

## **Chart of Accounts**

The chart of accounts is a listing of all the accounts in the general ledger, each account accompanied by a reference number. To set up a chart of accounts, one first needs to define the various accounts to be used by the business. Each account should have a number to identify it. For very small businesses, three digits may suffice for the account number, though more digits are highly desirable in order to allow for new accounts to be added as the business grows. With more digits, new accounts can be added while maintaining the logical order. Complex businesses may have thousands of accounts and require longer account reference numbers. It is worthwhile to put thought into assigning the account numbers in a logical way, and to follow any specific industry standards. An example of how the digits might be coded is shown in this list:

### **Account Numbering**

1000 - 1999: asset accounts  
2000 - 2999: liability accounts  
3000 - 3999: equity accounts  
4000 - 4999: revenue accounts  
5000 - 5999: cost of goods sold  
6000 - 6999: expense accounts  
7000 - 7999: other revenue (for example, interest income)  
8000 - 8999: other expense (for example, income taxes)

By separating each account by several numbers, many new accounts can be added between any two while maintaining the logical order.

### **Defining Accounts**

Different types of businesses will have different accounts. For example, to report the cost of goods sold a manufacturing business will have accounts for its various manufacturing costs whereas a retailer will have accounts for the purchase of its stock merchandise. Many industry associations publish recommended charts of accounts for their respective industries in order to establish a consistent standard of comparison among firms in their industry. Accounting software packages often come with a selection of predefined account charts for various types of businesses.

There is a trade-off between simplicity and the ability to make historical comparisons. Initially keeping the number of accounts to a minimum has the advantage of making the

accounting system simple. Starting with a small number of accounts, as certain accounts acquired significant balances they would be split into smaller, more specific accounts. However, following this strategy makes it more difficult to generate consistent historical comparisons. For example, if the accounting system is set up with a miscellaneous expense account that later is broken into more detailed accounts, it then would be difficult to compare those detailed expenses with past expenses of the same type. In this respect, there is an advantage in organizing the chart of accounts with a higher initial level of detail.

Some accounts must be included due to tax reporting requirements. For example, in the U.S. the IRS requires that travel, entertainment, advertising, and several other expenses be tracked in individual accounts. One should check the appropriate tax regulations and generate a complete list of such required accounts.

Other accounts should be set up according to vendor. If the business has more than one checking account, for example, the chart of accounts might include an account for each of them.

### **Account Order**

Balance sheet accounts tend to follow a standard that lists the most liquid assets first. Revenue and expense accounts tend to follow the standard of first listing the items most closely related to the operations of the business. For example, sales would be listed before non-operating income. In some cases, part or all of the expense accounts simply are listed in alphabetical order.

### **Sample Chart of Accounts**

The following is an example of some of the accounts that might be included in a chart of accounts.

#### **Sample Chart of Accounts**

##### **Asset Accounts**

##### *Current Assets*

1000	Petty Cash
1010	Cash on Hand (e.g. in cash registers)
1020	Regular Checking Account
1030	Payroll Checking Account
1040	Savings Account

1050	Special Account
1060	Investments - Money Market
1070	Investments - Certificates of Deposit
1100	Accounts Receivable
1140	Other Receivables
1150	Allowance for Doubtful Accounts
1200	Raw Materials Inventory
1205	Supplies Inventory
1210	Work in Progress Inventory
1215	Finished Goods Inventory - Product #1
1220	Finished Goods Inventory - Product #2
1230	Finished Goods Inventory - Product #3
1400	Prepaid Expenses
1410	Employee Advances
1420	Notes Receivable - Current
1430	Prepaid Interest
1470	Other Current Assets

*Fixed Assets*

1500	Furniture and Fixtures
1510	Equipment
1520	Vehicles
1530	Other Depreciable Property
1540	Leasehold Improvements
1550	Buildings
1560	Building Improvements
1690	Land
1700	Accumulated Depreciation, Furniture and Fixtures
1710	Accumulated Depreciation, Equipment
1720	Accumulated Depreciation, Vehicles
1730	Accumulated Depreciation, Other
1740	Accumulated Depreciation, Leasehold
1750	Accumulated Depreciation, Buildings

1760	Accumulated Depreciation, Building Improvements
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*Other Assets*

1900	Deposits
1910	Organization Costs
1915	Accumulated Amortization, Organization Costs
1920	Notes Receivable, Non-current
1990	Other Non-current Assets

**Liability Accounts**

*Current Liabilities*

2000	Accounts Payable
2300	Accrued Expenses
2310	Sales Tax Payable
2320	Wages Payable
2330	401-K Deductions Payable
2335	Health Insurance Payable
2340	Federal Payroll Taxes Payable
2350	FUTA Tax Payable
2360	State Payroll Taxes Payable
2370	SUTA Payable
2380	Local Payroll Taxes Payable
2390	Income Taxes Payable
2400	Other Taxes Payable
2410	Employee Benefits Payable
2420	Current Portion of Long-term Debt
2440	Deposits from Customers
2480	Other Current Liabilities

*Long-term Liabilities*

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2700	Notes Payable
2702	Land Payable
2704	Equipment Payable
2706	Vehicles Payable
2708	Bank Loans Payable
2710	Deferred Revenue
2740	Other Long-term Liabilities

### **Equity Accounts**

3010	Stated Capital
3020	Capital Surplus
3030	Retained Earnings

### **Revenue Accounts**

4000	Product #1 Sales
4020	Product #2 Sales
4040	Product #3 Sales
4060	Interest Income
4080	Other Income
4540	Finance Charge Income
4550	Shipping Charges Reimbursed
4800	Sales Returns and Allowances
4900	Sales Discounts

### **Cost of Goods Sold**

5000	Product #1 Cost
5010	Product #2 Cost
5020	Product #3 Cost
5050	Raw Material Purchases
5100	Direct Labor Costs

5150	Indirect Labor Costs
5200	Heat and Power
5250	Commissions
5300	Miscellaneous Factory Costs
5700	Cost of Goods Sold, Salaries and Wages
5730	Cost of Goods Sold, Contract Labor
5750	Cost of Goods Sold, Freight
5800	Cost of Goods Sold, Other
5850	Inventory Adjustments
5900	Purchase Returns and Allowances
5950	Purchase Discounts

### **Expenses**

6000	Default Purchase Expense
6010	Advertising Expense
6050	Amortization Expense
6100	Auto Expenses
6150	Bad Debt Expense
6200	Bank Fees
6250	Cash Over and Short
6300	Charitable Contributions Expense
6350	Commissions and Fees Expense
6400	Depreciation Expense
6450	Dues and Subscriptions Expense
6500	Employee Benefit Expense, Health Insurance
6510	Employee Benefit Expense, Pension Plans
6520	Employee Benefit Expense, Profit Sharing Plan
6530	Employee Benefit Expense, Other
6550	Freight Expense
6600	Gifts Expense
6650	Income Tax Expense, Federal
6660	Income Tax Expense, State
6670	Income Tax Expense, Local

6700	Insurance Expense, Product Liability
6710	Insurance Expense, Vehicle
6750	Interest Expense
6800	Laundry and Dry Cleaning Expense
6850	Legal and Professional Expense
6900	Licenses Expense
6950	Loss on NSF Checks
7000	Maintenance Expense
7050	Meals and Entertainment Expense
7100	Office Expense
7200	Payroll Tax Expense
7250	Penalties and Fines Expense
7300	Other Taxes
7350	Postage Expense
7400	Rent or Lease Expense
7450	Repair and Maintenance Expense, Office
7460	Repair and Maintenance Expense, Vehicle
7550	Supplies Expense, Office
7600	Telephone Expense
7620	Training Expense
7650	Travel Expense
7700	Salaries Expense, Officers
7750	Wages Expense
7800	Utilities Expense
8900	Other Expense
9000	Gain/Loss on Sale of Assets