Globalization

Redesigning Your Chart of Accounts

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> "During this era of Rapid Globalization, the Business and IT teams need to be agile and demonstrate adaptability by designing effective solutions to handle various components of the Business change and corresponding system changes
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> This paper illustrates how organizations can effectively "Restructure their Chart of Accounts in an ERP environment"
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Background

Globalization has become inevitable in the current economic scenario. Organizations need to expand their horizons and establish footprints in multiple geographies to cope up with the changes in the market and retain a competitive edge. This trend has been compelling organizations to revisit their Business Models and strategies to sustain growth and profitability.

As part of Globalization, organizations need to meet the business requirements of the countries in which market penetration/ expansion is planned and also need to follow the local regulatory requirements for accounting and reporting. For example, most organizations with foreign subsidiaries would need to report in International Accounting Standard as well as the Local country GAAP.

Oracle E-Business Suite and Globalization

Oracle E-Business Suite has been designed to support Globalization and capitalize on the benefits from the same. Oracle E-Business Suite helps sustain globalization by allowing companies to manage business processes globally while providing the capability to address country specific needs.

About this article

Chart of Accounts is the heart of every financial system and this article focuses on Chart of Account (COA) restructuring necessitated by Globalization or other business needs within Oracle Applications (Financials Suite) This article elaborates various approaches for restructuring the Chart of Accounts within Oracle ERP and also provides evaluation of each of the approaches.

What is COA Restructuring?

Chart of Accounts is the structure/ listing of the accounts and its components. It involves a coding scheme (numeric, alphabetic or alpha-numeric) to suit business needs and provides the framework for transaction recording, classification, aggregation, summarization and reporting of financial information.

It is common for business entities to change their Chart of Accounts. Restructuring of Chart of Accounts (COA) includes but is not limited to:

- Addition of new account components / segments (Ex: Add product, or Future segment)
- Extending the size of the already existing accounts/ segments
- Removal of an account component/ segment that may not be required
- Changing the order in which the COA is represented

Business Need to Change the Chart of Accounts

There are various business drivers apart from globalization that need COA restructuring

- Business expansion due to Mergers and Acquisitions
- Statutory requirements for segment-wise reporting (Ex: Geographical, product)
- Other changes in Statutory and Financial reporting requirements (E.g. IFRS)
- Increased need for management reporting to facilitate better/ informed decision making
- Need to roll out Global Chart of Accounts to multiple countries
- Change in Business model, Organization Structure
- Incorrect COA design
- Urge to Leverage new features/ functionality provided by the Application

Chart of Accounts in Oracle

Oracle provides the flexibility to add new values to the existing segments within the accounting structure or create new combinations of segment values within the existing accounting structure and create / re create Parent Child hierarchies within the segment values.

However, it does not provide the flexibility to change the accounting structure itself. Once you have set up and used your Accounting Flexfield, you can no longer change it; at least, this is what Oracle Corporation claims. The Oracle supported path to change the Accounting Structure (i.e. Chart of Accounts) practically requires re-implementation of Oracle Applications.

Options to Restructure Chart of Accounts within Oracle Applications

The following table provides details of the various approaches to changing the Chart of Accounts within Oracle Applications and the pros and cons of each approach:

Approaches	Pros	Cons
1) Reimplementation by creating a new COA and hence new ledgers and sub ledgers	• Fully Supported by oracle • Fresh and Clean approach • Additional new functionalities could be leveraged in the implementation	• Higher Cost on development, data conversion and data migration • Would affect other systems like Hyperion, Data warehouse etc that would need to be modified to accommodate the new COA
2) New COA and new ledger/ sub-ledger for prospective transactions only Keep the existing ledger and sub ledger AS IS to maintain the historical transactions and create new set of ledgers / subledgers for prospective transactions	• Fully Supported by oracle • Additional new functionalities could be leveraged • Low Cost on Data Migration and Conversion	• Would affect other system like Hyperion, Data warehouse etc • There would be two sub ledgers for each organization (one historical and other prospective) • Open transactions need to be migrated to the new sub ledger • Master Data migration need to be done from old to new sub ledgers / operating unit
3) Modify the existing COA structure and retain the old ledgers/ sub-ledgers The approach requires changing the existing Chart of Accounts structure and performing back end hammers on all the code combinations	• Cost Effective • Has been implemented successfully in the past	• Not supported by oracle • High effort on testing • Would affect other systems to the extent of managing the change in the COA segments

Approach Analysis and Evaluation

Organizations have different risk appetite based on multiple factors such as the urgency of the requirement, statutory compliance, stability of the application environment, availability of in-house expertise etc.

An organization would ordinarily consider following factors while choosing amongst the options suggested such as:

- Risk: Approach must be less risky
- Support from Oracle: Approach must be supported by Oracle
- Budget: Effort spent and cost incurred should be within the Budget

Following is the Risk-Effort Evaluation matrix that enables better understanding of the risk/effort associated with each of the options suggested above:

Approaches	Risk	Effort
1) Reimplementation	Very Low	• Very high on data migration and data conversion • High testing Efforts • Medium to high effort in migrating customisations • High efforts to re-create all Application set ups / configuration
2) Creating new COA and new ledger/ sub-ledger for prospective transactions only	Low	• Low Effort on Testing for historical data • Medium Effort on Data Migration /Conversion since only master data and Open balances may be migrated • Medium to high effort in migrating customizations • High efforts to re-create all Application set ups / configuration
3) Changing the existing COA and retaining the old ledgers/ sub-ledgers by back end hammers	Very High	• Low effort on Data Migration and Data conversion • High effort on Testing • Medium to High effort on migrating customisations • Very low Effort on setups since only minor changes would be required to existing configuration and set ups

Solution Option 3 would require a change in the existing Chart of Accounts and updating all the code combinations, changing programs and other software components that refer to code combinations within and outside of Oracle Applications. This option would require lesser efforts as compared to the others, but would be risky and unsupported by Oracle.

Conclusion

Accounting flex field provided by Oracle can indeed be made flexible and it is possible to restructure the Chart of Accounts to meet various Business needs

However, no one approach can be considered to be better than the other in a generic sense. What works for one organization may not work for the other.

Organizations have to choose the appropriate approach considering the budget and time constraints, risk mitigation strategies such as additional rounds of testing, thorough impact analysis etc

ABOUT THE AUTHORS

■ Sachin Chitlange works as a Lead Consultant with Infosys providing financial consulting for package implementation, business transformation and process re-engineering within OracleApps. He is a chartered accountant and has more than 11 years of IT experience including implementation of Enterprise Resource Planning (ERP), Management Information Systems (MIS) and Financial Management. Sachin has a unique combination of strong domain knowledge of finance processes and statutory laws, accompanied with good understanding of the Oracle product. This enables him to understand the business requirements and accordingly design right solutions to client delight

■ Sowmya Trikkur has over 12.5 years experience in the industry with 3.5 years in the Finance domain and about 9 years experience as a Solution Architect/ Principal Functional consultant on Oracle Applications with Infosys. She provides process, domain and package consulting and has extensive experience in business processes analysis, process assessment and reengineering, solution design, set up, implementation, Upgrade and support of Oracle Applications (R12 , 11i and 11.0.3) with particular emphasis on the functional area of Finance. She has worked in the Accounting, Financial Planning and Analysis departments with Multi-National Companies as well as Public Limited companies. She has several degrees under her belt with Masters in Commerce , CPA from US and India, CISA certified and PMP.