


# The Art of the CHART

How the Chart of Accounts can serve your business needs in five steps





**You might think setting up a Chart of Accounts is a standard, fairly straightforward process, but actually there is a lot of strategy that goes into it—or that should go into it—to save you a lot of work and headaches down the road.**

So, whether you are just starting up your business or you are struggling with your reporting requirements, this might be the best time to focus on your Chart.

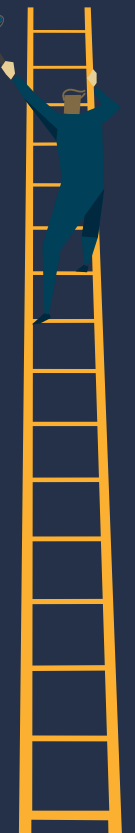
With everything going on in your business, you might be tempted to put your Chart on the back burner, but this critical command center helps you monitor and manage your operations, and should be placed front and center. The Chart organizes one of your most valuable assets: your data. When set up correctly, this organization will help expose trends, issues and opportunities from your day-to-day operations. Because of this, a well-organized Chart will make it easier for you to make better, faster and more informed decisions to move your business forward.

So, the time you spend evaluating your Chart will typically be among the most worthwhile time you'll spend on your business. Really! Once you make the decision to focus on this critical area, what do you need to do? Well, there's truly an art to setting up the Chart, and we'll let you in on the best practices, so you can benefit from a structure that's right for your business.



HOW THE  
CHART CAN  
SERVE YOUR  
BUSINESS  
NEEDS IN

**5** *key steps*



The Chart should be aligned to the needs of your business rather than being set up arbitrarily just to capture income statement and balance sheet items.

To accomplish this, the overall process of structuring your Chart should follow these five steps, in this order (with the understanding, of course, that there might be some back and forth between steps):



1

## BEGIN WITH THE END IN MIND – REPORTING

While it may seem counterintuitive, the best way to start designing your Chart is from the end point. That is, instead of determining the list of accounts you want to include, start with the end results — the reports and analysis you need to prepare for your stakeholders. Consider the reports you will need for Internal, External and Tax purposes.

For example:

- Internal — P&L statements by customer, product, service; operational reports; KPIs; budgets/forecasts
- External — financial statements, board packets, audit reviews
- Statutory — federal, state, consumption tax filings, country-specific reporting

If you are part of a global organization, you will have additional requirements for reporting business transactions and results. For example, you will need to determine whether you have both GAAP and IFRS requirements; how you will track taxes based on sales, use, VAT, GST and other areas; and whether you also need a local chart of accounts.



## 2

### IDENTIFY THE DATA YOU NEED

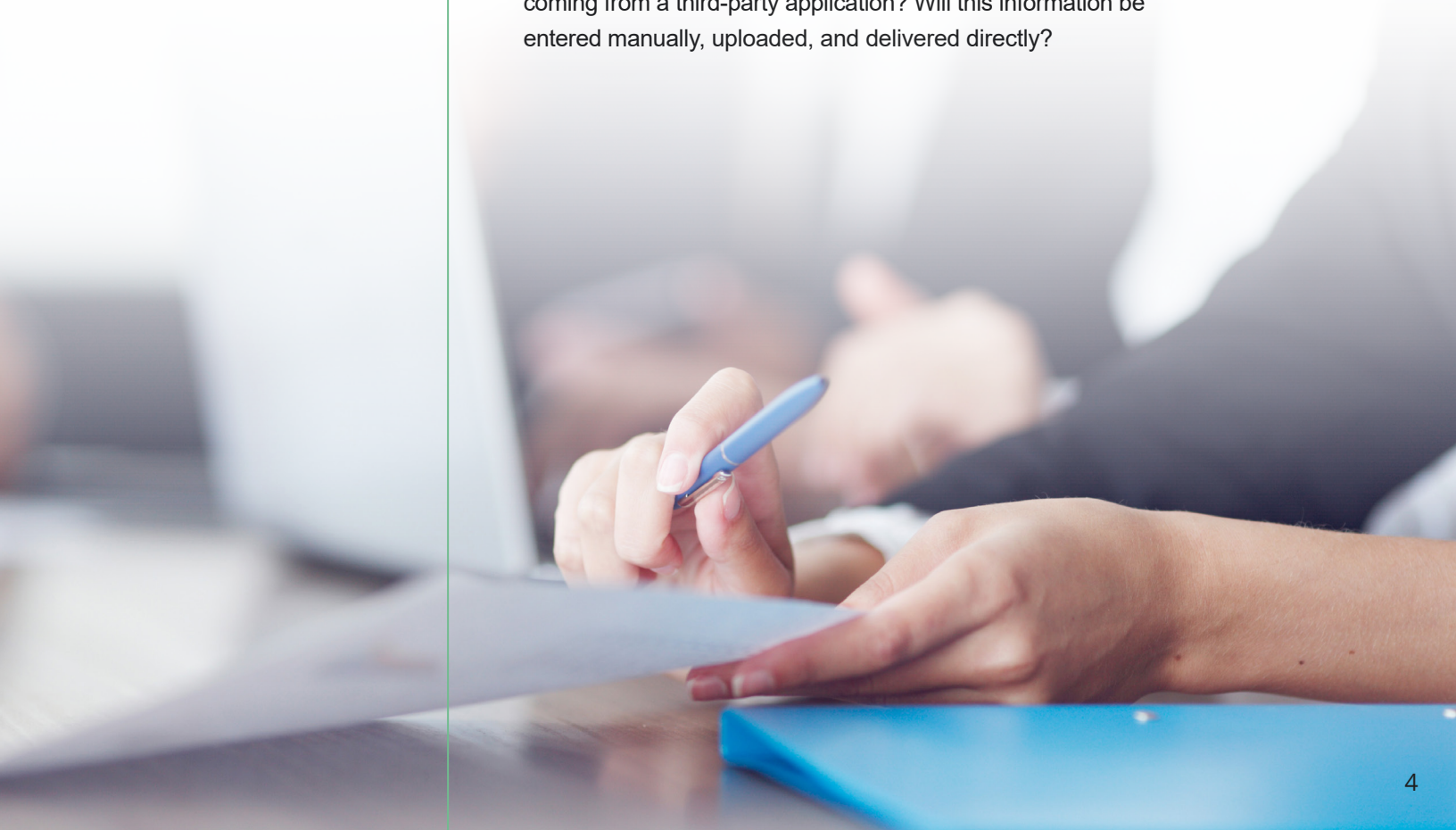
Once you've determined the various reports you need to produce, you need to identify the type of data you need to capture. Specifically, in addition to the financial data, consider the operational data that you might want to measure. For example, a retailer might want to track the amount of sales per square foot, which would require capturing the square feet of each location, or a health care provider might want to capture revenue per patient or bed, which would require acquiring that information. You also might want to include non-income statement items. For example, if you have a subscription model, you might want to track the contract sales sold within a certain period, even if the revenue gets recognized over time.



## 3

### IDENTIFY DATA SOURCES AND CAPTURE PROCESSES

It's only after you know which data you need to capture, and at what level of detail, that you can determine the best, most efficient and effective ways of capturing it. For example, will sales orders, order fulfillment, and payment information be coming from a third-party application? Will this information be entered manually, uploaded, and delivered directly?







4

## CHOOSE THE RIGHT SYSTEM

Often, companies design/redesign a new Chart because they are implementing a new accounting system; however, a better way to approach the process is to select an accounting and financial management system after you have determined your reporting and data needs and your processes. This approach will allow you to select the system that best addresses your requirements, rather than the other way around. For example, if you have global operations and need to keep two separate sets of books for IFRS and GAAP, you will want to ensure your system can accommodate that. If you don't have a large IT organization and expect your financial system to produce comprehensive financial and operational reporting, you will want to choose a system that can deliver that capability.

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## BUILD IN FUTURE FLEXIBILITY


While it is often difficult to forecast where your company is headed, in some instances you may be able to anticipate future needs. For example, if your company has an acquisition growth model, then you might want to block out some account number ranges for new companies you might acquire. As business needs evolve, your chart needs to evolve as well, so make sure you build in flexibility to meet ever-changing requirements. Also, to ensure ongoing success, establish and communicate clear account definitions, and chart maintenance policies and procedures as well as create a process to integrate changes to business processes, corporate policies and reporting structures.

Simply put, don't allow additions or changes to be made to the Chart that don't fit in with the overall goals and structure that you established. For example, avoid creating a revenue account specifically for a new product or service when this would be best handled by an added dimension or class.

**TAKING THE  
CHART DESIGN  
TO AN**

*Art form*





**Before diving into your chart design, here are several best practices for getting the most out of your Chart to meet the needs of your business:**

## ● **ASK THE RIGHT QUESTIONS UPFRONT**

Evaluate your objectives to ensure that your Chart is aligned with the way you conduct business. Consider the following questions:

- What is the purpose of the chart? In general, Charts are designed for reporting purposes across three primary areas: Internal (e.g., board books; monthly analysis for management; budget variance; monthly close), External (e.g., auditors, industry associations, commerce requirements) and Tax. Since you can't design a chart that meets all three requirements in one structure, select the primary one, and then use reporting tools to reorganize the data to meet the requirements of the other two areas.
- How much data do you want to keep in the General Ledger? As mentioned earlier, your reporting needs will determine the type of data you need to capture. You may want to rely on operational systems to track the details of your revenue — for example daily sales from a point-of-sale (POS) or e-commerce platform — and use the General Ledger (GL) for summarizing daily, weekly, or monthly revenue figures. However, if you want to track and report on detailed operational statistics that are combined with your financial data for detailed reporting purposes, then you need to include statistical accounts in the GL. For example, if a food retailer wants to run reports on the sales of a specific item, such as ice cream, in a specific timeframe, and wants further details on how much was sold of each flavor, then that statistical data needs to be included in the GL.



- Do you need a single global chart or multiple charts?  
Most companies use a single global chart so they can have all the information pertaining to their business in one place and, as needed, have the capability to view and report on the data separately, according to different dimensions (e.g., lines of business, legal entities, departments). However, if a company has a complex business model with multiple lines of business that are very diverse, it may choose to have separate Charts and use a consolidation system to bring those businesses together.
- What are your statutory requirements? Here you need to pay close attention to requirements by location (e.g. country, state, or province) or by industry segment (e.g. trade association or industry-specific regulatory body like the EPA or FDA in the US).
- How will your organizational structure impact chart design? To accommodate financial analysis and reporting needs, you'll need to incorporate your organizational structure within your chart, e.g., lines of business, departments, legal entities, etc. Also, while a legal entity, such as a corporation, must have a balanced structure and ledger, it can include other sub-entities in its Chart, (e.g., headquarters, operations, Treasury), so each can have a balanced set of books.

## ● CHOOSE THE STRUCTURE THAT BEST FITS YOUR VIEW

There are two main structures for developing a Chart: an organizational or outline approach. The organizational structure, which looks like an org chart, allows you to view the information relating to one business area in one grouping and it contains all the items or attributes related to it. The outline approach takes a more horizontal view, allowing you to see an attribute, such as assets, across the business, regardless of where it fits within the organization. The outline structure starts at the highest level, e.g., an asset, and then each level down provides more detail and information. In this example, the level down from assets could be cash, checking and savings accounts, and the next level of detail down from that might include your banks. Both the organizational and outline structures are sound, so choose the one that you feel the most comfortable using based on how you like to view the data. Our preference is the outline approach because we find it is easier to view the top-level balance sheet and then drill down into specific areas as needed.



## ● KEEP IT SIMPLE – ESTABLISH A NATURAL CHART

The temptation to include many sub-accounts can create major design and reporting problems. For example, a company might want to have sub-accounts for a marketing expense for services used by a particular department as well as for a particular location, which could result in a long string of numbers in the GL. This structure also complicates reporting because you would need to pre-define the combinations of accounts and sub-accounts that you will need in a report. A much simpler and more elegant approach is to establish a natural Chart of Accounts structured around the revenue, expenses, assets, and liabilities categories, and then extend the description of each these without tying them to each specific category. You can accomplish this by creating separate elements or dimensions for areas such as departments and locations. For reporting purposes, you can easily select an expense, such as marketing, and then whatever other elements or dimensions, such as departments or locations, you want to view in relation to the expense.



## ● FACTOR IN WORKFLOW NEEDS

Sometimes the Chart is needed for workflow approval/ routing for processes such as purchase requisitions, employee expenses and order acceptance. It's important to understand the organizational requirements and system capabilities required for these processes so you can efficiently comply with your organization's policies.





## BUILD IN SECURITY

Determine the type of security you need to support data integrity, internal controls and other requirements. For example, consider user permissions, relationships among some of your dimensions (e.g., limiting a division's access to only some of the customers on a common customer list) and other security features of your accounting system to ensure it aligns with internal policy.

## CONCLUSION

It's never too early to treat your Chart like an art form. Investing design time upfront enables you to make sure that the Chart meets your business needs and avoids problems down the road. The Chart is a living document that requires flexibility to ensure that its benefits, integrity and relevance stand the test of time in an ever-changing environment. With thoughtful planning and design, your Chart will be a powerful tool, providing visibility and key insights to help you — and other key executives — make better decisions to take your business to the next stage of growth.

## Need Help Perfecting Your Art of the Chart?

AcctTwo can help you build the ideal Chart of Accounts for your business, support you with expert accounting services, or help you move to best-in-class cloud-based accounting software.

## ABOUT ACCTTWO

AcctTwo is a leading consulting firm and reseller of cloud-based accounting, ERP, Financial Planning & Analysis (FP&A), and Corporate Performance Management (CPM) software. Our sophisticated systems solve the issues growing middle market companies and nonprofit organizations face today. AcctTwo also provides Managed Accounting Services (MAS), allowing clients to focus on the core competencies of their business. We provide the people, processes, technology, and office facilities to perform these functions, while allowing clients to collaborate interactively through an on-line portal.

AcctTwo is headquartered in Houston, Texas. For more information, please visit [accttwo.com](http://accttwo.com) or call 713-744-8400.