Many firms specializing in business management software serve the community with varying degrees of skill and understanding. 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 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:

<table>
<thead>
<tr>
<th>Location</th>
<th>Account Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarters</td>
<td>000-1200</td>
</tr>
<tr>
<td>Main Street Store</td>
<td>100-1200</td>
</tr>
<tr>
<td>SW Store</td>
<td>200-1200</td>
</tr>
<tr>
<td>Rural Store</td>
<td>300-1200</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Location</th>
<th>Department</th>
<th>Account Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarters</td>
<td>Administration</td>
<td>000-1200-10</td>
</tr>
<tr>
<td>Headquarters</td>
<td>Sales</td>
<td>000-1200-20</td>
</tr>
<tr>
<td>Headquarters</td>
<td>Production</td>
<td>000-1200-30</td>
</tr>
</tbody>
</table>

Segmentation Capabilities and Consequences

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

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

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 change 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 change 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.*
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.

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 comments to info@computeration.com