 🦻	R.
> 1305	> GJ-50005	* 07/30/19	AI						4,500.00	4,500.00 CR	OPEN	- <b>(</b> ) 🦻	FR.
1305 Finished G	Goods								9,500.00	9,500.00 CR			
List Totals									27,500.00	27,500.00 CR			_
	Constrain to B/S Accou									telated Records			

To resolve this situation, the user conducting the inventory audit would create the following off-setting general journal entry:

			Audit - Revers			8/20/2019	POSTE	
Journal Entry	/ Details					Notices 🔒	Emails 🗹 🛛 🛛	Docs @
General Info		Auto-Generated	Description					
Туре	Reference ID							
Journal Entry								
Entry Items	Related GJ Entries							
GL Account		Office	Department	Order	Line Item Code	Debit	Credit	<del>л</del>
1 > 1303	Work In Process	<i>★</i> > AI				18,000.00		× ^
2 > 1305	Finished Goods	<i>★</i> > AI				9,500.00		×
3 > <b>5001</b>	Cost of Sales	IA < 🦘					27,500.00	×

This would help ensure that the inventory GL accounts match the GL Value column in the Inventory Lot / GL Reconciliation Report. Checking a second time for manual entries in the inventory GL accounts would show that the net balances are zeroed:

Record:	1 of 6								New 📫 Edr	: 🖋 🛛 Delete 🗙	Print 📇	Actions 🖈
Gene	ral Ledger s	orted by Account	ID							AI O	ffice	Only
13*												Q
Account	Transaction ID	Date	Office	Dept	Line Item Code $\ \ \bigcirc$	Order	PO	Debit	Credit	Debit Balance	Status	
1303 Work I	n Process											
> 1303	> GJ-50004	* 06/30/19	AI						10,000.00	10,000.00 CR	OPEN	۳ 🔴
> 1303	> GJ-50005	* 07/30/19	AI						8,000.00	8,000.00 CR	OPEN	اتر 🔴
> 1303	> GJ-50006	* 08/20/19	AI					18,000.00		18,000.89	OPEN	اتر 🔴
L303 Work In P	rocess							18,000.00	18,000.00	0.00	)	
1305 Finishe	d Goods											
> 1305	> GJ-50004	* 06/30/19	AI						5,000.00	5,000.00 CR	OPEN	اتر 🔵
> 1305	> GJ-50005	📌 07/30/19	AI						4,500.00	4,500.00 CR	OPEN	두 🔵
> 1305	> GJ-50006	* 08/20/19	AI					9,500.00		9,500:00	OPEN	اتر 🔴
1305 Finished G	Goods							9,500.00	9,500.00	0.00	)	
List Totals								27,500.00	27,500.00	0.00		

## 8. Resolve Incorrectly Assigned Asset Accounts

The next step in reconciling the inventory lot value and the GL inventory value is to confirm that no GL entries are assigned to incorrect accounts. For example, sometimes inventoried products are assigned to asset accounts that are not *inventory* accounts.

- 1. Navigate from Main Menu > Accounting > General Ledger.
- 2. In the footer, click **Show All**, then in the Account search field, search for "**1**\*" to limit the list to *asset* accounts.
- 3. In the footer, click **Constrain to Inventoried Items**, then sub-summarize by **Account**. Note: You can toggle the sorting order between ascending / descending by clicking the

Account column heading. This quickly displays the GL Accounts with the lowest and the highest ID codes.

- 4. Confirm that either of the following details is *true* for each item in the list:
  - The item's assignment to an inventory account is correct.
     OR
  - The item is assigned to a non-inventory or an old inventory account which sums to zero.

If you find errors, correct them as explained above in Step #6, Example #2. To review, the immediate need is to correct the related LIC's configuration, preventing the problem from getting worse. (Note: You can quickly display the LICs using the footer links: Related Records > Line Item Codes.) The next step is to <u>reassign the GL account for any posted</u> <u>transactions (http://aace5.knowledgeowl.com/help/reassigning-gl-accounts-to-posted-transactions)</u> you have discovered. The long-term solution might be to train team members who create LICs to understand which accounts are appropriate for the Inventory Account field.

After you have resolved as many issues as possible, if there are remaining problems with COGS entries, contact your system administrator.

## 9. Confirm Results

From the Line Item Codes module, click the footer link to Find Inventoried Items, re-run the Inventory Lot / GL Reconciliation Report (with zero Omit Variance), then review the totals on the last page:

Inventory Lot / GL Reco	onciliation	by Type,	Code as	s of 08/2	2/2019	
Description	Line Item Code	Lot Value	GL Value	Variance	True GL Var*	Accr'd COG
Brush		6,787.00	6,787.00	0.00	0.00	0.0
1/2" Hake Brush	Se-B-H	2,806.00	2,806.00	0.00	0.00	0.0
Goat hair bamboo brush size 4	Se-B-G4	2,265.00	2,265.00	0.00	0.00	0.0
Rabbit hair bamboo brush size 1	Se-B-R1	563.00	563.00	0.00	0.00	0.0
White bristle bamboo brush size 2	Se-B-WB2	1,153.00	1,153.00	0.00	0.00	0.0
Finished Goods		199.90	199.90	0.00	0.00	0.0
Printer Pack Special	HP-PPS-IAI	199.90	199.90	0.00	0.00	0.0
Printer		104,460.00	104,460.00	0.00	0.00	0.
HP 250 Printer	HP250	44,460.00	44,460.00	0.00	0.00	0.
HP 290 Printer	HP290	49,600.00	49,600.00	0.00	0.00	0.
HP 300 Printer	HP300	10,400.00	10,400.00	0.00	0.00	0.
Technology		641,019.71	641,721.62	(701.91)	0.00	0.
Dry Erase Markers	Tech-001d	1,033.85	1,033.85	0.00	0.00	0.
Electronic Whiteboard Connection Panel	Tech-003b	25,776.25	25,776.25	0.00	0.00	0.
Electronic Whiteboard Screen	Tech-003a	202,794.95	202,794.95	0.00	0.00	0
Electronic Whiteboard, mounted	Tech-002x	0.00	0.00	0.00	0.00	0
Electronic Whiteboard, refurbished	Tech-003	14,559.50	14,559.50	0.00	0.00	0
Mounting Kit	Tech-002b	2,765.47	2,765.47	0.00	0.00	0
Student Tablet, 7" case	Tblt-7C	7,419.30	7,419.30	0.00	0.00	0
Student tablet, 7" screen	Tblt-1	169,211.00	169,912.91	(701.91)	0.00	0
Student Tablet, 8" case	Tblt-8C	8,350.44	8,350.44	0.00	0.00	0
Student Tablet, 8" screen	Tblt-2	167,110.00	167,110.00	0.00	0.00	0
Student Tablet, 9" Screen	Tbit-3	41,998.95	41,998.95	0.00	0.00	0
Textbook		304,697.67	304,922.67	(225.00)	0.00	0.
Astronomy for Beginners, 4th Edition	TB-SCI4	88,654.11	88,654.11	0.00	0.00	0
Beowulf - A New Translation and Commentary	TB-Lit130	21,636.60	21,636.60	0.00	0.00	0
Complete Poems of Gerard Manley Hopkins	TB-Lit120	15,926.70	15,926.70	0.00	0.00	0
Introduction to Computer Science	X-50003	0.00	0.00	0.00	0.00	0
J'Apprends: I Learn French 3rd Edition	TB-FRNCH3	15,149.96	15,149.96	0.00	0.00	0
J'Apprends: I Learn French Teacher's Manual	TM-FRNCH3	38,024.94	38,024.94	0.00	0.00	0
J'Apprends: I Learn French Workbook	WB-FRNCH3	10,476.77	10,476.77	0.00	0.00	0
Lab notebooks / journals	Ntbk-011	1,620.50	1,845.50	(225.00)	0.00	0.
Middle Grade Math 6th Edition	TB-MTH6	12,821.88	12,821.88	0.00	0.00	0.
Middle Grade Math 7th Edition	TB-MTH7	12,796.89	12,796.89	0.00	0.00	0.
Shakespeare's Comedies	TB-Lit104	24,036.00	24,036.00	0.00	0.00	0.
Shakespeare's Tragedies	TB-Lit106	22,036.50	22,036.50	0.00	0.00	0.
The Complete Works of Shakespeare	TB-LIT102	41,516.82	41,516.82	0.00	0.00	0.

#### Inventory Lot / GL Reconciliation by Type, Code as of 08/22/2019

"Lot Qty" is based on related inventory lots; "Lot Value" is based on related inventory lots; and "GL Value" is based on general ledger activity. This report is sub-summarized by LI Code Type.

\*True GL Var: Inventory lots use the Estimated Unit Cost of the related PO until the PO is closed. However, this can cause a perceived reconciliation error while the PO is open if inventory is purchased at a different unit cost. It's also possible for purchased-but-not-received inventory for closed POs to create perceived errors in lots. The "True GL Var" value takes these values into consideration.

This report excludes "Accrued COGS" in its GL Value calculation.

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#### Inventory Lot / GL Reconciliation by Type, Code as of 08/22/2019

Toner		12.762.00				
		12,762.00	12,762.00	0.00	0.00	(280.00)
HP 200 Series Toner Cartridge	HP200T	11,262.00	11,262.00	0.00	0.00	0.00
HP 250 Series Toner Cartridge	HP250T	1,500.00	1,500.00	0.00	0.00	0.00
HP 300 Series Toner Cartridge	HP300T	0.00	0.00	0.00	0.00	(280.00)
Grand Total		1,069,926.28	1,070,853.19	(926.91)	0.00	(280.00)

The preceding screenshot shows a Lot Value and GL Value that are fairly close. The Variance column highlights the small difference, which might be coming from open POs that still have remaining receiving or purchasing activity. (More research would be needed to verify this; however, the True GL Var column showing zero variance makes this explanation seem likely.) The Accrued COGS column also shows a small value (see below for details).

## **Visual Reconciliation**

We can also manually compare the total value for open inventory lot and the total value for inventory GL accounts.

To manually calculate the inventory lots value, navigate to the Inventory Lots module, click the footer link to Find Open Inventory Lots, then scroll down to find the total ~Curr Value at the bottom of the list:

Lots ine Item Code em-003 ip-Pp5-1A1 B-FRNCH3 bilt-1 thsh-011 B-LIT102 bilt-2 bilt-2 bilt-8c	Transaction ID           > PO-S0005           > PO-50006           > PO-50006           > PO-50006           > PO-50006           > PO-50006           > PO-50006           > PO-50006	Date 08/21/19 08/21/19 08/21/19 08/21/19 08/21/19	Office AI AI AI	Ref #(s) 500-549	*	Lot Qty	Lot Value	Curr Qty	~Curr Value	Accr Value	Status	Q	
ine Item Code ecn-uus IP-PPS-1A1 B-FRNCH3 bil-1 tilt-1 tilthk-011 B-LIT102 bil-2	<ul> <li>&gt; PO-50004</li> <li>&gt; PO-50005</li> <li>&gt; PO-50006</li> <li>&gt; PO-50006</li> <li>&gt; PO-50006</li> <li>&gt; PO-50006</li> </ul>	08/21/19 08/21/19 08/21/19 08/21/19	AI AI AI						~Curr Value	Accr Value	Status	Q	•
ecn-ous IP-PPS-IAI B-FRNCH3 M-FRNCH3 bit-1 Itbk-011 B-LIT102 bit-2	<ul> <li>&gt; PO-50004</li> <li>&gt; PO-50005</li> <li>&gt; PO-50006</li> <li>&gt; PO-50006</li> <li>&gt; PO-50006</li> <li>&gt; PO-50006</li> </ul>	08/21/19 08/21/19 08/21/19 08/21/19	AI AI AI						~Curr Value	Accr Value	Statue		۰.
IP-PPS-IAI B-FRNCH3 M-FRNCH3 bit-1 Itbk-011 B-LIT102 bit-2	> PO-50005 > PO-50006 > PO-50006 > PO-50006 > PO-50006	08/21/19 08/21/19 08/21/19	AI AI	500-549		50	13 444 50				Status		
B-FRNCH3 M-FRNCH3 bit-1 ltbk-011 B-LIT102 bit-2	> PO-50006 > PO-50006 > PO-50006 > PO-50006	08/21/19 08/21/19	AI				13,999.30	50	13,999.50	0.00	OPEN	<b>7</b>	
M-FRNCH3 bit-1 litbk-011 B-LIT102 bit-2	> PO-50006 > PO-50006 > PO-50006	08/21/19			*	10	199.90	10	199.90	0.00	OPEN	۳ 🔵	
blt-1 ltbk-011 B-LIT102 blt-2	> PO-50006 > PO-50006				*	1	35.00	1	35.00	0.00	OPEN	۳ر 🔵 📃	l
ltbk-011 B-LIT102 blt-2	> PO-50006	08/21/19	AI		*	1	80.00	1	80.00	0.00	OPEN	٣ 🔴	
B-LIT102 blt-2			AI		*	2	602.00	2	602.00	0.00	OPEN	اتر 🔴	
blt-2	> PO-50006	08/21/19	AI		*	1	3.00	1	3.00	0.00	OPEN	٣ 🔴	
		08/21/19	AI		*	1	82.00	1	82.00	0.00	OPEN	٣ 🔴	
blt-8C	> PO-50006	08/21/19	AI		*	2	610.00	2	610.00	0.00	OPEN	۳ 🔴	
	> PO-50006	08/21/19	AI		*	1	16.00	1	16.00	0.00	OPEN	اتر 🔴	
B-MTH6	> PO-50006	08/21/19	AI		*	1	27.00	1	27.00	0.00	OPEN	اتر 🔴	
VB-FRNCH3	> PO-50006	08/21/19	AI		*	1	22.00	1	22.00	0.00	OPEN	اتر 🔴	
ech-002b	> PO-50006	08/21/19	AI		*	1	6.00	1	6.00	0.00	OPEN	۳ 🔴	L.
ech-003	> PO-50006	08/21/19	AI	111,222	*	2	560.00	2	560.00	0.00	OPEN	اتر 🔴 🚽	L.
ech-003a	> PO-50006	08/21/19	AI		*	2	800.00	2	800.00	0.00	OPEN	اتر 🔴	L.
ech-003b	> PO-50006	08/21/19	AI		*	1	52.00	1	52.00	0.00	OPEN	اتر 🔴	l.
blt-7C	> PO-50006	08/21/19	AI		*	1	15.00	1	15.00	0.00	OPEN	۳ 🔴	L
B-MTH7	> PO-50006	08/21/19	AI		*	1	27.00	1	27.00	0.00	OPEN	آتر 🔴	I.
B-Lit104	> PO-50006	08/21/19	AI		*	1	42.00	1	42.00	0.00	OPEN	۳ 🔴	I.
B-Lit106	> PO-50006	08/21/19	AI		*	1	42.00	1	42.00	0.00	OPEN	۳. 🔴	L.
B-Lit120	> PO-50006	08/21/19	AI		*	1	32.00	1	32.00	0.00	OPEN	۳. 🔴	L.
B-Lit130	> PO-50006	08/21/19	AI		*	1	42.00	1	42.00	0.00	OPEN	۳. 🔴	l.
ie-B-H	> PO-50006	08/21/19	AI		*	1	6.00	1	6.00	0.00	OPEN	۳ 🔴	L.
e-B-G4	> PO-50006	08/21/19	AI		*	1	5.00	1	5.00	0.00	OPEN	۳ 🔴	I.
e-B-WB2	> PO-50006	08/21/19	AI		*	1	3.00	1	3.00	0.00	OPEN	<del>ار</del> 🔵	I.
e-B-R1	> PO-50006	08/21/19	AI		*	1	2.00	1	2.00	0.00	OPEN	<b>F</b>	I.
IP200T	> PO-50006	08/21/19	AI		*	1	22.00	1	22.00	0.00	OPEN	<del>ار</del> 🔴	l.
B-SCI4	> PO-50006	08/21/19	AI		*	2	310.00	2	310.00	0.00	OPEN	<del>ار</del> 🔴	l.
blt-1	> PO-50007	08/21/19	AI		*	9	3,410.91	9	2,709.00	0.00	OPEN	Ψ.	
ltbk-011	> PO-50007	08/21/19	AI		*	75	450.00	75	225.00	0.00	OPEN	π.	l.
						14,633	1,073,713.19	14,566 (	1,069,926.28	0.00			_
ie-B ie-B iP2( B-S blt-	-WB2 -R1 )0T CI4 1 -011	WB2         > PO-50006           -R1         > PO-50006           00T         > PO-50006           CI4         > PO-50006           1         > PO-50007	WB2         > PO-50006         08/21/19           +R1         > PO-50006         08/21/19           00T         > PO-50006         08/21/19           CI4         > PO-50006         08/21/19           1         > PO-50007         08/21/19           -011         > PO-50007         08/21/19	-WB2         > PO-50006         08/21/19         AI           -R1         > PO-50006         08/21/19         AI           00T         > PO-50006         08/21/19         AI           01T         > PO-50006         08/21/19         AI           11         > PO-50007         08/21/19         AI           -011         > PO-50007         08/21/19         AI	WB2         > P0-50006         08/21/19         AI           -R1         > P0-50006         08/21/19         AI           00T         > P0-50006         08/21/19         AI           CI4         > P0-50006         08/21/19         AI           1         > P0-50007         08/21/19         AI	WB2         > PO-50006         08/21/19         AI         #           -R1         > PO-50006         08/21/19         AI         #           00T         > PO-50006         08/21/19         AI         #           00T         > PO-50006         08/21/19         AI         #           CI4         > PO-50006         08/21/19         AI         #           1         > PO-50007         08/21/19         AI         #	$\begin{array}{c c c c c c c c c c c c c c c c c c c $	$\begin{array}{c c c c c c c c c c c c c c c c c c c $	WB2         > PO-50006         08/21/19         AI         #         1         3.00         1           -R1         > PO-50006         08/21/19         AI         #         1         2.00         1           00T         > PO-50006         08/21/19         AI         #         1         22.00         1           00T         > PO-50006         08/21/19         AI         #         1         22.00         1           CI4         > PO-50006         08/21/19         AI         #         2         310.00         2           1         > PO-50007         08/21/19         AI         #         9         3,410.91         9           -011         > PO-50007         08/21/19         AI         #         75         450.00         75	$ \begin{array}{c c c c c c c c c c c c c c c c c c c $	$ \begin{array}{c c c c c c c c c c c c c c c c c c c $	WB2         > PO-50006         08/21/19         AI         AI         1         3.00         1         3.00         0.00         OPEN           -R1         > PO-50006         08/21/19         AI         AI         1         2.00         1         2.00         0.00         OPEN           NOT         > PO-50006         08/21/19         AI         AI         1         22.00         1         22.00         0.00         OPEN           CI4         > PO-50006         08/21/19         AI         AI         2         310.00         2         310.00         0.00         OPEN           1         > PO-50007         08/21/19         AI         AI         9         3,410.91         9         2,709.00         0.00         OPEN           011         > PO-50007         08/21/19         AI         AI         75         450.00         75         223:66         0.00         OPEN	WB2       > PO-50006       08/21/19       AI       \$\extsf{n}\$       1       3.00       1       3.00       0.00       OPEN       \$\extsf{n}\$         HR1       > PO-50006       08/21/19       AI       \$\extsf{n}\$       1       2.00       1       2.00       0.00       OPEN       \$\extsf{n}\$         NOT       > PO-50006       08/21/19       AI       \$\extsf{n}\$       1       22.00       1       22.00       0.00       OPEN       \$\extsf{n}\$         C14       > PO-50006       08/21/19       AI       \$\extsf{n}\$       2       310.00       2       310.00       0.00       OPEN       \$\extsf{n}\$         1       > PO-50006       08/21/19       AI       \$\extsf{n}\$       9       3,410.91       9       2,709.00       0.00       OPEN       \$\extsf{n}\$         011       > PO-50007       08/21/19       AI       \$\extsf{n}\$       75       450.00       75       223:66       0.00       0PEN       \$\extsf{n}\$

To manually calculate the inventory GL accounts value, navigate to the GL Accounts module and locate the inventory accounts:

• • •		GL Accounts			
Record: 1 of	f8		New	🔹 Edit 🖋 🛛 Delete 🗱 🛛 Print 📇	Actions 🖈
GL Acc	ounts Sorted by Account ID			AI Office	Only
13*				ACTIVE	Q
Account	Account Name	Account Type	Cash Flow Section	Balance Status	
> 1300	Inventory Assets	Inventory		1,070,853.19 ACTIVE	اتر 🔵
> 1301	Uncategorized Inventory	Inventory	Other Assets	765,930.52 ACTIVE	اتر 🔴
> 1303	Work In Process	Inventory	Other Assets	ACTIVE	اتر 🔴
> 1304	Raw Materials	Inventory	Other Assets	ACTIVE	۳. 🔴
> 1305	Finished Goods	Cash	Other Assets	ACTIVE	R 🔵
> 1306	Inter Office Inventory Transfers	Cash	Other Assets	ACTIVE	Ψ.
> 1307	Textbook Inventory	Inventory		304,922.67 ACTIVE	토 🔵
> 1399	Vendor Deposits	Inventory		ACTIVE	<b></b>
List Totals				1,070,853.19	
Show All Co	nstrain to B/S Accounts   Constrain to I/S Accounts   Related Records 🔻				¢

## Impact of Accrued COGS

Ideally, you won't have any accrued COGS values at this point (due to eliminating these entries in Step #4). If the Inventory Lot / GL Reconciliation Report *does* show accrued COGS values, make sure that when you visually reconcile your system, you add those values to the GL Value (i.e. positive accrued COGS increasing the GL Value; negative accrued COGS decreasing that value).

## Conclusion

Once again, our goal in auditing inventory is to reconcile / explain any differences that affect this equation:

• Total value of open inventory lots = Total value of inventory GL accounts - Variances -Total value of accrued COGS (if any)

Using the values from the preceding three screenshots, the equation would be:

1,069,926.28 (Lot Value) = 1,070,853.19 (GL Value) – 926.91 (Variance) – 280 (Accr'd COGS)

The variances can be explained as open POs with remaining activity to conclude and as accrued COGS values.

Thus, we can conclude that the example system is reconciled.

## Additional Inventory Auditing

The system *cannot* be considered reconciled if:

- The total value for open inventory lots and the total value for inventory GL accounts are not within an acceptable margin.
- The True GL Var is not zero (or within an acceptable margin of error).

You should continue the audit process, repeating the steps in this guide.

If additional cycles through the audit process on your backup system do not help you resolve all errors, contact your system administrator for assistance. Please be able to provide a copy of your system and detailed information about the remaining errors.