White Paper: Accounting Startover

This white paper is for companies that have never successfully implemented the DBA accounting system and wish to "start over" and get accounting up and running.

Introduction

What is the "accounting" system?

When we refer to the "accounting" system, we mean the financial modules of *Accounts Receivable*, *Accounts Payable*, *Banking*, and *General Ledger*.

Can DBA function with an outside accounting system?

Yes it can, by using the *Financial Transfer* utility, which enables you to transfer summarized customer invoices, PO invoices, and account totals to an outside accounting system. The outside system can be used for receivables, payables, banking, overall general ledger, and payroll.

Can DBA function with outside sales orders or purchasing?

No it cannot. DBA is an integrated system that is not meant to be used in pieces. Sales orders, jobs, inventory, purchasing, and the general ledger are designed to work together and must all be processed in DBA for the system to function properly.

Accounting setup and operation is the same under all scenarios

Even if you use outside financials, you still must post to the general ledger in DBA and then transfer financial data to the outside system. Therefore, you are still doing a substantial amount of accounting in DBA.

So whether you use DBA's financial modules or those of an outside system, accounting setup and operation is virtually identical. In either case you need to set up a chart of accounts, establish your account assignments, and you need to post on a regular basis to the general ledger.

The standard chart of accounts is recommended

As of May, 2008, we began supplying a standard chart of accounts with new systems that is optimized for manufacturing companies and for the DBA system. Now a *COA Conversion* screen is available that enables you to convert your existing chart of accounts to the standard chart of accounts and standard account assignment settings.

We recommend that all DBA customers convert to the standard chart of accounts to get the most out of the DBA accounting system.

Starting Over

1. Upgrade to the latest build

If you are not on the latest product build, it is essential that you update your system to the latest version of DBA in order to have access to the *COA Conversion* screen and other accounting system enhancements that are needed for this start over process.

2. Use all the required modules

The only way to get DBA functioning properly is to perform <u>all</u> of these functions in DBA:

- Sales Orders
- Jobs
- Inventory
- Purchasing

If you've been attempting to perform any of these functions in an outside system, you must cease doing so and start doing them in DBA.

> NOTE: If you are using *Stock Adjustments* to bypass any standard processes, you must stop the practice. *Stock Adjustments* should rarely, if ever, be used.

3. Use routings

In DBA, product costing and job scheduling are built around our routing architecture where you break out labor into sequences and assign those sequences to work centers.

If you are ever going to get labor and overhead properly costed and absorbed into your product costs, you must use routings.

Even if you have ultra-simple products or processes and you feel routings are not necessary, a routing can be ultra-simple as well. For example, you could have one work center named "Factory." Each product can have one sequence named "Labor." All you have to specify is the estimated time it takes to make one item.

Once you have routings, you can then establish shop rates for labor and overhead that are used to calculate estimated costs and job costs. "Absorbing" the cost of labor and overhead into your products is the fundamental underpinning of our WIP-based accounting system.

4. Establish a startover target date

Establish a startover target date, which is the date you will activate the DBA accounting system. The best date is the first day of an accounting period.

Give yourself ample time prior to startover day to convert your chart of accounts and restructure your payroll accounts. On the day prior to startover day you will enter beginning account balances.

5. Review accounting configuration

In this step you will review your system setting in the *Admin – Accounting Configuration* screen. Two options are available:

DBA Financial Modules
DBA is supplied with this option selected by default, which configures the system to use the integrated financial modules of *Accounts Receivable*, *Accounts Payable*, *Banking*, and *General Ledger*.

Financial Transfer
Select this radio button if you wish to process receivables and payables in an outside accounting system. This option activates the *AR Invoice Transfer*, *PO Invoice Transfer*, and *GL Transfer* screens and de-activates the *AR*, *AP*, and *Bank* menus.

If you make a change to your system setting, click *Next* and you are taken through a series of conversion steps. Refer to chapter 2-7 for screen details.

6. Convert to the standard chart of accounts

We recommend that all companies, even those using the *Financial Transfer* module, convert to DBA's standard *Chart of Accounts*. In doing so, you will be assured that your *Chart of Accounts* and *Account Assignments* are 100% correct and optimized for the DBA system.

If you already have a chart of accounts created, use the *COA Conversion* screen to convert your existing accounts to standard accounts. See chapter 13 for details.

If you are using outside financials:

Even though your outside general ledger uses different account codes than those of the standard chart of accounts, we still recommend that you convert to the standard chart of accounts and then cross-reference your primary default accounts in DBA with their equivalents in the outside accounting system. See *GL Transfer* in chapter 16 for setup details.

7. Assign bank accounts

If you are using outside financials, you can skip this step.

In the *GL – General Ledger Setup – Account Assignments* screen, you must assign GL accounts against each of your bank accounts on the *Bank Accounts* tab. Refer to chapter 13 of for details.

8. Review exception accounts

In the *Account Assignments* screen, you should review your exception settings.

- On the *Exceptions* sub-tab within the *Sales* tab, you can optionally break out your sales and cost of goods sold by item category or customer type.

- On the *Exceptions* sub-tab within the *Purchasing* tab, you can optionally break out your miscellaneous (non-inventory, non-job) purchases by descriptor.

9. Review supplier default accounts

If you are using outside financials, you can skip this step.

Review the default *GL Account* setting against your AP suppliers that do not receive formal purchase orders. This setting is found on the *GL Account* sub-tab within the *Detail* tab of the *Suppliers* screen.

10. Change payroll accounts

If you are using outside financials, you can skip this step.

Make sure your payroll departments and GL accounts conform to the DBA standard chart of accounts. Refer to chapter 13C, *Payroll Accounting*, for setup details.

11. Verify accounting periods setup

Go to the GL – *General Ledger Setup – Accounting Periods* screen and make sure your accounting periods have been created.

12. Enter open customer invoices, if needed

If you are using outside financials, you can skip this step.

This task must be performed on the day prior to startover day. If up to now you have been invoicing in an outside system, as of startover day you will be entering sales orders and doing your invoicing within DBA. You must enter all open customer invoices that originated in your other system in the *File – Startup Day – AR Beginning Balances* screen.

When you are done, the *AR – Reports – Customer Detail Aging* report should agree with the AR aging report in your old system.

13. Enter open supplier invoices, if needed

If you are using outside financials, you can skip this step.

This task must be performed on the day prior to startover day. If up to now you have been processing payables in an outside system, as of startover day you will be entering all supplier invoices in DBA. You must enter all open supplier invoices that originated in your other system in the *File – Startup Day – AP Beginning Balances* screen.

When you are done, the *AP – Reports – Supplier Detail Aging* report should agree with the AP aging report in your old system.

14. Post GL transactions

This step must be performed on the day prior to startover day. Post any accumulated ledger transactions via the *GL – Batch Posting* screen.

If any transactions are unable to post, you either have not completed all your account assignments setup or you have not created all your accounting periods.

15. Clear account balances, if needed

If you are already actively using the DBA accounting system, you can skip this step. But if you have been doing your financial accounting in an outside system and are now ready to convert to the DBA accounting system, run the *GL – General Ledger Setup – Clear Account Balances* procedure.

This procedure actually creates a batch journal entry that zeroes out each of your GL account balances, which effectively clears the ledger so that you can enter new beginning balances.

16. Enter beginning account balances, if needed

If you are using outside financials, you can also skip this step.

This step must be performed on the day prior to startover day. You must now transfer your current account balances from your outside system to DBA. This is done manually by making a single batch entry in the *GL – Journal Entry* screen.

- In your outside system, print a current balance sheet and a year-to-date income statement.

- In the *Journal Entry* screen, click new to create a new journal entry. Give it a *Journal Date* as of the last day of the prior accounting period.

- Enter a single debit or credit amount against each of your balance sheet accounts.

    NOTE: Do not make an entry to your *Current Earnings* account, which is automatically calculated and never directly entered.

- Enter a single year-to-date debit or credit amount against each of your income statement accounts.

When your entries are completed, your journal batch should be in balance. Return to the *List* tab and post your journal.

17. Reconcile Inventory account

In this step you will reconcile your *Inventory* account balance with the *Inventory Value* report to ensure its accuracy.

    NOTE: If you are using outside financials, we are referring to the *Inventory* account in your outside general ledger.

Run the *Inventory – Reports – Inventory Value* report as of today's date for all your stock items to establish the total value of your inventory. Compare this with the *Inventory* account in the *General Ledger*.

- If the inventory value on the report is <u>higher</u> than the current GL balance, make this journal entry for the difference in value:

        Debit: 12000, Inventory
        Credit: 53100, Adjustments – Inventory

- If the inventory value on the report is <u>lower</u> than the current GL balance, make this journal entry for the difference:

Debit: 53100, Adjustments – Inventory
Credit: 12000, Inventory

18. Reconcile WIP account

In this step you will reconcile your *Work in Process* account balance with the *WIP Value* report to ensure its accuracy.

> NOTE: If you are using outside financials, we are referring to the *Work in Process* account in your outside general ledger.

Run the *Jobs – Reports – WIP Value* report to establish the total value of your work in process. Compare this with the *Work in Process* account in the *General Ledger*.

- If the total value on the report is <u>higher</u> than the current GL balance, make this journal entry for the difference in value:

  Debit: 12300, Work in Process
  Credit: 53400, Adjustments – WIP

- If the total value on the report is <u>lower</u> than the current GL balance, make this journal entry for the difference:

  Debit: 53400, Adjustments – WIP
  Credit: 12300, Work in Process

19. Reconcile bank accounts

If you are using outside financials, you can skip this step.

When you receive your first bank statement after startover day, you must transition from reconciling transactions in your old system to doing so in DBA. This transition process is documented in chapter 14.

Ongoing Maintenance

The following practices will keep your accounting system in good shape.

Post to the GL on a daily basis

Run the batch posting procedure once a day to ensure timely information and to verify that all transactions are posting correctly.

Print and review financial statements at each period end

Always print financial statements at period end and review the numbers. Never skip doing this because it is much easier to correct any problems close to when they occur than it is to correct them months after-the-fact.

Do not use Stock Adjustments

If you are using the *Stock Adjustments* screen on a regular basis, it almost always indicates that a standard process is being bypassed, which causes accounting integrity problems. Avoid using the *Stock Adjustments* screen altogether. If you need to adjust inventory on hand quantities, do so using the *Stock Counts* screen, which is designed for that purpose.

Use stock items on POs for physical items

Do not allow descriptors to be used in purchasing to represent physical items. Doing so creates costing and reporting problems. Always use stock items to represent physical items, whether those items are ever stocked or not.

Also, do not allow PO lines to be entered without a unit cost. Blank costs create inventory and job costing problems. If the cost is not known, make a best guess estimate.

When you purchase stock items, you only need to enter a cost on the first purchase. On subsequent POs, the *Last Cost* is automatically used and the costing is self-maintaining.

Do not adjust your Inventory and WIP accounts

Other than a one-time adjustment to get an accurate starting value, you should almost never make journal entries to your *Inventory* and *Work in Process* accounts. These accounts are self-adjusting and stay synchronized with the *Inventory Value* and *WIP Value* reports.

Do not cost labor using pay rates

We recommend that the *Cost Basis* in the *Job Labor Defaults* screen be set to *Work Center Rate* instead of *Worker Pay Rate*. The worker pay rate understates labor because it does not include the cost of fringe benefits and tax expense, nor does it account for downtime not spent on jobs. Work center rates, on the other hand, reflect the total cost of direct labor and applies the same cost basis to the cost rollup and job costing for apples-to-apples cost comparisons.

Periodically assess shop labor rate

From time to time, such as once a quarter, compare your *Absorbed Labor* account for the quarter with your actual *Direct Labor* cost accounts and note the percentage difference. Adjust your shop rate for labor across all your work centers up or down proportionally by the percentage difference.

Periodically assess factory overhead rate

From time to time, such as once a quarter, compare your *Absorbed Factory Overhead* account for the quarter with your actual *Factory Overhead* cost accounts and note the percentage difference. Adjust your shop rate for *Fixed Overhead* across all your work centers up or down proportionally by the percentage difference.