Welcome to the Chart of Accounts topic.
Objectives

At the end of this topic, you will be able to:

- Set up a Chart of Accounts adapted to the company type
- According to accounting conventions discuss:
  - The Chart of Accounts structure
  - The effect of the standard processes on the Chart of Accounts
- Manage the Chart of Accounts
- Discuss the options for defining default G/L accounts

In this session, we will explore how to set up a chart of accounts adapted to the company type. We will discuss the chart of accounts structure and the effect of standard processes on the Chart of Accounts. We will look at how you manage the chart of accounts. And discuss the options for defining default G/L accounts.
Imagine that you are implementing SAP Business One at a new customer, OEC Computers.

- Maria, the accountant, tells you that moving to SAP Business One is a good opportunity for her to organize the company accounts structure.

- You show Maria the pre-defined Chart of Account templates in SAP Business One. You tell her that she can use this template as the basis for her Chart of Accounts and adjust it before go-live.

- Maria says that this structure will help her in presenting the financial reports in a clear and structured way.

- You discuss with Maria the effect of the sales and purchasing processes on the chart of accounts and as a result on the financial reports.

- Maria has chosen a Chart of Account template and now, you show her how to adjust the accounts: add, remove and update.
We start by defining the company chart of accounts.
How are the Business Partner Master Data balances presented in the Chart of Accounts?

The Business Partner Master Data balances do not appear in the Chart of Accounts.

The receivable and payable control accounts accumulate the customer and vendor transactions in their balances.

For example, when you post an A/R invoice, the accounts receivable account related to the customer is used, in addition to the customer account.

Therefore, the Chart of Accounts presents the complete financial status of the company, as well as the Financial Reports (Profit & Loss, Balance Sheet).
The chart of accounts is an index of all G/L accounts used by your business.

- The chart of accounts is an index of all G/L accounts used by your business.
- Every G/L account has:
  - An account code
  - An account description, and
  - Additional information that determines the functions of the G/L account.
- When you implement SAP Business One you define (or import):
  - The Chart of Accounts, and
  - Default G/L accounts to be used when transactions are created in the regular business processes: Sales, Purchasing, Inventory and more.
- The documents in the Sales and Purchasing processes create automatic journal entries that are registered in the Journal Entry file and affect the account balances.
- The account balances are also affected by manual journal entries and other accounting transactions, such as the Period End Closing process that transfers the balances of the Profit and Loss accounts to a Balance Sheet account.
Define Valid Legal Chart of Accounts

- You have 3 options for defining a *Chart of Accounts*:
  1. Select a pre-defined *Chart of Accounts* template.
  2. Import the chart of accounts data from a legacy system.
  3. Define your own Chart of Accounts.

- You can use one of the existing standard charts of accounts and adapt it to the company’s needs.
- Work together with the client accountant to decide on the company’s chart of accounts content and structure.
- Although using one of the existing standard chart of accounts could suffice in many situations, organizations can take this opportunity to determine what the chart of account structure should look like to accommodate their needs.
- Note that the practice of choosing a pre-defined *Chart of Accounts* template will be done in a separate course.

Defining the entire chart of accounts is a long, complex procedure.

- The first option is selecting a pre-defined *Chart of Accounts* template.
  - This option could be suitable for a standard company, especially a new company without a legacy chart of accounts.
  - Note that once you have started to work with the company database you cannot choose a different *Chart of Accounts* template. You can however add, update or remove accounts in the *Chart of Accounts*.
- The second option is to import the chart of accounts data from your legacy system using the Data Transfer Workbench (DTW) tool.
  - If the company wants to keep their chart of accounts, they can still reorganize the structure before the import.
- Alternatively, you can define your own Chart of Accounts.
  - This option allows you to create your own customized chart of accounts. An organization can use this opportunity to determine what the chart of account structure should look like to accommodate their needs.
The Chart of Accounts is organized by drawers and levels.

Let us look at this example of a Chart of Accounts. The chart of accounts varies according to the company’s localization.

The organization of the chart of accounts follows Generally Accepted Accounting Principles. The *Chart of Accounts* window organizes your accounts by drawers. These drawers, which have been defined by SAP and cannot be changed, organize your accounts by level in a logical fashion appropriate to your localization’s financial accounting and reporting processes.
In the General Ledger, we distinguish between Balance Sheet Accounts and Income Statement Accounts, also called Profit and Loss Accounts.

Let us start with Balance Sheet Accounts:

- The first 3 drawers: Assets, Liabilities, Equity (Capital and Reserves) hold the Balance Sheet Accounts, such as the Sales Tax account and the Accounts Payable Account.
- The bookkeeping balance of these accounts is kept from one fiscal year to the next.
- The Balance Sheet Accounts – reflect the monitory value of the company - stock, assets, debt, etc.

Next, we have the Profit and Loss Accounts:

- The last 5 drawers: Revenues (or Turnover), Cost of Sales, Expenses (or Operating Costs), Financing (or Non-Operating Income and Expenditure), and Other Revenues and Expenses (or Taxation and Extraordinary Items) hold the Profit and Loss Accounts, such as the Income Accounts. Note that in some localizations, the lower drawers are not all profit and loss account drawers.
- The bookkeeping balance of these accounts has to be cleared at the end of each fiscal year during the Period End Closing process.
- The Profit and Loss Accounts reflect the changes in the company value, such as: when you sell stock – the cost of goods sold account is affected and increases revenues.
Demo – G/L Account Properties and the Chart of Accounts Structure
Next, we discuss the chart of accounts structure in association with financial reports.

We will see the levels in the chart of accounts and how to manage the chart of accounts structure.
Financial reporting requirements drive most of the initial settings and configuration decisions in the chart of accounts.

The different financial reports run on the account balances relevant to a selected date range and present them according to their drawer, level and type:

- The Balance Sheet summarizes the value of the business’ assets liabilities, and owner’s equity accounts.
- The Trial Balance displays for each account: beginning balance for a particular period, all of the debits and credits, and the ending balance.
- The Profit and Loss Statement is determined after the end of the fiscal year. The balances of the expense accounts will be subtracted from the balances of the revenue accounts to come up with the profit or the loss for the fiscal year.
Demo –
The Effect of the Chart of Accounts on Financial Reports
A chart of accounts arranges a company's general ledger accounts in a hierarchical structure. The top level in the structure (level 1) consists of sections or groups for different types of accounts (assets, liabilities, capital and reserves, turnover, and so on). The number of account groups depends on the localization that was selected when the company was created and cannot be modified by the user.

The system displays the section as a cabinet drawer. Each drawer has a section title, which you cannot change. The system displays lower-level titles in blue and normal active accounts in black. Accounts that you have entered in the G/L Account Determination (default accounts) are displayed in green.

The chart of accounts varies according to the company's localization. Let us look at this specific example of Chart of Accounts that contains 5 levels:

- Levels 2 through 4 can contain either active accounts or titles that combine several active accounts. Level 5, in this example, contains only active accounts.
- Because only active accounts can be posted to in SAP Business One, it is a good practice to have all your active accounts at the same level.
- In reports, a title account summarizes all the balances of each active account below it.
Manage the Chart of Accounts - Tasks

- **Chart of Accounts window:**
  - Add a new G/L account to an existing title
  - View information about existing accounts
  - Update different properties of existing accounts

- **Edit Chart of Accounts window**
  - Add a new title
  - Delete an account
  - Change the structure of the chart of accounts and move titles and accounts
  * You can also add a new account

We have two windows for maintaining the chart of accounts: the Chart of Accounts window and the Edit Chart of Accounts window. Let us discuss the tasks we can perform in each window.

For the Chart of Accounts window we go to the Financials module and choose the Chart of Accounts option. The main goal of the Chart of Accounts window, is to:
- Add a new G/L account to an existing title. For example add new expense accounts to the Utilities title.
- View information about existing accounts.
- And update different properties of existing accounts using the Accounts Details button.

The accounts colors represent their functionality:
- Titles appear in blue.
- Normal active accounts in black
- Accounts that were entered in the G/L Account Determination window (that is default accounts) are displayed in green.

For the Edit Chart of Accounts window, we choose the Edit Chart of Accounts option from the Financials module and then we choose a drawer. For example, the Operating Costs. In this window we can:
- Add a new title
- Delete an account.
- Change the structure of the chart of accounts and move titles and accounts within the structure of the chart of accounts.
- We can also add an account in the Edit Chart of Accounts window using the Add Sub-Level Account button.

Note: it is a good practice to have all your active accounts at the same level. For example, level...
Demo – Manage the Chart of Accounts
And finally, we will discuss the two available options for defining default G/L accounts.
As we mentioned in earlier, when you first implement SAP Business One you define default G/L accounts to be used when transactions are created during the different business processes, such as sales, purchasing and inventory. This is done in the G/L Account Determination window in the Financials Setup area of the Administration module.

When choosing a pre-defined Chart of Accounts template, most of the default G/L accounts are already defined. You can change them if required.

When items are used in the transactions, there are 2 options for account determination: the traditional solution and the advanced solution.

Note! It is very important to ensure you make decisions about G/L Account Determination together with the client accountant.

Both options are based on the accounts defined in the G/L Account Determination window.

The first option is the traditional solution that was available prior to version 9.0.

- According to the traditional solution there are three options to define a default G/L method for an item: warehouse level, item group level, and item level. Each item will have one method defined for it. You can set the method in advance for all new items. You can then change the method per item.

- The values that you define under the tabs in the G/L Account Determination window are defaulted into all 3 levels. You can then change the default accounts for any of the levels. For example, you can manage different inventory accounts for each warehouse the company owns.

- Whenever you add a document that posts a journal entry, an A/R Invoice for example, the system looks at each item in the document to determine the level set for that item and then finds the associated G/L accounts to use from the default accounts.
Let us review the set-up of the traditional solution for G/L Account Determination (prior to version 9.0).

The company default accounts under the G/L Account Determination window default to all 3 levels (warehouse level, item group level, and item level).

Then, you define the accounts at each required level. In the presented example, we defined the accounts for each item group (this is step 1 in the graphic). This means that when an item using the item group level is chosen in a document, the system will automatically retrieve the accounts from the definition of the item group to which the item belongs.

Where are these default accounts set?
- For the item group level, the default accounts are set in the definition of each item group. The place to define an item group is found in the inventory setup area of the Administration module. Default accounts are maintained on the Accounting tab for the item group.
- Similarly, for the warehouse level, default accounts are set on the Accounting tab in the definition of each warehouse. Defining a warehouse is also done in the inventory setup area.
- If you set an item to be controlled at the item level, you set the G/L accounts directly in the item master.

Once you have set the default accounts, you should also choose the default G/L method for new items in the General Settings on the Inventory tab. On the sub-tab for items, you will find the Set G/L Accounts By field. (This is step 2 in the graphic).

In our example, the default G/L method for new items was set to item group. Therefore, the default in any new item is the Item Group Level (as presented in step 3) and the accounts
assigned to the item master data derive from the item group defined for this item (step 4).

- The end result is that in the Item Master Data you define the G/L accounts to be involved in the monetary transactions according to one defined level. And, the accounts are retrieved from that level.
These are the three options presented from the item point of view. The accounts will be used in the monetary transactions for items.

- Each item can have one method defined for it.
- In the warehouse and item group levels the accounts are derived from the warehouse or the item group and the user cannot change them.
- In the item level the user enters the accounts manually into the item master.
- Note that although you specify one default G/L method for new items, you can manage different items with different methods if this scenario is necessary in your company. Just change the default level in the item master as needed.
- Note! After the warehouse or the item group level is defined in an item, you can switch to the item level method and assign different G/L Accounts to be used in the monetary transactions.
With the advanced solution, the G/L Account Determination window is used to define G/L accounts in the company level.

The advanced solution provides centralized matrix to determine rules for assigning G/L accounts in journal entries according to a predefined (closed) list of criteria.

Therefore, the solution is more flexible and consistent with accounting.

Currently, for a new company and for an upgraded company, the advanced solution is not the default option. This is due to compatibility considerations.

For upgraded companies, partners should check if the new solution definitions will affect their add-ons and decide about the suitable point to adjust the system.

To activate the new solution go to the Basic Initialization tab in the Company Details window. Select the Enable Advanced G/L Account Determination checkbox.
So, you use the G/L Account Determination window for defining the **company level** accounts in one place.

Many companies will find the company level accounts sufficient.

For tailored business scenarios you have the option to define rules for assigning G/L accounts in journal entries.

Those rules support:

- As well as multi determination criteria. That is, a combination of the criteria.

Any rule you define in the advanced form will have a higher priority (than the G/L Account Determination window) in determining which account is assigned in journal entries.

So, in our example, OEC Computers can define a separate revenue account for each item group per country (for example, revenues from printers in Canada, Brazil and US).

When they choose an item in a marketing document, for example an A/R Invoice, the system checks the accounts required for the transaction. In our example, the system checks the inventory and the revenue accounts.

Then, the system checks if there are any rules defined for these accounts.

If there are rules defined for the necessary accounts, the system looks for the appropriate rule and picks the rule with the highest priority.
Let us review the setup of the advanced solution for G/L Account Determination.

The current G/L Account Determination form will be used to define G/L accounts in the company level (go to the Administration module, choose Setup, Financials, G/L Account Determination and again G/L Account Determination).

Using the Advanced button you open the Advanced G/L Account Determination Rules window.

The Advanced Rules column will indicate if a rule exists:

- Once the user defines an advanced rule for a specific account, the Advanced Rules column of this account will be updated in the G/L Account Determination window with a number of rules defined for the account and a link to the advanced form.

- While choosing the link arrow, the advanced form opens (in editable mode), filtered, and displays only the advanced rules related to this account.

- The form will be opened in Edit mode and the user can update it.
When you enable the advanced solution, the Determination Criteria window appears under the G/L Account Determination menu item in the Financials Setup area in the Administration module.

The Determination Criteria window provides a predefined (closed) list of criteria:

- Activate all or some of the criteria depending on the business need.
- If an active determination criterion is not in use by any of the advanced rules, you can uncheck it to make it inactive.

You can define or change the criteria priority using the Up and Down buttons.

**Note!**
- Once you activate the new solution the system checks the criteria in this window according to the values (Warehouse, Item Group, Item Level) defined in the Set G/L Account By field in the Item Master Data under the Inventory Data tab.
- When you choose the Item Code criterion, the Item Group criterion will be automatically selected too. This is due to the fact that in the item master data, item group is a mandatory field.
- The priority (that is the rows’ order) in the Determination Criteria window sets the priorities in the Advanced G/L Account Determination Rules window. This is reflected in two ways:
  - The columns names and order - the first row in the Determination Criteria window sets the highest priority for each rule. And so on for the rest of the rows.
  - The rows order – the first row in the Determination Criteria window sets the rule with the highest priority in the Advanced G/L Account Determination Rules table. And so on for the rest of the rows.
- Note that inactive determination criteria in the Determination Criteria window are not displayed in the Advanced G/L Account Determination Rules window.
In the Advanced G/L Account Determination Rules form you define rules for assigning G/L accounts in journal entries:

- The advanced form deals with item-related accounts only.
- The accounts that can be defined in the rules are the same accounts that you define in the Item Master Data in the traditional solution (that is, the regular G/L Account Determination, prior to 9.0).
- When creating a new posting period, rules from the last period will be copied to the new period.
- Only rules that are valid for the selected period will be listed in the form.
- For each rule you should define at least one criterion and one account.
- As explained in the previous slides, the rules priority will be determined based on the priority in the Determination Criteria window.
- Once you define a new advanced rule (or change the rule criteria) and update the form, the system will automatically prioritize the rules according to the determination criteria. The priority of all rules will be updated accordingly (that is, the system will place the rule according to its priority).
- Once you change the determination criteria priorities, the advanced rules priorities will be automatically updated accordingly the next time you open the form.
- Note!
  - Entering a specific value has a higher priority than the value All.
  - Let us look at the example shown: the 3 rules in the Advanced G/L Account Determination Rules window have specific values.
  - In the first 2 rules an item group is specified and in the third rule a warehouse is specified.
  - The first 2 rules have higher priority since Item Group is ranked higher than Warehouse Code in the Determination criteria window.
After activating the new solution, all items will be set automatically to Advanced Rule Type: General.

The Advanced Rule Type field in the item determines which rule will be used to choose the inventory G/L accounts in the journal entry created by the document for this item.

The Advanced Rule Type is the first criterion for automatically picking of the Advanced G/L Account Determination Rule.

We recommend to keep the General advanced rule type in all items and rules.

A different advanced rule type will be set automatically by the system in special scenarios of migration from the traditional solution to the advanced solution.

Use the Warehouse Code and the Item Group criterions in the Advanced G/L Account Determination Rule definition instead of using the Warehouse and Item Group advanced rule types.
Demo – Default G/L accounts
Here are some key points to take away:

- You have 3 options for defining a Chart of Accounts:
  - Select a pre-defined Chart of Accounts template.
  - Import the chart of accounts data from a legacy system.
  - Define your own Chart of Accounts.

- We distinguish between two types of accounts:
  - Balance Sheet Accounts
  - And Income Statement Accounts, also called Profit and Loss Accounts.

- We have two windows for maintaining the chart of accounts:
  - The Chart of Accounts window
  - And the Edit Chart of Accounts window.
  - In each of them we can perform different tasks.
The different financial reports run on:
- The account balances relevant to a selected date range
- And present them according to their drawer, level and type

In the **G/L Account Determination** window you define:
- Default G/L accounts to be used in transactions.

There are 2 options for account determination in transactions involving items:
- The traditional solution – default G/L method for an item.
- The advanced G/L account determination solution.
- Both options are based on the accounts defined in the **G/L Account Determination** window.

- The different financial reports run on the account balances relevant to a selected date range and present them according to their drawer, level and type.
- In the **G/L Account Determination** window, you define the default G/L accounts to be used in transactions.
- There are 2 options for account determination in transactions involving items: the traditional solution of setting a default G/L method for an item or the advanced G/L account determination solution. Both options are based on the accounts defined in the **G/L Account Determination** window.
You have completed the manage the chart of accounts topic.
Thank you for your time.