Financial Transfer Guide

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1 Introduction

What does the financial transfer do for you?

Infographic - Financial Transfer Overview

The financial transfer is used to update your financial accounting system to reflect the activities of the manufacturing system. The financial transfer provides the following features and benefits:

- It enables you to continue using your existing accounting system for financial applications – receivables, payables, banking, payroll, and general ledger – which greatly simplifies system implementation.
- If you wish to change your accounting system, you are free to use any accounting system that best suits your needs.
- If you operate a manufacturing facility within a larger enterprise, the financial transfer can be used to update your corporate ERP system.
- Only three financial transfers are required – *AR Voucher Transfer*, *AP Voucher Transfer*, and *GL Summary Transfer* – to fully update your accounting system to reflect the activities of the manufacturing system.
- Financial transfers are made through CSV file import or manual entry, depending on what import utilities are available with your accounting system.
- Customer invoices are generated in DBA and are transferred to your accounting system in a one-line voucher format for receivables processing.
- Supplier invoices are entered and matched with POs in DBA and are transferred to your accounting system in a one-line voucher format for payables processing.
- Tax detail for both sales and purchase taxes are handled exclusively in DBA. This keeps the AR and AP voucher transfer values a simple single value with tax included.
- DBA has its own general ledger and transaction detail so that only summary account totals are transferred to your accounting system daily or at period end.
- Inventory resides solely in DBA and therefore there is no need to synchronize part numbers, supporting tables, and inventory transactions in two systems.

Our design is optimized for small business

We've designed the financial transfer so that it can be successfully used by companies of any size, especially small businesses, for these reasons:

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- One-way data transfer -- from DBA to your accounting system – enables DBA to be a fully self-contained system that works with any accounting system without data synchronization and connectivity issues or duplicate processes.
- Our standard chart of accounts is already setup and optimized for a manufacturing business.
- All GL posting is determined by settings in the *Account Assignments* screen so that sales and manufacturing personnel are never exposed to accounting setup or posting decisions.
- DBA has its own WIP accounting system, which tracks the value of work in process at the overall shop and individual job level and provides the means by which manufactured items are costed for inventory value and cost of goods sold. See the *Product Costing Guide* for details.

Who is this guide for?

This guide is for the benefit of managers, accountants, CPAs, buyers, and anyone who is considering using DBA as a manufacturing solution.

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2 Why You Need the Financial Transfer

Infographic - Financial Transfer Overview

A manufacturing company is a unique type of business

A manufacturing company is a unique type of business. The process of combining materials, labor, and subcontract services to produce products in a time-phased manner is incredibly complex.

You need our financial transfer capability because it gives you a unique set of accounting tools that fits the unique nature of your business and enables you to reach your full efficiency potential.

There are two sides to a manufacturing business

There are two sides to a manufacturing business – the manufacturing side and the administrative and financial side.

- The manufacturing side of your business incorporates all the activities involved in ordering, making, and shipping your products or those you make on behalf of others.
- The administrative and financial side of your business incorporates all your other activities, including marketing, office administration, R & D, and financial processes.

With DBA you use two accounting systems

With DBA you use two accounting systems, each running its own side of the business.

- DBA's accounting system runs the manufacturing side of your business and accounts for all transactions related to inventory, purchasing, jobs, and sales orders.
- Your financial accounting system runs the administrative and financial side of your business and accounts for all transactions related to banking, receivables, payables, marketing, general, and administrative expenses, and payroll.

You get a "best of breed" solution

Each accounting system is ideally suited for managing its side of the business.

- DBA's accounting system is highly specialized for manufacturing management. It includes features such as WIP accounting and absorption costing that are not available with general accounting systems.

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- Any general accounting system can be used to manage administrative and financial functions. All the mainstream small business accounting packages are highly capable at handling financial processes and reporting.

The combined use of two accounting systems, each ideally suited to manage its own side of the business, gives you a “best of breed” solution with more capabilities than any single accounting system can offer.

WIP accounting and absorption costing are essential

DBA gives you WIP accounting and absorption costing, which are essential to a manufacturing business because it is the only way to achieve accurate product costs for manufactured items. This type of accounting can only be achieved using work centers with hourly rates for labor and overhead, routings, and jobs.

Work center hourly rates are applied to standard or actual job hours to calculate labor and manufacturing overhead costs. Those job costs, along with material and subcontract service costs, are incorporated into the cost of finished items and are thus “absorbed” into your inventory. The absorbed inventory cost is the cost basis for issues to other jobs or cost of goods sold.

Inventory is confined to the manufacturing accounting system

When you operate with two accounting systems, it is essential that there are no overlapping processes or duplication of function. The key to achieving this is to confine all inventory transactions and tables to the manufacturing accounting system.

Therefore, all inventory-related transactions, including order entry, purchasing, jobs, shipping, and invoicing, as well as all supporting tables such as part numbers, locations, lot/serial numbers, tax codes, prices, costs, and Sales/COGs account assignments are handled exclusively within DBA.

Tax detail is handled exclusively in DBA

Your sales order invoices and purchase order invoices will have detailed tax information. The AR and AP voucher value will be a single value that includes tax. You do not enter tax codes or tax detail in your financial accounting system

Each accounting system is self-contained

Because there are no overlapping processes or duplication of function, each accounting system functions independently as a self-contained system with its own general ledger. This means that each system can have its own technology platform and there is no need to coordinate product versions.

Three financial transfers update the financial accounting system

Only three financial transfers are required to update your financial accounting system to reflect the activities of the manufacturing system.

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AR Voucher Transfer

Customer invoices are generated in DBA from shipments. A voucher style version of the invoice is entered in your financial accounting system for AR processing purposes. Each voucher invoice includes header detail -- customer name, invoice number, invoice date, and due date – and a single line for the total invoice amount with sales tax included.

NOTE: Line item detail is not included in the voucher invoice because it has no relevance for AR processing. All sales order related activities, including invoicing, sales taxes, and sales analysis, are handled by the manufacturing accounting system.

You will create invoices using a special AR Invoice Transfer Item ID. This item ID will book a credit to the AR Invoice Transfer clearing account, instead of a sales account. The balancing debit to the AR invoice Transfer account was created in the DBA Invoice process and will be transferred to your outside accounting system in the GL Summary transfer. The net effect is that the AR Invoice Transfer account zeroes out and you are left with Accounts Receivable in your financial accounting system.

AP Voucher Transfer

Supplier invoices are entered and matched against POs in DBA. A voucher style version of the invoice is transferred to your financial accounting system for AP processing purposes. Each voucher invoice includes header detail – supplier name, invoice number, invoice date, and due date – and a single line for the total invoice amount with purchase tax included.

NOTE: Line item detail is not included in the voucher invoice because it has no relevance for AP processing. All purchasing related activities, including supplier invoice entry and purchase taxes are handled by the manufacturing accounting system.

GL Summary Transfer

Daily summary entries comprising of a single debit and credit amount for each active account in DBA is cross-referenced and transferred to its corresponding account in your financial accounting system's general ledger.

Each system maintains its own transaction detail

Each accounting system maintains its own transaction detail and audit trail.

- DBA has its own general ledger with complete transaction detail for all manufacturing system activities. Invoice detail provides sales and margin analysis in a variety of data views and reports.
- Your financial accounting system continues to store all transaction detail related to administrative and financial activities.

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Additional benefits of the financial transfer design

Besides being a “best of breed” accounting solution for manufacturing businesses, the financial transfer design provides these additional benefits:

Simplifies manufacturing system implementation

The two accounting system design enables you to continue using your existing accounting system for the selling and administrative side of your business without interruption. This simplifies manufacturing system implementation because a financial accounting system conversion is not required.

Enables multiple operating entities

The financial transfer enables DBA to be used for managing multiple operating entities, which are factories or remote warehouse operations. Each operating entity is furnished with its own independent DBA system and the financial transfer is used to update your financial accounting system to reflect each entity’s activities. If any entity makes items for use by another entity, it is set up as a supplier to which POs are submitted as needed.

Provides local manufacturing solutions within large enterprises

The financial transfer enables departments, divisions, or subsidiaries within larger enterprises to use DBA as a local manufacturing solution with the ability to update the corporate ERP system to reflect its activities.

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3 Financial Transfer Overview

This chapter provides an overview of financial transfer setup and processing.

Video - Financial Transfer Overview

Financial Transfer Screenshot Series

Infographic - Financial Transfer Overview

Infographic - Financial Transfer Guidelines

DBA includes its own general ledger

DBA includes its own general ledger with a chart of accounts, accounting periods, account assignments, batch posting, financial cutoff date, and reports. All transactions within the manufacturing system, including sales and cost of goods sold, are posted to the general ledger.

Inventory transactions are handled exclusively in DBA

Inventory, Sales Orders, Invoices, Jobs, Purchase Orders, and PO Invoices are all handled exclusively in DBA. You will not be tracking inventory items or quantities in your outside financial system. Only summary values (AR, AP, and GL) are needed to update your Financial Accounting system. DBA is a completely self-contained inventory control system where data flows in one direction. This greatly reduces the complexity of attempting to fully integrate differing systems and makes the DBA Financial Transfer a pragmatic approach to use with any outside financial accounting system.

DBA is a WIP accounting system

DBA is a WIP accounting system in which the value of work in process is tracked at the overall shop and individual job level. Material, labor, subcontract service, and manufacturing overhead costs are absorbed into the inventory cost of finished manufactured items to provide accurate inventory value and cost of goods sold.

DBA includes a standard chart of accounts

DBA includes a standard chart of accounts that is structured and optimized for a manufacturing company. Even though it is a complete chart of accounts for reference purposes, only 23 accounts are actively used for manufacturing activities.

Common accounts are cross-referenced

The 23 accounts that are actively used for manufacturing activities must exist in both systems. Several of those accounts already exist in your accounting system and those

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that do not will be added as needed. Each DBA account will be cross-referenced with its corresponding account number in your main general ledger.

Sales and COGS accounts can be added as needed

Sales orders are included in DBA because of their interaction with MRP, shop control, and inventory. A default sales account and COGS account is provided, but for additional breakdown you can add accounts in the DBA general ledger to correspond with user-defined item categories. Any such accounts added in DBA will be cross-referenced with corresponding accounts in your main general ledger.

Invoice details and Taxes are handled exclusively in DBA

Your sales order invoices and purchase order invoices will include item transactions with detailed tax information. The AR and AP voucher value will be a single value that includes tax. You do not enter tax codes or tax detail in your financial accounting system.

Only three financial transfers are required

Only three financial transfers are required – *AR Voucher Transfer*, *AP Voucher Transfer*, and *GL Summary Transfer* – to fully update your accounting system to reflect the activities of the manufacturing system.

AR Voucher Transfer

Customer invoices are generated in DBA from shipments. On a daily basis the *AR Voucher Transfer* screen is used to convert detailed invoices into voucher style invoices that are transferred to your accounting system for receivables processing. The voucher style invoice contains header detail and a single line item (AR Invoice Transfer Item ID) for the invoice total amount.

NOTE: Only a total invoice amount is needed for AR processing. Line item detail has no functional purpose in the financial accounting system and is not transferred to avoid unnecessary data synchronization and double-posting issues.

You will create invoices using a special AR Invoice Transfer Item ID. This item ID will book a credit to the AR Invoice Transfer clearing account, instead of a sales account. The balancing debit to the AR invoice Transfer account was created in the DBA Invoice process and will be transferred to your outside accounting system in the GL Summary transfer. The net effect is that the AR Invoice Transfer account zeroes out and you are left with Accounts Receivable in your financial accounting system.

AP Voucher Transfer

PO-related supplier invoices are entered and matched with POs in DBA. On a daily basis the *AP Voucher Transfer* screen converts supplier invoices into one-line

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voucher style invoices that are transferred to your accounting system for payables processing. The voucher style invoice contains header detail and one line for the invoice total amount.

NOTE: Only a total invoice amount is needed for AP processing. Line item detail has no functional purpose in the financial accounting system and is not transferred to avoid unnecessary data synchronization and double-posting issues.

You will enter supplier bills in your financial accounting system to the AP Invoice Transfer clearing account (debit). The balancing credit entry to the AP Invoice Transfer clearing account was created during the PO Invoice process in DBA and transferred to your outside accounting system in the GL Summary Transfer. The net effect is that the AP Invoice Transfer account zeroes out and you are left with Accounts Payable in your financial accounting system.

GL Summary Transfer

On a daily basis, or period end, the *GL Summary Transfer* screen is used to summarize DBA account transactions into single debit and credit amounts that are transferred to the general ledger in your accounting system.

One-way data transfer is the basis of the financial transfer design

One-way data transfer -- from DBA to your financial accounting system – is the basis of the financial transfer design, for these reasons:

- One-way data transfer enables DBA to be a fully self-contained system that does not rely on an outside system for any of its functionality.
- One-way data transfer enables DBA to work with any accounting system without connectivity or version synchronization issues.
- One-way data transfer eliminates the data synchronization and connectivity issues and duplicate processes that are so problematic with systems that mix and match functions with other accounting systems.

Transfers are made by CSV file import or manual entry

Financial transfers are made through CSV file import or manual entry, depending on what import utilities are available with your accounting system. The one-line voucher format for customer and PO-related supplier invoice transfers and the summarized journal entry for GL transfers make manual entry a practical alternative when data import is not available.

You will manage your business using two accounting systems

With the financial transfer you will manage your business using two accounting systems.

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- DBA's accounting system will be used to manage the manufacturing side of your business and will account for all transactions related to inventory, purchasing, jobs, and sales orders.
- Your financial accounting system will continue to be used to manage the selling and administrative side of your business and accounts for all transactions related to banking, receivables, payables, selling, general, and administrative expenses, and payroll.

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4 Multiple Operating Entities Setup

This chapter explains why a separate DBA system is required for each of your operating entities and how each system uses the financial transfer to update a central general ledger.

What is an operating entity?

If you have multiple production facilities, each such facility is a separate operating entity. In addition to production facilities, if you have a non-production remote warehouse with significant transit time, it is also considered to be an operating entity.

Each operating entity must have its own DBA system

Each operating entity must be furnished with its own DBA system, which requires separate product licenses. Each system will have its own database, its own users, and its own customers, suppliers, items, sales orders, jobs, and purchase orders.

Why must each operating entity have its own DBA system?

Each operating entity must have its own system because DBA has a single-entity architecture. MRP and shop control, which are inventory-driven processes, only work properly when used with a single factory where all inventory is locally available for immediate issuing, receiving, and picking. Shop rates, which drive absorption costing of labor and overhead, can only be calculated and applied properly within a single operating entity.

Separate systems provide much better control

Even if it were possible to manage multiple operating entities within a single system, it would not be desirable. It is much easier to manage an operating entity when it has its own system with its own users, items, BOMs, customers, suppliers, MRP, and shop control.

Each operating entity uses the financial transfer

Each operating entity uses the financial transfer to update your financial accounting system to reflect its activities. The financial accounting system is used as a single system for selling and administrative purposes across all operating entities.

Structure your main chart of accounts for multiple entities

The chart of accounts in your financial accounting system must be structured to accommodate each of your operating entities. Each entity should be given its own set of accounts so that inventory, work in process, sales, COGS, and absorption accounts are clearly itemized. Financial statements can be formatted with subtotals to get blended results across multiple operating entities.

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Each entity uses the DBA standard chart of accounts

Within each operating entity's own accounting system, the DBA standard chart of accounts will be used. The cross-reference accounts, however, will be different and will correspond to the operating entity's own unique set of accounts in the main general ledger.

When one operating entity supplies another:

There are situations where one operating entity supplies another with subassemblies or finished items. In this case the entity is set up as a supplier within the entity that uses the items. Conversely, that entity is setup as a customer in the other entity. The customer entity submits POs to the supplier entity as needed to meet its requirements. Those POs are entered in the supplier entity as sales orders, which drive MRP and production.

When POs are submitted from one operating entity to another, each item's estimated cost should be used as the PO price to achieve accurate product costing within the customer entity where the item is used.

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5 General Ledger Setup

This chapter explains how to structure the general ledgers in both accounting systems to accommodate the financial transfer processes.

Common accounts are cross-referenced

The 23 accounts that are actively used for manufacturing activities must exist in both systems. Several of those accounts already exist in your accounting system and those that do not will be added as needed. Each DBA account will be cross-referenced with its corresponding account number in your main general ledger.

Use the DBA chart of accounts for guidance

As you set up various accounts in your outside general ledger, refer to the DBA chart of accounts for guidance as to account locations, descriptions, and account classifications and groupings. The accounts flagged as 'AA' are the accounts designated in the *Account Assignments* screen that will be given cross-reference accounts in your outside general ledger.

Refer to GL posting specifications for reference

For details on how various processes post to the DBA general ledger, click the link below to review GL posting specifications.

Link:

Screen Help – GL Posting Specifications

DBA account totals are cross-referenced and transferred to your general ledger

Account totals in the DBA general ledger are cross-referenced and transferred to corresponding accounts in your outside general ledger using the GL Summary Transfer screen.

Link:

GL Summary Transfer

Accounting Periods

Use the *GL – General Ledger Setup – Accounting Periods* screen to create parallel accounting periods with those in your financial accounting system.

Asset Accounts

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Make sure the following *Asset* accounts exist in your financial accounting system's chart of accounts:

AR Invoice Transfer
Locate this account immediately following your *Accounts Receivable* account.

This account will act as a clearing account. When you create an invoice in your outside accounting system with a special AR Transfer Line Item ID, it will credit the AR Invoice Transfer clearing account. The balancing debit to the clearing account was created in the DBA invoice process, and will be transferred to your financial accounting system with the GL Summary transfer. The net result is that the AR Invoice Transfer account zeroes out and you are left with Accounts Receivable in your financial accounting system.

Inventory
DBA uses a single inventory account, so if you currently have multiple inventory accounts, you must designate one account as your inventory account. The other inventory accounts will be zeroed out and inactivated on system startup day.

Picked Not Invoiced
Locate this account immediately following your *Inventory* account.

Work in Process
Locate this account immediately following your *Picked Not Invoiced* account.

Liability Accounts

Make sure the following *Liability* accounts exist in your financial accounting system's chart of accounts:

Received Not Invoiced
Locate this account immediately following your *Accounts Payable* account.

AP Invoice Transfer
Locate this account immediately following your *Received Not Invoiced* account.

This account will act as a clearing account. When you enter the supplier bill in your outside accounting system to this AP Invoice Transfer clearing account. The balancing entry was created in the DBA PO Invoice process and will be transferred to your financial accounting system with the GL Summary transfer. The net result is that the AP Invoice Transfer account zeroes out and you are left with Accounts Payable in your financial accounting system.

Sales Tax Payable
This is a current liability account.

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Purchase Tax

If you use international VAT/GST style taxation, this is normally a *Liability* account. If you use USA-style taxation, this is normally an *Expense* account.

Income Accounts

Make sure the following *Income* accounts exist in your financial accounting system's chart of accounts:

Sales

All invoice sales amounts will post to this account unless exceptions by item category or customer type are specified on the *Exceptions* sub-tab.

Shipping Income

Customer invoice shipping charges are credited to this account.

Shipping Cost (contra account)

Freight bills pertaining to customer shipments are debited to this account. Even though it is a cost, it is usually classified as an *Income* account because it offsets the *Shipping Income* account and is located directly adjacent to it.

Sales and COGS Exceptions

Sales and cost of goods sold transactions post to your default *Sales* account and default *Cost of Goods Sold* account. If you wish for a more detailed breakdown on your income statement, you have the option of assigning sales and COGS exception accounts based on *Item Categories* or *Customer Types*.

Item Categories

Sales and COGS posting by item category is used when your business model relates to the types of items you make instead of the types of customers you serve. Item categories are defined in the *Item Categories* screen and are assigned to items in the *Stock Items* screen or through the *Data Import - Stock Items (Update)* screen. Create an item category to correspond with each pair of Sales/COGS exception accounts and make appropriate item assignments.

Customer Types

Sales and COGS posting by customer type is used when your business model relates to the type of customers you serve instead of the type of items you make. Customer types are defined in the *Customer Types* screen and are assigned to customers in the *Customers* screen or through the *Data Import - Customers* screen. Create a customer type to correspond with each pair of Sales/COGS exception accounts and make appropriate customer assignments.

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Exception Accounts

The next step is to create pairs of *Sales* and *Cost of Goods* sold exception accounts in DBA to correspond with your item categories or customer types. Make sure each such account has a corresponding account in your chart of accounts.

Account Assignments

The final step is to go to the *Sales – Exceptions* tab within the *Account Assignments* screen and select the *Item Category* or *Customer Type* option. All your item categories or customer types are listed on the screen. Specify a *Sales Account* and *COGS Account* as desired against appropriate lines.

Cost of Sales Accounts

Make sure the following *Cost of Sales* accounts exist in your financial accounting system's chart of accounts:

Cost of Goods Sold
All invoice costs of goods sold will post to this account unless exceptions by item category or customer type are specified on the *Exceptions* sub-tab.

Accrued Service Labor Cost
When a sales order line is invoiced for a descriptor with a *Descriptor Type* of 'LABOR', this account is credited for the sales order line's total estimated cost, with the corresponding debit made to *Cost of Goods Sold* or a COGS exception account. Locate this account at the end of your *Cost of Goods Sold* section.

Misc Sales Cost
When invoice costs are posted for a descriptor with a *Descriptor Type* of 'MISC', this account is credited and the offsetting debit entry is made to *Cost of Goods Sold* or a COGS exception account. Locate this account at the end of your *Cost of Goods Sold* section.

Inventory Adjustments
Most likely this account already exists in your chart of accounts. Make sure it is a Cost of Sales account.

Received Not Invoiced Adjustments
Locate this account immediately following your *Inventory Adjustments* account.

WIP Adjustments
Locate this account immediately following your *Received Not Invoiced Adjustments* account.

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Expense Accounts

Make sure the following *Expense* accounts exist in your financial accounting system's chart of accounts:

Misc Purchases
PO receipts for non-stock miscellaneous purchases get posted to this account.

Purchase Tax
If you use USA-style taxation, this is normally an *Expense* account. If you use international VAT/GST style taxation, this is normally a *Liability* account.

Final Step – Cross-reference your accounts

After your chart of accounts is finalized, you must cross-reference each of your account numbers with the corresponding account in the DBA chart of accounts. This enables the *GL Summary Transfer* screen to post DBA account totals to the appropriate accounts in your general ledger.

To do so, go to the *GL – General Ledger Setup - Chart of Accounts* screen and on the *Detail* tab select each DBA account and enter your corresponding account number in the *X-Ref Account* field.

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6 Labor and Overhead Setup

Overview

The *Cost of Sales* section in your general ledger must be structured to accommodate absorption costing. All your direct labor cost accounts must be *Cost of Sales* accounts offset by an *Absorbed Labor* contra-account. All your manufacturing overhead cost accounts must be *Cost of Sales* accounts offset by an *Absorbed Mfg Overhead* contra-account.

How are labor and overhead costs handled in a manufacturing company?

Generic Chart of Accounts

In a generic chart of accounts, labor and manufacturing overhead costs are handled by *Expense* accounts and shop expenses are often blended with general expenses. For example, payroll expenses for shop and office employees are often lumped together into shared expense accounts. Shop and office expenses for rent, utilities, insurance, maintenance, utilities and other costs are often lumped into shared expense accounts.

Manufacturing Chart of Accounts

By contrast, in a manufacturing chart of accounts, labor and manufacturing overhead costs are handled by *Cost of Sales* accounts. Shop-related costs are isolated from general and administrative costs. Job labor and manufacturing overhead transactions post to contra-accounts that offset actual costs and thus “absorb” labor and overhead costs into the inventory costs of the items you make.

You must restructure your labor and overhead accounts

To use your chart of accounts with financial transfer processes, you must restructure your direct labor and manufacturing overhead accounts to convert your generic chart of accounts into a manufacturing chart of accounts. See below for detailed instructions.

You must restructure your payroll account assignments

After you restructure your direct labor and manufacturing overhead accounts, you must change your payroll system account assignments so that production worker costs are posted to direct labor accounts and shop management and non-production worker costs are posted to manufacturing overhead accounts. See below for detailed instructions.

Add Absorbed Costs sub-sections to your Cost of Sales

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Add the following *Absorbed Costs* sub-sections at the end of your *Cost of Sales* section.

Cost of Sales - Absorbed Labor Costs

What are direct labor costs?

Direct labor costs are the actual payroll costs associated with production worker employees, including benefits, taxes, and wages, as well as their share of workmans compensation insurance. Contract worker costs are also direct labor costs.

> NOTE: Do not include payroll costs for manager, supervisor, shipping, receiving, warehouse, inspection, maintenance, and development employees, which are considered to be indirect labor costs.

Direct labor costs are absorbed into your inventory

DBA is an absorption costing system where direct labor costs are absorbed into the inventory cost of the items you make. Instead of treating direct labor costs as *Expense* accounts, they are treated as *Cost of Sales* accounts that are offset by an *Absorbed Labor* contra-account.

Actual costs establish your shop labor rate

Actual direct labor costs for a given period of time are periodically entered in the *Shop Rates* screen where they get divided by reported labor hours to calculate your overall shop rate for labor. The shop rate gets applied to your work center hourly rates, which provide the cost basis for the labor transactions that post to the *Absorbed Labor* contra-account. To make absorption costing work properly, it is vitally important that you isolate your direct labor costs in the Cost of Sales section of your chart of accounts.

Create an Absorbed Labor set of accounts

Isolate your direct labor cost accounts and locate them in a new *Absorbed Labor* sub-section of your *Cost of Sales*. Here is the *Absorbed Labor* set of accounts in the DBA chart of accounts *Cost of Sales* section, which you can use as a guideline:

54000	Absorbed Labor
54100	Labor Payroll - Benefits
54200	Labor Payroll - Taxes
54300	Labor Payroll - Wages
54400	Labor Payroll - Workmans Comp
54400	Contract Labor

Let’s now review each of these accounts and how it is set up:

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Absorbed Labor

Create this new account and locate it at the beginning of your direct labor sub-section. All job labor transactions credit this account, which is a contra-account that offsets the debit transactions associated with actual direct labor costs.

Labor Payroll - Benefits, Wages, Taxes

In your payroll system, isolate payroll costs associated with your direct labor employees and post them to these accounts. In some payroll systems you can assign employees to groups and then assign cost accounts to the group. In QuickBooks payroll, you can use payroll items to represent payroll cost categories and assign cost accounts to those items.

Labor Payroll - Workmans Comp

When you pay your workmans compensation insurance, allocate a portion of it to cover the amount associated with your direct labor employees.

Contract Labor

If you hire contract labor, post those costs to this account.

Cost of Sales - Absorbed Subcontract Cost

Absorbed Subcontract Cost

Create this new account and locate it after your *Absorbed Labor* sub-section.

Cost of Sales - Absorbed Misc Cost

Absorbed Misc Cost

Create this new account and locate it after your *Absorbed Subcontract Cost* account.

Cost of Sales - Absorbed Mfg Overhead Costs

What is manufacturing overhead?

Manufacturing overhead includes all the indirect costs associated with the manufacturing process, including the factory's share of rent, utilities, maintenance, supplies, taxes, insurance, and depreciation, as well as payroll benefits, taxes, and wages for indirect labor, which includes shop manager, supervisor, shipping, receiving, warehouse, inspection, and maintenance employees.

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NOTE: Manufacturing overhead should not include selling, general and administrative (SG&A) expenses.

Manufacturing overhead costs are absorbed into your inventory

DBA is an absorption costing system where manufacturing overhead costs are absorbed into the inventory cost of the items you make. Instead of treating direct manufacturing overhead costs as *Expense* accounts, they are treated as *Cost of Sales* accounts that are offset by an *Absorbed Mfg Overhead* contra-account.

Actual costs establish your shop overhead rate

Actual manufacturing overhead costs for a given period of time are periodically entered in the *Shop Rates* screen where they get divided by reported labor hours to calculate your overall shop rate for manufacturing overhead. The shop rate gets applied to your work center hourly rates, which provide the cost basis for the labor transactions that post to the *Absorbed Mfg Overhead* contra-account. To make absorption costing work properly, it is vitally important that you isolate your manufacturing overhead costs in the *Cost of Sales* section of your chart of accounts.

Create an Absorbed Mfg Overhead set of accounts

Isolate your manufacturing overhead cost accounts and locate them in a new *Absorbed Mfg Overhead* sub-section of your *Cost of Sales* following the *Absorbed Misc Cost* account. Here is the *Absorbed Mfg Overhead* set of accounts in the DBA chart of accounts *Cost of Sales* section, which you can use as a guideline:

57000	Absorbed Mfg Overhead
58000	Factory - Depreciation - Equipment
58100	Factory - Depreciation - Vehicles
58200	Factory - Depreciation - Buildings
58300	Factory - Insurance - Other
58350	Factory - Insurance - Vehicles
58400	Factory - Leases
58500	Factory - Maintenance
58600	Factory - Property Taxes
58700	Factory - Rent
58800	Factory - Supplies and Expenses
58900	Factory - Utilities
59000	Indirect Payroll - Benefits
59100	Indirect Payroll - Taxes
59200	Indirect Payroll - Wages
59300	Indirect Payroll – Workmans Comp

Let’s now review each of these accounts and how it is set up:

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Absorbed Mfg Overhead

Create this new account and locate it at the beginning of your manufacturing overhead sub-section. All job labor transactions credit this account, which is a contra-account that offsets the debit transactions associated with actual manufacturing overhead costs.

Factory - Depreciation - Equipment, Vehicles, Buildings

All depreciation costs related to the factory should be posted to these accounts.

Factory - Insurance - Other, Vehicles

All insurance costs or portions of insurance bills related to the factory should be posted to these accounts.

Factory - Leases

All leasing costs related to the factory should be posted to this account.

Factory - Maintenance

All factory maintenance costs should be posted to this account.

Factory - Property Taxes

A portion of your property tax bills should be allocated to cover the factory's share of property tax cost.

Factory - Rent

A portion of rent cost should be allocated to cover the factory's share of rent cost.

Factory - Supplies and Expenses

Factory-related supplies and expenses should be posted to this account.

Factory - Utilities

A portion of utility bills should be allocated to cover the factory's share of utility costs.

Indirect Payroll - Benefits, Taxes, Wages

In your payroll system, isolate payroll costs associated with your indirect manufacturing labor (shop management, shop supervisors, and shipping, receiving,

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warehouse, inspection, and maintenance personnel) and post them to these accounts. In some payroll systems you can assign employees to groups and then assign cost accounts to the group. In QuickBooks payroll, you can use payroll items to represent payroll cost categories and assign cost accounts to those items.

Indirect Payroll - Workmans Comp

When you pay your workmans compensation insurance, allocate a portion of it to cover the portion associated with your indirect labor employees.

Inactivate labor and overhead Expense accounts

In your chart of accounts, inactivate any labor and manufacturing *Expense* accounts that were replaced by the new *Cost of Sales* accounts set up above.

Cross-reference your accounts

After your labor and overhead accounts are finalized, you must cross-reference each of your account numbers with the corresponding account in the DBA chart of accounts. This enables the *GL Summary Transfer* screen to post DBA account totals to the appropriate accounts in your general ledger.

To do so, go to the *GL – General Ledger Setup - Chart of Accounts* screen and on the *Detail* tab select each DBA account and enter your corresponding account number in the *X-Ref Account* field.

Start posting to the new Cost of Sales accounts

Even if you have not yet activated the DBA system for live use, start posting your direct labor and manufacturing overhead costs to the new *Cost of Sales* accounts.

Income Statement Example

It may help you conceptualize how absorption costing works by viewing the following sample income statement. Keep in mind that this is sample data, which does not include as many actual costs as would be listed in a real company, but it illustrates how absorbed costs and actual costs roughly offset each other.

Take note that the credit amount for the *Absorbed Labor* account is roughly offset by the actual direct labor cost debit amounts.

Take note that the credit amount for the *Absorbed Mfg Overhead* account is roughly offset by the actual manufacturing overhead cost debit amounts.

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Absorbed Costs	
Direct Labor	
54000 Absorbed Labor	($4,215.00)
54100 Labor Payroll - Benefits	$600.00
54200 Labor Payroll - Taxes	$300.00
54300 Labor Payroll - Wages	$3,350.00
Total Direct Labor	$35.00
Factory Overhead	
57000 Absorbed Factory Overhead	($6,322.50)
58700 Factory - Rent	$2,500.00
58900 Factory - Utilities	$500.00
59000 Indirect Payroll - Benefits	$650.00
59100 Indirect Payroll - Taxes	$325.00
59200 Indirect Payroll - Wages	$2,350.00
Total Factory Overhead	$2.50
Total Absorbed Costs	$37.50

Direct Labor Section

Take note of the *Direct Labor* section of the income statement. Job labor costs within this date range are posted to the *Absorbed Labor* account based on the shop labor rate applied to work center hourly rates. The objective of the hourly shop labor rate is for total *Absorbed Labor* to roughly offset the adjacent actual direct labor cost accounts, which neutralizes any effect on cost of sales. Job labor costs get absorbed into item inventory values with job receipts and ultimately affect cost of sales through cost of goods sold when items are invoiced.

Factory Overhead Section

Take note of the *Factory Overhead* section of the income statement. Job overhead costs within this date range are posted to the *Absorbed Factory Overhead* account based on the shop overhead rate applied to work center hourly rates. The objective of the hourly shop overhead rate is for *Absorbed Mfg Overhead* to roughly offset the adjacent actual overhead cost accounts, which neutralizes any effect on cost of sales. Job overhead costs get absorbed into item inventory values with job receipts and ultimately affect cost of sales through cost of goods sold when items are invoiced.

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7 Multi-Currency

The *Financial Transfer* accounting configuration supports multi-currency processing.

Enables selling and purchasing with financial transfer

Multi-currency processing enables you to sell or purchase in foreign currency and to use the *AR Voucher Transfer* and *AP Voucher Transfer* screens to transfer foreign currency amounts and exchange rates to your financial accounting system.

Gain/loss on foreign exchange occurs at time of payment

Any gain or loss on foreign exchange gets realized in your financial accounting system when customer payments are received or supplier bills are paid.

Not available with Legacy Financials

If you are still on the *Legacy Financial Modules* accounting configuration, be aware that the *AR-AP-Banking* processes do not support any multi-currency processing. If you need foreign currency payment processing and gain/loss on foreign exchange posting, you must convert to the *Financial Transfer* accounting configuration and use a mainstream accounting package that supports multi-currency processing.

Link:

Legacy Financials Conversion Guide

Related Videos:

Video - Purchasing in a Foreign Currency

Video - Selling in a Foreign Currency

Multi-Currency Elements

Multi-currency processing consists of the following elements.

Currency Table

The *Currency Table* screen is used to activate foreign currencies and to update exchange rates. Within each currency you can view customers and suppliers assigned to that currency.

Customers

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Customers can be assigned to foreign currencies by means of the *Currency* field in the *Customers* screen. Foreign currency form layouts are specified on the *Forms* sub-tab.

Selling Prices

Base prices, price levels, and contract prices are maintained and referenced in home currency and get multiplied by the foreign currency exchange rate to calculate the *Foreign Price* during quote and sales order entry.

Fixed Exchange Rate Pricing

You will operate with two currency tables – one in your financial accounting system and one in DBA. Exchange rates should be updated on a regular basis in your financial accounting system to reflect current market exchange rates for proper realization of currency gain or loss against customer and supplier payments. By contrast, exchange rates in DBA can remain fixed for long periods of time if your objective is to furnish fixed selling prices to your foreign currency customers. In that case, you would only change a currency's exchange rate concurrent with a general set of price changes.

Selling Prices Data View

The *Selling Prices* data view lists item base prices and calculated prices by price level and currency. The output tool enables you to output currency and price level prices for price list creation.

Quotes and Sales Orders

When a quote or sales order is created for a customer assigned to a foreign currency, it is assigned to that currency and the current exchange rate in the currency table. The exchange rate remains fixed for the duration of the sales order and applies to all invoices. Line item prices and shipping charges are displayed in home and foreign currency amounts.

Sales Form Layouts

The sales form layouts -- ppQuote.rtm, ppAcknowledgment.rtm, ppInvoice.rtm – automatically print in foreign currency when the customer is assigned to a foreign currency. The foreign currency will print using the currency code or currency symbol, depending on your preference specified in the *Currency Table* screen.

AR Voucher Transfer

The foreign currency code, foreign amount, and exchange rate are included in the AR voucher output file so that voucher transfers to your financial accounting system can be made in foreign currency.

Suppliers

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Suppliers can be assigned to foreign currencies by means of the *Currency* field in the *Suppliers* screen.

Supplier Prices

Supplier prices are maintained on the *Sources* tab of the *Stock Items* screen. The *Supp Price* is maintained and displayed in the currency assigned to the supplier without any home currency translation or cross-reference.

Purchase Orders

When a purchase order is created for a supplier assigned to a foreign currency, the purchase order is assigned to that currency and the current exchange rate in the currency table. Line item prices are displayed in home and foreign currency amounts.

PO Form Layout

The PO form layout (ppOrder.rtm) automatically prints prices with foreign currency symbols and amounts without need for a foreign currency layout.

PO Invoices

PO invoices for foreign currency suppliers are matched in foreign currency using the current exchange rate in the currency table at time of invoice entry. In cases where the PO header exchange rate differs from the invoice exchange rate, the resulting home currency pricing discrepancies get posted to the *RNI Adjustments* account.

AP Voucher Transfer

The foreign currency code, foreign amount, and exchange rate are included in the AP voucher output file so that voucher transfers to your financial accounting system can be made in foreign currency.

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7.1 Multi-Currency Setup

Perform these tasks in sequential order to set up multi-currency processing.

Activate foreign currencies and enter exchange rates

Go to the *GL - General Ledger Setup - Currency Table* and use the *Activate* button to activate the foreign currencies that are needed for assignment to customers and suppliers. As you activate each currency, enter the current exchange rate and specify whether you want forms layouts to display the 3-character currency code or the currency symbol.

Create foreign currency price lists (optional)

If you wish to furnish your foreign currency customers with a foreign currency price list, use the *Sales - Data Views - Selling Prices* data view to export foreign prices to a price list. Foreign prices are calculated by multiplying home currency prices by the currency table exchange rate.

Fixed Exchange Rate Pricing

You will operate with two currency tables – one in your financial accounting system and one in DBA. Exchange rates should be updated on a regular basis in your financial accounting system to reflect current market exchange rates for proper realization of currency gain or loss against customer and supplier payments. By contrast, exchange rates in DBA can remain fixed for long periods of time if your objective is to furnish fixed selling prices to your foreign currency customers. In that case, you would only change a currency's exchange rate concurrent with a general set of price changes.

Assign customers to foreign currencies

Go to the *Sales – Customers* screen and for each customer you wish to sell in foreign currency use the lookup in the *Currency* field to select and assign the appropriate foreign currency.

Assign suppliers to foreign currencies

Assign suppliers to foreign currencies. If the supplier is new and has no invoice history, you can assign the currency directly in the *Purch – Suppliers* screen using the lookup in the *Currency* field. Once purchase orders and invoices exist against a supplier, however, the currency assignment cannot be changed in the *Suppliers* screen and must be changed through data import.

Data Import Currency Assignment

Go to the *Suppliers* screen and use the *Output* tool to generate a CSV file consisting of the *Supplier Name* and *Currency*.

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In the CSV file, modify the *Currency* column with the appropriate 3-character currency code against each supplier you wish to purchase from in foreign currency.

Go to the *File – Data Import – Suppliers – Suppliers* screen, select the CSV file, and map two fields – the *Supplier Name* and *Currency* code. Perform the import and the currency assignments will be changed.

Update supplier prices

After supplier currency assignments are made, update supplier prices, which are now expressed in the foreign currency. You can get a listing of suppler prices by currency using the *Inventory – Data Views – Item Sources* data view. Supplier prices are updated on the *Sources* tab of the *Inventory – Stock Items* screen. Map voucher imports to foreign currency fields.

Revise your custom sales form layouts

The standard formats -- ppQuote.rtm, ppAcknowledgment.rtm, ppInvoice.rtm – automatically print in foreign currency when the customer is assigned to a foreign currency. The foreign currency will print using the currency code or currency symbol, depending on your preference specified in the *Currency Table* screen.

If you have custom layouts and want your forms to print in foreign currency when the customer is assigned to a foreign currency, go to the data pipeline and exchange the UNITPRICE field with the FXUNITPRICE field and the EXTPRICE field with the FXEXTPRICE field. When the customer is assigned to Home currency, forms will continue to print in the normal fashion.

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7.2 Multi-Currency Processing

Update DBA exchange rates when you change selling prices

If your objective is to furnish your foreign currency customers with fixed selling prices, you would only change the exchange rate in the DBA currency table concurrent with a general set of price changes. By contrast, you will change the exchange rate in your financial accounting system on a regular basis to reflect current market exchange rates for proper realization of currency gain or loss from customer and supplier payments.

Quote and Sales Order Processing

When a quote or sales order is entered against a customer assigned to a foreign currency, the currency table exchange rate is assigned to the sales order and is displayed on the *Header* and *Details* tabs. Prices and tax are displayed in home currency and foreign currency. Otherwise, quotes and sales orders are processed in the normal fashion.

Transfer AR vouchers using foreign currency fields

When a foreign currency voucher is transferred in the *AR Voucher Transfer* screen to your financial accounting system, typically all vouchers, whether in home or foreign currency, would be transferred using the *FX Total* amount, *Currency* code, and *Exchange Rate* (or *Inv Exch Rate* if your accounting system uses an inverse exchange rate). This works for home currency vouchers as well because in their case the *Exchange Rate* = '1' and the *FX Total* and home currency total will be the same value.

Purchase Order Processing

When a purchase order is generated against a supplier assigned to a foreign currency, the currency table exchange rate is assigned to the purchase order and is displayed on the *Header* and *Details* tabs. Prices and tax are displayed in home currency and foreign currency. Otherwise, purchase orders are processed in the normal fashion.

PO Invoice Matching

PO invoices for foreign currency suppliers are matched in foreign currency using the current exchange rate in the currency table at time of invoice entry. In cases where the PO header exchange rate differs from the invoice exchange rate, the resulting home currency pricing discrepancies get posted to the *RNI Adjustments* account.

Transfer AP vouchers using foreign currency fields

When a foreign currency voucher is transferred in the *AP Voucher Transfer* screen to your financial accounting system, typically all vouchers, whether in home or foreign currency, would be transferred using the *FX Total* amount, *Currency* code, and *Exchange Rate* (or *Inv Exch Rate* if your accounting system uses an inverse exchange

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rate). This works for home currency vouchers as well because in their case the *Exchange Rate* = '1' and the *FX Total* and home currency total will be the same value.

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8 Financial Transfer Defaults

This chapter explains how to set up the *Financial Transfer Defaults* screen.

Create a special non-inventory (non tax) Item in your Financial Accounting system

Your *AR Voucher Invoices* will be created in your outside accounting system using this special Item ID that you must create. In this step you will create the non-inventory/non-tax item in your accounting system and cross reference the Item ID in the *Financial Transfer Defaults* screen in DBA.

AR Invoice Line Item ID
In your outside accounting system, create a special item (part number of your choice) and enter its item ID (part number) in the *Financial Transfer Defaults* screen for inclusion in the *AR Voucher Transfer* screen output.

Item Type (Non-Inventory)
The item must be designated as a non-inventory item.

Description
Give the item a description of *AR Invoice Transfer* or the description of your choosing.

Sales Account - assign to the AR Invoice Transfer clearing account
Assign the item sales account to your *AR Invoice Transfer* clearing account in your accounting system GL.

NOTE: If you are required to designate a COGS account, use your *AR Invoice Transfer* account as well.

Tax (Non-Taxable)
Designate this item as non-taxable or assign it to a non-taxable tax code so that tax does not get added when the voucher is imported. Tax is already processed in the DBA invoice and is not to be itemized in the AR invoice.

Screen Details

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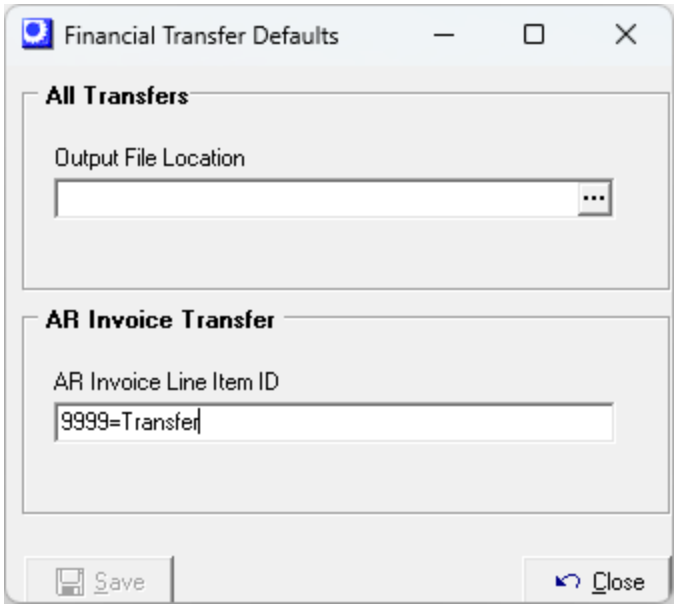

Output File Location
Use this setting to designate a destination folder for your transfer files. If you leave this blank, your transfer files will be saved by default to your *ProgramFiles\DBAManufacturing* folder.

AR Invoice Line Item ID
This is the non-inventory Item ID number that you created in your financial accounting system. This *Line Item ID* will flow through to the *Transfer > AR Voucher Transfer* screen. When you enter the sales Invoice in your outside accounting system, you will use this Item ID with a Qty of 1 for the single line voucher amount.

AR Voucher Transfer Process in Outside Accounting Program

- Create an invoice for the special non-stock item/non-tax item that you created in your outside accounting system as part of the financial transfer setup. Do not attempt to include a tax code or tax detail in your financial accounting system.
- The non-stock item will be setup to credit the AR Invoice Transfer (Asset - 11150) account instead of a Sales account. The invoice debit will use your existing Accounts Receivable account.
- The debit values to the 11150 AR Invoice Transfer created during the DBA invoice process will be posted to the outside system as part of the *Transfer > GL Summary Transfer*.

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- The net effect is that the debit to the *AR Invoice Transfer* from the DBA invoice process will offset the credit for the *AR Invoice Transfer* voucher in your outside accounting system, thus leaving Accounts Receivable in your outside system for normal payment collection.

Line Item Sale - special non-stock item in outside system

Debit Accounts Receivable in outside system

Credit AR Invoice Transfer (Asset - 11150)

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9 AR Voucher Transfer

This chapter explains how customer invoices are transferred as voucher style invoices to your financial accounting system for AR processing.

Infographic - Financial Transfer Guidelines

Invoices are generated from shipments

Customer invoices are generated from shipments within the *Shipping & Invoicing* tab in the *Sales Orders* screen. Invoices are sent to the customer via Email or can be printed and mailed. The detailed invoice remains in DBA and the values tie down to the single line AR voucher (tax inclusive).

Invoice details and Taxes are handled exclusively in DBA

Your sales order invoices and purchase order invoices will include item transactions with detailed tax information. The AR and AP voucher value will be a single value that includes tax. You do not enter tax codes or tax detail in your financial accounting system.

Financial credit memos are entered in your accounting system

If you issue a financial credit memo to a customer, you can enter it directly in your financial accounting system. A financial credit memo is one that does not include any inventory items. An example of a financial credit memo is one used to adjust a customer account balance for an over or under-payment.

Inventory credit memos are generated in DBA

When a credit memo includes an inventory item, such as a returned item, the credit memo must be generated in DBA. The returned item is entered with a negative order quantity, which results in a negative price and enables the item to be returned to stock. The order is picked, shipped, and invoiced in the normal fashion to generate the credit memo.

Transfer AR vouchers in real time

Transfer AR vouchers in real time immediately after each set of invoices is generated so that invoice entry and voucher transfer is treated as a single process. At a minimum, transfer AR vouchers once per day so that a complete and timely AP aging profile is maintained in your financial accounting system.

AR Voucher Transfer

Overview

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You will create invoices using a special AR Invoice Transfer Item that you set up in advance in your outside accounting system.. This item ID will book a credit to the AR Invoice Transfer clearing account, instead of a sales account. The balancing debit to the AR invoice Transfer account was created in the DBA Invoice process and will be transferred to your outside accounting system in the GL Summary transfer. The net effect is that the AR Invoice Transfer account zeroes out and you are left with Accounts Receivable in your financial accounting system.

The *AR Voucher Transfer* screen is used to transfer customer invoices and credit memos in a one-line voucher format to your accounting system for AR processing. Each invoice or credit memo that has not yet been transferred is listed in the grid.

The voucher style format limits the transfer to just the fields needed for receivables processing – the *Invoice Date*, *Invoice No*, *Customer*, *PO No*, *Total Amt*, *Due Date*, *Terms*, *Line Item ID* (which is the *AR Invoice Line Item ID* specified in *Financial Transfer Defaults*), and *Qty* (which is always '1').

> NOTE: Only a total invoice amount is needed for AR processing. Line item detail has no functional purpose in the financial accounting system and is not transferred to avoid unnecessary data synchronization and double-posting issues. **Do not attempt to itemize your invoice or tax details in your financial accounting program**.

If you wish to include billing address details in your transfer file, however, select the *Include Addresses* checkbox.

If your accounting system can import invoices and credit memos in the same process with negative total amounts displayed against credit memos, select the *Display – All* option. If invoices and credit memos must be imported separately, select the *Display – Invoices* or *Display – Credit Memos* option as needed. When credit memos are displayed separately, they are listed with positive total amounts.

Transferring by data import

To transfer the voucher invoices listed in the grid by data import, click the *Output* button and select the *Output to CSV* or *Output to excel* option. The program will present the *Output File Location* specified in *Financial Transfer Defaults*, which you can accept or change as desired. After the output file is successfully saved, answer yes to the *Do you wish to flag the AR Vouchers as Transferred?* prompt.

The final step is to go to the data import utility in your accounting system and select and import the output file. Typically, the fields in the output file will be mapped on a one-time basis to corresponding fields in the import utility.

QuickBooks

QuickBooks does not include an invoice import utility. Several third party import tools are available and are easily found by web search. Many of our customers use the Transaction Pro Importer.

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Financial Transfer using Transaction Pro Importer

Transferring by manual entry

To transfer the vouchers listed in the grid by manual entry, click the *Output* button and select the *Output to printer* option. After the report is successfully printed, answer yes to the *Do you wish to flag the AR Vouchers as Transferred?* prompt. Use the report to manually enter one-line invoices in your financial accounting system.

AR Processing

Once voucher invoices have been transferred, all accounts receivable processes are performed in standard fashion within your financial accounting system, including customer deposits, payments, statements, refunds, and open aging reports.

Never reverse invoices in your financial accounting system

If an invoice needs to be reversed and corrected, never reverse the invoice in your financial accounting system because the reversal will not flow back to the DBA accounting system. Instead, always reverse an invoice in DBA, which creates a credit memo that offsets the original invoice. You can then make any corrections and generate a new invoice. The credit memo and the corrected invoice will get transferred as AR vouchers to properly update accounts receivable in your financial accounting system.

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10 AP Voucher Transfer

This chapter explains how PO-related supplier invoices are transferred as voucher style invoices to your financial accounting system for AP processing.

Infographic - Financial Transfer Guidelines

Supplier invoices are entered and matched with POs in DBA

PO-related supplier invoices are entered and matched with associated POs in the *PO Invoices* screen. The matching process closes PO lines, balances the *Received Not Invoiced* account, and enables you to update item last costs and purchase prices.

Financial credit memos are entered in your accounting system

If you receive a financial credit memo from a supplier, you can enter it directly in your financial accounting system. A financial credit memo is one that does not include any inventory items. An example of a financial credit memo is one used to adjust your account balance for an over or under-payment.

Inventory credit memos are entered in DBA

When a credit memo includes an inventory item, such as when you are returning a purchased item, the credit memo must be entered in DBA. The item being returned is entered on a PO with a negative order quantity, which results in a negative price and enables the item to be deducted from stock. The PO is received and invoiced in the normal fashion to generate the credit memo.

Transfer AP vouchers in real time after each set of invoices is entered

Transfer AP vouchers in real time immediately after each set of supplier invoices is entered so that invoice entry and voucher transfer is treated as a single process. At a minimum, transfer AP vouchers once per day so that a complete and timely AP aging profile is maintained in your financial accounting system.

AP Voucher Transfer

Overview

You will enter supplier bills in your financial accounting system to the AP Invoice Transfer clearing account (debit). The balancing credit entry to the AP Invoice Transfer clearing account was created during the PO Invoice process in DBA and transferred to your outside accounting system in the GL Summary Transfer. The net effect is that the AP Invoice Transfer account zeroes out and you are left with Accounts Payable in your financial accounting system.

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The *AP Voucher Transfer* screen is used to transfer supplier invoices and credit memos in a one-line voucher format to your accounting system for AP processing. Each invoice or credit memo that has not yet been transferred is listed in the grid.

The voucher style format limits the transfer to just the fields needed for payables processing – the *Invoice Date*, *Invoice No*, *Supplier*, *Total Amt*, *Due Date*, *Terms*, and *X-Ref Account* (your account).

> NOTE: Only a total invoice amount is needed for AP processing. Line item detail has no functional purpose in the financial accounting system and is not transferred to avoid unnecessary data synchronization and double-posting issues.

If you wish to include billing address details in your transfer file, select the *Include Addresses* checkbox.

If your accounting system can import invoices and credit memos in the same process with negative total amounts displayed against credit memos, select the *Display – All* option. If invoices and credit memos must be imported separately, select the *Display – Invoices* or *Display – Credit Memos* option as needed. When credit memos are displayed separately, they are listed with positive total amounts.

Transferring by data import

To transfer the voucher invoices listed in the grid by data import, click the *Output* button and select the *Output to CSV* or *Output to excel* option. The program will present the *Output File Location* specified in *Financial Transfer Defaults*, which you can accept or change as desired. After the output file is successfully saved, answer yes to the *Do you wish to flag the AP Vouchers as Transferred?* prompt.

The final step is to go to the data import utility in your accounting system and select and import the output file. Typically, the fields in the output file will be mapped on a one-time basis to corresponding fields in the import utility.

QuickBooks

QuickBooks does not include an invoice import utility. Several third party import tools are available and are easily found by web search. Many of our customers use the Transaction Pro Importer.

Financial Transfer using Transaction Pro Importer

Transferring by manual entry

To transfer the vouchers listed in the grid by manual entry, click the *Output* button and select the *Output to printer* option. After the report is successfully printed, answer yes to the *Do you wish to flag the AP Vouchers as Transferred?* prompt. Use the report to manually enter one-line supplier invoices in your financial accounting system.

AP Processing

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Once voucher invoices have been transferred, all accounts payable processes are performed in standard fashion within your financial accounting system, including supplier payments, advance deposits, and open aging reports.

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11 GL Summary Transfer

This chapter explains how DBA account totals are transferred to your financial accounting system to reflect the activities of the manufacturing system.

Infographic - Financial Transfer Guidelines

GL summary transfer can be done daily or by period

You can select to group your GL entries by day or by period. We recommend that you enter daily complete batches. The daily increment leads to better visibility of the balancing entries of the DBA system. You could choose to also book your entries by period at period end. We do not recommend the weekly or monthly option as these transactions do not always line up with your financial periods.

Pre-Transfer Tasks

Perform these tasks prior to running the *GL Summary Transfer*.

Use the financial cutoff date to close the period

DBA does not have a formal period closing process. Instead, the *Financial Cutoff Date* screen is used to maintain a cutoff date that functions as a closing date. No transactions throughout the system are allowed to be posted prior to the cutoff date.

Run Batch Posting

Go to the *Batch Posting* screen and run the batch posting process to update the general ledger.

GL Summary Transfer

The *GL Summary Transfer* screen is used to transfer DBA account totals to your financial accounting system.

To initiate a transfer, select the period to be transferred on the opening *Status* tab. This opens the *Transfer* tab.

Transferring by data import

To transfer the account totals listed in the grid by data import, click the *Output* button and select the *Output to CSV* or *Output to excel* option. The program will present the *Output File Location* specified in *Financial Transfer Defaults*, which you can accept or change as desired. After the output file is successfully saved, answer yes to the *Do you wish to flag the transactions behind these totals as Transferred?* prompt.

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The final step is to go to the data import utility in your accounting system and select and import the output file. Typically, the fields in the output file will be mapped on a one-time basis to corresponding fields in the import utility.

QuickBooks

QuickBooks does not include an invoice import utility. Several third party import tools are available and are easily found by web search. Many of our customers use the Transaction Pro Importer.

Financial Transfer using Transaction Pro Importer

Transferring by manual entry

To transfer the account totals listed in the grid by manual entry, click the *Output* button and select the *Output to printer* option. After the report is successfully printed, answer yes to the *Do you wish to flag the transactions behind these totals as Transferred?* prompt. Use the report to make a batch journal entry in your financial accounting system.

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12 Tax Reporting and Payment

This chapter explains how sales and purchase taxes are processed in DBA and paid in your financial accounting system.

DBA has its own taxation system

DBA has its own taxation system, which includes taxable and non-taxable tax codes, tax authorities, default sales and purchase tax codes, and tax code exceptions at the customer, item, and supplier level. The tax system is designed to accommodate international VAT/GST and USA style taxation.

AR and AP Voucher Transfer values include taxes

The AR and AP Voucher amounts are tax inclusive. You do not enter taxes or track tax details in your financial accounting system.

Tax liability totals are transferred to your main general ledger during GL Summary Transfer

When sales order lines are invoiced, tax amounts are posted to your *Sales Tax Payable* liability account. When purchase order lines are invoiced, tax amounts are posted to your *Purchase Tax* account. The *GL Summary Transfer* is used to transfer these liability account totals to your financial accounting system.

When you file your taxes with Tax Authorities

Create a payable for your tax liability in your financial accounting system

Whenever you are required to file and pay your tax liability, you create a payable in your financial accounting system to your tax collection agency for the *Sales Tax Payable* and *Purchase Tax* liability associated with the reporting period.

Use DBA data views and reports for supporting detail

The *Sales Tax Payable* and *Purchase Tax* account totals represent your total tax liability, but the supporting tax code detail required on your tax filing forms is manually entered using information from data views and reports in DBA.

International Reporting

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For international VAT/GST taxation reporting, the *Tax Code Activity* report is typically used, which provides summary tax code totals or detailed tax code totals by invoice.

USA Reporting

USA taxation reporting is confined to sales tax reporting. The *Sales Tax Summary* data view is typically used, which can be used to format any number of reports to suit your requirements.

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13 Financial Transfer Guidelines

This chapter lists eight basic guidelines that should be followed for the financial transfer process to work properly and provide good results.

Infographic - Financial Transfer Guidelines

1. Do not skip using the financial transfer

Do not skip using the financial transfer because it is a mandatory process without which your company will have no accounting integrity. Even though you will be operating with two self-contained accounting systems, each system depends on the other for vital information. The WIP accounting in DBA, for example, relies on labor and overhead costing information from the financial accounting system to calculate shop rates. The financial accounting system will not have validity or useful value without AR and AP voucher invoices and manufacturing account totals.

2. Do not use outside sales orders

Do not use outside sales orders because doing so compromises the integrity of the closed loop inventory system, the process workflow, and the two accounting system design. Sales orders are fully integrated with bills of manufacturing, inventory, MRP, and shop control and therefore cannot be excised from the system. Furthermore, using outside sales orders compromises the self-contained nature of each accounting system by introducing a host of duplicate functions and data synchronization issues and problems.

3. Do not attempt to replicate line item detail in AR invoices

Do not attempt to replicate line item detail in AR invoices in your financial accounting system. By design, line item detail is not included in the AR voucher transfer because line detail has no relevance to AR processing and would needlessly introduce duplicate tables to synchronize, duplicate inventory transactions, double posting, invoice reversal issues, complicate sales tax tracking, and other problems. Be especially wary of any consultant who proposes to re-create detailed invoices in your financial accounting system, which indicates a fundamental misunderstanding of the financial transfer process or a lack of scruples in charging for a completely unnecessary feature that is inherently problematic and not in your best interest.

4. Do not attempt to enter sales tax or purchase tax in your financial accounting system

Your sales order invoices and purchase order invoices will include item transactions with detailed tax information. The AR and AP voucher value will be a single value that includes tax. Tax liability totals are transferred to your main general ledger during GL Summary Transfer. You do not enter tax codes or tax detail in your financial accounting system.

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5. Do not manage multiple operating entities within a single DBA system

Do not manage multiple operating entities, meaning other factories or remote warehouse operations, within a single DBA system. Each operating entity must be furnished with its own DBA system and product license and will use the financial transfer to update your financial accounting system to reflect its activities. MRP and shop control are inventory-driven processes that only work properly when used with a single factory where all inventory is locally available for immediate issuing, receiving, and picking. WIP accounting and shop rate calculations also only work properly when used with a single operating entity.

6. Transfer AR and AP vouchers in real time

Transfer AR and AP vouchers in real time immediately after each set of invoices is generated or entered so that AR and AP account balances and aging profiles are always current in your financial accounting system for financial planning purposes.

7. Never reverse customer invoices in your financial accounting system

If a customer invoice needs to be reversed and corrected, never reverse the invoice in your financial accounting system because the reversal will not flow back to the DBA accounting system. Instead, always reverse an invoice in DBA, which creates a credit memo that offsets the original invoice. You can then make any corrections and generate a new invoice. The credit memo and the corrected invoice will get transferred as AR vouchers to properly update accounts receivable in your financial accounting system.

8. Never skip PO invoice entry and AP voucher transfer

Never skip the entry and matching of supplier POs in the *PO Invoices* screen and the *AP Voucher Transfer* process. Skipping these functions ruins the PO processing workflow because PO matching is required for closing PO lines, supplier invoice entry is required to offset the *Received Not Invoiced* balance, and the voucher transfer properly updates accounts payable.

9. Always transfer all GL account totals in a timely manner

Our recommendation is to post GL summary batches daily for fully completed days. This insures that your company financial reports are complete and reflect the financial profile of the entire business. The daily posting will improve the visibility of the balancing entries in DBA and provide improved feedback to your system.

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14 FAQs

Can I use DBA without the financial transfer?

DBA cannot function properly without proper accounting. If you do not post to the general ledger or transfer vouchers and account totals to your financial accounting system, the manufacturing system cannot function with any success. General ledger transactions are essential for establishing shop rates, tracking inventory and WIP balances, accounting for absorbed costs, and tracking sales and cost of goods sold accounts. Without the financial transfer, it is not possible to have valid and useful financial reporting for business management or tax compliance.

Why can't I transfer a detailed invoice to my financial accounting system?

Maintaining detailed invoices in both accounting systems may seem harmless, but it is highly undesirable and prohibited because it would introduce overlapping functions, data synchronization issues, and accounting problems.

Sales orders are handled by DBA because order entry, picking, and shipping are intimately associated with MRP and inventory. Invoices are generated from shipments and are the basis for a variety of sales data views and reports.

Accounts receivable is a financial accounting system function. For the purpose of tracking and collecting monies owed and paid by customers, only invoice total amounts are relevant, which is why a one-line voucher style invoice gets transferred.

It is not harmless to replicate the DBA invoice in your financial accounting system. All the line item detail -- meaning items, descriptions, quantities, notes, prices, discounts, costs, tax codes, tax amounts, sales accounts, COGS accounts, lot numbers, and serial numbers – would require supporting tables and values that would have to be synchronized with corresponding tables and values in DBA.

Invoice line detail would create duplicate GL postings. Each line must post to its own sales account, COGS account, and tax account. These postings have already occurred in DBA.

In order to include inventory items on invoices, inventory transactions are needed, which would require inventory transfers from DBA that introduce a host of issues maintaining inventory in two systems.

Duplicate invoices would also mean that an invoice is capable of being reversed and edited in either accounting system. Each such reversal would have to be reflected in the other side to keep invoices properly synchronized.

The integrity of the two accounting system design absolutely depends on the complete avoidance of duplicate functionality and data synchronization. Therefore, invoice detail is confined to the manufacturing system

> WARNING: Be wary of any consultant who proposes to re-create detailed invoices in your accounting system. This indicates a fundamental misunderstanding of the

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financial transfer process or a lack of scruples in charging for a completely unnecessary feature that is inherently problematic and not in your best interest.

Why can't I use sales orders in my accounting system?

Sales orders, including shipping and invoicing, is a manufacturing system application for the following reasons.

DBA is a closed loop, self-contained system. Sales order quantities and required dates provide the feedback needed for job generation and prioritization and are an essential element for MRP and shop control. Outside sales orders are not structured for manufacturing.

Furthermore, sales orders are highly integrated with manufacturing system tables and workflow processes. Sales orders utilize manufactured item specifications, including part numbers, descriptions, weight, volume, standard pack, lot and serial numbers, and item costs. One-off items and BOMs for custom manufactured items are generated within quotes and are ultimately converted to sales orders. Order picking updates inventory and tracks lot and serial numbers when needed. Item cost of goods sold depends on the absorption costing provided by DBA's WIP accounting system.

How can I use the financial transfer without a data import capability?

All three financial transfers – *AR Voucher Transfer*, *AP Voucher Transfer*, and *GL Summary Transfer* – involve one-line totals without any line item or transaction detail. If your accounting system does not have an import utility for customer and supplier invoices or journal entries, these financial transfers can easily be made by manual entry as follows:

- To transfer an AR voucher invoice you simply enter the customer, invoice number, invoice date, terms code, and a single non-inventory line item for the invoice total amount.
- To transfer an AP voucher invoice you simply enter the supplier, invoice number, invoice date, terms code, account number, and a single amount for the invoice total.
- To transfer period end account totals, you simply enter a batch journal entry with a single debit and credit amount per active account.

The two voucher transfers are each reconciled against a transfer account as a safeguard against data entry errors. The period end batch journal entry must be in balance as a safeguard against data entry errors. Whether transfers are made through data import or manual entry, they only take a few minutes per day.

Can I bypass entering PO invoices in DBA?

It is absolutely essential that PO-related supplier invoices be entered in DBA so that they can be matched with PO lines. The matching process closes PO lines and adjusts the *Received Not Invoiced* account for any variance between receipt cost and the

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invoice price. When invoices are transferred to your accounting system using the *AP Voucher Transfer* screen, the invoice amount is charged to your *AP Voucher Transfer* control account. Any attempt to bypass or alter this process will cause severe workflow and accounting problems.

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