VIVID REPORTS™
Business Intelligence

10 Tips for Creating a Functional COA

1. **Define with Flexibility in Mind.** Don't define segments that are easily derived from another segment. An example would be to define both a Location segment and a Regional Division segment if the Regional Division is defined as a combination of the Locations. If you created the Regional Division segment then you are basically defining the same thing twice and it also makes your COA less flexible going forward should you change the definition or borders of a Regional Division.

2. **Keep it Simple.** Only create segments that you will need and use currently. Account combinations expand exponentially for each new segment you add. Take for example an account with two segments and each segment has five values. This results in 25 5 x 5 account combinations. If you add a third segment and also allow five values you can now have 5 x 5 x 5 = 125 combinations! This makes it harder for invoices to be coded correctly, requires more data entry, more rules, and more complex report definitions. So keeping things simple will save a lot of time down the road.

3. **Define Singular Meaning for Segment Values.** Try to make each segment value always have the same meaning regardless of the other segments it is combined with. I've seen situations where the same segment value has a different meaning based on how it is joined. When this occurs you are really treating your COA as if there was only one segment. In other words the individual segments mean nothing and you have to look at the full combination to understand the meaning. Therefore this defeats the purpose of having a multidimensional COA in the first place and makes things very confusing. The other problem with this is you now have to give the same segment value more than one description. Avoid doing this at all costs.

4. **Keep Segment Values a Consistent Length.** Keep each segment value within the same segment a consistent length. This is helpful for sorting and defining ranges especially if you are using software that treats the number as text. This is often overlooked, and it is easy to start a new segment with the first value of 1. If your segment is defined as three digits then the first value should be 100 and values 0-99 should never be used. Only use values 100 to 999.

5. **Avoid Alphanumeric Segments.** Avoid alphanumeric segments even though your ERP may support this. Alphanumeric segments are difficult to sort, difficult to define a range, and are often longer than numeric ones. The only advantage is that you may be able to more easily recall the meaning of an alphanumeric value,

however you may soon run out of meaningful combinations and you are back to square one. The value or ID should be numeric and use the description to describe the value not the ID.

6. **Leave Room for Future Expansion.** Ensure adequate segment length to allow for future growth. i.e. 2 digits will allow 100 values (actually only 90 since you don't want to use 1-9 as per tip #4) and 3 digits will allow 1000 values (900 as per tip #4). Also ensure you can expand without exceeding predefined ranges.

7. **Ranges are Good.** Not only should segment values have a meaning, but also its location within a certain range can give it more meaning. This is a good way to get a lot of information and create structure within your COA. For example you could define all revenue segment values as numbers between 50000 and 59999. Another example would be define all locations starting with 1 as belonging to a certain region. 100 for Buffalo, 101 for New York, 103 for Syracuse. All values in the 100-199 belong to New York State. Note that this is better than trying to create a "1" for a Division in a new segment because by using this in the same segment you can now sort and identify both through a single value and entry.

8. **Align Segment and Management Structures.** You should always define a segment that corresponds directly to your management structure and permissions. This allows you to easily share and control who has access to the different sections of your General Ledger based on their responsibility. If your management structure is organized by function, by location, by product line or line of business then you will want a corresponding segment to denote each item within.

9. **Be a Control Freak.** Have as few people as possible responsible for maintaining the COA. Even in a very large organization if you can assign a single person to manage this you will be better off. This person will often manage changes to the financial reports and if not should communicate account changes to that function. And be sure to create a document that defines the structure, purpose, ranges, future use, and conventions.

10. **The 3 R's Principle (Review & Revise Regularly).** Remember that even a perfectly defined COA will break down over time so it is a good idea to review this every year, disable old accounts, and keep things organized. You should always review this and take the time to update the COA if you are implementing a new ERP.