

General Ledger, Financial Reporting, & Budgeting

General Ledger

The Freedom Series/ec21 General Ledger is designed to provide the distributor with a fully functional accounting system, tightly integrated with the operational sub-systems, that conforms to Generally Accepted Accounting Principles (GAAP). The General Ledger is protected by a number of system features to insure the integrity of your accounting information. You can keep separate sets of books for multiple companies. You have the ability to create multiple budgets for the same year. And the creation of your accounting statements is simple and straight forward. The Freedom Series/ec21 General Ledger provides the features you need, including sophisticated analysis tools, to track and manage the financial health of your business.

THE CHART OF ACCOUNTS

The account number in Freedom Series/ec21 can be up to 27 alphanumeric characters in length. It is comprised of three parts: Company, Cost Center, and Generic Account. The Company portion of the account number can be a maximum of three (3) characters, The Cost Center a maximum of twelve (12) characters, and the Generic Account may also be up to twelve (12) characters. You may rename either of the three parts. For example you may wish to rename Cost Center to Department. Renaming a component causes the new name to display on all General Ledger screens as well as print on all reports.

You establish the structure of each portion of the account number, including the number of characters you will use, up to the maximum. For example, you could set the structure of the Cost Center portion to be a total of six digits; two digits representing the location, two digits representing the department, and two digits representing the type of sale. This would result in a structure for the Cost Center that you could cause to appear as 00.00.00 or 00-00-00 or 000000. Freedom Series/ec21 allows you to define each portion of the account number in this manner.

Company

The Freedom Series/ec21 General Ledger can maintain a separate set of books for multiple companies. Therefore, the first portion of the account number is predicated on a three character company identifier. Those Freedom Series/ec21 users who use the General Ledger for only one company do not have to use the company portion of the account number, but may wish to do so on the chance the accounting requirements may change in the future. For those users who will use the multi-company capabilities, the company portion of the account number can be defined as less than the full three characters.

Cost Center

The Freedom Series/ec21 account number includes a portion used to identify the Cost Center. A Cost Center is used to indicate an entity and could be a company location or branch, a department, a customer classification, an inventory category, or some combination of these. Although a single structure is used throughout the chart of accounts, a different meaning can be associated with the same part of the structure depending on the type of account involved. For example you may use a seven digit structure, 00.000.00 or 00000-00 or 0000000. For revenue accounts, the first two characters may represent the branch, the next three the category of merchandise, and the final two the type of sale. This same structure for an expense account could be used in a different manner; the first two characters represent the branch, the next three the department, the last two not are not used and are, therefore, always set to 00.

The Generic Account

The last portion of the Freedom Series/ec21 account number is used to represent the generic account. Each asset, liability, equity, revenue and expense item is assigned a generic account number.

The Account Matrix

The Freedom Series/ec21 chart of accounts is completed by setting up an account matrix for each company. The account matrix is used to define the combinations of Company, Cost Center and Generic Account that make up a valid general ledger account. For example, each Cost Center that represents a combination of branch, type of customer, and type of sale could be set as valid for the sales generic account. These same Cost Centers may not be valid for expense generic accounts--a Cost Center that represented branch and department could be used instead.

ACCOUNTING PERIODS

Freedom Series/ec21 gives you complete flexibility in setting your accounting periods. Although most distributors

use a 12 or 13 period fiscal year, Freedom Series/ec21 actually allows the definition of up to 53 periods per year. You define the start date of the fiscal year and the length of each period. So whether you use a monthly scheme, some combination of 4 and 5 weeks periods, or 13 four-week accounting periods, Freedom Series/ec21 can accommodate your requirements.

BUDGETS

Budgeting in Freedom Series/ec21 anticipates your need for more than one set of budget amounts for a year. Most distributors deal with at least two budgets. The first is normally developed before the year begins and represents your best estimates and goals for the coming year. A second budget is often developed that represents your current projections for the remainder of the year. This second budget is revised monthly or quarterly while the original budget usually stays unchanged throughout the year.

Freedom Series/ec21 is able to handle any number of different budgets for a single year. Each time you run a report that includes budget figures, you can select which set of budget figures to present on the report. To assist in budget entry, Freedom Series/ec21 allows you to copy a current budget and rename it as a starting point for a new or revised budget. Additionally, you may enter a single budget figure for the year and Freedom Series/ec21 will spread it equally across each accounting period.

CURRENCY CONVERSION

Freedom Series/ec21 can handle multiple currencies for those distributors involved in import and export. Transactions entered in Accounts Receivable, Purchasing and Accounts Payable can be of any currency. With the use of rate tables built and maintained by you, Freedom Series/ec21 converts the amount on these transactions to the correct amount in the home currency for posting to the General Ledger. You establish the home currency for your system.

Between the time an invoice is posted to Accounts Receivable or a liability is posted in Accounts Payable and the time payment is received or made, there may be a gain or loss due to the rate fluctuations. Freedom Series/ec21 calculates the gain or loss and posts it to the general ledger.

THE JOURNAL

Journal Entries

The majority of journal entries made to the general ledger are created by other Freedom Series/ec21 applications. However, Freedom Series/ec21 provides the ability to make manual journal entries, to set up recurring entries (for example to post depreciation of fixed assets) and to set up your closing entries.

Each Freedom Series/ec21 journal entry, whether created by a Freedom Series/ec21 application or made manually, is always a part of a batch of entries that must balance. The information retained for each entry by Freedom Series/ec21 includes the following information:

The Transaction Date

Freedom Series/ec21 uses the transaction date of a journal entry to determine the accounting period to which the entry should be posted. The transaction date of a journal entry is the date that the operational transaction that caused the journal entry was processed (sales, receipt, payment, etc.). For example, the entries caused when an invoice is processed would carry a transaction date equal to the invoice date.

For some transaction types, you can force a transaction date. For example, when entering a batch of Accounts Payable invoices, Freedom Series/ec21 gives you the opportunity to enter the transaction date.

The General Ledger Batch Number

Each journal entry entered in the system is assigned a General Ledger Batch Number for identification. For example, the entry generated by the Accounts Receivable application due to a day's cash receipts would be assigned a General Ledger Batch Number.

Application

Freedom Series/ec21 appends a two character tag to each journal entry that identifies the Freedom Series/ec21 application that created the journal entry.

Original Batch Number

Both the Accounts Receivable and Accounts Payable applications use batch numbers to identify groups of transactions processed at the same time, usually by the same person. The series of batch numbers used by these applications is unique to the application. When these applications create journal entries, the application batch number is included in the journal entry to help identify the originating transactions.

Source Number and Document

A General Ledger journal entry created by a Freedom Series/ec21 application is associated with a single transaction. The journal entry could, for example, be the result of an Accounts Payable check that was part of a 150 check batch. To provide an audit trail for each journal entry, Freedom Series/ec21 assigns a source number to each individual transaction and this source number is appended to each journal entry caused by the single transaction. In the example just cited, each journal entry that resulted from the same A/P check would be assigned the same source number.

Freedom Series/ec21 also appends the identification of the source document to each journal entry. For example, if the journal entries were caused by invoicing, each entry caused by an individual invoice would carry that invoice's number in the Source Document field.

Description

Manual journal entries and those entries created as a result of processing Accounts Payable transactions can include a description for both the transaction and each distribution line. These descriptions are entered by you and can be used for any purpose.

Account Number

The Account Number developed by the operational sub-system or the one you enter as part of a manual journal entry is always part of the journal entry. This number is verified during the Edit step.

Amount and Sign

The amount of the journal entry is, of course, part of the journal entry. The amount is followed by a sign, which is system generated, that Freedom Series/ec21 uses to indicate if the entry is a debit or credit.

As you can see, a Freedom Series/ec21 journal entry is very complete and includes all the information necessary to perform a thorough and quick audit of any entry.

Edit and Post

The application of a journal entry to general ledger is a two step process, Edit and Post. The Edit step ensures that all the entries in the general ledger batch carry valid transaction dates and account numbers, and that the batch is in balance. The journal entries in a batch may be changed and re-edited as many times as necessary prior to the Post step. Each edit of the batch produces a report that lists the journal entries and any errors detected.

Once a general ledger batch of journal entries meets all system requirements and you are satisfied it is correct, you Post the batch. Freedom Series/ec21, as a result of you Posting the batch, updates each general ledger account affected and produces a report that lists the journal entries posted.

Protecting the Ledger

Freedom Series/ec21 includes a number of controls that you set to insure the integrity of the general ledger. Each of these controls is designed to prevent inappropriate journal entries from being posted to the ledger.

Required Posting Dates

The Required Posting Dates, beginning and ending, constitute a time window for general ledger posting. Any journal entry, created by a Freedom Series/ec21 application, with a transaction date outside this window cannot be posted. You have complete control of these dates and they can encompass more than one accounting period.

Allowed Posting Dates

The Allowed Posting Dates work in much the same way, but where the Required Posting Dates are used for validating Freedom Series/ec21 application generated journal entries, the Allowed Posting Dates are used to validate manual journal entries. This gives you the ability to allow manual entries, over which you exercise a greater amount of control, to affect prior periods while at the same time preventing application generated entries from doing so.

Soft Close

The interaction of the Accounting Period calendar, the Required Posting Dates, and the Allowed Posting Dates result in your control of a soft close of each accounting period. Under your control, journal entries may be allowed to periods previously considered closed with the confidence that you can create corrected financial statements and that balances brought forward are corrected.

Allow Change of Application Journal Entry Amounts

Journal entries created by Freedom Series/ec21 applications can be maintained during the Edit process. This control determines if you will grant access to the amount field of a journal entry during the Edit of a batch of entries.

Allow Inter-company Posting

If you use the Freedom Series/ec21 general ledger to maintain a separate set of books for multiple companies, this control is used to allow or disallow posting to more than one company in a single general ledger batch.

Controlling System-Generated Entries

Freedom Series/ec21 provides you with several flexible tools used to instruct Freedom Series/ec21 applications on how to assign account numbers to the journal entries the applications produce. Listed below are factors that can influence the assignment of account numbers for each type of transaction.

Accounts Receivable

The following databases and the values entered in these databases may be used to instruct Freedom Series/ec21 on how to build the correct account numbers for transactions that affect Accounts Receivable.

- Customer Record
- Item Record
- Item Category
- Sales Type
- Account Receivables Default by Branch
- Account Receivables Default System Wide
- Location

In addition, there are special tables for generating account numbers for Inventory Adjustments, Account Receivables Adjustments, Sales Tax and Freight Charges.

Cash Accounts

The cash accounts are normally identified in a record built in Freedom Series/ec21 for each bank account. When performing cash application or writing Accounts Payable checks you are prompted to select the bank account that is involved with the transactions. From the selected bank account, Freedom Series/ec21 is able to identify the correct cash account to use when creating journal entries.

Accounts Payable

The following accounts may be entered as defaults that will be used by Freedom Series/ec21 when creating journal entries for A/P transactions. These defaults can be set by branch or system wide. The defaults can be changed during the entry of an A/P transaction.

- The Accounts Payable Control Account
- The Discount Account
- A Default Bank Account (to determine the Cash Account)

Manual Journal Entries

Freedom Series/ec21 automatically makes all routine journal entries required due to operations. You will, however, need to make some manual journal entries. These entries are simple to make and have all the characteristics of a system generated journal entry. Additionally, manual journal entries can be coded to make them automatic reversing entries in the next accounting period.

Recurring Journal Entries

There are some routine transactions that lend themselves to the Recurring Journal Entry feature in Freedom Series/ec21. For example, entries like posting payroll performed by an outside service or depreciation on fixed assets could be set up as recurring entries. With Freedom Series/ec21 you may build a set of recurring journal entries and retain in the system. When the time comes to post a set of these entries each month, you can post the entries as they were created or edit the entries, (for example, to modify the amounts prior to posting them).

Closing Journal Entries

Freedom Series/ec21 provides a special function used to close out the income and expense accounts to retained earnings. This function gives you the opportunity to first define the retained earnings account and then all the accounts that will be closed to the retained earnings account. This set up of the closing journal entries would normally be done once and only changed if there is a change in the chart of accounts that

would affect closing a period.

Once the definition step is complete, you can then instruct Freedom Series/ec21 to build the necessary journal entries to close out to retained earnings for a specific accounting period. In response, Freedom Series/ec21 prepares a batch of journal entries that can be edited and posted. If, after running closing entries, you make additional entries to a prior period, you can rerun the closing entries function and only the changes are posted.

System-Generated Accruals

Freedom Series/ec21 can be instructed to make journal entries that accrue the dollars associated with conditions that may be present at month end. These accruals can be for merchandise received but not invoiced or invoices posted but not yet paid. The amounts of these journal entries are calculated by Freedom Series/ec21 and you control the accounts used by setting defaults system wide or by branch. The entries are automatically reversed in the next accounting period.

GENERAL LEDGER REPORTING

You will find the general ledger reporting capabilities in Freedom Series/ec21 very complete and easy to use. This reporting facility gives you quick access to the information you need to perform analyses, audit transactions, and produce quality financial statements.

Defining Report Formats

All Freedom Series/ec21 general ledger reports and financial statements consist of information presented in rows and columns. You will find in Freedom Series/ec21 a number of different reports and statements from which to choose. The common idea across each of these reports and statements is that the column headings and the type of information present in each column is predefined for each report. You, however, control the information displayed in each row. The report format, built by you, instructs Freedom Series/ec21 of the description to use for each row and the account or accounts whose balances should be summed and displayed on each row. You may define up to nine subtotal levels plus a report total. There are also formatting features available to control the appearance of the report or statement.

The General Ledger Report

The General Ledger Report is used to generate a trial balance, but it can also be used to produce other reports, more specific in content and format, that you may require. When this report is requested, you can specify a report format and indicate that the report should be sequenced by cost center or by account. If the report is requested without specifying a format, Freedom Series/ec21 generates a trial balance. By specifying a format that you have previously built, you can customize the report to meet your specific needs. Once defined to Freedom Series/ec21 formats can be recalled and used as often as necessary.

Financial Statements

The financial statements available are:

- Cost Center Report
- Comparative Income Statement
- Expense Accounts Recap Sheet
- Balance Sheet
- Comparative Balance Sheet
- Statement of Change in Financial Position
- Comparative Income Statement, Center Description

When you produce a financial statement you can indicate the accounting period for which the statement should be produced. You may elect to include budget information from any of the budgets you have defined to the system.

ONLINE ANALYSIS

Freedom Series/ec21 provides a sophisticated, on-line tool used to analyze financial statements. Known as drill down analysis, this tool allows you to quickly move from the information presented at a high level on the statement, through the supporting information at user defined summary levels, and down to the individual journal entries.

Summary Database

To support the on-line analysis, Freedom Series/ec21 posts to a summary database at the same time it posts to general ledger. The different levels of summarization are controlled by you and you are able to specify up to nine levels of summarization. For example, if the first two characters of the cost center portion of the

account number represented branch and the next three characters represented department, you could instruct Freedom Series/ec21 to maintain summarized data for each branch and department within branch.

Defining the Analysis Display

Like Freedom Series/ec21 financial statements, the columns of the on-line analysis display are predefined, but you define the rows of the display and control sub-totaling and appearance features. You may define multiple formats to be used by the on-line analysis. The formats you define for on-line analysis will most likely mirror the formats you define for financial statements so that the information on each is identical.

Using the Online Analysis

Each time you start the on-line analysis, you are given the opportunity to indicate the format to use. You also indicate the starting company and/or cost center for the analysis.

The information displayed initially will be for the company and/or cost center you indicate. From this initial display of information, you can drill down through account and journal entry detail. If, for example, the initial display for a particular branch included a line titled SALES, you can drill down to the accounts that make up SALES and on to the journal entries posted to those accounts.