

# SedonaOffice®

The #1 Financial Software for Security Companies

## 2013 SedonaOffice Users Conference

### **General Ledger Setup**

*Presented By:*

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## About this Guide

This SedonaOffice General Ledger Setup Training Guide is for use by SedonaOffice customers only. This guide is to be used in conjunction with an approved training class provided by SedonaOffice, and is not meant to serve as an operating or setup manual.

This training and setup guide is for experienced SedonaOffice users who have knowledge of the general ledger setup. While this guide will review some of the basic setup necessary, this guide is not intended to teach financial reporting basics and assumes the user has knowledge of financial reports and of the SedonaOffice application.

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## Overview

### Definition and Purpose of the General Ledger

The General Ledger (GL) is the repository of financial transactions that are created as you perform various tasks in SedonaOffice, such as:

- Receiving parts on purchase orders
- Entering vendor bills
- Issuing parts to jobs and service tickets
- Entering technician time and sales representative commissions on jobs and service tickets
- Invoicing jobs, service tickets and recurring charges
- Entering general journal entries

Most transactions are recorded automatically by SedonaOffice as you perform a task. Other transactions are entered manually and require that you have the requisite knowledge to record the transaction according to your company accounting policies.

The primary purpose of recording financial transactions in the GL is so that financial statements can be created for both management and tax purposes. The basic financial statements typically prepared by security companies and companies across all industries include:

- Balance sheet
- Income statement
- Cash flow statement

These statements can present current year data, prior years data and budget data if available. Here's a snapshot of the heading of a typical income statement:

	MTD				YTD				Prior YTD	
	Actual	%	Budget	%	Actual	%	Budget	%	Actual	%
<b>Revenues:</b>										
Installations:										
Commercial Installations	150,000	17.1%	138,000	15.5%	500,000	18.3%	475,000	17.4%	351,634	14.2%
Residential Installations	40,000	4.6%	42,000	4.7%	130,000	4.8%	145,000	5.3%	141,396	5.7%
	25	0.0%	0	0.0%			0		625	0.0%
	25,672	4.1%	37,500						96,058	3.9%

### Double-Entry Accounting

Each GL transaction must be dated and have at least one debit amount and one credit amount. The transaction date must fall in a defined accounting period, which is a calendar month within your company's fiscal or calendar year. Each line item must be coded to a GL account number. The total debits and total credits must equal each other.

Here's an example of a GL entry with the required elements of date, GL account and amounts (debit and credit):

Date	GL Account	Account Name	Debit	Credit
7/15/12	620450	Wages expense	3,000.00	
7/15/12	620430	Payroll tax expense	300.00	
7/15/12	220100	Wages payable		2,700.00
7/15/12	220210	Federal payroll taxes payable		450.00
7/15/12	220220	State payroll taxes payable		150.00

Note that the total amount of debits (\$3,300) equals the total amount of credits (\$3,300). This method of accounting has given rise to the term *double-entry accounting*.

### Elements of the SedonaOffice General Ledger

In addition to the basic requirements of double-entry accounting (dates, GL accounts, offsetting debits and credits), the SedonaOffice General Ledger also requires that all transactions must be coded to a branch, and income statement items must also be coded to a category.

The SedonaOffice requirements for each GL entry are:

- Date (must fall in a valid fiscal year and period that is also open)
- GL account
- Amount (either debit or credit)
- Branch
- Category (for income and expense accounts)

Here's an example of a complete GL transaction in SedonaOffice with all of the required elements:

Date	GL Acct	Account Name	Debit	Credit	Branch	Category
7/15/12	620450	Wages expense	1,000.00		Atlanta	Installation
7/15/12	620450	Wages expense	1,000.00		Atlanta	Service
7/15/12	620450	Wages expense	1,000.00		Atlanta	G&A
7/15/12	620430	Payroll tax expense	100.00		Atlanta	Installation
7/15/12	620430	Payroll tax expense	100.00		Atlanta	Service
7/15/12	620430	Payroll tax expense	100.00		Atlanta	G&A
7/15/12	220100	Wages payable		2,700.00	Atlanta	
7/15/12	220210	Federal payroll taxes payable		450.00	Atlanta	
7/15/12	220220	State payroll taxes payable		150.00	Atlanta	

Note that the total amount of debits (\$3,300) equals the total amount of credits (\$3,300), all line items are coded to a GL account and branch, and the items coded to expense accounts are also coded to a category.

### Your GL Structure

A company's GL structure in SedonaOffice refers to how the following elements are defined:

- Branches
- Categories
- GL accounts

In the following sections of this presentation, we'll look more closely at each element of the GL structure so that you may determine a structure that would work well for your own company.

Keep in mind that there is not a single "right" GL structure that fits every security company. Rather, a company's GL structure is considered appropriate and useful if it provides sufficient information to help you manage the unique characteristics of your business.

The key to structuring a good financial reporting system is knowing what you want out of the system. **BEGIN WITH THE END IN MIND!**

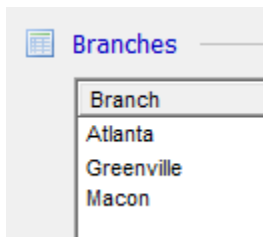
## Branches

If you don't care to report financial results separately by branch, then you may need only one branch in SedonaOffice. Call it Corporate or Main or the name of your city; it doesn't matter what you name it and you can always modify the name later on.

However, there are a number of situations where it makes sense to set up additional branches in SedonaOffice.

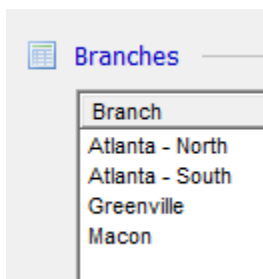
## Operating Branches

It's usually good practice to establish a branch for each physical office from which your company operates. For example, an Atlanta-based company with operating branches in Macon, GA and Greenville, SC would have three branches at a minimum:



Using multiple branches simplifies accounting. For example, say you have GL account #6520 for Office Supplies, and transactions to this account are normally coded to the G&A category. As you purchase office supplies for each branch, you would use the same GL account and category for each line item and simply choose the appropriate branch. You would not create a different GL account or category for each branch. At the same time, this GL structure provides flexibility to easily view consolidated or branch specific financial results.

Now, let's say this Atlanta-based company opens a small office on the other side of Atlanta, resulting in the following branches:

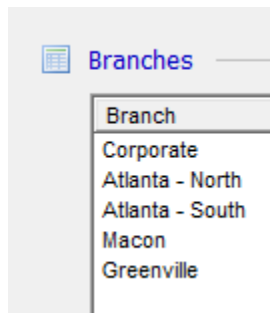


Financial results could be viewed for each Atlanta branch separately or combined.

### Using a Corporate Branch

Continuing with the Atlanta example, it would be common that corporate administrative functions as well as sales, installation and service activities would be performed in Atlanta from within the same building/offices. If transactions related to all of these activities were booked to the Atlanta branch, then the operating results of Atlanta compared to the other branches would not be on the same footing (i.e. not apples to apples.) The Atlanta branch's administrative expenses would be disproportional to the other branches.

Consequently, many companies set up a Corporate branch for the purpose of tracking corporate administrative functions separately from those of the operating branches.

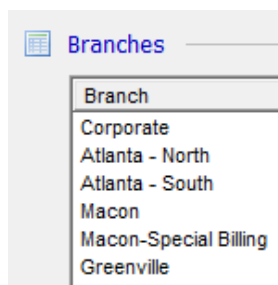


Basically, using a Corporate branch provides a convenient mechanism for tracking overhead expenses so that they may be allocated to operating branches.

### Branches Used for Billing Purposes

SedonaOffice provides the means to process cycle billing separately by branch. This is particularly useful if you have a group of customers that are invoiced on a special invoice form.

A "billing branch" is normally rolled up with the related operating branch for financial reporting purposes. For example, the Macon-Special Billing branch shown below would be rolled into the Macon branch in the branch financial statements.





### Branches Used for Legal Entities

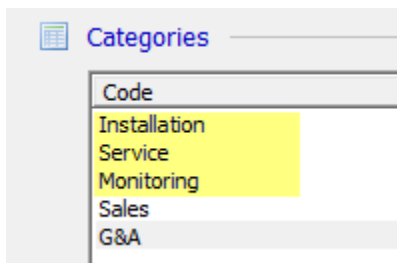
Things usually get more complicated if you operate two or more legal entities from the same location with the same administrative and/or operating staff. From a legal and tax standpoint, you must maintain a separate set of books for each entity and have the ability to generate separate balance sheets and income statements. Additionally, you would probably want to allocate overhead between the entities.

To accommodate two or more legal entities, you can either create a separate SedonaOffice database for each entity or create a separate branch within a single SedonaOffice database. While extenuating circumstances may favor one approach over the other, it's usually much simpler to create a separate branch for each entity in the same database. You'll be able to share technicians, inventory and other resources between the branches, and SedonaOffice will automatically book inter-branch transactions.

## Categories

### The Basic Category Structure

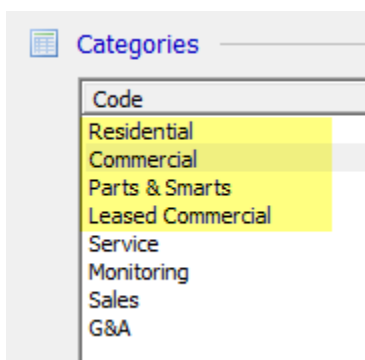
On its face, the concept of using categories in SedonaOffice is straight-forward. Most security alarm companies do installations, service and monitoring. Categories can be used to track results of operations (i.e. revenues, costs and gross margin) for each of these “profit centers”. Categories can also be used to track selling and administrative expenses. Consequently, we often see a list of categories that looks something like this:



Code
Installation
Service
Monitoring
Sales
G&A

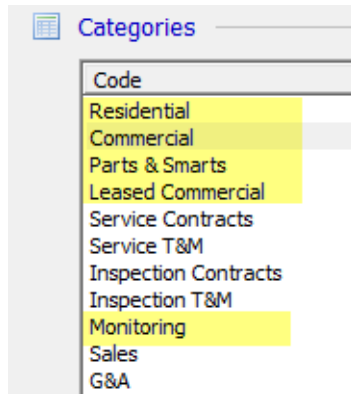
This is what we’ll call a basic category structure. Installation revenues, costs and expenses are booked to the same category in this structure (Installation). Service items are booked to Service and Monitoring items are booked to Monitoring.

Some companies expand the list of categories by adding additional “profit centers” for jobs and service. For example, they may want to see financial statement results for residential installations separate from commercial installations. Another company may want the installation of leased commercial systems to be reported separately. Yet another company may further expand the scenario by separately reporting equipment sales (sometimes called “parts & smarts”).



Code
Residential
Commercial
Parts & Smarts
Leased Commercial
Service
Monitoring
Sales
G&A

As for service, it is common that security companies want financial statements that show results for time & material service calls separately from service contracts. Likewise, many want to see inspection results separate from service results.



Using a basic category structure, Residential revenues, costs and expenses would be booked to the same category (Residential), Commercial to Commercial, Service Contracts to Service Contracts, and so on.

The accounting challenge with using a basic category structure is in booking technician "labor costs".

### Accounting for Labor

When a technician works on jobs and service in multiple categories, Labor Costs must be allocated to the appropriate category so that a gross margin (i.e. revenue less direct costs) can be calculated for each category. This sounds simple, but it can be a challenging accounting task.

What should be included in Labor Cost? Should it include direct wages only? Should it include payroll taxes and benefits? Should it include the cost of vehicles and phones? Should your Labor Cost account for down-time, like holidays, vacation, sick days, travel and training?

If you decide that Labor Cost should include only wages, then your labor cost rate might be \$15 per hour or lower for some technicians. If you decide that Labor Cost should include all expenses related to the technician (taxes, benefits, vehicles, phones, etc.) and account for down-time (travel, shop, holiday, vacation, sick time, etc.), your labor cost rate might be \$50 per hour or more on average.

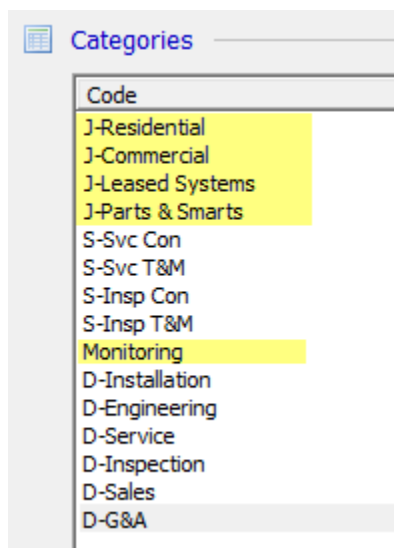
Once you decide on your definition of Labor Cost, then you have the accounting task of allocating those costs to the appropriate profit center.

Many companies track technician hours on time sheets by job and service category and input these hours to their payroll system. The payroll journal becomes the source document for allocating wage expense by category. Other expenses (taxes, vehicles, phones, etc.) and down-time (travel, shop, holiday, vacation, sick time, etc.) are usually not allocated, which means they will not be part of Labor Cost and will be characterized on the income statement as Indirect Costs or Labor Overhead.

The following section explains how Labor Costs, regardless of how you define it, can be easily accounted for in SedonaOffice using a one-to-many category structure.

### One-to-Many Category Structure

Consider the following categories:



In the above example, there are what we call “profit center” categories and “department” categories. The four job profit categories start with J-. The four service profit categories start with S-. Monitoring is a profit center. The six department categories start with D-.

In the one-to-many category structure above, 100% of an installer’s actual wages and related costs (i.e. payroll taxes, benefits, vehicle, phone, etc.) are booked to the D-Installation category. 100% of an engineer’s actual wages and related costs are booked to the D-Engineering category. 100% of a service tech’s actual wages and related costs are booked to the D-Service category. 100% of an inspection tech’s actual wages and related costs are booked to the D-Inspection category.

As you enter technician time into jobs and service tickets, Labor Cost (calculated by multiplying hours times the labor cost rate) is “pulled” from the appropriate department category and moved to Labor Work-in-Progress (Cost of Labor if you do not use WIP). When jobs and service tickets are closed, WIP-Labor is moved to Cost of Labor and into the appropriate profit center category for the underlying job or service ticket.

The one-to-many category structure means from one department to many profit centers. For example, an installer’s actual wages and related expenses are booked to the department category (D-Installation). As jobs and service tickets are processed, Labor Cost is allocated automatically from the department category to the appropriate profit center categories.

The following GL entries illustrate how labor costs are accounted for in a one-to-many category structure.

1. Actual expenses being charged to Department categories:

Date	GL Acct	Account Name	Debit	Credit	Branch	Category
7/15/12	620450	Wages expense	1,000.00		Atlanta	D-Installation
7/15/12	620450	Wages expense	1,000.00		Atlanta	D-Service
7/15/12	620450	Wages expense	1,000.00		Atlanta	D-G&A
7/15/12	620430	Payroll tax expense	100.00		Atlanta	D-Installation
7/15/12	620430	Payroll tax expense	100.00		Atlanta	D-Service
7/15/12	620430	Payroll tax expense	100.00		Atlanta	D-G&A
7/15/12	220100	Wages payable		2,700.00	Atlanta	
7/15/12	220210	Federal payroll taxes payable		450.00	Atlanta	
7/15/12	220220	State payroll taxes payable		150.00	Atlanta	

2. Automatic entries when an installer’s time is entered to a job and a service ticket:

Date	GL Acct	Account Name	Debit	Credit	Branch	Category
7/15/12	122120	WIP-Job Labor	200.00		Atlanta	
7/15/12	122220	WIP-Svc Labor	100.00		Atlanta	
7/15/12	242100	Deferred Labor - Jobs		200.00	Atlanta	
7/15/12	242200	Deferred Labor - Svc		100.00	Atlanta	

3. Automatic entries when a job is closed in SedonaOffice:

Date	GL Acct	Account Name	Debit	Credit	Branch	Category
7/20/12	510002	COS-Job Labor	200.00		Atlanta	J-Residential
7/20/12	122120	WIP-Job Labor		200.00	Atlanta	

4. Automatic entries when a service ticket is closed in SedonaOffice:

Date	GL Acct	Account Name	Debit	Credit	Branch	Category
7/16/12	520002	COS-Svc Labor	100.00		Atlanta	S-Service T&M
7/16/12	122220	WIP-Svc Labor		100.00	Atlanta	

5. Journal entry at month-end to clear Deferred Labor to a department category:

Date	GL Acct	Account Name	Debit	Credit	Branch	Category
7/15/12	242100	Deferred Labor - Jobs	200.00		Atlanta	
7/15/12	242200	Deferred Labor - Svc	100.00		Atlanta	
7/15/12	690100	Labor Cost Entries		300.00	Atlanta	D-Installation

To summarize, when using a one-to-many category structure to account for labor costs:

- 100% of an employee's wages and related expenses are booked to their respective Department category
- The embedded costing functionality in SedonaOffice is used to allocate Labor Cost to the appropriate profit center category...**no fancy payroll or journal entries required!**
- It doesn't matter how you define your labor cost rate with this methodology. You can use a rate that approximates direct wages paid to technicians or a fully-burdened rate that includes all technician-related expenses and down-time. Or, something in between.
- The difference between actual expenses in a department category less the job cost entries will be characterized on your income statement as either Labor Variance (if you use a fully-burdened labor cost rate) or Labor Overhead (if your labor cost rate is less than fully burdened.)

## GL Accounts

After defining your branches and categories, you are ready to define your GL Accounts (Chart of Accounts).

A good Chart of Accounts will be well-organized, such as shown here:

- Balance Sheet Accounts
  - 1xxxxx – Assets
  - 2xxxxx – Liabilities
  - 3xxxxx – Equity
- Income Statement Accounts
  - 4xxxxx – Revenues
  - 5xxxxx – Cost of Sales
  - 6xxxxx – Indirect Expenses
  - 7xxxxx – Overhead Allocations
  - 8xxxxx – Non-Operating Income and Expense
  - 9xxxxx – Income Tax Expense

### Balance Sheet Accounts

Balance sheet accounts should be numbered keeping in mind that you will most likely want to group certain accounts for presentation in a custom balance sheet.

For example, the following list of current assets indicates that all cash accounts will start with 10, such as Cash-Operating (100100) and Cash-Payroll (100200).

Current Assets	
Cash	10*
AR	1101*
Allowance for Bad Debt	1102*
AR Clearing	1103*
Inventory	120*
WIP	122*
Prepaid Expenses	130*
Employee Advances	132*
Deposits	134*
Pre Pay AP	138*
Due from Related Parties	140*
Notes Receivable	142*
Other Current Assets	144*

Using this structured numbering convention, cash accounts can be easily grouped in a custom balance sheet:

	<u>Current Month</u>	<u>Prior</u>
<b>ABC Alarm</b>		
<b>Balance Sheet</b>		
<b>9/30/2011</b>		
	<u>Current Month</u>	<u>Prior</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash & Equivalents	14,546	7
Accounts Receivable (net)	491,174	551,
Inventory	443,788	393,0
WIP	372,659	315,24
Prepaid Expenses	14,793	18,9
Due from Related Parties	30,523	19
Notes Receivable	10,000	1
Other Current Assets	(1,236)	
Total Current Assets	1,376,246	1
<b>Fixed Assets</b>		
Computer & Software	81,175	
Machinery & Tools	2,488	
Equipment	17,052	2

### Income Statement Accounts

The same principle of grouping applies to income statement accounts. For example, the following revenue accounts start with 410.

410210	Residential Installations
410220	Commercial Installations
410230	Parts & Smarts Sales



Likewise, the following cost of sales accounts start with 510.

510001	COS - Jobs (Parts)
510002	COS - Jobs (Labor)
510003	COS - Jobs (Commissions)
510004	COS - Jobs (Install Subs)
510005	COS - Jobs (Permits)
510006	COS - Jobs (Equip Rent)
510007	COS - Jobs (Engineering)
510008	COS - Jobs (Per Diem)
510009	COS - Jobs (Travel)
510010	COS - Jobs (Misc)
510011	COS - Jobs (Wire & Supplies)
510012	COS - Jobs (Performance Bond)

In a custom income statement, Installation revenue and costs are easily grouped using a structured numbering convention.

**ABC Alarm**  
**ABC Alarm**  
 Income Statement  
 All Branches, All Categories  
 9/30/2011

	<u>Month-to-Date</u>	<u>% of Revenue</u>	<u>Year-to-Date</u>
<b>Revenue</b>			
Installations	148,512	46%	1,443,212
Service & Inspections	73,336	23%	692,145
Monitoring	119,765	37%	1,094,567
Other	(19,165)	-6%	204,100
	<u>322,449</u>	<u>100%</u>	<u>3,443,024</u>
<b>Direct Cost of Sales</b>			
Installations	83,224	26%	821,123
Service & Inspections	12,764	4%	312,456
Monitoring	30,257	9%	289,123
Other	2,382	1%	18,123
	<u>128,627</u>	<u>40%</u>	<u>1,440,825</u>
<b>Contribution Margin</b>	<u>193,822</u>	<u>60%</u>	<u>2,002,199</u>

Categories play an important role in structuring your income statement Chart of Accounts. For the most part, you do not need to create separate, redundant GL accounts when a category can be used more effectively.

Here's the example entry used earlier in the presentation:

Date	GL Acct	Account Name	Debit	Credit	Branch	Category
7/15/12	620450	Wages expense	1,000.00		Atlanta	D-Installation
7/15/12	620450	Wages expense	1,000.00		Atlanta	D-Service
7/15/12	620450	Wages expense	1,000.00		Atlanta	D-G&A
7/15/12	620430	Payroll tax expense	100.00		Atlanta	D-Installation
7/15/12	620430	Payroll tax expense	100.00		Atlanta	D-Service
7/15/12	620430	Payroll tax expense	100.00		Atlanta	D-G&A
7/15/12	220100	Wages payable		2,700.00	Atlanta	
7/15/12	220210	Federal payroll taxes payable		450.00	Atlanta	
7/15/12	220220	State payroll taxes payable		150.00	Atlanta	

Note that Wages are coded to the same GL Account (#620450) but that each entry is coded to a different Category.

## Final Word

Setting up your General Ledger in SedonaOffice requires that you have a good understanding of the three key elements:

- Branches
- Categories
- GL accounts

First, determine the branches to set up. The possibilities include operating branches, a corporate branch, billing branches and branches for legal entities.

Second, determine the categories to set up. Identify the profit centers that you want to report on in the financial statements. Review your organization to identify your company departments. Decide if you will use a basic structure or a one-to-many category structure.

Finally, set up your GL accounts. Make sure it's well-organized, uses a structured numbering system and avoid setting up redundant accounts.

Setting up your GL is the basis for a sound financial reporting system. Done well, your financial reporting system can be a tremendous asset to your company. Done poorly, it can become a tremendous burden.

To get the results you want, **ALWAYS BEGIN WITH THE END IN MIND!**