Preparation of Chart of Accounts (COP) in SAP
Structure of COA
COA Hierarchy

- COA hierarchy refers to the level at which information is provided
- A typical company would prepare its accounts at divisional level to understand divisional profitability
- Similarly if an entity has been acquiring companies at different times, it would generally prepare accounts for individual companies and then consolidate it unless 100% synchronization is achieved through common accounting
- As such, there would be unique codes for each entity and corresponding COA for each entity
- An ERP system comes handy in such situation to consolidate the end results; however such information at granular level ensures adequate slice and dice of available information for management reporting and analysis
COA Structure in SAP

Charts of accounts can have three different functions in the system:

- **Operating chart of accounts**
  - The operating chart of accounts contains the G/L accounts that you use for posting in your company code during daily activities. Financial Accounting and Controlling both use this chart of accounts.
  - You have to assign an operating chart of accounts to a company code.

- **Group chart of accounts**
  - The group chart of accounts contains the G/L accounts that are used by the entire corporate group. This allows the company to provide reports for the entire corporate group.
  - The assigning of an corporate group chart of accounts to a company code is optional.

- **Country-specific chart of accounts**
  - The country-specific chart of accounts contains the G/L accounts needed to meet the country's legal requirements. This allows you to provide statements for the country's legal requirements.
  - The assigning of an country-specific chart of accounts to a company code is optional.

Source – SAP
SAP Links: G/L Master Record in COA

- G/L account master data in the chart of accounts area contains information about the G/L account that is valid for all company codes.
- The chart of accounts area also contains data that controls how a G/L account is created in the company code-specific area.
- To make certain that company codes using the same chart of accounts can also use the same G/L accounts, a master record is created for the G/L account in the chart of accounts and in the company code-specific areas.

**Structure**: The following information is contained in the COA area of a G/L account master record:

- The chart of accounts
- The account number and account name (short and long text)
- The indicator that specifies whether the account is a balance sheet account or an P&L statement account
- The account group
- The account number interval in which the account number must lie
- The screen layout for creating G/L accounts in the company code-specific area
- Entries which are necessary for consolidation are trading partner and group account number

*Source* – SAP
Types of COA
Categories of COA

- The type of CoA that can be implemented in any entity primarily depends on the financial system in place or planned.
- Accordingly, the CoA may fall anywhere from a linear formation to a multi-dimensional structure.

**Linear Structure:**
- The concepts employed with a linear chart of accounts are fairly simple.
- A linear COA uses a significantly limited number of fields and can be made up by as few as two fields - an account and an object code.

**Multi-Dimensional Structure:**
- A multi-dimensional COA is made up of multiple fields, each typically recording a different element of information about a transaction.

**Sample Coding Structure:**

<table>
<thead>
<tr>
<th>Linear COA</th>
<th>Multi-Dimensional COA</th>
</tr>
</thead>
<tbody>
<tr>
<td>xxxxxxxx-xxxxxx</td>
<td>xxxxxxxx-xxxxxxxxxxx-xxxxxxxxx-xxxxxxx-xxxxx</td>
</tr>
<tr>
<td>Account-Object</td>
<td>Org Unit-STPI code-Offering-Project-Object</td>
</tr>
</tbody>
</table>
COA Designing
Walkthrough of COA design process

- Understand the end objective in terms of expected use for analysis (i.e. Begin with the end in mind so that one gets a better understanding of gap between now and desired situation)
- Prepare a straw-man COA structure (Skeleton structure helps to brainstorm various aspects and decide upon desired layout). Start with a basic structure and then enhance
- Take ‘fresh from the oven’ inputs from various finance head and business leads (Taking inputs from various stakeholders ensure that all gaps are filled)
- Consider how COA local structure would be integrated with global structure to ensure overall consolidation of information
- Finalize COA structure after calibrating the above considerations
- Create and agree upon some useful analysis/insights that can be derived from COA
- IT systems may come handy to do automation of some analytical part (e.g. MIS periodic reporting automation)
- Get a third-party review done so that you get an independent review of the structure
Guiding principles for designing COA

- **Comprehensiveness** –
  - The COA should be comprehensive enough to capture all the required/relevant information
  - It needs to adequately reflect the accounting framework

- **Adequate granularity** –
  - The segments and sub-segments of the COA should be designed to facilitate many possible combinations of data elements necessary for control & reporting needs of various stakeholders

- **Mutual exclusiveness** –
  - The COA segments and their attributes should be defined in a way to make them mutually exclusive
  - There should be no confusion in transaction recording and reporting

- **Scalability** –
  - COA should allow flexibility for future additions and changes as far as possible
Guiding principles for designing COA ... contd.

- **Avoiding redundancy** –
  - There is no need for an independent segment in the COA if the related information could be derived from another segment
  - Where there are multiple classifications, it is useful to explore the relationships between those classifications

- **Internal consistency** –
  - The logic applied in designing the hierarchical structure of COA segments should be internally consistent
  - This ensures that COA is user friendly and reduces chance of coding errors

- **Unified framework** –
  - COA framework should be unified to ensure that at least information at aggregated level uses the same accounting classification
  - This ensures consistency between two sets of accounting data

Gathering inputs for creating COA

- Inputs from various stakeholders are needed to ensure collaborative inclusion towards development of COA structure.
- Inputs may be required for various areas ranging from accounting approach, reporting requirements, company’s scale of business and budgeting approach.
- Sample inputs to be gathering for creating COA:

  - Financial reporting requirement
  - Budgeting and forecasting process
  - Company’s size and complexity
  - Business activities and types
  - Organizational structure
  - Accounting approach
Creating COAs in SAP
How to create Chart of Accounts in SAP

- **Step 1:** Enter the Transaction code SPRO to get the Implementation Guide

  ![SAP Easy Access](image)

- **Step 2:** Click on SAP Reference IMG

  ![Customizing: Execute Project](image)
How to create Chart of Accounts in SAP ... contd.

- **Step 3:** Navigate the below Path and click on Edit Chart of Accounts List to create new Chart of Accounts

- **Step 4:** The Existing Chart of Accounts which are already created are displayed below, Click on New entries button to create new Chart of Accounts in SAP
How to create Chart of Accounts in SAP ... contd.

- **Step 5**: Update the required data in new entries screen. A brief description of various pointers in the snapshot is as under:

1. **Chart of Accounts**: Enter the code of the COA
2. **Description**: Enter the description of the COA
3. **Maintain Language**: Select the language of the COA
4. **Length of G/L Account Number**: Update the length of G/L Account Number
5. **Integration**: We can have controlling Integration Manual creation of cost of elements or Automatic creation of cost of elements. It is advisable to have Manual creation of elements in SAP
6. **Consolidation**: Enter the Group COA for the consolidation of Reports
7. **Status**: Under status, deselect the Blocked check box

After updating the required data, click on save icon and you will get message “Data was saved”

*Source* – SAP Online Tutorials
COA Transitioning
Shrinking large COAs

- Typically each entity would encounter some situations on a regular basis wherein it would observe a few peculiar areas to be recorded but instead of putting it under one of the available heads, it may end up creating a new code
- Such creation of new codes would eventually reach to a stage when COAs would become large and, to a certain extent, unmanageable too
- This would generally be observed in cases of mergers and acquisitions wherein individual entities would have COAs at different levels and unique areas are not identified
- This would also be seen when erstwhile created codes become redundant in changed business environment
- At this stage, it is pertinent that a mechanism is put in place to shrink large COAs and have limited levels in COA to ensure:
  - Simplicity of information,
  - Verifiability of information, and
  - Easiness to use the information
- Hence redundancies and overlaps are identified to rationalize large COAs
Transition to new COA

- Why to redesign?
  - Old system not capable of providing required details
  - Data required for useful analysis is not compiled in existing structure

- How to transition?
  - Requirement gathering
  - Collecting information
  - Designing straw-man COA structure
  - Validating the structure to ensure accuracy
  - Account mapping to new structure
  - Transition to new COA structure
    - Continuous process – Attacking & managing practical challenges in transition
    - Reporting significant deviations
Constraints in COA conversion

- Practically implementing the new COA structure is full of challenges
- An obvious task may be so tedious that its practical implementation may put a halt to initiation of entire proposed structure
- The available information to be rationalized may be available at different levels thereby leading to situation wherein common areas may not be easily identifiable and hence consolidation becoming a tedious task
- Inadequate requirement gathering is generally mishandled during conversion of COAs; hence providing an incomplete situation (remember garbage-in-garbage-out)
- Improper testing may not identify a potential error prone area; hence during live process, there may be a possibility of encountering errors
Need for Code Mapping Master
What is code mapping master (CMM)?

- A code, per se, may not be understood by all readers; hence there is a need to provide adequate description for each code to make it readable and understandable.
- Whenever codes are prepared, a code mapping master is created which contains all available information about that code.
- This code mapping master becomes part of operating manual explaining what all codes fall under a particular head.
- This code mapping master also serves as a guide for a new incumbent in the company who is going to work on that and use it further.
- The code mapping master typically contains generic mapping for each code and a group mapping to assist in management reporting and analysis.
COA Maintenance
Amending COA to incorporate new requirements

- Business environment is dynamic and constantly changing leading to new requirements to be incorporated in systems in place
- A typical process to be followed for incorporating new requirements is as under:

  1. Identify the change required
  2. Obtain the requisite approvals for change
  3. Check if change is significant?
     - Yes
       - User testing with simulated data to ensure accuracy
     - No
       - Intimate the users and get feedback

   - Make changes in system based on feedback & comments
   - Notify the users that changes have been carried out
   - Documentation of changes carried out

*Source – Richard Byrom (adapted)*
Thank You!

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