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We think we do it very well. More importantly, we strive to have all of your interactions with our team exceed your expectations.

Shrinking and Expanding Microsoft Dynamics GP's Chart of Accounts Structure

10 Recommendations



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Shrinking and Expanding Microsoft Dynamics® GP's Chart of Accounts Structure

The structure is difficult to shrink once implemented, but can be much more easily expanded.

The Chart of Accounts is at the heart of the Microsoft® Dynamics GP system. The structure is difficult to shrink once implemented, but can be much more easily expanded. The Professional Services Tools Library (PSTL) and third-party products are available to make shrinking or expanding more user friendly. Careful analysis of the structure will ensure a balance between current financial reporting needs and future growth.

First, let me explain the standard functionality, and then I'll temper that explanation with my recommendations and experience.

Microsoft Dynamics GP Capabilities

The GP account number is capable of accepting both alpha and numerical values in a string of up to 66 characters long with as many as 10 segments. Segment separators, normally a dash (-), can be a period (.), space (), or user-defined character (/ * +). The separator is visual only and is ignored during input.

Sorting is automatically assigned by the system to:

- the account number as a string with no separators,
- the main account segment,
- the account alias,
- the account description,
- the account category, and
- the accounting posting type

Additional sorts can be assigned based on each user-defined segment and the four user-defined fields. However, each user-defined sort will slightly degrade system performance when creating or looking up accounts. Balance is the key in deciding to use user-defined sorts.

Segmentation

A standard GL account number is broken into segments. The primary segment is referred to as the *main* account. Common other names for this segment include Natural and Object Account.

The main account segment is the breakdown of transaction types and most commonly consists of 4 to 6 characters following a pattern similar to the following:

1000 – 1999: asset accounts

- 2000 – 2999: liability accounts
- 3000 – 3999: equity accounts
- 4000 – 4999: revenue accounts
- 5000 – 5999: cost of goods accounts
- 6000 – 6999: expense accounts
- 7000 – 7999: other revenue accounts (i.e. interest income)
- 8000 – 8999: other expense accounts (i.e. income taxes)

Additional segments for the analysis of expenses by department, division, product line, location, or other characteristics may be as follows:

<u>Location</u>	<u>Account Number</u>
Headquarters	000-1200
Main Street Store	100-1200
SW Store	200-1200
Rural Store	300-1200

Other examples for departments, like Administration, Sales, and Production are as follows:

<u>Location</u>	<u>Department</u>	<u>Account Number</u>
Headquarters	Administration	000-1200-10
Headquarters	Sales	000-1200-20
Headquarters	Production	000-1200-30

Segmentation Capabilities and Consequences

Based on thousands of implementations, Computeration offers ten explanations and recommendations on how to create a powerfully simple chart of accounts.

Fewer segments make it less likely for human entry error.

Recommendation 1: Keep it Simple

Clients often see the capability of a structure with multiple segments, but go overboard in creating segments. Consider an account structure of State – Location – Account –

Division (xx-xxx-xxxx-xx). If every number were utilized there would be a potential of nearly 50 billion accounts! Fewer segments make it less likely for human entry error.

Recommendation 2: Use Only Numerical Values

Requiring your personnel to move hands between the keyboard for alpha values and the keypad for numerical values substantially slows down input and causes more entry errors. Use alpha characters only if you don't care about cost and accuracy.

Recommendation 3: Don't Create a Segment if the Segment Can Move

Each segment should tie to a stationary item – equipment or people are not static. If you create a segment for a region or manager that changes from time to time, every time a change occurs, you'll leave information behind or have to run a utility to move data. For example:

- If we expand the structure to Department-Account-Manager-Location, and
- The Managers exchange Locations,
- We leave behind a partial year of information under one Manager and
- Create a partial year of information under the new Manager.
- And if the Managers exchange again...

The solution is to use Management Reporter Reporting Trees (formerly FRx Report Designer Reporting Trees) to drag and drop the movable segments, allowing you to keep the transactional data in one account. Segments should only be created for the finest detail of reporting required – groupings can be achieved through reporting row and tree structures..

Management Reporter makes it simple to do multiple levels and layers of financial accounting without the need to add additional account segments. Management Reporter allows you to easily drag account groups to various headings and subheadings.

Recommendation 4: Don't make a Segment Represent Multiple Values

This common mistake makes you and reporter writers work overtime. Management Reporter and FRx automatically link to your account segments. They pivot around the Main segment and the other segments powerfully with tools called *hooks*, *wildcards*,

Each segment should tie to a stationary item – equipment or people are not static

accounts sets, and Report Trees. Don't bypass its power by assigning mixed values such as:

<u>Location</u>	<u>Account</u>	<u>Department</u>	<u>Account Number</u>
Headquarters	Advertising	Administration	000-5000-20
Main Street Store	Cost of Goods	Sales	100-5000-20
SW Store	Freight	Production	200-5000-20

Ensure segments allow for future growth; two years is a good rule of thumb.

Recommendation 5: Provide for a moderate amount of growth

Ensure segments allow for future growth; two years is a good rule of thumb. A location with only one number allows for only 10 locations (0-9). If you're adding locations at the rate of two a month, you're modifying the structure in the sixth month.

Recommendation 6: Allow space for the addition of new accounts

Number accounts as follows:

5010

5020

5030

5100

5200

5300

This allows 10 numbers between your initial accounts and occasionally skips nearly 100 numbers.

Recommendation 7: Start chart of accounts design early in the process

You'll need the accounts for nearly every other module. So start early, remain flexible, and provide for space.

Recommendation 8: Start chart of accounts design early with the financial reports

Design your chart backwards from your financial reports. Your chart ultimately represents how you want to report the data. I've seen many companies that designed the chart based on other criteria and defer consideration of how they want their reports to present the data. Then they design financial reports at the end, creating what we call "spaghetti code" having to substantially re-sequence and re-group accounts.

Balance that design of the accounts between reflecting the sequence they appear on financial reports and making them easy to find during input of transactions.

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Recommendation 9: Create your chart to facilitate preparation of the Cash Flow Statement

This recommendation deals with fixed assets and long-term liabilities. It's very common to create a sequence such as:

- 1500 Furniture and fixtures
- 1510 Equipment
- 1520 Vehicles

If instead you create this sequence, you can automatically generate the Cash Flow Statement without editing it in Excel.

- 1500 Furniture and fixtures, Increase
- 1510 Equipment, Increase
- 1520 Vehicles, Increase
- 1550 Furniture and fixtures, decrease
- 1560 Equipment, decrease
- 1570 Vehicles, decrease

You would group the increase accounts for the line in the Cash Flow Statement for use of funds and the decrease accounts for source of funds. Doing this rather than depending on selecting only debits or credits from an account accommodates for accounting adjustments that are quite common in your fixed asset accounts—someone capitalized something that doesn't meet criteria. Management Reporter and FRx allow you to select

just debit or credit entries, but in the case of adjustments, your cash flow statement won't be correct with those concepts.

Recommendation 10: If you didn't do it right the first time

Use PSTL (Professional Services Tools Library) or [Corporate Renaissance Group's Changer](#) to move detail to a new account format.

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About Computeration

Computeration installs and supports Microsoft Dynamics® GP. With clients around the world, Computeration offers experienced project management, data integration, training, accounting expertise and consulting services. We specialize in Wholesale Distribution, Manufacturing, Tribal Casinos, Financial Management, and Wood Products industries.

About the Author, Gloria Braunschweig

Gloria Braunschweig has 30 years of experience as an internal and external project manager implementing and operating ERP systems on local area networks, wide area networks, hosted co-locations, minicomputers, and mainframes. She has held positions as CFO, controller, or implementation consultant for companies in not-for-profit, government, education, entertainment, software development, discrete and process control manufacturing, wholesale and retail distribution, service, high-tech, law, and hospitality.

Initially as a purchaser of systems, Gloria learned the value of good support and project planning. Holding to her values, for over 19 years she has managed consultants involved with the implementation of business information systems in mid-sized organizations. As a business owner, Gloria has experienced the full spectrum of business operations and management. This facilitates her relationship with her clients and increases her understanding of business challenges. Gloria helps her clients economically justify their system cost and leverage information into knowledge. She has been a Certified Management Accountant for over 25 years.

Questions? Feedback? Please send your feedback to info@computeration.com