PENTAGON *2000 Software, Inc.*

Accounting Introduction

The Pentagon Financials is an 'Accrual Based' accounting system, by which every Sale or Purchase flows via Accounts Receivable and Accounts Payable. Therefore, before you start using the Pentagon Financials Module, it is imperative to have the correct settings defaulted. You will need to prepare the following when setting up the financial module:

1. Company Fiscal Year dates

2. Number of Periods you wish to track

3. Your standard chart of accounts. The Pentagon system comes with pre-defined chart of accounts in which you can add, delete of modify existing accounts. The chart of accounts numbering scheme is as follows:
    a. '1' Prefix represents 'Assets'
    b. '2' Prefix represents 'Liabilities'
    c. '3' Prefix represents 'Capital'
    d. '4' Prefix represents 'Revenues'
    e. '5' Prefix represents 'Cost of Goods'
    f. '6' Prefix represents 'Expenses'
    g. '7' Prefix represents 'Other Income'
    h. '8' Prefix represents 'Other Expense'
    i. '9' Prefix represents 'Miscellaneous'

An account code may have a maximum length of fourteen (14) characters and a minimum of (2). Account descriptions for categories 5 to 9 can be changes to fit your business activities.

Note that general ledger codes can be identified as 'General' codes or 'Detail' codes. A General code may have sub-codes, whereby the detail code under the general will start with the prefix of the general code. Using this method you can branch up to 5 levels of general ledger codes. Example enclosed:

100 - (General) - Cash in the bank
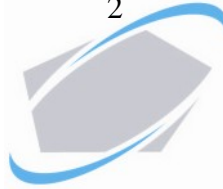
100-1 (General) - Investments

100-1-10 (Detail) - Mutual Fund 1

100-1-20 (Detail) - Mutual Fund 2

100-2 (General) - Checking accounts

100-2-10 (Detail) - Checking account 1

100-2-20 (Detail) - Checking account 2

Note that the hierarchy of general ledger codes can reach five levels deep, unlimited codes in each hierarchy.

4.   The Pentagon system uses also 'General Ledger Accounts'. These accounts are templates describing the distribution of each document/line item to the general ledger. When a document is posted to the general ledger, the system relates to the table assigned to the document and posts amounts to the general ledger codes assigned in the table (refer to 'Setting up General Ledger Accounts'). For every general ledger code that is used in purchasing or sale, a table <u>must</u> be created.

5.   Decide if you have the need to track 'Divisions' and 'Departments' within your organization. Division and department can be set in the General 'Administration', 'Company/Division/Department'. A company may have multiple divisions, and each division may have multiple departments. Each division and department may have a code of up to 5 characters and are always appear as the prefix of the general ledger code, hence utilizing the same chart of accounts for all divisions/departments.

Example:

Company (1), Division (20), Department (310), General Ledger (4000) may represent an income for one of the departments in one of the divisions: **1-20-310-4000**

6.   Define the method of inventory tracking. There are two methods to track inventory in the General Ledger:
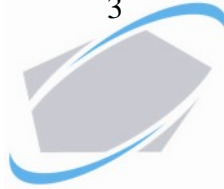
a. '**Perpetual Inventory' -** This method calls for every purchase of inventory item to 'Debit' the inventory general ledger code, and for every sale of inventory item to 'Credit' inventory and 'Debit' Cost Of Goods.

b. '**Periodical Inventory'** - This method calls for every purchase of inventory to 'Debit' the purchases general ledger. There will be no activity in the inventory general ledger upon sale. You will use the 'inventory value' report from the subsidiary ledger once a month to create a journal entry and make an adjustment to your inventory value.

7.   Prepare the list of bank accounts and check books in each account.

8.   Decide if General ledger tracking by 'Line Item' or by 'Document' is required. If by Line Item, each line item in the documents will be assigned a code and will be posted to the general ledger individually. If by document, the entire document will be posted to the general ledger as one entry. The following will describe the system priority for selecting accounts used when posting to the ledger. The system defaults to the next option if the previous one is not available:

a.   '**Posting By Document':**
   i. Account set in the customer file
   ii. Account set in the accounting default setup

b.   '**Posting by Line Item':**
   i. Account set in the virtual warehouse item was shipped from
   ii. Account set in the physical warehouse item was shipped from
   iii.   Account set in the Inventory screen, General Ledger account by line type for the part bought/sold.
   iv.   Account set by line type, in 'Administration', 'Standard general ledger codes by line type'
   v. Accounting setup, general ledger account default per line, A/P and A/R.

9.   If you are planning to use computerized checks, order the checks ahead of time. A check style and number, and a company name to order the checks from can be found in our web site at www.pentagon2000.com.
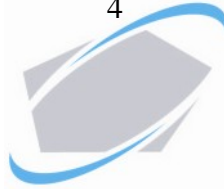
Remember that all of the above are defaults only and you will have an option to change some defaults in the individual documents.

ACCOUNTING SETUP

Use this screen to setup your fiscal year and accounting defaults:

1. **'Periods'** - Number of periods in your fiscal year. Usually 12.

2. **'Fiscal Year Begins'** - Start date of fiscal year. Entering a date in this field will populate all period dates in the right hand side according to the number of periods defined.

3. **'A/R G/L Table Header'** - Default General ledger account for sales by document.

4. **'A/R G/L Table Line'** - Default General ledger account for sales by line.

5. **'A/P G/L Table Header'** - Default General ledger account for purchases by document.

6. **'A/P G/L Table Line'** - Default General ledger account for purchases by line.

7. **Retained Earnings'** - General Ledger code where Retained Earnings will be posted upon year closing.

8. **'Post to Closed Periods'** - Check this box if you allow posting transactions to closed periods.
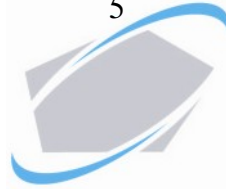
Please note: since the Pentagon Financials Module is date sensitive, you have the ability to define which of the document dates the system will use when populating the 'Post to Date' field in a document (the period date the document will post to). These are only defaults and you have the option to override them in the individual document:

1. **'Post Invoices By':** (Sales Invoices)
   a. Invoice Date - The date the sales invoice was created
   b. Approved Date - The date the invoice was printed/approved.

2. **'Post RMA By':** (Return Material Authorization – Credits)
   a. Received Date - The date parts received back from Customer
   b. Approved Date - The date the RMA was approved as credit.

3. **'Post Receivers By':** (Material Receipts)
   a. No Posting – Receivers will not be posted to the ledger. *Use this option if you do not wish to include receivers that were not matched against vendor invoices in the ledger (Receiver posting is used to record inventory receipt liability).*
   b. Receiver Date - The date when the receiver was created.
   c. Post to Stock Date - The date the inventory was updated from the receiver.
   d. Approve Date - The date the receiver was approved.

4. **'Post Vendor Invoices By':** (Material Receipt Invoices and Miscellaneous Invoices)':
   a. Invoice Date -The date the document was created
   b. Vendor Invoice Date - The date of the vendor invoice

5. **'Post Claims By':** (Parts rejections to vendors and Debit Memos)
   a. Shipping Date - The date parts were shipped back to vendor
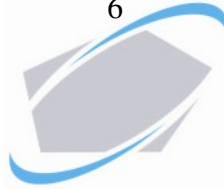
b. Approve Date - The date the document was approved as Debit

Late Charges - You an option to asses an interest rate on delinquent invoices issued to customers. Enter the percentages for late payment charges.

Bank List

Pentagon financials allows using multiple Bank Codes. Each bank may have multiple account numbers, and each account number may have multiple checkbooks.

Entering new banks

To enter a new bank:

1. Click on Bank List
2. Click on 'ADD'
3. Enter bank ID code, usually '01', '02' etc. (mandatory)
4. Enter bank name (mandatory)
5. Enter address information
6. Click OK to save

Entering Bank Accounts in an existing bank

1. Select the bank ID from the list
2. Click on 'Accounts' tab
3. Click on 'Edit'
4. Click on 'New' (bottom left)
5. A new window will open
6. Enter bank account number
7. Enter type of account: Checking, Savings, Line of Credit or Investment Fund
8. Enter account currency
9. Enter account description

10. Enter the date account was opened

11. Enter Interest rate

12. Enter General Ledger account assigned to this bank (make sure each bank account has unique General Ledger code)

13. Enter the beginning counter for deposits (Last Deposit number used)

14. Click on OK to save

Entering new check books

1. Select the bank code

2. Select the bank account number

3. Click on EDIT

4. Click on 'Check Books' (bottom screen)

5. Click on 'ADD NEW'

6. Enter 'Check book number', usually '01', '02', etc.

7. Enter description, i.e. 'Manual check', 'Laser checks', etc.

8. Enter last check number used in the checkbook. If you start from '1', enter '0' as the beginning number.

9. Check the 'Automatic' box if this is a computerized checkbook

10. If the automatic check was checked, an additional tab for 'Printing Positions' will appear

11. Click on the 'Reset' button to populate printing positions parameters. These parameters load the settings for Pentagon standard laser checks format. You have the ability to change the printing parameters if you are using a different check style other than Pentagon default.

12. Click OK to save

Using the 'Check Designer'

The check designer is used when you plan to use 'Blank checks' (stock checks). Using the check designer allows you to design your own checks in addition to the 'Printing Positions'. You will be able to set your company name, location of the field descriptions and the magnetic code that prints at the bottom of the checks. To utilize this feature you will need to obtain:
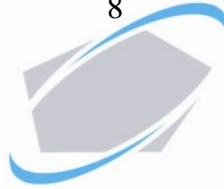
1. Special Fonts that support magnetic readings
2. Special magnetic toner for your checks printer.

Entering General Ledger Codes

As described in the introduction, there are nine general ledger categories in Pentagon Financials. Each category can have unlimited codes and can be entered in a hierarchy structure up to five levels.

Entering New Codes

1. Click on 'G/L Codes'
2. Highlight the G/L category you want to list the new code under
3. Right Click using the mouse
4. Click on 'Add G/L code Detail'
5. Enter Code and Name (Active will be checked as default, identifying this code as valid and active)
6. Click on 'Add G/L code General' if you plan to assign sub-account under this code. To assign detail codes to a general code, always highlight the General Code first before you add detail codes (Remember that the detail codes always will start with the prefix of the general code)

Entering Beginning Balances and Budgets

Note that beginning balanced can be entered only for a detail code and can be entered individually to a company, division and/or department.

1. Click on 'G/L Codes'
2. Highlight the code you wish to modify
3. Right click using the mouse
4. Click on 'G/L Code Budget'
5. If you do not see any records in the list, click on 'Add'; otherwise select the existing record.
6. Enter Company, Division, Department
7. Enter begin balance, Debit or Credit
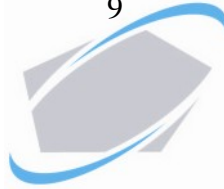
8. Enter Budget amount for each one of the periods.
9. Click on OK to save
10. Close the window

Modifying code names and deleting codes is done via the same menu. Code can be deleted only if no entries were posted against it. If you wish to delete a code with posted transactions, uncheck the 'Active' box instead.

Entering and Setting up General Ledger Accounts

As described before, General Ledger accounts are Templates the system uses when posting transactions to the General Ledger. For every sale or purchase general ledger code, an account has to be setup.

To enter accounts, click on 'G/L Accounts' and click on 'Add'

*Entering General Ledger account for Purchasing*

1. Enter 'Table Code' and 'Name' - You can use the same code and description as the General Ledger code detail.
2. Enter type 'Purchase'
3. In the Sub-Totals tab:
   a. Payable - Enter Accounts Payable Code
   b. Advance - Enter a credit code for vendor advance payments. This is used to track vendor advance payments in case you do not wish to credit vendor advances to Accounts Payable. Otherwise use the Accounts Payable code.
   c. Sub-Total - Enter the Expense code. If you use perpetual inventory, enter the Inventory G/L code, otherwise enter 'Purchases' or 'Cost of Goods'. For all other expenses, use the expense code.
   d. Discount - Enter the discount code if you wish to track discounts given in the documents.
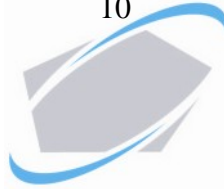
e. Net Discount - Enter the discount code if you wish to track discounts taken at time of payment (if you take advantage of net terms discounts)

4. In the Misc. Tab enter the General Ledger codes representing the six user defined charges that appear on every vendor invoice (Freight, Insurance, etc.)

5. In the Taxes Tab enter the General Ledger codes representing Taxes you need to pay on purchases you made

6. Line Charges Tab - Use these fields if your setup is to post transactions to the ledger by line item. These fields represent 3 additional costs per line item.

7. Other Tab - Enter the credit code for Receiver Posting. If you post receivers to the general ledger using this table, the system will use the credit code from this field instead of the Accounts Payable code.

Entering General Ledger account for Sales

1. Enter 'Table Code' and 'Name' - You can use the same code and description as the General Ledger code detail.

2. Enter type 'Sell' (Note that if this account is used for Purchasing and Sales as well, select 'Both')

3. In the Sub-Totals tab:

   a. Receivable - Enter Accounts Receivable Code

   b. Advance - Enter a debit code for customer advance receipts. This is used to track customer advance receipts in case you do not wish to debit customer advance receipts to Accounts Receivable. Otherwise use the Accounts Receivable code.

   c. Sub-Total - Enter the Revenue.

   d. Discount - Enter the discount code if you wish to track discounts given in the documents.

   e. Net Discount - Enter the discount code if you wish to track discounts given at time of receipts (Bank charges or net terms discounts)

   f. COG-Sold (CR) - Enter the Inventory code (For perpetual inventory only)
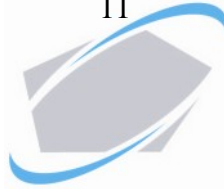
g. COG-Sold (DB) - Enter the Cost Of Goods Sold code (For perpetual inventory only).

h. Note that if 'Periodical Inventory' is used, the COGS codes have to be populated with the same code, a suspense code, so the net result of the cost entry is zero.

4. In the Misc. Tab enter the General Ledger codes representing the six user defined charges that appear on every sales invoice (Freight, Insurance, etc.)

5. In the Taxes Tab enter the General Ledger codes representing Taxes you need to collect on sales you made

6. Line Charges Tab - Use these fields if your setup is to post transactions to the ledger by line item. These fields represent 3 additional charges per line item.

Using General Ledger Tables for Warehouse Transfers

When General Ledger accounts are assigned to warehouses, performing a transfer from warehouse to warehouse will affect the net result value of each warehouse. The system uses the G/L codes in the 'Other' tab to record the debit and credit to the ledger.

In 'W/H transfers', in the Debit and Credit fields, enter the same code for inventory as entered in the 'Sub-Totals' tab, 'Sub-Totals' field (in the same table).

Posting warehouse transfers to the general ledger is done directly from the warehouse transfer record.

Using General Ledger Tables for Inventory Updates

When General Ledger accounts are assigned to warehouses, performing a stock update in a warehouse will affect the net result value of the warehouse. The system uses the G/L codes in the 'Other' tab to record the debit and credit to the ledger.

In 'Stock updates':
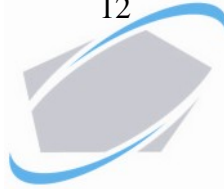
Debit - Always represents the 'Inventory' General Ledger

Credit - Represents the offset default code for adjustments

Note that any adjustments, Positive or Negative will always 'Debit' the inventory, hence increasing or decreasing the value respectfully.

Using General Ledger Tables to Track Inventory Work In Process

If your system setup is set to track Work In Process (WIP) inventory in the work order module, the accounting method of 'Perpetual Inventory' have to be used. Setting up the general ledger codes in 'WIP Parts' tab and 'Sub-total' tab will be the following:

In 'WIP Parts' tab fields:

Total Cost - Usually marked as 'Credit', General Ledger code 'Inventory'

Cost (DB) - Debit, General Ledger code 'Inventory-Work In Process'

Cost1 (DB) - Debit, line item user defined cost expense.

Cost2 (DB) - Debit, line item user defined cost expense.

Cost3 (DB) - Debit, line item user defined cost expense.

In 'Sub-Totals' tab fields:

COG Sold (CR) - Credit, General Ledger 'Inventory-Work In Process'

COG Sold (DB) - Debit, General Ledger 'Cost Of Goods Sold'

Make sure that this table (or any other table setup for WIP) is assigned to all the part numbers installed in a work order. Posting WIP Parts from the Work Order module will use the General Ledger codes from the 'WIP Parts' tab. When the customer invoice is created, the general ledger codes from the 'Sub-Totals' tab are used.

Using General Ledger Tables to Track Labor Work In Process

The setting of table for posting WIP labor is very similar to posting WIP inventory except for using the 'WIP Costs' tab instead of 'WIP Parts'.

You have the option to track Regular Labor hours and Overtime Labor hours separately, using the corresponding General Ledger codes.
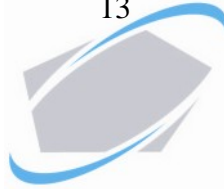
Setting up the general ledger codes in 'WIP Costs' tab and 'Sub-total' tab will be the following:

In 'WIP Costs' tab fields:

Total Cost - Usually marked as 'Credit', General Ledger code 'Labor Payable' (or any other cost category payable you use)

Regular (DB) - Debit, General Ledger code 'Labor-Work In Process'-Regular

Overtime (DB) - Debit, General Ledger code 'Labor-Work In Process'-Overtime

Overhead (DB) - Debit, general ledger code for 'Overhead/Burden' percentage

In 'Sub-Totals' tab fields:

COG Sold (CR) - Credit, General Ledger 'Labor-Work In Process' (Regular or overtime, depends if this table is used to track Regular or Overtime labor)

COG Sold (DB) - Debit, General Ledger 'Cost Of Labor'

Make sure that this table (or any other table setup for WIP) is assigned to the cost category it represents. Posting WIP Costs from the Work Order module will use the General Ledger codes from the 'WIP Costs' tab. When the customer invoice is created, the general ledger codes from the 'Sub-Totals' tab are used.