

B-02.07

Professor Drebin's Executive MBA students were recently discussing the benefits of a chart of accounts. Following is a transcript of the discussion. Most of the comments were correct, but two students were off base. Assume the role of Professor Drebin, and identify and adjust the incorrect statements.

- Susie I am a sales manager, but I occasionally need to review our company's general journal. It frustrates me because the accounts are often listed only by a number. What's up with that?
- Professor What you are likely seeing are references to the chart of accounts. Chart of accounts are quite typical. Why would a company use a chart of accounts?
- Miguel I am an IT manager, and I can tell you that computer programming is much simpler when numeric values are used in lieu of text descriptions. This aids the construction of underlying computer programs that are able to match and sort.
- Roberta Miguel may be right, but I work in our cash department and I have to monitor receivables, payables, and cash. A key benefit for me is that I can determine the total of all receivables by doing a query of our 1002 accounts. If I want data by customer, I can refine the query to look for sub accounts like 1002.003, etc. And, the same thing is true for cash and payables. For example, our cash account is 1001, but we have unique sub accounts for each bank account (1001.001, 1001.002, etc.). So, I think one key benefit is to have a unique master account that can easily be broken down into many sub components.
- Fletcher This is all interesting to me. I guess you don't even need textual names for accounts if you use a numeric system.
- Randy I had no idea about this. All I know is that I am in charge of managing our delivery trucks, and I track individual trucks for scheduled maintenance based on an asset ID tag number. Each truck has a unique long number, but it just occurred to me that it always begins with the digits 10005. I wonder if that "10005" might tie back to the company's chart of accounts as well.
- Jana Randy, I doubt it. We have trucks, and I know for a fact that they are numbered 1500 in our chart of accounts. I am pretty sure that all company's must use the same chart of accounts. Otherwise, comparing data from different companies would be chaos.
- Louis Jana makes an interesting point. But, I don't think everyone uses the same chart of accounts. Although, I must add that I recently read about a project called XBRL that purports to develop some uniform data management schemes that will aid data comparison and exchange. But, I don't think its fully implemented yet - and it involves a lot more than just the chart of accounts.
- Arman I am a divisional manager, and I regularly review our unit's ledger accounts and compare them to balances of other divisions. It is very helpful to be able to identify all assets, expenses, and so forth by uniform account numbering. This uniformity greatly aids data mining and evaluation. For example, our travel costs all start with a 503 digit, but 503.01 further identifies air travel, 503.02 relates to lodging, and so forth. This scheme enables me to look at overall data, as well as its components. It sure helps me control costs and compare results to other divisions. Without a numeric system of account numbering, I would surely be lost.