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).

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>	50001	Accrued COGS Reconciliation	\$ 06/28/19	Accrued COGS	 Image: A second s			300.00	POSTED	- Tr 🔾
>	50003	Accrued COGS Reconciliation	\$ 07/30/19	Accrued COGS	 Image: A second s			300.00	POSTED	- 🕏 🔿
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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

	Jucination	oy iype, t	Jule as	01 00/1	0/2013	
Description	Line Item Code	Lot Value	GL Value	Variance	True GL Var*	Accr'd COGS
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	0.00
Printer Pack Special	HP-PPS-IAI	0.00	0.00	0.00	0.00	0.00
Printer		390.00	390.00	0.00	0.00	0.00
HP 250 Printer	HP250	90.00	90.00	0.00	0.00	0.00
HP 290 Printer	HP290	100.00	100.00	0.00	0.00	0.00
HP 300 Printer	HP300	200.00	200.00	0.00	0.00	0.00
Technology		1,491.89	1,491.89	0.00	0.00	0.00
Dry Erase Markers	Tech-001d	8.99	8.99	0.00	0.00	0.00
Electronic Whiteboard Connection Panel	Tech-003b	49.95	49.95	0.00	0.00	0.00
Electronic Whiteboard Screen	Tech-003a	399.99	399.99	0.00	0.00	0.00
Electronic Whiteboard, mounted	Tech-002x	0.00	0.00	0.00	0.00	0.00
Electronic Whiteboard, refurbished	Tech-003	0.00	0.00	0.00	0.00	0.00
Mounting Kit	Tech-002b	4.99	4.99	0.00	0.00	0.00
Student Tablet, 7" case	Tblt-7C	12.99	12.99	0.00	0.00	0.00
Student tablet, 7" screen	Tblt-1	300.00	300.00	0.00	0.00	0.00
Student Tablet, 8" case	Tblt-8C	14.99	14.99	0.00	0.00	0.00
Student Tablet, 8" screen	Tblt-2	300.00	300.00	0.00	0.00	0.00
Student Tablet, 9" Screen	Tblt-3	399.99	399.99	0.00	0.00	0.00
Textbook		3,244.01	1,857.40	1,386.61	1,459.09	0.00
Astronomy for Beginners, 4th Edition	TB-SCI4	149.99	149.99	0.00	0.00	0.00
Beowulf - A New Translation and Commentary	TB-Lit130	39.99	39.99	0.00	0.00	0.00
Complete Poems of Gerard Manley Hopkins	TB-Lit120	29.99	29.99	0.00	0.00	0.00
Introduction to Computer Science	X-50003	0.00	0.00	0.00	0.00	0.00
J'Apprends: I Learn French 3rd Edition	TB-FRNCH3	1,277.51	1,349.99	(72.48)	0.00	0.00
J'Apprends: I Learn French Teacher's Manual	TM-FRNCH3	74.99	74.99	0.00	0.00	0.00
J'Apprends: I Learn French Workbook	WB-FRNCH3	1,459.09	0.00	1,459.09	1,459.09	0.00
Lab notebooks / journals	Ntbk-011	2.50	2.50	0.00	0.00	0.00
Middle Grade Math 6th Edition	TB-MTH6	24.99	24.99	0.00	0.00	0.00
Middle Grade Math 7th Edition	TB-MTH7	24.99	24.99	0.00	0.00	0.00
Shakespeare's Comedies	TB-Lit104	39.99	39.99	0.00	0.00	0.00
Shakespeare's Tragedies	TB-Lit106	39.99	39.99	0.00	0.00	0.00
The Complete Works of Shakespeare	TB-LIT102	79.99	79.99	0.00	0.00	0.00

"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.

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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:

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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.

•			GL Accounts					ſ
;	Record	: 1 of 93		New -	🛛 Edit 🖋 🛛 Delete 🗙	Print 🔒	Actions 🖈	
(GL A	CCOUNTS Sorted by Account ID			AI (Office	Only	١.
0						ACTIVE	Q	•
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>	1205	Due from FE (A/R)	Receivables			ACTIVE	۳. 🔴	-
>	1300	Inventory Assets	Inventory		3,904.29	ACTIVE	۳, 🔴	-
>	1301	Uncategorized Inventory	Inventory	Other Assets	3,901.79	ACTIVE	۳, 🔴	-
>	1303	Work In Process	Inventory	Other Assets		ACTIVE	۳, 🔴	-
>	1304	Raw Materials	Inventory	Other Assets		ACTIVE	ඳ 🔴	-
>	1305	Finished Goods	Cash	Other Assets		ACTIVE	۳, 🔴	-
>	1306	Inter Office Inventory Transfers	Cash	Other Assets		ACTIVE	π 🕘	-
>	1307	Texthook Inventory	Inventory		2 50	ACTIVE	• •	
5	Show All	Constrain to B/S Accounts Constrain to I/S Accounts Related Records 🔻					- ÷Þ	

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 L	edger			Now - Edit	Delete 🛠	Drint -	Actions	_
Ger	neral Ledger									New - Edit		ffice	Onl	v
						Ntbk-011					74 0	mee		, a →
L Accour	nt Transaction ID		Date	Office	Dept	Line Item Code 🔍	Order	PO	Debit	Credit	Debit Balance	Status		
> 1305	> PO-50001	*	08/05/19	AI	AI	> Ntbk-011		> 50001	250.00		250.00	OPEN	,	- TR
> 1305	> PUR-50001	*	08/05/19	AI	AI	> Ntbk-011		> 50001	250.00		250.00	OPEN		- ¹⁶
> 1305	> PO-50001	*	08/05/19	AI	AI	> Ntbk-011		> 50001		250.00	250.00 CR	OPEN		- ¹⁷
> 1305	> PUR-50009	*	08/07/19	AI	AI	> Ntbk-011		> 50007	250.00		250.00	OPEN		- ¹⁷
> 1305	> PO-50007	*	08/07/19	AI	AI	> Ntbk-011		> 50007		250.00	250.00 CR	OPEN		an -
List Total	s								750.00	500.00	250.00			
Show A	II Constrain to B/S Accounts	•	Constrain to I	I/S Accounts	Constrain	to Inventoried Items O	mit Inventoried	Items Omit A	uto-Generated GJ	Entries Rela	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**

e Edit	Search Tools Wir	ndow H	Help						5 * 🤶	≜ €
••	Add New Request	ЖN			General L	.edger				
< >	Duplicate Request	₩D	Q ⁺ Q [†]	Q	×					\$
	Delete Request	00 00	New Request Delete R	equest Perform Fin	d Cancel Find					Saved Fir
yout: GL:	Go to Request		Matching Records	Include Omit Inse	ert: Operators					
Advance	Find All Records	жJ		2	Record ID	Q	Created		Modified	
	Saved Finds	- F -								
Gen	Perform Find			Transaction Source 1	Гуре 9		Transaction Record Type	٩	General Ledger Status	
General	Constrain Found Set	<u> </u>						Accrued COGS		
Account II	Extend Found Set		Date Office	Abbr Dept Abbr	Line Item Co	de	Order ID	Debit	Credit Debit	t Balance
م (Cancel Find	ЖΒ	۹ 🗖 ۹	٩	Q		٩	٩	Q	
Detail Ac	count General Info							Q Notes		
Account ID	Account Name	3	Account Type	Bank Account Number	Header /	Account ID	Header Account Name	Header Account Type	Cash Credit Card	l Bank
Q	Q		Q	Q	Q		Q	Q		
Order ID			Order Date			Order Title ्				
						Chin To				
Company	Type		Group	Subaroup		Company	Type	Group	Subaroup	
Q	Q		Q	Q		Q	Q	Q	Q	
Rilling Ac	drocs					Shinning A	ddroce			
Q Title	101035					Q Title	441035			
Q. Street						Q. Street				
9 City			Q State or Drav	Q Destal Code		Q City		Q State or Brow	9. Destal Cod	
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~ Country	ed Compa	nv	< Postai Format			~ Country		 Postal Format 	Company Status	
Relat		· · y								
Relat General I	Info	.,		Abbr	Type		Group		Subaroup	

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 optiona this report.	I maximum variance value to omit from	
e.g. Leave blank to incl e.g. Enter '0' to omit all	Ide all categories regardless of variance. 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.

•			Detailed Inventory	Lot Reconciliat	ion Report			
> 1	1 Total	A						
Page	es Save as Excel Save	as PDF	Print Page Setup					
INVTRYLor Re	port 🗸 View As: 🖂 🗮 📾 Exit P	Preview						
Detailed	Inventory Lot Recon	ciliation	Report					
		COG	s <u> </u>	Pur/Prd V	'alue	Accrued V	/alue	 Act/Rcvd Value —
ode (Lot ID)	Code Name (Tran. Ref)	Amount	GL Variance	Amount	GL Varlance	Amount	GL Variance	Act vs. Rcvd Var
P200T	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
rand 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:

Record: 17 of <u>17</u>					New 🖶 🛛 Edit 🖋 Delete	💥 Print 🔒 Actions
Inventory l	.ot: TB-F	RNCH3 (50	016)			OPEN
Purchase Invent	ory Lot				Notices 🔒	Emails 🞽 🛛 Docs
General Info					Seriali	zed 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	on	
Ordered / Purchased				Ordered / Received		
indered / Fureitabet		Quantity	Each Value		Ouantity	Valu
Ordered		50 2	1,299.50	Ordered	50	1,299.5
Purchased		0	0.00 0.00	Received	0	0.0
Purchased Remaining		50	1,299.50	Received Remaining	50	1,299.50
Accrued Inventory				Current Inventory		
		Quantity	Value		Quantity	Valu
Received		0	0.00	Received	0	0.0
Purchased		0	0.00	Used	0	0.0
Accrued Inventory		0	0.00	Current Inventory	0	0.0
Inventory COGS				Note: The Est Unit Cost is u	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 Cos	at Total Cost
				Lised	0	0.00

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:

•	_	_	_	Inven	tory Lots		
Record: 17 of 17						New 🖶 Edit 🖋 Dele	te 💥 Print 📇 Action
Inventory L	ot: TB-F	RNCH3 (50	0016)				OPEN
Purchase Invento	ory Lot					Notices !	Emails 🞽 🛛 Doo
General Info						Seria	lized Track by Mfr Lot
Trans ID >	Date	Office >	Line Item Co	de >	Code Description	Reference #(s)	
PO-50004	08/15/19	AI	TB-FRNCH	3	J'Apprends: I Learn French 3rd Edition		
Ordered / Purchased					Ordered / Received		
	·	Quantity	Each	Value		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 Remaining		2		51.98	Received Remaining	2	51.9
Accrued Inventory		\smile			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 used	until the Act Unit Cost is final (i.	e. the related PO is closed)
Usage ID	Trans ID	Trans Date	Reference #(s)			Ouantity Est Unit G	ost Total Cost
					Used	0	0.00
•							

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.

•	Inventory Lot / GL Re	conciliation by Ty	pe, Category			
> 1 1 Total			å			
Pages Sav	e as Excel Save as PDF	Print Page	Setup			
t: CAT: Invenciliation 🗸 View As: 🖂	Exit Preview					
Inventory Lot / GL Re	conciliation b	v Type, C	ac aho	of 08/14	5/2019	
		y iype, e				A
Description	Line item Code	Lot value	GL value	variance (70.40)	True GL Var	Accracogs
	70 50 40 40	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	0.00
Grand Total		1,247.52	1,320.00	(72.48)	0.00	0.00
				\smile		

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:

Pag	es Save as Excel Save as	s PDF	Print Page Setup					
Detailed	Inventory Lot Recond		Report	Pur/Prd V	'alue	— Accrued \	/alue	Act/Rcvd Value
Code (Lot ID)	Code Name (Tran. Ref)	Amount	GL Variance	Amount	GL Variance	Amount	GL Varlance	Act vs. Rcvd Var
TB-FRNCH3	J'Apprends: I Learn French 3rd Edition	2,569.05	0.00	3,889.05	0.00	0.00	0.00	72.48
50000	PO-50000	899.70	0.00	899.70	0.00	0.00	0.00	0.00
50007	PO-50001	779.70	0.00	779.70	0.00	0.00	0.00	0.00
50010	PO-50002	779.70	0.00	779.70	0.00	0.00	0.00	0.00
50013	PO-50003	109.95	0.00	109.95	0.00	0.00	0.00	0.00
50016	PO-50004 Est Unit Cost	0.00	0.00	1,320.00	0.00	0.00	0.00	72.48
Grand Total		2,569.05	0.00	3,889.05	0.00	0.00	0.00	72.48
								\sim

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:

Purchase Inventor	v Lot					Notices 🔒	Emails Docs
	, 200					induces 🗸	
General Info						Seria	lized Track by Mfr Lot
Trans ID >	Date	Office >	Line Item C	ode >	Code Description	Reference #(s)	
PO-50004	08/15/19	AI	TB-FRNCH	3	J'Apprends: I Learn French 3rd Edit	tion	
udered (Durshaged					Ordered / Reseived		
ruereu / Purchaseu		Quantity	Each	Value	ordered / Received	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		0		0.00	Received Remaining	0	0.00
ccrued Inventory					Current Inventory		
		Quantity		Value		Quantity	Value
Received		48		1,320.00	Received	48	1,320.00
Purchased		48		1,320.00	Used	0	0.00
Accrued Inventory		0		0.00	Current Inventory	48	1,320.00
nventory COGS							
Usage ID Tra	ans ID	Trans Date	e Reference #(s)		Quantity Act Unit C	est Tetal Cost

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:

Inventory Serialized Track by Mr Lot Discontinued Inventory Serialized On Hand > Demand > Available On Order > Total On Hand > On Hand > Demand > Available On Order > Total On Hand > Demand > Available On Hand > Demand > Available On Order > Total On Order > Total Order Item Notes Order Item Notes Order Item Notes Order Item Notes <th>Inventorie</th> <th>d Item</th> <th></th> <th></th> <th></th> <th>Notices 😣 🛛 Emails 🎽 Docs</th>	Inventorie	d Item				Notices 😣 🛛 Emails 🎽 Docs
Rate Type Rate Value VDS On Hand > Deemand > Available On Order > Total Mark Up % 25.00% V O O O O O Mark Up % 25.00% V O O O O O O Mark Up % 25.00% V O O O O O O O Comm Type Comm Value VCS O,cycle Last Count Next Serial O O O O Exclude from Commissions Item Info Perishable Enable Shipping X Special Order Cost Account > L W H Weight (Net Gross) Barcode Input Solo Cost of Sales Ship Cost U/V X Z 9780199731985 Department > 0.00 O O O O O 0.00 O Case Qty (Sale Pur)< SkU O O O O Description Quantity Alternate Upgrade Notes X X O O code to appear in order, estimated, quote, and invoice value lists. Exclude customer discount. Prevents the customer discount from being applied to this code at e	eneral Info				Thursday Satalized Track by Mr Let Discontinued	Order Item Notes Pictures
Nate Type Nate Type Nate Type Comm Type Comm Type Comm Vype Cost Account > L L W H Weight (Net Gross) Bin Balances Offices Description Quantity Atternate Upgrade Notes Ship Cost UOM Case Case Case Case Case Case Case Case		Ect Unit Cost	Data Tura	Data Value VDC	On Hand > Demand > Available On Order > Tetal	order item Notes Pictures
Not Applicable Not Applicable Comm Type Ship Cott UOM Cose Qty (Sale Pur) StU Department > O,00	Textbook	19 99	Mark Up %	25 00% V	On Hand > Demand > Available On Order > Total	
Cull in Type Cull in value V.S (yde Las cull it vect series Not Applicable V Q1 Q1 Perishable Enable Shipping X Special Order Exclude from Commissions I Le W H Weight (Net Gross) Barcode Input Soul Cost of Sales X × 2 9780199731985 Department > Ship Cost UOM Case Qty (Sale Pur) SkU 0.00 S Vendors Bin Balances Offices Description Quantity Alternate Upgrade Notes X Description Quantity Description Quantity	Drico	IJ.JJ	Comm Tuno	Comm Value V/CE	Outle Last Count Next Secial	
Exclude from Commissions Item Info Perishable Enable Shipping X Special Order Cost Account > L W H Weight (Net Gross) Barcode Input 5001 Cost of Sales X X 2 9780199731985 Department > Ship Cost UOM Case Qity (Sale Pur) SKU 0.00 0.00 0.00 Other SKU s Vendors Bin Balances Offices Description Quantity Alternate Upgrade Notes X Coste to appear in order, estimate, quote, and invoice value lists. Exclude customer discount. Prevents the customer discount from being applied to this code at entry. entis users from changing the price at entry. Auto-update cost rate based on purchasing activity within this last number of days: 0 d invoice terms to AvaTax. Optional code: Update the estimated coder and forder Net of the International coder and the rate wavege of recent purchases. International code at entry.	24 99	MORP	Not Applicable			
Exclude from Commissions Item Info Perishable Ehable Shipping X Special Order Cost Account > L W H Weight (Net Gross) Barcode Input SOOL Cost of Sales Y 2 9780199731985 Department > Ship Cost UM Case Qty (Sale Pur) SkU 0.00 0.00 Description Quantity Alternate Upgrade Notes X Description Quantity Alternate Upgrade Notes X Y Coste to appear in order, estimate, quote, and invoice value lists. Exclude customer discount. Prevents the customer discount from being applied to this code at entry. Auto-update cost rate based on purchasing activity within this last number of days: 0 Invoice tents to AvaTax. Optional code: Update the estimated coder for the line intervene ending on the prevents. Invoice tents of the modered of Code Name Name Name Name Name Name Name Nam	24.33		Not Applicable	v	Q1	
S Vendors Bin Balances Offices Description Quantity Alternate Upgrade Notes Alternate Upgrade Notes Alternate Upgrade Notes Code to appear In order, estimate, quote, and invoice value lists. Exclude customer discount. Prevents the customer discount from being applied to this code at entry. Auto-update cost rate based on purchasing activity within this last number of days: Update the estimated cost rate to avarage of recent purchases. 	001 Cost of Sal	es	Department >		Ship Cost UOM Case Qty (Sale Pur) SKU 0.00	
Description Quantity Alternate Upgrade Notes X	Options	Custom Price	s Vendors	Bin Balances	Offices	
code to appear in order, estimate, quote, and invoice value lists. ents users from changing the price at entry. d invoice items to AvaTax. Optional code: Destimated cost rate based on purchases.	Line Item	ıCode ≞	Description	I	Quantity 🔒 Alternate Upgrade Notes	×
code to appear in order, estimate, quote, and invoice value lists. Exclude customer discount. Prevents the customer discount from being applied to this code at entry. ents users from changing the price at entry. Auto-update cost rate based on purchasing activity within this last number of days: 0 updates the estimated cost rate to avarage of recent purchases. Updates the estimated cost rate to avarage of recent purchases. 0						
code to appear in order, estimate, quote, and invoce value iss. excluse customer ascount, revents the customer ascount rom being applied to this code at entry. Auto-update cost rate to avarage of recent purchases. Invoice items to AvaTax. Optional code: Cost of the stimated cost rate to avarage of recent purchases. Cost of the stimated cost rate to avarage of recent purchases.						
d invoice items to AvaTax. Optional code:	references					
Fond notice when endered. Conde line Them Code Ordered notice when an order or DO is anonad	references X Show in entry	list. Causes the	code to appear in or	rder, estimate, quote, a	nd invoice value lists.	e customer discount from being applied to this code at entry.
tification if sold with a margin less than: 0	Preferences					

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:

					General	Ledger						_
Record:	1 of 2										Print 🖶	Actions 🛪
Gene	ral Ledger	Sorted by Account 1	D							AI O	ffice	Only
•	pur-50005											Q 🗸
🛓 Account	Transaction ID	Date	Office	Dept	Line Item Code $\ \ \bigcirc$	Order	PO	Debit	Credit	Debit Balance	Status	
2101 Accourt	nts Payable											
> 2101	> PUR-50005	* 08/15/19	AI	AI			> 50005		1,439.10	1,439.10 CR	OPEN	- 🔨 🔴
2101 Accounts	Payable								1,439.10	1,439.10 CR		
5001 Cost o	f Sales											
> 5001	> PUR-50005	* 08/15/19	AI	AI	> WB-FRNCH3		> 50005	1,439.10)	1,439.10	OPEN	- 15
5001 Cost of S	ales							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	to Inventoried Items	Omit Inventori	ied Items Omit	t Auto-Generated GJ	Entries Re	lated Records 💌		

Audit Reports

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

•	• •	Inventory Lot / GL Re	conciliation by Ty	pe, Category				-
	< > 1 1 Total							
	Pages	Save as Excel Save as PDF	Print Page	Setup				
Lay	yout: CAT: Invenciliation 🕥 View As:	📃 📰 Exit Preview						
	·····					= 10040		
	Inventory Lot / GL R	econciliation b	у туре, С	ode as	of 08/1	5/2019		
	Description	Line Item Code	Lot Value	GL Value	Variance	True GL Var*	Accr'd COGS	
	Textbook		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	
						\setminus /		
						\smile		

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

·			Detailed Inventory	Lot Reconciliat	ion Report			
> 1	1 Total		•					
Pag	es Save as Excel Sa	ve as PDF	Print Page Setup					
INVTRYLor Re	eport 🗸 View As: 🖂 🗮 🗮 Exi							
Detailed	Inventory Lat Daga	nailiatian	Denert					
Detalled	Inventory Lot Reco			Pur/Prd V	alue	— Accrued	/alue	— Act/Rcvd Value —
Code (Lot ID)	Code Name (Tran. Ref)	Amount	GL Variance	Amount	GL Variance	Amount	GL Varlance	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	J'Apprends: I Learn French Workbook PO-50000	1,669.05 599.70	0.00	3,108.15 599.70	1,439.10	0.00	0.00	0.00
50002 50009	J'Apprends: I Learn French Workbook PO-50000 PO-50001	1,669.05 599.70 479.70	0.00	3,108.15 599.70 479.70	1,439.10 0.00 0.00	0.00	0.00	0.00 0.00 0.00
50002 50009 50012	J'Apprends: I Learn French Workbook PO-50000 PO-50001 PO-50002	1,669.05 599.70 479.70 479.70	0.00 0.00 0.00 0.00	3,108.15 599.70 479.70 479.70	1,439.10 0.00 0.00 0.00	0.00 0.00 0.00 0.00	0.00 0.00 0.00 0.00	0.00 0.00 0.00 0.00
WB-FRNCH3 50002 50009 50012 50015	J'Apprends: I Learn French Workbook PO-50000 PO-50001 PO-50002 PO-50002 PO-50003	1,669.05 599.70 479.70 479.70 109.95	0.00 0.00 0.00 0.00 0.00	3,108.15 599.70 479.70 479.70 109.95	1,439.10 0.00 0.00 0.00	0.00 0.00 0.00 0.00 0.00	0.00 0.00 0.00 0.00 0.00	0.00 0.00 0.00 0.00 0.00
50002 50009 50012 50015 50017	J'Apprends: I Learn French Workbook PO-50000 PO-50001 PO-50002 PO-50002 PO-50005	1,669.05 599.70 479.70 479.70 109.95 0.00	0.00 0.00 0.00 0.00 0.00 0.00	3,108.15 599.70 479.70 479.70 109.95 1,439.10	1,439.10 0.00 0.00 0.00 1,439.10	0.00 0.00 0.00 0.00 0.00 0.00	0.00 0.00 0.00 0.00 0.00 0.00	0.00 0.00 0.00 0.00 0.00 0.00
50002 50009 50012 50015 50017 Grand Total	J'Apprends: I Learn French Workbook PO-50000 PO-50001 PO-50002 PO-50002 PO-50005	1,669.05 599.70 479.70 479.70 109.95 0.00 1,669.05	0.00 0.00 0.00 0.00 0.00 0.00	3,108.15 599.70 479.70 479.70 109.95 1,439.10 3,108.15	1,439.10 0.00 0.00 1,439.10 1,439.40	0.00 0.00 0.00 0.00 0.00 0.00 0.00	0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00	0.00 0.00 0.00 0.00 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:

Becord: 1	of 1			Purchases		N	ew 🖶 Edit 🖈	Delete 🗶 Prir	nt 🖶 Actions	s a
Purcha	se: 5000	5 Mac	millan Mac	beth-Corridor 8/15/	2019				CLOSED	C
Purcha	se Details						Notic	es 🔒 Emails	Docs	s (
Vendor			*	Description			Payment Con	nments		
Vendor >		Contact >								
Macmillan M	acbeth-Corridor	Bridget Sir	monford							
Recur Transac	tion >	Vendor Inv	# Inv Date	Additional Info						
		1511590	@ 08/15/19							
Pur Order >	Payment Terms	Payment Du	e Pmt Expected							
1 > WB-	FRNCH3	5001	J'Apprends: I Learn Fi	rench 🖈 > 50005	AI	90	15.99	1,439.10	€ 00.0	
		\bigcirc		50005						
						s	ubtotal	1,439.10	0.00	
Disburse	ments Adjust	tments	Refunds			F	reight	0.00 —		
 Disbursem 	ent Di	ate l	Memo	Payment Ref	Amount	5		0.00		
> 50005	04	8/15/19	Macmillan Macbeth-Co	rridor DISB-50005	* 1,439.10 ^	T	otal	1,439.10		
						В	alance	0.00 0%	ò	
					~	S	ugg Disc	0.00		
						U	se l'ax	0.00		
🕽 🖈 Dep	t AI	Assigned	To Denise James	Tracking Status						š

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

					General	Ledger							_ _
🔷 Record:	1 of 2										Print 📇	Actions 🖈	
Gene	ral Ledger	Sorted by Account I	D							AI O	ffice	Only	
•	pur-50005											Q	•
🛓 Account	Transaction ID	Date	Office	Dept	Line Item Code $\ \ \bigcirc$	Order	PO	Debit	Credit	Debit Balance	Status		
2101 Account	nts Payable												
> 2101	> PUR-50005	* 08/15/19	AI	AI			> 50005		1,439.10	1,439.10 CR	OPEN	🔵 🛪	-
2101 Accounts	Payable								1,439.10	1,439.10 CR			
5001 Cost of	f Sales							\frown					
> 5001	> PUR-50005	* 08/15/19	AI	AI	> WB-FRNCH3		> 50005	1,439.10		1,439.10	OPEN	۳ 🔵	-
5001 Cost of Sa	ales							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	to Inventoried Items	Omit Inventorie	ed Items Omi	it Auto-Generated GJ B	Entries Rel	ated Records 💌			

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.

Decord: 1 of 1			General J	lournal	New	New 🖶 Edit 🌶 Delete 🗶 Print 🖨 Actions			
General J	Iournal: 500	04 June Inve	entory Correcti	ion	06	5/30/2019	POSTE	D (
Journal Entry	y Details					Notices !	Emails 📉	Docs @	
ieneral Info		Auto-Generated	Description						
Гуре	Reference ID								
lournal Entry									
Entry Items	Related GJ Entries]							
GL Account		Office	Department	Order	Line Item Code	Debit	Credit	-Fic	
1 > 1303	Work In Process	1A < 🖈					10,000.00	× ^	
2 > 1305	Finished Goods	1A < 🦎					5,000.00	ж	
3 > 5001	Cost of Sales	⊀* > AI				15,000.00		×	
Auto-Reverse t	his entry on				Out Of Balance	15,000.00	15,000.00 0.00		
Auto-Reverse th	his entry on				Out Of Balance		0.00		

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:

						General L	edger							_ = ^
Record:	: 1 of 4											Print 📇	Actions 🛪	r
Gene	ral Ledger	Sort	ted by Accoun	t ID							AI O	ffice	Only	,
13*						$\langle \rangle$							Q	•
Account	Transaction ID		Date	Office	Dept	Line Item Code 🔍	Order	PO	Debit	Credit	Debit Balance	Status		
1303 Work	In 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	۳ 🔴	-
1303 Work In	Process									18,000.00	18,000.00 CR			
1305 Finish	ed Goods													
> 1305	> GJ-50004	*	06/30/19	AI						5,000.00	5,000.00 CR	OPEN	۳ 🔴	-
> 1305	> GJ-50005	*	07/30/19	AI						4,500.00	4,500.00 CR	OPEN	۳ 🔴	-
1305 Finished	Goods									9,500.00	9,500.00 CR			
List Totals										27,500.00	27,500.00 CR			
Show All	Constrain to B/S Accou	nts	Constrain t	o I/S Account	s Constra	in to Inventoried Items	Omit Inventorie	d Items On	nit Auto-Generated	GJ Entries	Related Records 💌			

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

Jammal Fata	Deteile	,				0, 20, 2010		
Journal Entry	Details					Notices 🖖	Emails M	Docs (
eneral Info		Auto-Generated	Description					
уре	Reference ID							
ournal Entry								
Entry Items	Related GJ Entries							
GL Account		Office	Department	Order	Line Item Code	Debit	Credit	16
1 > 1303	Work In Process	1A < 🦎				18,000.00		×
2 > 1305	Finished Goods	<i>★</i> > AI				9,500.00		ж
3 > 5001	Cost of Sales	<i>★</i> > AI					27,500.00	30
						27.500.00	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:

					Gener	al Ledger							_ _
🔷 Rec	ord: 1 of 6										Print 🖶	Actions 🖈	
Ger		ted by Account 1	īD							AI O	ffice	Only	
13*												Q	-
🛓 Accour	nt Transaction ID	Date	Office	Dept	Line Item Code 🔍	Order	PO	Debit	Credit	Debit Balance	Status		
1303 Wo	rk In 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	۳, 🔴	-
> 1303	> GJ-50006	* 08/20/19	AI					18,000.00		18,000.80	OPEN	۳ 🔴	-
1303 Work	In Process							18,000.00	18,000.00	0.00)		
1305 Fin	ished Goods												
> 1305	> GJ-50004	* 06/30/19	AI						5,000.00	5,000.00 CR	OPEN	۳ 🔴	-
> 1305	> GJ-50005	* 07/30/19	AI						4,500.00	4,500.00 CR	OPEN	۳, 🔴	-
> 1305	> GJ-50006	* 08/20/19	AI					9,500.00		9,500:60	OPEN	اتر 🔴	-
1305 Finis	ned Goods							9,500.00	9,500.00	0.00)		
List Total	S							27,500.00	27,500.00	0.00			
Show A	II Constrain to B/S Accounts	Constrain to I	I/S Accounts	Constrain to	Inventoried Items	Omit Inventor	ed Items	Omit Auto-Generated G	J Entries Re	elated Records 💌			

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:

	shemation by	iype,	coue as	01 00/2	.2/2013	
Description	Line Item Code	Lot Value	GL Value	Varlance	True GL Var*	Accr'd COGS
Brush		6,787.00	6,787.00	0.00	0.00	0.00
1/2" Hake Brush	Se-B-H	2,806.00	2,806.00	0.00	0.00	0.00
Goat hair bamboo brush size 4	Se-B-G4	2,265.00	2,265.00	0.00	0.00	0.00
Rabbit hair bamboo brush size 1	Se-B-R1	563.00	563.00	0.00	0.00	0.00
White bristle bamboo brush size 2	Se-B-WB2	1,153.00	1,153.00	0.00	0.00	0.00
Finished Goods		199.90	199.90	0.00	0.00	0.00
Printer Pack Special	HP-PPS-IAI	199.90	199.90	0.00	0.00	0.00
Printer		104,460.00	104,460.00	0.00	0.00	0.00
HP 250 Printer	HP250	44,460.00	44,460.00	0.00	0.00	0.00
HP 290 Printer	HP290	49,600.00	49,600.00	0.00	0.00	0.00
HP 300 Printer	HP300	10,400.00	10,400.00	0.00	0.00	0.00
Technology		641,019.71	641,721.62	(701.91)	0.00	0.00
Dry Erase Markers	Tech-001d	1,033.85	1,033.85	0.00	0.00	0.00
Electronic Whiteboard Connection Panel	Tech-003b	25,776.25	25,776.25	0.00	0.00	0.00
Electronic Whiteboard Screen	Tech-003a	202,794.95	202,794.95	0.00	0.00	0.00
Electronic Whiteboard, mounted	Tech-002x	0.00	0.00	0.00	0.00	0.00
Electronic Whiteboard, refurbished	Tech-003	14,559.50	14,559.50	0.00	0.00	0.00
Mounting Kit	Tech-002b	2,765.47	2,765.47	0.00	0.00	0.00
Student Tablet, 7" case	Tblt-7C	7,419.30	7,419.30	0.00	0.00	0.00
Student tablet, 7" screen	Tblt-1	169,211.00	169,912.91	(701.91)	0.00	0.00
Student Tablet, 8" case	Tblt-8C	8,350.44	8,350.44	0.00	0.00	0.00
Student Tablet, 8" screen	Tblt-2	167,110.00	167,110.00	0.00	0.00	0.00
Student Tablet, 9" Screen	Tblt-3	41,998.95	41,998.95	0.00	0.00	0.00
Textbook		304,697.67	304,922.67	(225.00)	0.00	0.00
Astronomy for Beginners, 4th Edition	TB-SCI4	88,654.11	88,654.11	0.00	0.00	0.00
Beowulf - A New Translation and Commentary	TB-Lit130	21,636.60	21,636.60	0.00	0.00	0.00
Complete Poems of Gerard Manley Hopkins	TB-Lit120	15,926.70	15,926.70	0.00	0.00	0.00
Introduction to Computer Science	X-50003	0.00	0.00	0.00	0.00	0.00
J'Apprends: I Learn French 3rd Edition	TB-FRNCH3	15,149.96	15,149.96	0.00	0.00	0.00
J'Apprends: I Learn French Teacher's Manual	TM-FRNCH3	38,024.94	38,024.94	0.00	0.00	0.00
J'Apprends: I Learn French Workbook	WB-FRNCH3	10,476.77	10,476.77	0.00	0.00	0.00
Lab notebooks / journals	Ntbk-011	1,620.50	1,845.50	(225.00)	0.00	0.00
Middle Grade Math 6th Edition	TB-MTH6	12,821.88	12,821.88	0.00	0.00	0.00
Middle Grade Math 7th Edition	TB-MTH7	12,796.89	12,796.89	0.00	0.00	0.00
Shakespeare's Comedies	TB-Lit104	24,036.00	24,036.00	0.00	0.00	0.00
Shakespeare's Tragedies	TB-Lit106	22,036.50	22,036.50	0.00	0.00	0.00
The Complete Works of Shakespeare	TB-LIT102	41,516.82	41,516.82	0.00	0.00	0.00

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.

Printed from aACE by Scot Hanson on 8/22/2019 at 9:50:30 AM

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

Description	Line Item Code	Lot Value	GL Value	Variance	True GL Var*	Accr'd COGS
Toner		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:

					Inventory	/ Lots							-	
Record:	: 1 of 167											Print 🖶	Actions	r,
Travers	atom () ato													
Inver	ntory Lots													
													٩	ľ
Lot 50138	> Tech-003	Transaction ID > PO-50004	Date 08/21/19	Office	Ref #(s) 500-549	7	Lot Qty	Lot Value 13,999.50	Curr Qty 50	~Curr Value 13,999.50	Accr Value	Status		_
50140	> HP-PPS-IAI	> PO-50005	08/21/19	AI		*	10	199.90	10	199.90	0.00	OPEN	₩.	1
50141	> TB-FRNCH3	> PO-50006	08/21/19	AI		*	1	35.00	1	35.00	0.00	OPEN	F	i
50142	> TM-FRNCH3	> PO-50006	08/21/19	AI		*	1	80.00	1	80.00	0.00	OPEN	F	I.
50143	> Tblt-1	> PO-50006	08/21/19	AI		*	2	602.00	2	602.00	0.00	OPEN	F	i.
50144	> Ntbk-011	> PO-50006	08/21/19	AI		*	1	3.00	1	3.00	0.00	OPEN	 7	(
50145	> TB-LIT102	> PO-50006	08/21/19	AI		*	1	82.00	1	82.00	0.00	OPEN	۳ 🔴	(
50146	> Tblt-2	> PO-50006	08/21/19	AI		*	2	610.00	2	610.00	0.00	OPEN	۳ 🔵	(
50147	> Tblt-8C	> PO-50006	08/21/19	AI		*	1	16.00	1	16.00	0.00	OPEN	۳ 🔵	(
> 50148	> TB-MTH6	> PO-50006	08/21/19	AI		*	1	27.00	1	27.00	0.00	OPEN	۳ 🔵	(
50149	> WB-FRNCH3	> PO-50006	08/21/19	AI		*	1	22.00	1	22.00	0.00	OPEN	۳ 🔵	(
50150	> Tech-002b	> PO-50006	08/21/19	AI		*	1	6.00	1	6.00	0.00	OPEN	٣ 🔴	l
50151	> Tech-003	> PO-50006	08/21/19	AI	111,222	*	2	560.00	2	560.00	0.00	OPEN	۳ 🔴	(
50152	> Tech-003a	> PO-50006	08/21/19	AI		*	2	800.00	2	800.00	0.00	OPEN	اتر 🔴	l
50153	> Tech-003b	> PO-50006	08/21/19	AI		*	1	52.00	1	52.00	0.00	OPEN	۳ 🔴	l
50154	> Tblt-7C	> PO-50006	08/21/19	AI		*	1	15.00	1	15.00	0.00	OPEN	۳ 🔵	l
50155	> TB-MTH7	> PO-50006	08/21/19	AI		*	1	27.00	1	27.00	0.00	OPEN	آتر ●	l
> 50156	> TB-Lit104	> PO-50006	08/21/19	AI		*	1	42.00	1	42.00	0.00	OPEN	₹ ●	I.
> 50157	> TB-Lit106	> PO-50006	08/21/19	AI		*	1	42.00	1	42.00	0.00	OPEN	₹ ●	I.
50158	> TB-Lit120	> PO-50006	08/21/19	AI		*	1	32.00	1	32.00	0.00	OPEN	آھ ●	(
50159	> TB-Lit130	> PO-50006	08/21/19	AI		*	1	42.00	1	42.00	0.00	OPEN	اتر 🔴	I.
> 50160	> Se-B-H	> PO-50006	08/21/19	AI		*	1	6.00	1	6.00	0.00	OPEN	۳ 🔴	(
50161	> Se-B-G4	> PO-50006	08/21/19	AI		*	1	5.00	1	5.00	0.00	OPEN	۳ 🔴	(
> 50162	> Se-B-WB2	> PO-50006	08/21/19	AI		*	1	3.00	1	3.00	0.00	OPEN	۳ 🔴	I.
> 50163	> Se-B-R1	> PO-50006	08/21/19	AI		*	1	2.00	1	2.00	0.00	OPEN	۳ 🔴	I.
50166	> HP200T	> PO-50006	08/21/19	AI		*	1	22.00	1	22.00	0.00	OPEN	₹ ●	I.
50167	> TB-SCI4	> PO-50006	08/21/19	AI		\star	2	310.00	2	310.00	0.00	OPEN	ж 🔴	I.
50168	> Tblt-1	> PO-50007	08/21/19	AI		*	9	3,410.91	9	2,709.00	0.00	OPEN	ж 🌒	Ē
50169	> Ntbk-011	> PO-50007	08/21/19	AI		*	75	450.00	75	225.00	0.00	OPEN	ж 🌒	í.
st Totals							14,633	1,073,713.19	14,566	1,069,926.28	0.00			
Show All	Find Open Inventory Lots	Related Records V												

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

		GL Accounts			_
Record	: 1 of 8		New	🕨 Edit 🖋 🛛 Delete 💥 🛛 Print 📇	Actions 🖈
GL A	ccounts 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	- Tr
> 1301	Uncategorized Inventory	Inventory	Other Assets	765,930.52 ACTIVE	- 🕆 🔵
> 1303	Work In Process	Inventory	Other Assets	ACTIVE	- 🕆 🔵
> 1304	Raw Materials	Inventory	Other Assets	ACTIVE	- 🕆 🔵
> 1305	Finished Goods	Cash	Other Assets	ACTIVE	- 🕆 🔵
> 1306	Inter Office Inventory Transfers	Cash	Other Assets	ACTIVE	- 🕆 🔵
> 1307	Textbook Inventory	Inventory		304,922.67 ACTIVE	- 🕆 🔴
> 1399	Vendor Deposits	Inventory		ACTIVE	- F
List Totals				1,070,853.19	
Show All	Constrain 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.