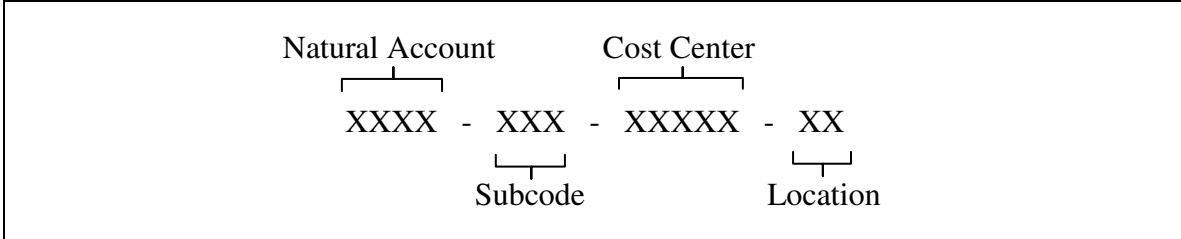




Coding Methodology

Account Code Description and Usage

Mercy Corps uses a fourteen digit account code. The code is comprised of four segments: Natural Account, Subcode, Cost Center, and Location. The structure is shown below.



It is critical to recognize that:

- each segment serves a separate function;
- when coding a transaction, each segment must be considered individually.

The function, format, assignment and usage of each segment are described below.

1. Natural Account (Main) Segment	
Function:	The Natural Account or Main segment is used to group transactions and accounts by the type of expense. Examples of natural account segments on the income statement are salaries expense, vehicle fuel, office rent, revenue, etc. Examples of natural account segments on the balance sheet are bank accounts, deposits, taxes payable, etc.
Format:	The natural account segment is four digits in length and <u>must be numeric only.</u>
Assigned By:	Natural account segments are described in detail in the <i>Field Finance Manual, Appendix 6 - Chart of Accounts</i> . The sole authority to add, change or delete natural account segments in the Mercy Corps Chart of Accounts rests with the HQ Controller.
Usage:	In order to be able to consolidate Mercy Corps' worldwide financial statements, <u>it is critical that transactions are consistently coded to the correct natural account segment.</u> Transactions may not be coded to other natural account segments for any reason, including instances when there are no specific budget lines for that type of expense. For example, office utilities must always be coded as 6801, even if the budget only contains a line for office rent, 6800. Similarly, project expenses may not be coded to one natural account, unless they are all of the same type (natural account).

2. Subcode Segment	
Function:	The Subcode segment is used to group transactions or accounts that must be reported together for either donor reporting or management reporting purposes. This segment is flexible and is not standardized across all cost centers. For grant cost centers, an individual subcode will generally represent a donor reporting or budget reporting line. On the balance sheet, a subcode will generally represent a differentiation for management reporting, such Bank Account A versus Bank Account B.

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Format:	<p>The subcode segment is three digits in length and <u>must be numeric</u>.</p> <p>(Some existing alpha codes have been grandfathered into the system; however, no new alpha codes may be added. Two-digit subcodes used in the previous version of MAS90 have been converted to three digits by adding a leading zero. These new three-digit codes carry the historical data.)</p>
Assigned By:	<p>Subcodes are assigned at the outset of a project based on the project budget and are documented on the “Coded Budget”. The Country Finance Manager and the HQ Regional Finance Officer must agree on the assignment of subcodes for each coded budget.</p>
Usage:	<p>In a cost center, each reporting line and the accounts that roll up under it are assigned a unique subcode. The reporting line can be either a donor reporting line or a management reporting line.</p> <p>Because it is flexible, the subcode is a helpful tool to group expenses or other transactions according to a common project or function without losing the integrity of the natural account segment. For example, the budget line “School Rehabilitation” may require expenditures that fit into multiple natural account segments, such as books, construction services and supplies. Since these types of expenditures must be coded to separate natural account codes, a unique subcode assigned to this summary reporting line will allow these expenses to be rolled up together as a project and compared against the budget.</p> <p>In some cases, donors may want to see a lower level of detail than is provided by the natural account segment (for example, a fax machine versus a copier, which in the Mercy Corps system would both be coded to the natural account 6340). In this example, a unique subcode representing a reporting line can be assigned to track the cost of the fax machine separately from the cost of the copier (e.g. 6340-001 for the fax machine and 6340-002 for the copier).</p>

3. Cost Center

Function:	<p>The Cost Center represents the overall grant, program or funding code. This segment is used to group transactions and accounts that are attributed to one funding source. A cost center segment is also used to designate a unique balance sheet for each country program.</p>
Format:	<p>The cost center segment is five digits in length and <u>must be numeric</u>.</p> <p>(Some existing alpha codes have been grandfathered into the system; however, no new alpha codes may be added. Three-digit cost centers used in the previous version of MAS90 have been converted to five digits. For Portland donor-funded cost centers, a prefix of 3+ precedes the old three-digit cost center. For Scotland donor-funded cost centers, the prefix is 9+. For Hong Kong donor-funded cost centers, the prefix is 8+. Non-grant (core funds) cost centers in the field have a prefix of 23 plus the old three digit cost center. Historical information is carried in these converted cost centers.)</p>

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Assigned By:	A cost center may only be assigned by the HQ Regional Finance Officer (Portland for Mercy Corps US and Mercy Corps Hong Kong grants; or Edinburgh for Mercy Corps Scotland grants).
Usage:	Generally, one cost center code equals one grant. However, in grants with multiple countries, multiple cost centers may be assigned to facilitate project management by country. In these cases, a range of cost centers would be assigned to one grant and rolled up together for donor reporting. Each cost center would require a separate detailed budget for each country.

4. Location	
Function:	The Location segment is used to group transactions and accounts together by office location within a country program. The segment is used for expense account codes only. (The location code for all balance sheet accounts and revenue accounts is 00.)
Format:	The office location segment is two digits in length and must be numeric.
Assigned By:	The office location segment is assigned by the HQ Senior Finance Officer (Portland).
Usage:	<p>This segment is used to track expenditures by office location so that expenditures can be reported against a field office budget. Grant budgets which include costs for multiple office locations are broken down so that program managers are able to manage against their own budget allocation.</p> <p>The location code does not necessarily represent the location where the expense was paid, but instead, the location which was responsible for the expense. (For example, a procurement transaction which was made in the main office for a field office should be coded against the field office's location code since the field office initiated and was responsible for the purchase.)</p> <p>A unique office location code is assigned to each physical office location in a country program (main office and field offices).</p> <p>NOTE: In order to avoid unnecessary complication, costs <u>may not</u> be split over more than one location code.</p>

Coded Grant Budgets

A key tool for managing grant expenditures is the Coded Grant Budget. The coded budget provides a map of how actual costs will be tracked in Mercy Corps' accounting system so that they can be reported to management and to the donor.

All grants must have a Coded Grant Budget when the project begins.

It is difficult and time-consuming to try to assign expenses to a budget line after the fact. In addition, without a coded budget, it is impossible to set up meaningful, automated reports in the accounting software.

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The Coded Grant Budget must be based on the reporting format required by the donor. In most cases, the detail budget spreadsheet that was presented to the donor for approval can be used as the base since it reflects the correct roll-up of accounts. The detail level budget usually also reflects the level of information needed for program managers.

The Coded Grant Budget must be split by office location such that each office has a separate budget to manage against. If the grant budget was not prepared at the office level, then the summary budget will need to be broken down and allocated to all relevant office locations.

Step 1: The first step in coding the budget is to assign the cost center(s). This process is done at Headquarters by the HQ Regional Finance Officer for Mercy Corps and Mercy Corps Hong Kong grants. Cost centers for grants issued through Mercy Corps Scotland are assigned by the Finance Officer in Edinburgh. The cost center may be communicated to the Country Finance Manager by e-mail.

Step 2: The second step in coding the budget is for the Country Finance Manager to break the budget down by office location if the budget was not already prepared at this level of detail. This must be done with the input of the Program Manager or Country Director. Each office should be given a budget for the operating as well as programmatic costs that the office is responsible for managing. Ideally, proposal budgets are built up from the field office level and already reflect the split of costs between field offices. The correct location code is then assigned to each office budget.

Step 3: The next step in the process is for the Country Finance Manager to begin to prepare the draft coded budget by assigning codes from the Chart of Accounts to the natural account segment. All natural codes which are allowable under the budget line should be assigned to the line even if the budget does not specifically describe the item. US government donors, for example, allow grantees to charge expenses if they are allowable and part of the program scope (with a few exceptions), even though they may not have a specific budget line. Also, EC and ECHO often group expenses together under their standard budget lines which may represent multiple codes in Mercy Corps' Chart of Accounts.

Step 4: The next step is to assign a subcode for each reporting line. This key step will determine the level of detail that will be tracked in Mercy Corps' accounting system. Because the coded budget must meet both management reporting needs as well as donor reporting needs, the Country Finance Manager must review the subcodes with the Program Manager to ensure that the level of detail necessary for management reporting is reflected.

Step 5: After the Country Finance Manager has completed the draft coded budget, it should be sent to the HQ Regional Finance Officer for review. Within five working days, the HQ Regional Finance Officer either notifies the Country Finance Manager that the coded budget is accepted or proposes changes and works through these changes with the Country Finance Manager. Once the coded budget is finalized, it is the responsibility of the HQ Regional Finance Officer to issue the final document to the

Coding Methodology

Country Finance Manager and internally at Headquarters. A line should be inserted at the top of the spreadsheet with the title “Final Coded Budget”, the cost center and the date. The spreadsheet file should be renamed according to the following naming convention: Cost Center, Donor, Short Name, “Coded Budget”, Date (ddmmyy) (e.g. 30640 USAID EGCM I Coded Budget 310703).

Step 6: The Country Finance Manager is responsible for distributing the final Coded Budget to all relevant parties in the country program (all offices). The Coded Grant Budget should be explained to all staff members (program, finance, administration, procurement, etc.) so that all parties clearly understand how to code expenses to the grant as well as the importance of using the correct codes.

Step 7: As a final step, the approved, four-segment account codes must be uploaded into MAS90. For the field ledger, the responsibility for uploading codes lies with the Country Finance Department. For the HQ ledger, the Regional Finance Officer is responsible for forwarding the information to the HQ Accounting Department. See the “**Quick Reference: Entering Account Codes into MAS90**” available from HQ Finance or the Digital Library for instructions on uploading account numbers.

Coded Budget Example

The following budgets illustrate the coding methodology. The first budget, **Sample 1(a) – Summary for Donor Reporting (USAID)**, shows the level of detail required for donor reporting and how the subcodes will roll-up for the donor report.

The second budget, **Sample 1(b) – Coded Budget**, is an example of the full coded budget. This budget contains numbered references to notes which follow the budget and which are intended to explain the reasoning behind the use of the subcodes. These notes do not need to be prepared for each coded budget and are meant only to provide an explanation for this example.

Sample 1(a) - Summary for Donor Reporting

Subcode	Cost Center	Description	TOTAL BUDGET
001	30656	<i>Subtotal Salaries</i>	170,000
002	30656	<i>Subtotal Benefits & Allowances</i>	74,100
003	30656	<i>Subtotal Travel</i>	52,700
004	30656	<i>Subtotal Equipment</i>	45,000
005	30656	<i>Subtotal Other Direct Costs</i>	76,140
006-999	30656	<i>Subtotal Subawards and Contracts</i>	830,000
		TOTAL DIRECT COSTS	\$1,247,940



Coding Methodology

Sample 1(b) – Coded Budget

Cost Center 30656

Final Coded Budget 8/31/06

Natural Account	Subcode	Description	Location: 01	Location: 02	TOTAL BUDGET	Coding Explanation
		Salaries				
		Expatriate Salaries				
6010	001	Country Director (%)	20,000	0	20,000	Note 1
6010	001	Finance Manager (%)	15,000	0	15,000	
6010	001	Program Manager	0	50,000	50,000	
		National Salaries				
6011	001	Project Coordinators	0	25,000	25,000	
6011	001	Finance staff	7,000	8,000	15,000	
6011	001	Administration Staff	5,900	11,100	17,000	
6011	001	Logistics Staff	5,600	22,400	28,000	
		Subtotal Salaries	53,500	116,500	170,000	
		Benefits & Allowances				
6020	002	Expat Fringe Benefits	10,850	15,500	26,350	Note 2
6120	002	Expat Housing	5,700	7,800	13,500	
6121, 6122	002	Relocation Allowances	2,000	6,000	8,000	
6100, 6101	002	National Staff Benefits	4,625	16,625	21,250	
6190	002	Staff Training	2,000	3,000	5,000	
		Subtotal Benefits & Allowances	25,175	48,925	74,100	
		Travel & Transport				
6255, 6256	003	International Trips-Relocation/Home Leave	3,700	2,500	6,200	Note 3
6250, 6252	003	International Trips-HQ Visits, Consultants	11,500	0	11,500	
6500, 6501, 6505, 6509	005	Vehicle Operations	8,000	17,000	25,000	
6259	003	Local Travel	5,000	5,000	10,000	
		Subtotal Travel & Transport	28,200	24,500	52,700	
		Equipment				
7510	004	Vehicle Purchase	30,000	0	30,000	Note 4
6340, 6349	004	Miscellaneous Office Equipment	5,000	10,000	15,000	
		Subtotal Equipment	35,000	10,000	45,000	
		Other Direct Costs				
6800, 6801, 6802, 6808	005	Office Occupancy	7,000	13,000	20,000	Note 5
6810	005	Office Supplies	3,500	5,000	8,500	
6820, 6821, 6822, 6823	005	Communications	4,000	14,200	18,200	
6700, 6710, 6830	005	Printing/Publishing/Advertising/Visibility	3,800	400	4,200	
6805, 6815	005	Warehouse Costs	0	10,000	10,000	
6860	005	Insurance	840	0	840	
6200	005	A-133 Audit	1,000	0	1,000	
6910	005	Banking Fees	6,700	4,200	10,900	
6201, 6205, 6217, 6251, 6350, 6355, 6360, 6840, 6900, 6915, 6980, 6990	005	Other Direct Costs	1,100	1,400	2,500	
		Subtotal Other Direct Costs	27,940	48,200	76,140	
		Subawards and Contracts				
8610	006, 007	Subgrant to Local NGO (2)		60,000	60,000	Note 6-7;
8600	008, 009	Subgrant to International NGO (2)	400,000	0	400,000	
xxxx	010	Technical Assistance Consultancies	20,000	0	20,000	
xxxx	011	School Rehabilitation		100,000	100,000	
xxxx	012-999	Community Projects		250,000	250,000	
		Subtotal Subawards and Contracts	420,000	410,000	830,000	
		TOTAL DIRECT COSTS	\$589,815	\$658,125	\$1,247,940	

Coding Methodology

Note 1: Since the donor in this case does not require detailed reporting of salaries, only one subcode has been assigned to the budget line “Salaries”. Because expatriate and national staff each have different natural account codes, 6010 and 6011 respectively, management reports will reflect a split between these two categories.

Notes 2-5: Similar to the “Salaries” line, these summary lines will each be reported to the donor rather than the detailed lines, and so only one subcode is assigned to each summary line. Management reports can still show the lower level of detail.

Natural codes for all allowable costs (based on the donor’s rules) should be included even though there may not be a specific budget amount. If an allowable expense is incurred but not budgeted specifically, program managers will need to use the donor’s budget flexibility rules and cover the cost by underspending on another line.

Notes 6 and 7: In order to track how much funding has been passed to each local subgrantee, a separate subcode should be assigned to each subgrant.

Notes 8 and 9: Similar to Notes 6 and 7, a separate subcode should be assigned to each international subgrant in order to track how much funding has been passed to each subgrantee.

Note 10: Though the donor report does not require a breakdown of the “Subawards and Contracts” line, the project manager will want to track how much is spent on each activity. Subcode 010 is assigned to roll up all expenses associated with “Technical Assistance Consultancies”. Natural accounts are not specified since these may vary depending on how the funds are spent to achieve the objective.

Note 11: The budget line “School Rehabilitation” may require expenditures that fit into multiple natural account segments, such as books, construction services, fuel supplies, etc. These expenditures cannot be coded to one natural account only since this would distort the roll up of natural accounts in Mercy Corps’ financial statements. However, since the costs were included on one budget line only, the program manager will want to see these expenses rolled up to one management reporting line.

To accommodate both needs, a unique subcode (011) is assigned to the reporting line “School Rehabilitation”. Similar to Line 010, natural accounts are not specified since these may vary depending on how the funds are spent to achieve the objective. As an example, individual expenses might be coded as follows:

<i>Books for school rehabilitation</i>	8210-011-30656
<i>School construction costs</i>	8400-011-30656
<i>Fuel for school generator</i>	8210-011-30656

Note 12: Similar to Line 011, the budget line “Community Projects” may require expenditures that fit into multiple natural account segments. For this reason, the natural account code is not specified. Since the program manager will want to track total costs spent on each individual community project, a series of subcodes has been provided in the coded budget. As projects are approved, a budget allocation and a subcode can be assigned to each project to track actual expenses against the project budget.

Frequently Asked Questions**1. How should I code an expense which does not have a specific line in the budget?**

It is impossible to anticipate every expense that may be necessary to run a field office and its programs. Most donors recognize this and allow for flexibility within grants. (However, no donor allows for program activities to be charged to grants which were not originally approved as part of the scope of the project.)

If an expense does not have a specific line in the budget, it should first be determined whether or not the expense can be charged to the grant based on the donor's rules. If it is determined that the expense can be charged, then the summary reporting line which most closely describes the expense should be selected. The expense must be coded based on its natural account code plus the subcode of the reporting line that it will roll up to.

The coded budget should include all allowable natural codes that might roll up to a budget line to anticipate this issue.

2. Why aren't the natural account codes listed for program expenses instead of "xxxx"?

The natural account codes are not listed on the coded budget for program expenses because it is not always clear at the beginning of a grant what will be spent against the budget line to achieve the objective. In order to keep the line flexible and avoid miscoding, it is best to leave the natural codes unspecified. The actual expenses coded against that line will follow their natural account and be grouped by the subcode.

3. What codes should be entered into MAS90?

At the outset of a grant, full account codes should be set-up in MAS90 to facilitate data entry. The Chart of Accounts should be used to anticipate any natural account codes that will be needed. These should be combined with the appropriate subcode to reflect which reporting line the account will roll up to. It is important to recognize that accounts may need to be added during the course of the grant. Any questions about whether to add an account can be directed to the HQ Regional Finance Officer. Coding to the wrong natural account because an account was not anticipated at the beginning of a grant is prohibited. It is the responsibility of the Country Finance Manager to review coding to ensure that the coding is correct and that these concepts are well understood in the country office.

4. Can costs be split over multiple location codes?

No. Splitting costs over multiple location codes adds unnecessary complexity and multiplies the number of transactions in the ledger and subjournals. An expense should be coded to the office location where the purchase was initiated or where the staff member, vehicle, etc. is permanently located. Budget allocations for office locations should also be prepared in the same manner.



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