

# Understanding the COGS Reconciliation Process

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

Note: This explanation of the cost of goods sold (COGS) process assumes that you understand the relationships between [aACE inventory lot, usage, and transaction records](https://aace6.knowledgeowl.com/help/understanding-the-relationship-among-inventory-lots-usage-and-transactions) (<https://aace6.knowledgeowl.com/help/understanding-the-relationship-among-inventory-lots-usage-and-transactions>).

The COGS process allocates inventory usage records to inventory lot records using the applicable actual cost method (e.g. FIFO, LIFO, or specific-unit logic). This enables aACE to determine the true cost of goods and to create the necessary COGS GL entries. The COGS reconciliation process requires that your aACE system is [set up for inventory tracking](https://aace6.knowledgeowl.com/help/setting-up-inventory-tracking) (<https://aace6.knowledgeowl.com/help/setting-up-inventory-tracking>).

## COGS Process Walk-thru

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

1. [Inventory Lots](https://aace6.knowledgeowl.com/help/understanding-the-cogs-reconciliation-process#InventoryLots) (<https://aace6.knowledgeowl.com/help/understanding-the-cogs-reconciliation-process#InventoryLots>)
2. [Inventory Usage](https://aace6.knowledgeowl.com/help/understanding-the-cogs-reconciliation-process#InventoryUsage) (<https://aace6.knowledgeowl.com/help/understanding-the-cogs-reconciliation-process#InventoryUsage>)
3. [COGS Entries](https://aace6.knowledgeowl.com/help/understanding-the-cogs-reconciliation-process#COGSEntries) (<https://aace6.knowledgeowl.com/help/understanding-the-cogs-reconciliation-process#COGSEntries>)

## Inventory Lots

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

For this example, the Inventory Lots module shows that we have received a partial shipment of ten textbooks into current inventory. There are 90 more still on order. Each textbook is estimated to be valued at \$135.00. The Inventory COGS section at the bottom displays no entries.





The screenshot displays the 'Inventory Usage' window for record 7 of 7, titled 'Inventory Usage: 60008 | TB-LITSET-4'. The window is in a 'CLOSED' state. The 'COGS Allocation' section is circled in green and shows the following data:

COGS Allocation	
Inventory Used	10
Allocated	10
Unallocated	0
Est. Unit Cost	159.99
Estimated Accrued COGS	0.00
Actual COGS	1,350.00
Total COGS	1,350.00
Average Unit Cost	135.00

The 'Inventory COGS' section shows a table with the following data:

Lot ID	Transaction ID	Date	Reference #(s)	Quantity	Unit Cost	Total Cost
> 50626	> PO-50329	03/09/22		10	135.00	1,350.00

At the bottom of the 'Inventory COGS' section, a summary row shows: Allocated 10, Total Cost 1,350.00.

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

Note: aACE uses inventory sequentially. This means that aACE may use inventory from a previous inventory lot. If this is the case, aACE will *not* display the inventory usage and out-going shipment in the Inventory COGS section. Instead, the relevant records will be displayed in the inventory lot record that aACE pulled from.

Inventory Lots

Record: 25 of 25 New Edit Delete Print Actions

### Inventory Lot: 60009 | TB-LITSET-4 OPEN

Purchase Inventory Lot Notices Tasks Emails Docs

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**General Info** Serialized  Track by Mfr Lot

Transaction ID >	Date	Office >	Code >	Code Description	Reference #(s)
PO-60015	08/03/23	AI	TB-LITSET-4	Literature Set (4 books)	

**Ordered / Purchased**

	Quantity	Each	Value
Ordered	100	135.00	13,500.00
Purchased	0	135.00	0.00
Purchased Remaining	100		13,500.00

**Accrued Inventory**

	Quantity	Value
Received	10	1,350.00
Purchased	0	0.00
Accrued Inventory	10	1,350.00

**Ordered / Received**

	Quantity	Value
Ordered	100	13,500.00
Received	10	1,350.00
Received Remaining	90	12,150.00

**Current Inventory**

	Quantity	Value
Received	10	1,350.00
Used	10	1,350.00
Current Inventory	0	0.00

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

Usage ID	Trans ID	Trans Date	Reference #(s)	Quantity	Est Unit Cost	Total Cost
> 60008	> SHIP-60022	08/03/23	Order #60013	10	135.00	1,350.00
				Used	<b>10</b>	<b>1,350.00</b>

The COGS reconciliation process also makes entries in the General Journal, removing 10 textbooks from inventory and expensing them to the GL account Cost of Sales.

General Journal - 2

Record: 1 of 1 New Edit Delete Print Actions

### General Journal: 60004 | COGS Reconciliation 08/03/23 POSTED

COGS Reconciliation Details Notices Tasks Emails Docs

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**General Info** Auto-Generated

Type: COGS Reconciliation Reference ID:

**Settings**

Auto-reverse this entry on: 08/03/23

Generate inter-company transactions for office:

**Description**

**Entry Items** [Related G1 Entries](#)

Dr Account	Office	Department	Order	Code	Debit	Credit
1 > 5001   Uncategorized Cost of Sales	> AI	> AI	> 60013	> TB-LITSET-4	1,350.00	
2 > 1305   Finished Goods	> AI		> 60013	> TB-LITSET-4		1,350.00
Out Of Balance					<b>1,350.00</b>	<b>1,350.00</b>
						0.00

## Running the COGS Process

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

### COGS Process Automation

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

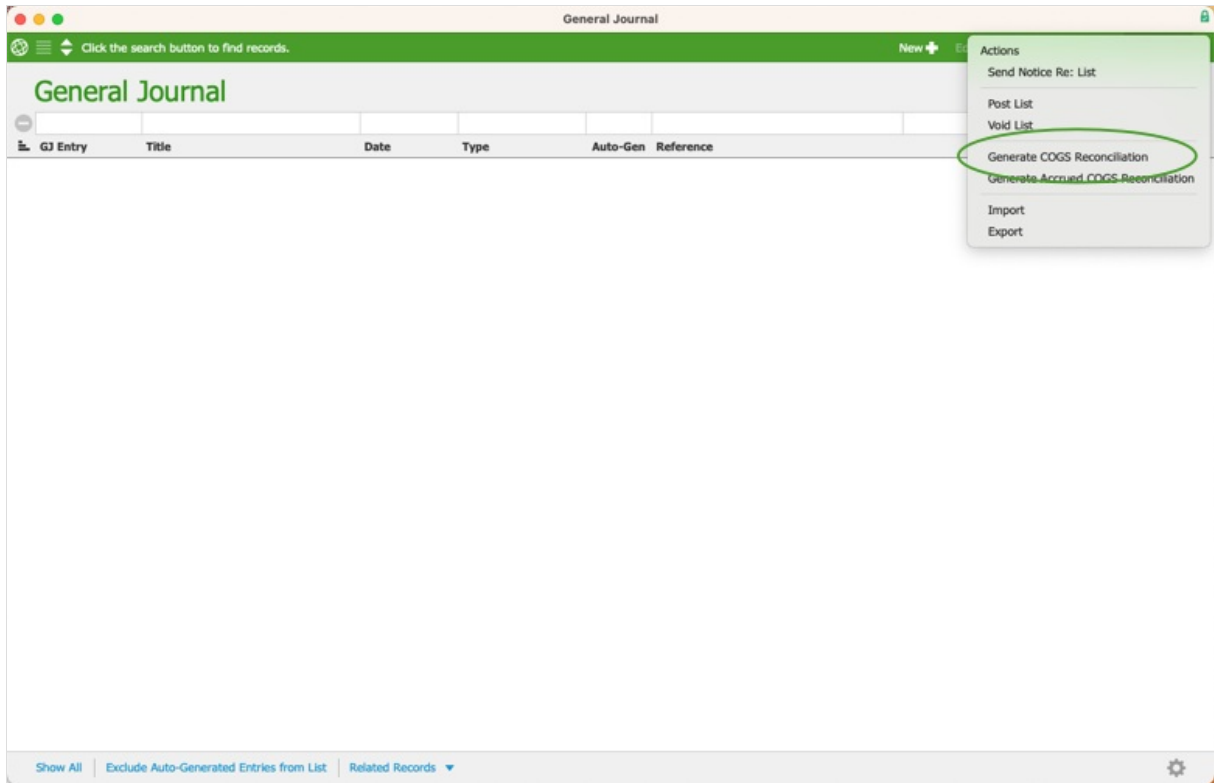
If you customize the timing of these schedules, be aware that they can take a long time to complete. We recommend running them *after* work hours in order to avoid interfering with users' daily workflows.

### Manually Running the COGS Process

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

Conversely, if you run the Accrued COGS Reconciliation process *without* running the COGS Reconciliation process first, it may create accrued COGS entries for inventory usage records that could be allocated during the COGS reconciliation process.

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



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

## Limit-To Date

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

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