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Chapter VIII

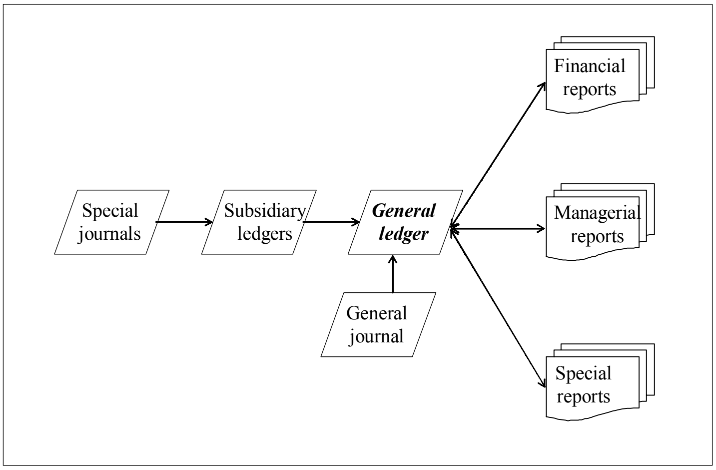
The General Ledger Cycle

General Ledger Cycle Activities

The general ledger cycle consists of posting of entries from special journals, subsidiary ledgers, and general journal to general ledger; as well as generating financial, managerial and special reports. Accounting transactions are first recorded in special and general journals from source documents and posted to subsidiary and general ledgers. At the end of the accounting period, an unadjusted trial balance is prepared. Then adjusting entries are made based on information from the controller and treasurer. The general ledger can then be used to generate required reports. Once the financial statements are finalized, accounting books are closed via closing entries, and a post-closing trial balance is prepared. The traditional use of a general ledger has been for generating financial reports for investors. Every student of accounting knows this.

Computerized accounting systems used s chart of accounts for capturing and classifying accounting data. Data classified according to the chart of accounts can then be used to generate financial, managerial and special reports. Reporting demands placed on the chart of accounts continually grew. As a result, charts of accounts became very complex in many organizations. The complexity of chart of accounts soon hit a roadblock. Instead of facilitating flexible reports, charts of accounts became a monster to maintain and

Exhibit 1. The general ledger cycle



manage. The problem still persists in many organizations. Charts of accounts exist in all ERP/accounting systems; however, customization and implementation of charts of accounts and consequent reporting capabilities are more of an art than a science.

The general ledger in the first automation phase was maintained as some form of indexed file organization. Many entry-level accounting systems still rely on Btrieve-type environments. Relational databases offered more flexibility and, when coupled with the client server architecture, could perform far better reporting tasks. Software such as Crystal Reports, which specialized in reporting and analyzing data, became commonplace. These tools extracted subsets of data from corporate databases and used those data sets to meet varied reporting and analytical demands of the organizations. The ERP systems changed the nature of the general ledger by merging financial and non-financial information; data warehouses, business information warehouses and knowledge warehouses ushered in a new era of financial analytics.

The Internet increased functionality of ERP software. Closing of the books, which took weeks or months for many organizations, was reengineered using Web-based tools. Financial analytics extended beyond standard financial reports and included performance measures spanning customers, suppliers, manufacturing, human resources and stakeholders. Data mining tools operated underneath and provided statistical analyses of corporate data. Executive dashboards enabled executives to monitor vital signs of the organization almost instantaneously. Planning and budgeting changed as far more information and tools to manipulate corporate information became available to managers. Enterprise portals that organized and disseminated the fragmented organizational information came on the scene. These portals provided easy navigation and drill-down capabilities to explore corporate databases. Remember, these tools promise a lot, but implementation has not always been successful; these are not substitutes for managerial vision and common sense.