Understanding the Accrued COGS Reconciliation Process

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This guide details the benefits of accrued COGS for your financial oversight, as well as how to set it up. It is intended for advanced users.

Note: This explanation of the accrued cost of goods sold (COGS) assumes that you understand the relationships between <u>aACE inventory lot, usage, and transaction records</u> (http://aace6.knowledgeowl.com/help/understanding-the-relationship-among-inventory-lots-usage-and-transactions), as well as <u>unallocated inventory usage</u> (http://aace6.knowledgeowl.com/help/understanding-unallocated-inventory-usage) and the <u>COGS reconciliation process</u> (http://aace6.knowledgeowl.com/help/understanding-the-cogs-reconciliation-process).

Unallocated inventory usage represents the use of a product that cannot be accurately accounted for as a 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 for the month. In addition, after the underlying inventory problem is resolved, the COGS reconciliation process may not find the cost until a future month. Thus, your financials could be distorted for two months:

- 1st month Sales accounted for in the month the order was invoiced
- 2nd month Cost accounted for in the month aACE finds an available inventory lot

The accrued COGS reconciliation 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. This means that the sales and cost can be accounted for in the same month, and only the net difference between the estimated cost and true cost – generally a small value – will appear in the future period.

aACE Assumptions about Workflows

When unallocated inventory usage exists, aACE assumes that the data associated with the *usage* transaction is correct.

For example, if a shipment to a customer results in unallocated inventory usage, either the shipment is incorrect or else some other data is incorrect (e.g. a beginning balance entry). The accrued COGS process presumes the shipment record is reliable — a team member recording a shipment that they did *not* ship is less likely than other possible reasons for the discrepancy.

Accrued COGS Process Walk-thru

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

- 1. Inventory Usage
- 2. Accrued COGS Entries
- 3. Accrued COGS Reversal

1. Inventory Usage

For this example, suppose a sales order for ten beginner's paint sets ships near the end of a month. This creates an inventory usage record, showing that ten units have been used. The COGS Allocation section shows that all ten used units are still unallocated.

Inventory Usage D	etails				Notices () Tasks 5	-Emails 🔀 D
Seneral Info			Serialized	By Mfr Lot	COGS Allocation	
irans ID >	Date	Office >	Department >		Inventory Used	
HIP-60301	08/22/22	aACME Education Solutions, Inc. (AI)	Development (AI-Dev)		Allocated	
ode >	Code Descripti				Unallocated	
AINT-BPS	Beginner's P				Est Unit Cost	347
rder >	Reference #(s				Estimated Accrued COGS Actual COGS	3,470
I MINIT P						
Iventory COGS	Order #602				Total COGS Average Unit Cost	3,470 347 Total Co
iventory COGS					Average Unit Cost	
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ventory COGS					Average Unit Cost	347
ventory COGS					Average Unit Cost	347
iventory COGS					Average Unit Cost	347

2. Accrued COGS Entries

Suppose this product doesn't have an inventory lot with a balance for Current Inventory. When the Generate COGS Reconciliation automation schedule runs, the COGS reconciliation process cannot allocate the inventory usage to an inventory lot.



However, the accrued COGS reconciliation process will help account for the expense of these units. The accrued COGS value is the unallocated quantity * estimated unit cost. This value is credited to the item's inventory GL account, and an equal value is temporarily expensed to the Accrued COGS GL account (see below for details).

					-	6/28/2019	POSTED
COGS Recond	ciliation Details					Notices E	mails M Docs
General Info		Auto-Generated X	Description				
Туре	Reference ID						
Accrued COGS							
Entry Items	Related GJ Entries						
GL Account	Related OF LITTIES	Office	Department	Order	Line Item Code	Debit	Credit 🖃
1 > 1305	Finished Goods	🖈 > AI	> AI	> 50003	> HP290		300.00 💥
2 > 5003	Accrued COGS	🖈 > AI	> AI	> 50003	> HP290	300.00	20
					Out Of Balance	300.00	300.00

3. Accrued COGS Reversal

Suppose that in the next month, an incoming shipment is entered, thus creating an inventory lot for the printers. The unit cost associated with the new purchase order is slightly higher than the prior estimated unit cost.

					Inventor	y Lots							
Record:	: 1 of 1											Print 🔒	Actions 🖈
Inver	ntory Lots												
•			7/30/2019										Q 🗸
🖿 Lot	Line Item Code	Transaction ID	Date	Office	Ref #(s)		Lot Qty	Lot Value	Curr Qty	~Curr Value	Accr Valu	e Status	
> 50000	> HP290	> PO-50000	07/30/19	AI		*	3	0.00	3	309.00	309.0	0 OPEN	- Tr 🔴
List Totals							3	0.00	3	309.00	309.0	0	
									\sim				
Show All	Find Open Inventory Lots	Related Records 💌											

The next time the COGS reconciliation process runs, it pairs the unallocated printer usage to this lot. The inventory lot quantity is depleted, then the value is both credited to the item's inventory account and expensed to its cost of sales account:

COGS Recon	ciliation Details					Notices 🔒	Emails 🔀	Docs
General Info		Auto-Generated X	Description					
Туре	Reference ID							
COGS								
F								
Entry Items		Office	Department	Order	Line Item Code	Debit	Cred	dit 🖅
			Department > AI	Order > 50003 > 50003	Line Item Code > HP290 > HP290	Debit 309.00	Cred 309.0	×
GL Account 1 > 5001	Cost of Sales	Office		> 50003	> HP290			3
GL Account 1 > 5001	Cost of Sales	Office		> 50003	> HP290			3

When the accrued COGS reconciliation process runs again, it identifies that inventory usage has been allocated. It reverses the accrued COGS GL entries, debiting the accrued COGS value to the item's inventory GL account and crediting an equal value to the Accrued COGS GL account:

COGS Recon	ciliation Details					Notices 🔒 🛛 🛛	Emails 🞽 🛛 Docs 🍭
General Info		Auto-Generated X	Description				
Type Accrued COGS	Reference ID						
Entry Items	Related GJ Entries						
GL Account	Finished Goods	Office	Department > AI	Order > 50003	Line Item Code > HP290	Debit 300.00	Credit 🛒
2 > 5003	Accrued COGS	× AI	> AI	> 50003	> HP290	500.00	300.00 🗙

Walk-Thru Summary

The transactions for this example can be reviewed in the General Ledger, where we can see the "net" inventory credit and cost of sales debit. In the first month, the inventory's estimated value of \$300.00 was credited to the inventory account and debited to the accrued COGS account:

 Record: 1 	L of 2			-	Genera	l Ledger	-		New 🖶 Ec	lit 🖋 🛛 Delete 🗙	Print 🔒	Actions ;	ا تر
Gener	al Ledger	Sorted by Account .	īD							AI O	ffice	Only	,
>		6/2019			HP290							0	
Account	Transaction ID	Date	Office	Dept	Line Item Code 🔍	Order	PO	Debit	Credit	Debit Balance	Status		
1305 Finished	d Goods												
> 1305	> GJ-50001	* 06/28/19	AI	AI	> HP290	> 50003			300.00	300.00 CR	OPEN	- 🔵 🛪	1
305 Finished G	oods								300.00	300.00 CR			
5003 Accrued	COGS												
> 5003	> GJ-50001	* 06/28/19	AI	AI	> HP290	> 50003		300.00		300.00	OPEN		μ
003 Accrued CO	OGS							300.00		300.00			
ist Totals								300.00	300.00	0.00			
Show All	Constrain to B/S Account	to Constrain to		Constrai	n to Inventoried Items	Omit Inventorie	ed Items	Omit Auto-Generated GJ	Entries Re	lated Records			

In the following month, the inventory's actual value of \$309.00 was credited to the item's inventory account and expensed to its cost account. In addition, the accrued COGS entries were reversed. The net change to the inventory and expenses for the second month is \$9.00. This small net difference between the estimated cost and true cost is all that appears in the second month's financials.

5		7/2019			HP290							Q
Account	Transaction ID	Date	Office	Dept	Line Item Code 🔍	Order	PO	Debit	Credit	Debit Balance	Status	
L305 Finishe	d Goods											
> 1305	> GJ-50002	107/30/19	AI		> HP290	> 50003			309.00	309.00 CR	OPEN	۳, 🔴
> 1305	> GJ-50003	* 07/30/19	AI	AI	> HP290	> 50003		300.00		300.00	OPEN	اتر 🔴
1305 Finished G	Goods							300.00	309.00	9.00 CR	>	
5001 Cost of	Sales							X				
> 5001	> GJ-50002	107/30/19	AI	AI	> HP290	> 50003		309.00	\	309.00	OPEN	اتر 🔴
5001 Cost of Sa	les							309.00		309.00		
5003 Accrue	d COGS								7			
> 5003	> GJ-50003	107/30/19	AI	AI	> HP290	> 50003			300.00	300.00 CR	OPEN	اتر 🔴
5003 Accrued C	OGS								300.00	300.00 CR		
List Totals								609.00	609.00	0.00		

When reviewing both months in the General Ledger, we can see the relevant transactions: a) the net credit to the inventory is \$309.00 (i.e. three printers at a true cost of \$103.00), b) the true cost is expensed, and c) the accrued COGS entries are fully reversed.

						Gener	al Ledger							
🔶 Record	: 1 of 6									New 🖶 Edi	🥜 🛛 Delete 🗱	Print 🖶	Actions	۳ ۲
Gene	eral Ledger	Sortea	f by Account 1	īD							AI O	ffice	Onl	y
0	GJ*					HP290								۹.
Account	Transaction ID		Date	Office	Dept	Line Item Code $\ \ \bigcirc$	Order	PO	Debit	Credit	Debit Balance	Status		
1305 Finish	ed Goods													
1 1305	> GJ-50001	*	06/28/19	AI	AI	> HP290	> 50003			300.00	300.00 CR	OPEN	9 7	л -
2 1305	> GJ-50002	*	07/30/19	AI		> HP290	> 50003			309.00	309.00 CR	OPEN		л -
3 1305	> GJ-50003	*	07/30/19	AI	AI	> HP290	> 50003		300.00		300.00	OPEN	. 🔵 🤉	л -
1305 Finished	Goods								300.00	609.00	309.00 CR			
5001 Cost o	of Sales													
2 5001	> GJ-50002	*	07/30/19	AI	AI	> HP290	> 50003		309.00		309.00	OPEN		л •
5001 Cost of 9	Sales								309.00		309.00			
5003 Accru	ed COGS													
5003	> GJ-50001	*	06/28/19	AI	AI	> HP290	> 50003		300.00		300.00	OPEN		л- т
5003	> GJ-50003	*	07/30/19	AI	AI	> HP290	> 50003			300.00	300.00 CR	OPEN	,	- F k
5003 Accrued	COGS								300.00	300.00	0.00			
List Totals									909.00	909.00	0.00			
Show All	Constrain to B/S Accoun	its	Constrain to 1	I/S Accounts	Constrain	n to Inventoried Items	Omit Inventorie	ed Items	Omit Auto-Generated GJ	Entries Rela	ted Records 💌			

For the above screenshot, the numbered entries represent:

- 1. The initial June accrued COGS
- 2. The July COGS
- 3. The July accrued COGS reversal

Setting Up Accrued COGS Functionality

To get the most benefit out of this feature, we recommend setting up a separate account for accrued COGS. This can help you identify problem areas in your workflows — when a balance appears in this account, it can be a signal for your team to audit / review the respective products.

If you don't specify an accrued COGS account in your accounting preferences, then accrued COGS values are debited to the cost-of-sales account associated with each line item code.

Your system administrator can create a specific accrued COGS account and select it for use:

Create an Accrued COGS Account

<u>Add a new detail account (https://aace6.knowledgeowl.com/help/adding-an-account-to-the-chart-of-accounts)</u> to the Chart of Accounts, using the following information:

- Record Type Detail
- Header Account Cost of Sales
- ID An appropriate number under the Header Account number

• Name – Accrued COGS

Select the Accrued COGS Account for Use

- 1. Navigate from Main Menu > Accounting > Preferences > Chart of Accounts.
- 2. In the Cost of Goods Sold (Cost of Sales) section, click the **Accrued COGS** field and select the account you created.

	Accobe				Liabilit	
of Accounts	Assets					
8. Payment Terms		d Funds - Cash/Checks >		eceivable (A/R) >		: Payable (A/P) >
tment Codes	1120	Undeposited Funds - Cash/Checks	1202	Accounts Receivable	2101	Accounts Payable
ncy Conversion		d Funds - MC/Visa >		entory Account >		ions Payable >
Management	1121	Undeposited Funds - MC/Visa	1301	Uncategorized Inventory	2106	Commissions Payable
Entry		d Funds - Amex >				Inventory >
	1122	Undeposited Funds - Amex			2104	Accrued Inventory
		d Funds - Debit Card >				Wages >
	1123	Undeposited Funds - Debit Card			2105	Accrued Wages
	Undeposite	d Funds - E-Check >			Accrued	Expenses >
	1124	Undeposited Funds - E-Check			2103	Accrued Expenses
	Default Dis	bursement (Bill Payment) Account >				
	1115	Cash Checking (AI)				
	Merchant B	lank Account >				
	1115	Cash Checking (AI)				
	Equity		Revenue	(Sales)	Cost of	Goods Sold (Cost of Sales)
		ar Earnings (Net Income) >	Default Re	venue Account >	Default	Cost Account >
	3999	Current Year Earnings	4001	Uncategorized Sales	5001	Uncategorized Cost of Sales
	Retained E		Shipping M	ark Up (Handling) >	Accrued	COGS >
	3900	Retained Earnings	4007	Shipping Mark Up / Handling	5003	Accrued COGS
	-					
	Expenses					
	Commission		Inventory L	.osses >	Currency	Conversion Adjustments >
		ns Expense >				
	6004	Commissions Expense	5002	Inventory Losses	6998	Currency Conversion Adjustments
	6004 Capitalized		Capitalized	Inventory Losses Mfr Overhead >		
	6004	Commissions Expense				Currency Conversion Adjustments
	6004 Capitalized	Commissions Expense Mfr Labor > Capitalized Mfr Labor	Capitalized	Mfr Overhead > Capitalized Mfr Overhead	Labor O	Currency Conversion Adjustments renhead Allocations >
	6004 Capitalized 6005	Commissions Expense Mfr Labor > Capitalized Mfr Labor	Capitalized	Mfr Overhead > Capitalized Mfr Overhead	Labor O	Currency Conversion Adjustments renhead Allocations >
	6004 Capitalized 6005 Use Tax Ex	Commissions Expense Mfr Labor > Capitalized Mfr Labor pense >	Capitalized	Mfr Overhead > Capitalized Mfr Overhead	Labor O	Currency Conversion Adjustments renhead Allocations >
	6004 Capitalized 6005 Use Tax Ex	Commissions Expense Mfr Labor > Capitalized Mfr Labor pense >	Capitalized	Mfr Overhead > Capitalized Mfr Overhead	Labor O	Currency Conversion Adjustments renhead Allocations >
	6004 Capitalized 6005 Use Tax Ex 6200 Offices Office	Commissions Expense Mfr Labor > Capitalized Mfr Labor pense >	Capitalized	Mfr Overhead > Capitalized Mfr Overhead	Labor On 7001	Currency Conversion Adjustments renhead Allocations >
	6004 Capitalized 6005 Use Tax Ex 6200 Offices	Commissions Expense Mir Labor > Capitalized Mfr Labor pense > Use Tax Expense	Capitalized 6006 Sales Tax B	Mfr Overhead > Capitalized Mfr Overhead Expense >	Labor On 7001	Currency Conversion Adjustments rerhead Allocations > Uncategorized Overhead

3. Click **Commit Updates**.

Running the Accrued COGS Process

The accrued COGS reconciliation process typically runs as part of the Generate COGS Reconciliation <u>automation schedule (http://aace6.knowledgeowl.com/help/configuring-automation-schedules</u>), but you can also run it manually.

Accrued COGS Process Automation

The Generate COGS Reconciliation automation schedule first runs the COGS reconciliation

process, then the accrued COGS reconciliation process immediately after. These automated entries always use the current date for the resulting General Journal entries.

Your system administrator can customize the automation schedule, following the guidelines noted in <u>Understanding the COGS Reconciliation Process</u> (http://aace6.knowledgeowl.com/help/understanding-the-cogs-reconciliation-process).

Manually Running the Accrued COGS Process

Manually running either the COGS Reconciliation process or the Accrued COGS Reconciliation process separately comes with its own risk. To avoid possible risks, you must *first* run the COGS Reconciliation process, immediately followed by the Accrued COGS Reconciliation process.

Note: Running the Accrued COGS Reconciliation *before* the COGS Reconciliation will create accrued COGS entries for inventory usage records that could be allocated during the COGS reconciliation process. Conversely, if you run the COGS Reconciliation process without running the Accrued COGS Reconciliation process, your financials may become skewed by the sales and costs from unallocated inventory usage being accounted for in different periods (as noted earlier).

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

Record: 1 d	of 3					New 🕂 🛛	Actions
		Date	Туре	Auto-Gen	Reference		Send Notice Re: List Post GJ Entries in List Void GJ Entries in List Generate COGS Reconciliation
> 60033 > 60034 > 60035 List Totals	COGS Reconciliation COGS Reconciliation Zeroing Entry	08/09/22 08/09/22 08/10/22	COGS Reconciliation COGS Reconciliation Journal Entry	*			Generate Accrued COGS Reconciliation Import GJ Entries Export GJ Entries 20,240.30
Show All E	clude Auto-Generated Entries from List						¢

- 3. If applicable, enter the Limit-To Date (see below for details), then click Continue.
- 4. Wait for the COGS Reconciliation process to run completely.
- 5. From the list view, click **Actions** > **Generate Accrued COGS Reconciliation**.

L GJ Entry Title Date Type Auto-Gen Reference > 60033 COGS Reconciliation 08/09/22 COGS Reconciliation ✓ > 60034 COGS Reconciliation 08/09/22 COGS Reconciliation ✓ > 60035 Zeroing Entry 08/10/22 Journal Entry ✓	General Journal General Journal Post G Entries in List G Entry Title Date Type Auto-Gen Reference Generate COGS Reconciliation > 60033 COGS Reconciliation 08/09/22 COGS Reconciliation Import G Entries in List > 60034 COGS Reconciliation 08/09/22 COGS Reconciliation Import G Entries > 60035 Zeroing Entry 08/10/22 Journal Entry Import G) Entries	General Journal General Journal Post G Entries in List G Entry Title Date Type Auto-Gen Reference Generate COGS Reconciliation > 60033 COGS Reconciliation 08/09/22 COGS Reconciliation Import G Entries in List > 60034 COGS Reconciliation 08/09/22 COGS Reconciliation Import G Entries > 60035 Zeroing Entry 08/10/22 Journal Entry Import G) Entries	Record: 1	of 3					New 🕂 🛛	Actions
> 60033 COGS Reconciliation 08/09/22 COGS Reconciliation ✓ Generate COGS Reconciliation > 60034 COGS Reconciliation 08/09/22 COGS Reconciliation ✓ Generate Accrued COGS Reconciliation > 60035 Zeroing Entry 08/10/22 Journal Entry Import GJ Entries	> 60033 COGS Reconciliation 08/09/22 COGS Reconciliation ✓ Generate COGS Reconciliation > 60034 COGS Reconciliation 08/09/22 COGS Reconciliation ✓ > 60035 Zeroing Entry 08/10/22 Journal Entry Import GJ Entries	> 60033 COGS Reconciliation 08/09/22 COGS Reconciliation ✓ Generate COGS Reconciliation > 60034 COGS Reconciliation 08/09/22 COGS Reconciliation ✓ > 60035 Zeroing Entry 08/10/22 Journal Entry Import GJ Entries	9		Date	Tana	Auto Con	Performance		Post GJ Entries in List
> 60034 COGS Reconciliation 08/09/22 COGS Reconciliation ✓ Generate Accrued COGS Reconciliation > 60035 Zeroing Entry 08/10/22 Journal Entry	> 60034 COGS Reconciliation 08/09/22 COGS Reconciliation ✓ > 60035 Zeroing Entry 08/10/22 Journal Entry Import GJ Entries	> 60034 COGS Reconciliation 08/09/22 COGS Reconciliation ✓ > 60035 Zeroing Entry 08/10/22 Journal Entry Import GJ Entries						Kererence		Generate COGS Reconciliation
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> 60035 Zeroing Entry 08/10/22 Journal Entry Export GJ Entries	Export GJ Entries	Export GJ Entries					¥			Import GJ Entries
	List Totals	List Totals	> 60035	Zeroing Entry	08/10/22	Journal Entry				Export GJ Entries
ist Totals 20,210.30	20,210.30		ist Totals							20,240.30

6. Enter the Limit-To Date (generally the current date), then click Continue.

Limit-To Date

The Limit-To Date allows you to backdate an Accrued COGS Reconciliation:

- Limit-To Date used The process uses the specified date for the General Journal entry. It considers all inventory usage records dated on or before that date. Note: For this reason, including a Limit-To Date lengthens the process significantly for systems with large data sets and can tie up your machine. We recommend starting the process at the end of the day when you leave your desk.
- Limit-To Date *blank* The process uses the current date for the General Journal entry. It considers only inventory usage records that are new or have been changed since the last time the process was run.

Note: For this reason, the process runs much faster, but for larger data sets it may still slow down your machine.