

## PLANNING THE CHART OF ACCOUNTS

### Introduction

In any Company, Organization or Enterprise, the Accounting function is based on a Chart of Accounts, often abbreviated to COA. In a majority of cases, the COA is discerned in a coding structure that is adopted for the Accounts that are found in the General Ledger, also called the Nominal Ledger. When planning the Management Information that is essential for properly managing a Business, the COA is crucial. In IES, we have gone to great lengths to provide the most flexible COA imaginable. Nevertheless, it is still a subject that calls for some explanation, and subsequent logical thought processes to be applied when implementing your IES, hence this User Manual. The IES Chart of Accounts, i.e. the General Ledger, is a flexible, sophisticated and forgiving mechanism. This means that you can hardly go wrong, for almost any choices that you make in the beginning can be changed later if they are found to be unsuitable, except for the Account Codes themselves (as we will explain). The only possible complaint you may have is that of being spoilt for choice – sometimes people may imagine that having a lot of choice makes it more difficult, but we don't think so.

### Definition of Terms

Some definitions of Terms are quite necessary here, because a word often triggers associations in the Reader's mind, especially when the same term is sometimes encountered with a different meaning, and it is quite important to be as closely aligned with what we are explaining, as possible.


In the discussion of the IES Chart of Accounts, we will use the terms 'Department', 'Cost Centre' and 'Activity' with very specific meaning, which should be clearly understood. Therefore, let us explain.

Department: -

A Department in IES is none other than a Business Unit. Then again, people use the term 'Business Unit' also to mean a lot of things. Therefore, let us suggest some examples for a certain type of Business, and suggest that we are talking about a Business that Manufactures and Sells. Such a Company may possibly have a Business Unit or Department that is called "Accounts and Administration", another that is called "Stores", a "Workshop", a "Sales Department", etc. When we consider these examples, perhaps we could say that what we call a Department in IES, is really a Business Unit of some description, within the Company, and where from a Management point of view, we may want to measure Income, Expenditure, and so on.

Cost Centre: \_

A Cost Centre is readily understood when explained as an aspect of Income or Expenditure that we wish to measure, within a Business Unit, i.e. a Department, and which in many cases recurs within different Departments. For example, if we suggest "Salaries and Wages" as a typical Expenditure Cost Centre, then it is reasonable to expect that we will encounter this Cost Centre in most of our Departments, because there are people working in most of the Departments (although it is also quite possible to have some Departments where we do not

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have real people working, and hence no Salaries and Wages Expenditure), but the principle is clear. Other Cost Centres may be things like "Income from Sales", "Cost of Sales", "Stationery and Postage", "Telephone, Internet", etc.

There are also Cost Centres that may not be associated with multiple Departments. These are sometimes Balance Sheet Accounts, for example things like "Share Capital", and others. Yet there are also Cost Centres that are Income / Expense, yet singular, i.e. not encountered in all Departments, for example something like "Audit Fees", for which there will usually be just a single Account in the COA, whereas the Cost Centres that recur in many Departments, will be found in a range of Ledger Account Numbers. In an IES Implementation, there is typically a Department called "Private Ledgers", and these will include the Cost Centres that generally do not recur in other Departments.

Activity: -


The term 'Activity' is used in IES to highlight a split measurement within a Cost Centre. Activities are not always used, but they are quite useful, and are often used as a 2 digit coding convention within, or attached to, the Cost Centre. In an example of an Agricultural Enterprise, we may encounter Activities like Planting, Ripping, Ploughing, Harvesting, etc. In another type of Business, the Activities will be different, but they will still be a measurement of Activities typically found within the Business, and for which Management Information is very useful when it can be presented either on the main Cost Centre, or as analyzed through the Activities. For example, when we have a Cost Centre for something like "Wages", and we code that Cost Centre as "036", we may associate the Cost Centre also with different Activities like "Ploughing" (01, therefore 01036), "Harvesting" (02, therefore 02036), "Land Preparation" (03, therefore 03036), and so on. Thus, by selecting on the indicator (Cost Centre) of "036", we would be able to report on all Accounts in a selected range of Departments, to see what the "Wages" expenditure amounts to, but we can also ask for only the totals for '01036' (Ploughing), or for a breakdown of the cost within the "Wages" (036) expenditure.

### The Ledger Account Code

A Ledger Account Code in IES may include Alpha and Numeric characters, but may not include a space or an asterisk ("\*"), nor a slash (/ or \), and no length is prescribed. In fact, it is permissible to have Account Codes with different lengths in the same COA. For example, it is allowed to have Accounts "001", "AB", "A5333-ZA00", all in the same IES COA. However, a majority of Users find that it is more practical for them to stick with a fixed length, i.e. once the coding structure is defined, and if the Coding is adopted as an 8-digit numeric, then all Account Codes will have 8 digits.

Before we have a look at the definition layout of a Ledger Account, let it be understood that because of the flexibility of the IES COA, it is NOT necessary to embed all the analysis aspects of your COA in the Ledger coding, and we strongly recommend that you do NOT limit your prerogative to make changes later by adopting that limiting convention, which is often born of working with prior systems where that is the only way available.

A typical convention: A155G-99234-01E

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In this example, the 'A' may indicate a Division in the Company, '155' may indicate the Department, '99' may indicate an Analysis Ledger, '234' may indicate the Cost Centre, '01' may indicate yet another element, and 'E' may indicate that it is an Expense Account.

In IES we support all the Analysis Elements of Levels that you demand of your COA, but we recommend that you include only the aspects that are not likely to ever change, in the coding convention. Therefore, we recommend that only the Department and the Cost Centre be part of the Coding of the Ledger Account Number, and, when Activities are used, to include the Activity also (of course there will be exceptions, and this is a general recommendation only). Therefore, if Activities are in use, then we suggest that for most Companies, an 8 digit Ledger Account Number will provide a range that you are not likely to exhaust, as follows: -

11122333 Where '111' signals Department 111 (whatever the Name of the Department may be), where '22' signals the Activity, and where '333' signals the Cost Centre.

We suggest that these 3 elements in an Account Code will never change, or need to change, and the Account Code is the primary aspect of a Ledger Code that you cannot change once the Account exists, but any of the other aspects of the Account, i.e. Balance Sheet flag, Income Statement flag, Trial Balance, etc. can be changed at any time when you re-structure, introduce policy changes, etc. Therefore, it is undesirable to include any aspects that may possibly change at some stage, into the Account Number itself. Notwithstanding the foregoing, you may still choose to 'code' your Ledger in any way you please – these are merely our suggestions and recommendations. And make no mistake, the flexibility of the IES Chart of Accounts go beyond our ability to explain all of it in a Document like this, so if you have questions about this or that, or whether such or such is possible, then please ask us (more likely than not, it is possible).

Here we show a Ledger Account definition, which include other aspects not relevant to the current topic. For the design of the COA, we are interested in the Coding and the hierarchical elements specifically ...

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Ledger Code #	10000000	Account Code
*Description	ORDINARY SHARE CAPITAL : PRIVATE LEDGERS	

**2: Management Reporting Hierarchy**

Balance Sheet	053	Each Ledger Account has a Code (e.g. '10000000'), and has ties or links to the COA hierarchy, which we also call Reporting Flags.
B/Sheet 'Closed'		
Income Statement	000 Balance Sheet, no printing	
I/Statement 'Closed'		
Department	100 PRIVATE LEDGERS	
Activity Costing	00 PRIVATE LEDGERS	
Trial Balance	009 Balance Sheet items	
Cost Ledger	00000 ORDINARY SHARE CAPITAL	
*!Groups / Catg	A1A1 ORDINARY SHARE CAPITAL	
*!Analysis Ledger	24 SHARE CAPITAL	
Inc/Exp or BalSheet	Balance Sheet	

In many Accounting Systems, the Ledger Code says it all. In the example shown above (from IES), the actual Account Code is: 10000000

If the same Account Code had to be represented in a typical system where the Account Code 'says it all', then, from the above, the Account Code might be something like this: 053-000-100-00-009-00000-A1A1-24

It is not difficult to understand that the 'long' Code shown here is a difficult one to capture each time a Journal is posted to the Account, whereas the former (the IES equivalent) is easy and quick to do. Not only that, but also, with the IES Account, any of the aspects may be changed, e.g. the Account moved to another position on the Balance Sheet, the Trial Balance, etc.

And this is the only 'hurdle' to overcome in understanding the flexibility of an IES Chart of Accounts. Each and every Ledger Account will have links to Codes for each of the hierarchical elements, e.g. Balance Sheet, Trial Balance, etc., and these can be changed at any time, resulting in the Management Reporting automatically adapting to any changes so introduced. In other words, when an IES Report is executed, selection of the Data 'looks' at the hierarchical links / Report Flags rather than the Account Code itself. Below we show an example: -

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Balance Sheet as printed on 05/07/2004

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	*****Mar 2004***	*****Jun 2003***
<b>Fixed Assets</b>		
-----		
Expenditure	3,630	1,000
LESS Depreciation	0	0
Nett Fixed Assets	3,630	1,000
-----		
<b>Current Assets</b>		
-----		
Stocks & Stores	463,908	5,469
Debtors & Prepayments	1,259,301	3,289
Cash on Hand	26,991	9,627

A →

Above, we look at a portion of a Balance Sheet Report. At "A", a Value is shown for Asset "Expenditure". This Value is made up of all Ledger Accounts where the Balance Sheet hierarchical link is indicated as "a2e2", and the same principle applies to all Values on all Management Reports. In other words, any Report may select 1 or more Ledger Accounts for Values, based on singular or multiple CRITERIA, and the criteria include whichever associations, which we may wish to apply for the purpose of a specific Report. In the case of many other systems, the Ledger Account Code will be looked at for this purpose, whereas in IES, we are simply saying this does NOT have to be part of the Account Code, which may be kept shorter, the associations can be indicated on another level, you can have more freedom to make changes, and all Reports will automatically adapt when you make a change.

Please note also: -

- a) If you have an existing COA design from a prior system that works for you, there is probably no reason why you cannot stay with the same COA in IES.
- b) The hierarchical levels shown in the examples above are not your only available levels. There is an additional element (the ODDS Report Flag) with an unlimited number of custom levels that you may use to indicate any other analysis or association criteria upon which Reports may be constructed. However, the hierarchical elements already shown are used in the standard set of automatically available Management Reports that come 'alive' the moment a Chart of Accounts is in place.
- c) There are other User Manuals available on the Ledger Module. The singular purpose of this Document is to attempt to explain to you the freedom of


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choice you have in designing your Chart of Accounts structure, and the Ledger Account Coding.

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