



## Article # 1193

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### **Technical Note: Reconciling Inventory Transaction Log with the Inventory General Ledger Account Balance**

**Difficulty Level:** Intermediate AccountMate User

**Version(s) Affected:** AccountMate 7 for SQL and Express  
AccountMate 6.5 for SQL or MSDE  
AccountMate 6.5 for LAN

**Module(s) Affected:** IC, AR, SO, PO, MI, RA, RV

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#### **DESCRIPTION**

Inventory is a valuable asset for a manufacturing or merchandising company. Businesses place high importance in properly valuing inventory because it has a major impact on financial statements and tax reporting. The Inventory Transaction Log is a helpful tool to ascertain the accuracy of your inventory value and to effectively reconcile it with the General Ledger's Inventory account balance.

This Technical Note discusses the factors to consider when reconciling the Inventory Transaction Log total cost and the Inventory GL account balance. This document also provides tips for reconciling inventory balances.

#### **SOLUTION**

These are the factors to consider when reconciling the Inventory GL account balance with the Inventory Transaction Log total cost.

##### **A. Inventory GL Account ID used in transactions**

The Inventory GL Account IDs that the system uses for inventory transactions are those that you set up in the Accounts Receivable (AR), Sales Order (SO), Purchase Order (PO), Inventory Control (IC), Manufacturer's Inventory (MI), and Return Authorization (RA/RV) modules.

If you use various Inventory GL Account IDs, be sure to generate the General Ledger Listing for all the Inventory GL accounts because the Inventory Transaction Log includes all the inventory transactions regardless of the Inventory GL Account ID assigned to each transaction. In addition, generate the GL Listing for all the Cost Variance GL accounts that you set up in the

Module Setup function. The system uses the Cost Variance GL Account ID for cost adjustments resulting from an inventory transaction.

## B. Report data sources

You can generate the Inventory Transaction Log from the IC module and the GL Listing from the GL module. Information between these reports may vary; thus, it is necessary to understand the data available in these reports.

### *Inventory Transaction Log*

You can generate Inventory Transactions Listing for the inventory transactions created in the AR, SO, PO, MI, or RA/RV module; however, for reconciliation purposes you must generate the Inventory Transaction Log in the IC module. The Inventory Transaction Log provides information on all the inventory transactions created in any module. For complete information, be sure to include adjustment details and generate a report for all items that belong to all classes and product lines in all warehouses and bins.

Listed below are the transactions that comprise the information on the report and the effects these transactions have on the report's total cost.

<b>Inventory Transactions</b>	<b>Effect(s) on Total Cost</b>
Ship sales order	-
Sales return	+
Void sales return	-
AR invoices	-
Void AR invoice (not generated from shipment)	+
Cancel shipment	+
Receive goods	+
Cancel received goods	-
Build kit item (kit item)	+
Build kit item (kit component)	-
Disassemble kit item (kit item)	-
Disassemble kit item (kit component)	+
Assign serial number	no cost effect
Assign lot number	no cost effect
Bin inventory movement	no cost effect
In-transit warehouse inventory transfer	-

Warehouse inventory transfer	+ or -
Update physical inventory count	+ or -
Inventory adjustment	+ or -
Post work-in-process (component item)	-
Post work-in-process (parent item)	no cost effect
Void work-in-process (component item)	+
Void work-in-process (parent item)	no cost effect
Post finished job (parent item)	+
Post finished job (component item)	-
Void finished job (parent item)	-
Void finished job (component item)	+
Receive RMA (a)	+
Cancel Receive RMA (a)	-
Ship RMA (b)	-
Cancel Ship RMA (b)	+
Ship RTV	-
Cancel Ship RTV	+
Receive RTV (c)	+
Cancel Receive RTV (c)	-

- (a) Receiving or canceling a received RMA transaction has no cost effect on the Inventory Transaction Log if the transaction involves a Discard and Credit, Discard and Replace, or Discard and Substitute action code.
- (b) You cannot ship or cancel a shipped RMA transaction if it involves a Restock and Credit, Discard and Credit, or Repair and Credit action code. If the transaction involves a Restock and Substitute action code, the Inventory Transaction Log will reflect a change in the substitute item's cost.
- (c) You cannot receive or cancel a received RTV transaction if it involves Return for Credit or Repair and Credit action code.
- (d) System-generated cost adjustments occur due to any of the following:
- (i) Difference between the shipment cost and cost upon replenishment for an item with negative on-hand quantities.
  - (ii) Difference between the received cost and cost upon cancellation of a received good.
  - (iii) Difference between the return cost and cost upon deleting a line item in a sales return or voiding a sales return

*GL Listing for Inventory GL Account IDs*

GL Listing provides information on an Inventory GL Account ID's balance, as well as the details of the GL postings. These journal entries are either posted in the GL module or are transferred from the subsidiary modules. You may use the information in the report's **Src** column to identify the module from which the details came.

**C. Report dates**

The Inventory Transaction Log and GL Listing reports should have the same report date ranges. The report date options for these two reports vary; thus, it is important to identify the period and date ranges to use when generating the reports.

For the Inventory Transaction Log, specify a beginning transaction date and cut-off date. The beginning transaction date must be the Begin Date for the period range used in generating the GL Listing. The cut-off date must be the End Date for the period range used in generating the GL Listing. You can verify the Begin Date and End Date for your GL Listing period ranges through the Fiscal Period Table Setup.

Before generating the Inventory GL Listing, run the Transfer Data to GL function for all activated modules that affect the Inventory GL account balances. This process ensures that all the Inventory GL postings are included in the GL Listing.

For reconciliation purposes, verify that the period range in GL Listing matches the beginning transaction date and cut-off date specified for the Inventory Transaction Log.

Below is a formula to reconcile the Inventory GL account balances with the Inventory Transaction Log total cost.

IC GL account balance		\$xxx
Reconciling items:		
Add (Deduct) Inventory transactions not transferred to GL	\$ xx	
Add (Deduct) timing difference transactions	xx	
Add (Deduct) GL journal entry transactions	(xx)	
Add (Deduct) erroneous postings	(xx)	xxx
Inventory transaction log amount		<u>\$xxx</u>

The reconciling items that cause variances between the Inventory GL account balance and Inventory Transaction Log total cost are as follows:

**A. Inventory transactions not transferred to GL**

1. Inventory adjustments

You can create inventory adjustments through the Inventory Adjustment function in the SO, AR, PO, IC, or MI module. If you unmark the Transfer to General Ledger checkbox in the Inventory Adjustment function, the system will not post a journal entry to GL for the adjustment. To reconcile the inventory total costs in GL and IC, add a positive inventory adjustment to or deduct a negative inventory adjustment from the Inventory GL account balance.

## 2. Defective inventory adjustment

You can create defective inventory adjustments in the RA or RV modules. Just as in the case of Inventory Adjustments, the system will not post a journal entry to GL if you do not mark the Transfer to General Ledger checkbox in the Defective Inventory Adjustment function. To reconcile the inventory total costs in GL and IC, add a positive defective inventory adjustment to or deduct a negative defective inventory adjustment from the Inventory GL account balance.

## 3. Goods received but not accrued

If you receive a purchase order from a vendor whose record is set not to accrue received goods upon receipt, the transaction has no effect on the Inventory GL account balance. To reconcile the inventory total costs in GL and IC, add the received goods cost to the Inventory GL account balance.

### **B. Timing difference transactions**

#### *Shipping a sales order without invoice*

The Inventory Transaction Log shows a decrease in the inventory cost as of shipment date. On the other hand, GL Listing shows a decrease in the Inventory GL account balance as of AR invoice date.

Inventory valuation between Inventory Transaction Log and GL Listing differs if the shipment and invoice dates do not fall within the same report date ranges. For example, you ship a sales order in January but you generate its invoice in February. If you reconcile the inventory total costs in January, the shipment transaction appears only in the Inventory Transaction Log. To reconcile the inventory total costs in GL and IC, deduct the inventory cost from the Inventory GL account balance.

### **C. GL Journal Entry transactions**

If you post a journal entry to an Inventory GL Account ID through the GL module, this transaction does not appear in the Inventory Transaction Log. To reconcile the inventory total costs in GL and IC, you must either deduct from or add the inventory cost to the Inventory GL account balance. If you post a debit to an Inventory GL Account ID, deduct the inventory cost from the Inventory GL account balance. On the other hand, if you post a credit to an Inventory GL Account ID, add the inventory cost

to the Inventory GL account balance.

#### **D. Erroneous Postings**

There may be times when non-inventory transactions are erroneously posted to an Inventory GL Account ID. These transactions may either be posted from the GL or subsidiary modules. You must identify these erroneous journal entries and record the necessary adjusting or correcting entries.

Reconciling the GL and IC inventory balances may be a tedious task. Knowing the factors to consider when reconciling the Inventory Transaction Log total cost and Inventory GL account balance will expedite the reconciliation process. To effectively reconcile account balances, it is also important to understand the probable causes for the differences between the GL and IC inventory valuation; and the formula to reconcile inventory balances.

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