

Cost of Goods Sold (COGS) Solution

Lianne Elkins, CPA
Assistant Controller
Local Insight Media, LLC
Dave Bass
Solbourne
Senior Consultant
OAUG Collaborate '08

Agenda

- Local Insight Media LLC overview
- Cost of Goods Sold implementation issue
- Oracle Solution
- Process Solution
- Q & A



About Solbourne

- National Consulting Firm Headquartered in Boulder, CO
- Over 130 Employees
- Oracle Family of Applications Focused Since 1994
 - Fusion Middleware Technology
 - E-Business Suite
 - PeopleSoft Enterprise
 - Education and Change Management
- Oracle Certified Advantage Partner – Highest Level
- Over 260 Oracle Applications Projects – Commercial and Public Sector

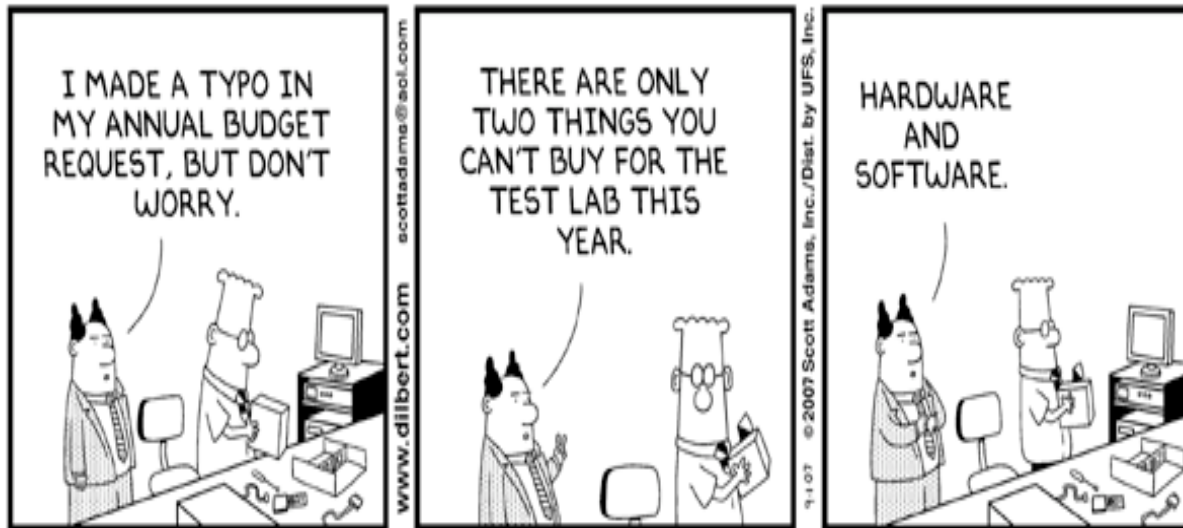


LIM Company Background

- **Local Insight Media (LIM) is a leading provider of print yellow pages and Internet-based local search services in the Greater Cincinnati area, Alaska and the Caribbean , serving advertisers and consumers through four operating subsidiaries:**
 - **CBD Media in the Cincinnati-Hamilton metropolitan area**
 - **ACS Media in Alaska**
 - **Local Insight Yellow Pages in 37 states**
 - **Hawaii YP Media covering all the Hawaiian islands**
 - **Axesa Servicios de Información in Puerto Rico**
 - **Caribe Servicios de Información Dominicana in the Dominican Republic**



Is this your 2008 budget???



© Scott Adams, Inc./Dist. by UFS, Inc.

Definitions

- **Publication**- A printed book such as yellow pages, white pages, travel guides etc.
- **Canvass period** – The period the sales team is selling the advertising for the publication. When the selling period is complete, the publication is sent to the printer to produce the final product.
- **Distribution** – The delivery of the publication to the ultimate consumer after the publication is printed.
- **Substantially complete distribution** – Month where 80% or more of the publications have been delivered to the ultimate consumer.



Definitions (Cont.)

- **Life of publication** - The time from which the first publication is distributed to when the replacement publication is expected to be distributed (generally one year for yellow pages).
- **Long-life of a publication** – When the company decides to produce the next book later than the original scheduled time.
- **Short-life of a publication** – When the company decides to produce the next book earlier than the original scheduled time.
- **Cost of goods sold (COGS)** – All costs related to the sell of advertising, production and delivery of a publication (see list of specific costs capitalized below).



Definitions (Cont.)

- **Revenue** – Total advertising revenue association with a specific publication, this does not require any estimates as the total is known at the end of the canvass period.
- **Deferral and Amortization method of accounting-** Method of accounting when all costs associated with the production and delivery of a publication are deferred on the balance sheet until the distribution of that publication is substantially complete. At this time the advertising revenue and the related costs sitting on the balance sheet are amortized to the P&L over the expected life of the publication.



Cost of Goods Sold (COGS) Issue

- All of the Local Insight Media operating companies are required to use the deferral and amortization method of accounting for all publications/products.
- The deferral and amortization method requires that all costs be accumulated and deferred on the balance sheet until the distribution of the publication is substantially complete.
- When the distribution of a publication is substantially complete the “total” costs are then amortized using the straight line method over the life of the publication.



Cost of Goods Sold (COGS) Issue (Cont.)

- The specific costs that Local Insight Media has determined will be deferred and amortized are as follows:
 - Paper Costs of the publication
 - Printing Costs of the publication
 - Outside graphic costs of the publication
 - Sales commissions paid
 - Sales salaries and other incentives
 - Agency fees for national accounts (3rd party commissions)
 - Prepaid publication rights
 - Distribution costs of the publication



Cost of Goods Sold (COGS) Issue (Cont.)

- At the time the distribution of a publication is substantially complete, some of the costs will be estimates (as all the vendor invoices will not have been received by that date).
- As the vendor invoices (Actual Costs) are received, the estimates will be reversed and the actual cost will be recorded (true-up).
 - **Some of the vendor invoices are received up to 3 or 4 months after the distribution date.**
- The actual invoices that are received after the amortization has started are only amortized over the remaining life of the publication not the entire life.



Cost of Goods Sold (COGS) Issue (Cont.)

- Example of COGS process:
- Month 1 (Publication is “substantially complete”)
 - Publication Costs (1 year amortization life)
 - \$7k actual cost
 - \$5k estimated costs
 - \$12k total
 - Amortization costs for month 1
 - $\$12k/12 = \1000

Cost of Goods Sold (COGS) Issue (Cont.)

- Example of COGS process:
- Month 2
 - Actual invoice is received for the estimated cost. New publications Costs are:
 - \$7k original actual costs
 - \$5k estimated costs reversed
 - \$13k actual replacing the original estimated costs

Cost of Goods Sold (COGS) Issue (Cont.)

- Example of COGS process:
- Month 2
 - \$20k total to be amortized of the publication life
 - Total costs remaining beginning of month 2 \$11,000 (\$12,000 total actual and estimated LESS month 1 amortization of \$1,000)
 - True up in month 2 - \$11,000 LESS estimated costs of \$5,000 PLUS actual costs of \$13,000 for an adjusted unamortized balance of \$19,000.
 - Month 2 expense equals the adjusted unamortized balance of \$19,000 divided by the remaining life of 11 months
 - Total Amortization costs starting in month 2 \$1,727

Why I was Fired from my last job:

For the last company picnic, management had decided that, due to liability issues, we could have alcohol, but only one (1) drink per person. I was fired for ordering the cups.



Cost of Goods Sold (COGS) Issue (Cont.)

- Current Process
 - This amortization process is done outside the system completely in excel.
 - For the amortization journal entries, LIM has tried to use recurring journal entries. However, due to the “true-up” of estimates over a possible 4 month time-span this has become a maintenance issue to correct the journal entries every month
- Desired Process
 - LIM wants a process (preferably NOT manual) which will collect the costs (actual and estimates) by publication and divide these costs by the remaining life of the publication.



Solution System Setup

- 2 Asset books
 - 1 Asset book for the COGS process
 - 1 Asset book to manage the true Fixed Assets
- COGS Categories
 - Setup only for the COGS book
 - CIP enabled
 - Major Category = COGS
 - Different FA clearing account than the FA Book

Solution System Setup (Cont.)

- Source Lines DFF
 - Classifies each COGS expense.
 - Paper Costs of the publication
 - Printing Costs of the publication
 - Outside graphic costs of the publication
 - Sales commissions paid
 - Sales salaries and other incentives
 - Agency fees for national accounts (3rd party commissions)
 - Prepaid publication rights
 - Distribution costs of the publication



Source Lines DFF

Source Lines

Asset Number: 248 Asset Type: Capitalized
 Cost: 544,976.28 New Cost: 544,976.28
 Status: Amortize Adjustment
 Amortization Start Date: 31-JAN-2008

Invoice Number	Line	Description	Active	Supplier Name	Number	Line Amount	Transfer Amount
6ANCNOV07	4	LOCAL COGS-DEFERRE	<input checked="" type="checkbox"/>	BERRY COMPANY	114	34,024.37	PF
7ANCDEC07	4	LOCAL COGS DEFERRE	<input checked="" type="checkbox"/>	BERRY COMPANY	114	29,545.32	PF
8ANCDEC07	4	ANCHORAGE SETTLEMI	<input checked="" type="checkbox"/>	BERRY COMPANY	114	18,277.96	PF
		BBDI OCT-07	<input checked="" type="checkbox"/>			73,560.06	PF
		ENVELOPE	<input checked="" type="checkbox"/>			4,736.68	PF
		ISSUE COSTS	<input checked="" type="checkbox"/>			157,272.00	PF
		NYPS	<input checked="" type="checkbox"/>			150,224.00	PF
		BBDI	<input checked="" type="checkbox"/>			50,992.61	PF
		GRAPHICS	<input checked="" type="checkbox"/>			5,392.00	PF

PO Number: Source Batch:

Project Number: Task Number: Material Indicator

Project Details... Transfer to... Retire Done Cancel

Solution System Setup (Cont.)

- Reporting
 - 2 Discoverer Reports Required
 - Report to verify all DFF's are populated within the COGS asset Book
 - Financial report to show COGS data at a detailed level



Process Solution

- **Broken into 4 separate processes**
 - **Bulk Paper Cost**
 - **Initial Cost of a Publication**
 - **Additional Actual Costs**
 - **Estimated Costs**



Bulk Paper Process

- LIM purchases their paper for publication in bulk. It will be added to the asset system as an asset via the normal Oracle process through PO and AP.
- This paper cost is not amortized until the publication it is used for is published. The Bulk Paper category in the COGS asset book is set not to depreciate.
- The paper can be purchased in advance of it ever being assigned to a publication.
- LIM needs a process to move portions of the paper asset to the publication asset in order for it to be amortized with the publication asset.



Bulk Paper Process (Cont.)

The screenshot shows the Oracle Asset Categories configuration window for the category 'COGS.BULK PAPER'. The window is titled 'Asset Categories' and contains the following fields and sections:

- Category:** COGS.BULK PAPER
- Description:** COGS.BULK PAPER
- Placed in Service:** 01-JAN-1900
- Default Depreciation Rules - COGS.BULK PAPER, COGS:**
 - Depreciate (highlighted with a red circle)
 - Method:** STL
 - Life Years:** 1
 - Months:** 0
 - Bonus Rule:** (empty)
 - Prorate Convention:** MONTHLY
 - Retirement Convention:** MONTHLY
 - Default Salvage Value:** %
 - Ceiling:** (empty)
 - Price Index:** (empty)
- Default Subcomponent Life:**
 - Rule:** (dropdown)
 - Minimum Years:** (empty)
 - Months:** (empty)
- Straight Line for Retirement:
 - Method:** (empty)
 - Life Years:** (empty)
 - Months:** (empty)
- Use Depreciation Limit:
 - Percent: %
 - Limit: (empty)
- Capital Gain Threshold:**
 - Years:** 1
 - Months:** 0
- ITC Eligible
- Use ITC Ceilings
- Mass Property Eligible
- Group Asset:** (empty)

Bulk Paper Process (Cont.)

- Within the mass additions table, this asset will be assigned to the bulk paper category.
- As it becomes known what the paper requirement is for each parent asset, the paper needs to be transferred from the bulk paper asset and added to the publication asset.
 - The user will need to perform a transfer of dollars from the source lines screen for the bulk paper asset.
 - This creates a source line for the paper in the parent asset and the deferred cost will amortize with the publication.



Bulk Paper Process (Cont.)

Source Lines

Asset Number: 249 Asset Type: Capitalized
 Cost: 60,427.42 New Cost: 9,434.81
 Status: Amortize Adjustment
 Amortization Start Date: 31-DEC-2007

Invoice Number	Line	Description	Active	Supplier Name	Number	Line Amount	Transfer Amount []
<input type="checkbox"/>		FOREIGN OCT-07	<input checked="" type="checkbox"/>			1,363.50	PF
<input type="checkbox"/>		ISSUE COSTS	<input checked="" type="checkbox"/>			3,135.48	PF
<input type="checkbox"/>		NYPS	<input checked="" type="checkbox"/>			2,588.00	PF
<input type="checkbox"/>		BBDI	<input checked="" type="checkbox"/>			1,069.20	PF
<input type="checkbox"/>		BBCR	<input checked="" type="checkbox"/>			792.00	PF
<input type="checkbox"/>		FOREIGN	<input checked="" type="checkbox"/>			407.90	PF
<input type="checkbox"/>		FOREIGN	<input checked="" type="checkbox"/>			78.73	PF
<input checked="" type="checkbox"/>		BBDI	<input checked="" type="checkbox"/>			0.00	50,992.61 PF
<input type="checkbox"/>			<input type="checkbox"/>				

PO Number: Source Batch: Material Indicator
 Project Number: Task Number:

Project Details... **Transfer to...** Retire Done Cancel



Bulk Paper Process (Cont.)

The screenshot shows the Oracle Assets 'Transfer To' window. At the top, the 'New Cost' is 497,153.00. Below this is a table with the following data:

Asset Number	Description	Tag Number	Category	Asset Key	Cost	Book
248	Anchorage YP (12011)		COGS.PRINT		446,160.39	COGS

At the bottom of the window, there are input fields for PO Number, Project Number, Source Batch, and Task Number, along with a 'Material Indicator' checkbox. A red arrow points to the 'Done' button in the bottom right corner of the window.



Process Solution

- **Broken into 4 separate processes**
 - Bulk Paper Cost
 - **Initial Cost of a Publication**
 - Additional Actual Costs
 - Estimated Costs



Initial Cost of a Publication Process

- Initial Cost of a Publication
 - Usually sales commissions from ADP
- Manual Add to the COGS book
 - CIP status
 - DFF needs to be populated at the source lines screen
 - Expense account contains Publication information tracked in COA.
 - Referred to throughout this process as the “Parent Asset”



Initial Cost of a Publication Process

- **Accounting Entry for Initial Cost**
 - DR CIP Cost (CIP Deferred Cost)
 - CR CIP Clearing (CIP Deferred Cost Clearing)
- **When Asset is Capitalized**
 - DR Asset Cost (Deferred Costs)
 - CR CIP Cost (CIP Deferred Costs)
- **Eventually need journal entry to clear out CIP Clearing.**

Process Solution

- **Broken into 4 separate processes**
 - Bulk Paper Cost
 - Initial Cost of a Publication
 - **Additional Actual Costs**
 - Estimated Costs



Additional Actual Costs Process

- Flows through standard purchasing process
- PO will be coded to the COGS asset book clearing account. Once matched in AP, these costs will be passed to FA Mass additions.



Additional Actual Costs Process (Cont.)

- The add to Asset functionality is used in mass additions process.
 - This adds a source line to the “Parent Asset” for this cost.
 - The user checks the amortize adjustment checkbox.
 - If the “Parent Asset” is already depreciating this functionality will amortize the adjustment over the remaining life of the asset.
 - Once posted, user populates the DFF at the Source Lines screen for this cost

Process Solution

- **Broken into 4 separate processes**
 - Bulk Paper Cost
 - Initial Cost of a Publication
 - Additional Actual Costs
 - **Estimated Costs**



Estimated Costs Process

- At the time the distribution of a publication is substantially complete (taken from CIP to capitalized status) some of the costs will be estimates.
- How do we get estimated costs into the “Parent Asset” and be able to reverse it when the time comes?
 - Accounts Payable will code estimated invoices into the AP system.
 - Supplier Site is named “ESTIMATE”
 - Supplier Site will have the hold all payments enabled.
 - Invoice will be prefixed with “EST”

Estimated Costs Process

Supplier Sites (Local Insight Media) - BERRY COMPANY, 114

Site Name **165-ESTIMATE** Alternate Name

Country **United States**

Address **DO NOT MAIL** Alternate Address

City **XXXXXX** State **XX** Postal Code **XXXXXX**

Province County

Language Inactive On

General Contacts Accoun... Control Payment Bank A... EDI Invoice ... Withhol... Tax Re... Purchas...

Invoice Tolerance **LIM Invoice Tolerances**

Invoice Amount Limit

Invoice Match Option **Purchase Order**

Hold All Payments

Hold Unmatched Invoices

Hold Unvalidated Invoices

Payment Hold Reason

Estimated Costs Process (Cont.)

- These invoices (estimates) will go through the mass additions process where they will be added to the “Parent Asset”
- DFF in the source lines screen is populated once the mass addition is posted to the asset.
- Once the actual invoice comes in for that estimate:
 - The Estimate invoice can be canceled, it will then pass the reversal over to assets where it will be posted to the existing parent asset.

Substantially Complete Publication

- Once a publication is deemed to be substantially complete, the deferred costs need to be amortized over the life of the publication.
- The “Parent Asset” within the asset system needs to be taken out of CIP status and placed in service to begin the depreciation process.

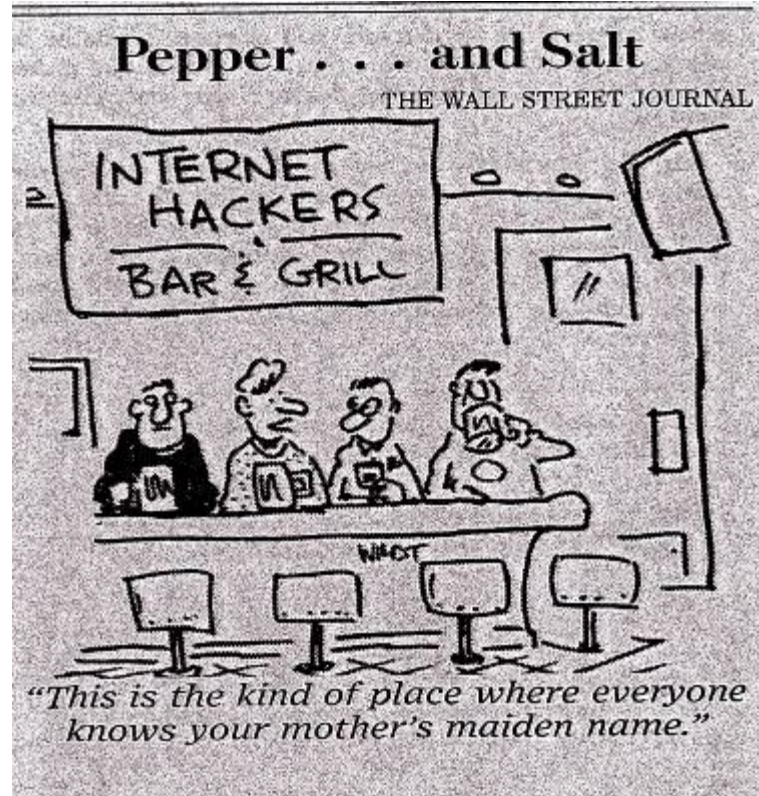


Additional items

- Amortization costs are accounted at the depreciation expense category level. Any GL reports will be at a summary level for COGS.
- Any detail reports for COGS are done out of Discoverer and pull the data from the DFF to get the lower level information.



Our favorite place.....



Questions & Answers



Contact Information

Dave Bass, Sr. Consultant

dbass@solbourne.com

(720) 891-0839

Information is also available at

www.solbourne.com

