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Within the chart of accounts you will find that the accounts are typically listed in the following order: Within the categories of operating revenues and operating expenses, accounts might be further organized by business function (such as producing, selling, administrative, financing) and/or by company divisions, product lines, etc. A company's organization chart can serve as the outline for its accounting chart of accounts. For example, if a company divides its business into ten departments (production, marketing, human resources, etc.), each department will likely be accountable for its own expenses (salaries, supplies, phone, etc.). Each department will have its own phone expense account, its own salaries expense, etc. A chart of accounts will likely be as large and as complex as the company itself. An international corporation with several divisions may need thousands of accounts, whereas a small local retailer may need as few as one hundred accounts. Each account in the chart of accounts is typically assigned a unique number by which it can be identified. (Software for some small businesses may not require account numbers.) Account numbers are often five or more digits in length with each digit representing a division of the company, the department, the type of account, etc. As you will see, the first digit might signify if the account is an asset, liability, or equity. For example, if the first digit is a "5" it is an operating expense. A gap between account numbers allows for adding accounts in the future. The following is a partial listing of a sample chart of accounts. Current Assets (account numbers 10000 - 16999) 10100 Cash - Regular Checking 10200 Cash - Payroll Checking 10600 Petty Cash Fund 12100 Accounts Receivable 12500 Allowance for Doubtful Accounts 13100 Inventory 14100 Supplies 15300 Prepaid Insurance Property, Plant, and Equipment (account numbers 17000 - 18999) 17000 Land 17100 Buildings 17300 Equipment 17800 Vehicles 18900 10100 Accumulated Depreciation - Buildings 18300 Accumulated Depreciation - Equipment 18800 Accumulated Depreciation - Vehicles 21000 Stockholders' Equity (account numbers 20000 - 24999) 21000 Mortgage Loan Payable 25600 Bonds Payable 25650 Discount on Bonds Payable 27000 Retained Earnings 29500 Treasury Stock - No Par 27500 Line #1 21000 Accounts Payable 23100 Interest Payable 24500 Unearned Revenues 25000 Long-term Liabilities (account numbers 25000 - 26999) 25100 Credit Line 25100 Sales - Division #2, Product Line 015 33110 Sales - Division #1, Product Line 012 32015 Sales - Division #2, Product Line 015 41010 COGS - Division #1, Product Line 010 41022 42105 COGS - Division #2, Product Line 015 43110 COGS - Division #1, Product Line 012 42105 COGS - Division #2, Product Line 015 50000 Marketing Expenses (account numbers 50000 - 50999) 50100 Marketing Dept. Salaries 50150 Marketing Dept. Payroll Taxes 50200 Marketing Dept. Telephone Payroll Dept. Expenses (account numbers 59000 - 59999) 59100 Payroll Dept. Salaries 59150 Payroll Dept. Payroll Taxes 59200 Payroll Dept. Supplies 59600 Payroll Dept. Telephone Other (account numbers 90000 - 99999) 91800 Gain on Sale of Assets 96100 Loss on Sale of Assets This is a partial listing of another sample chart of accounts. Note that each account is assigned a three-digit number followed by the account name. The first digit of the number signifies if it is an asset, liability, etc. For example, if the first digit is a "3" it is a revenue account, etc. The company decides to include a column to indicate whether a debit or credit will increase the amount in the account. This sample chart of accounts also includes a column containing a description of each account in order to assist in the selection of the most appropriate account. Asset Accounts Liability Accounts Owner's Equity Accounts Operating Revenue Accounts Non-Operating Revenues and Expenses, Gains, and Losses Accounting software frequently includes sample charts of accounts for various types of businesses. It is expected that a company will expand and/or modify these sample charts of accounts so that the specific needs of the company are met. Once a business is up and running and transactions are routinely being recorded, the company may add more accounts or delete accounts that are never used. The chart of accounts lists the accounts that are available for recording transactions. In keeping with the double-entry system of accounting, a minimum of two accounts is needed for every transaction—at least one account is debited and at least one account is credited. When a transaction is entered into a company's accounting software, it is common for the software to prompt for only one account name—this is because the software is programmed to automatically assign one of the accounts. For example, when using accounting software to write a check, the software automatically reduces the asset account Cash and prompts you to designate the other account(s) such as Rent Expense, Advertising Expenses, etc. Some general rules about debiting and crediting the accounts are: Expense accounts are debited and have debit balances. Revenue accounts are credited and have credit balances. Asset accounts normally have debit balances. To increase an asset account, debit the account. To decrease an asset account, credit the account. Liability accounts normally have credit balances. To increase a liability account, credit the account. To decrease a liability account, debit the account. Note: To learn more about the role of bookkeepers and accountants, visit our Accounting Careers page. Where to Go From Here We recommend taking our Practice Quiz next, and then continuing with the rest of our Chart of Accounts materials (see the full outline below). We also recommend joining PRO Plus to unlock our premium materials (certificates of achievement, video training, flashcards, visual tutorials, quick tests, quick wins with coaching, cheat sheets, guides, business forms, printable PDF files, progress tracking, badges, points, medal rankings, activity streaks, public profile pages, and more). Disclaimer You should consider our materials to be an introduction to selected accounting and bookkeeping topics (with complexities likely omitted). We focus on financial statement reporting and do not discuss how that differs from income tax reporting. Therefore, you should always consult with accounting and tax professionals for assistance with your specific circumstances. A record in the general ledger that is used to collect and store similar information. For example, a company will have a Cash account in which every transaction involving cash is recorded. A company selling merchandise on credit will record these sales in a Sales account and in an Accounts Receivable account. A part of the accounting system which contains the balance sheet and income statement accounts used for recording transactions. Operating expenses are the costs of a company's main operations that have been used up during the period indicated on the income statement. For example, a retailer's operating expenses consist of its cost of goods sold and its selling, general and administrative expense (SG&A). A diagram depicting a company's hierarchy or chain of command. The cost of goods sold is an expense caused by Sales, Insurance Expense, Wages Expense, Advertising Expense, Interest Expense are expenses matched with the period of time in the heading of the income statement. Under the accrual basis of accounting, the matching is NOT based on the date that the expenses are paid. Expenses associated with the main activity of the business are referred to as operating expenses. Expenses associated with a peripheral activity are nonoperating expenses or other expenses. For example, a retailer's interest expense is an operating expense. Generally, expenses are debited to a specific expense account and the normal balance of an expense account is a debit balance. When an expense account is debited, the account credit might be Cash (if cash was paid at the time of the expense), Accounts Payable (if cash will be paid after the expense is recorded), or Prepaid Expense (if cash was paid before the expense was recorded). Things that are resources owned by a company and which have future economic value that can be measured and can be expressed in dollars. Examples include cash, investments, accounts receivable, inventory, supplies, land, buildings, equipment, and vehicles. Assets are reported on the balance sheet usually at cost or lower. Assets are also part of the accounting equation: Assets = Liabilities + Owner's Stockholders' Equity. Some valuable items that cannot be measured and expressed in dollars include the company's outstanding reputation, its customer base, the value of successful consumer brands, and its management team. As a result these items are not reported among the assets appearing on the balance sheet. Obligations of a company or organization. Amounts owed to lenders and suppliers. Liabilities often have the word "payable" in the account title. Liabilities also include amounts received in advance for a future sale or for a future service to be performed. Cash and other resources that are expected to turn to cash or will be used up within one year of the balance sheet date. (If a company's operating cycle is longer than one year, an item is a current asset if it will turn to cash or be used up within the operating cycle.) Current assets are presented in the order of liquidity, i.e., cash, temporary investments, supplies, prepaid insurance. A current asset account that represents an amount of cash for making small disbursements for postage due, supplies, etc. A current asset resulting from a purchase of goods or services on credit (an invoice). Invoice items such as (a) net 30 days or (b) 2/10, n/30 signify that a sale was made on account and was not a cash sale. Allowance for Doubtful Accounts is a contra current asset account associated with Accounts Receivable. When the credit balance of the Allowance for Doubtful Accounts is subtracted from the debit balance in Accounts Receivable the result is known as the net realizable value of the Accounts Receivable. The credit balance in this account comes from the entry wherein Bad Debts Expense is debited. The amount in this entry may be a percentage of sales or it might be based on an aging analysis of the accounts receivables (also referred to as a percentage of receivables). When the allowance account is used, the company is anticipating that some accounts will be uncollectible in advance of knowing the specific account. As a result the bad debts expense is more closely matched to the sale. When a specific account is identified as uncollectible, the Allowance for Doubtful Accounts should be debited and Accounts Receivable should be credited. A current asset whose ending balance should report the cost of a manufacturer's products awaiting to be sold. The inventory of a manufacturer should report the cost of its raw materials, work-in-process, and finished goods. The cost of inventory should include all costs necessary to acquire the items and to get them ready for sale. When inventory items are acquired or produced at varying costs, the company will need to make an assumption on how to flow the changing costs. See cost flow assumption. If the net realizable value of the inventory is less than the actual cost of the inventory, it is often necessary to reduce the inventory amount. A current asset which indicates the cost of the insurance contract (premiums) that have been paid in advance. It represents the amount that has been paid but has not yet expired as of the balance sheet date. A related account is Insurance Expense, which appears on the income statement. The amount in the Insurance Expense account should report the amount of insurance expense expiring during the period indicated in the heading of the income statement. Obligations due within one year of the balance sheet date. (If a company's operating cycle is longer than one year, an item is a current liability if it is due within the operating cycle.) Another condition is that the item will use cash or it will create another current liability. (This means that if a bond payable is due within one year of the balance sheet date, but the bond will be retired by a bond sinking fund (a long-term restricted asset) the bond will not be reported as a current liability.) The amount of principal due on a formal written promise to pay. Loans from banks are included in this account. This current liability account will show the amount a company owes for items or services purchased on credit and for which there was not a promissory note. This account is often referred to as trade payables (as opposed to notes payable, interest payable, etc.) A current liability account that reports the amounts owed to employees for hours worked but not yet paid as of the date of the balance sheet. (Future interest is not recorded as a liability.) A loan having the security of a lien on the borrower's real estate. Generally a long term liability account containing the face amount, par amount, or maturity amount of the bonds issued by a company that are outstanding as of the balance sheet date. A contra liability account that reports the amount of unamortized discount associated with bonds that are outstanding. The discount on bonds payable originates when bonds are issued for less than the bond's face or maturity amount. The debit balance in this account will be amortized to bond interest expense over the life of the bonds and results in more interest expense than interest paid. The type of stock that is present at every corporation. (Some corporations have preferred stock in addition to their common stock.) Shares of common stock provide evidence of ownership in a corporation. Holders of common stock elect the corporation's directors and share in the distribution of profits of the company via dividends. If the corporation were to liquidate, the secured lenders would be paid first, followed by unsecured lenders, preferred stockholders (if any), and lastly the common stockholders. Generally speaking, retained earnings is a stockholders' equity account that reports the net income of a corporation from its inception until the balance sheet date less the dividends declared from the date of the balance sheet. A corporation's own stock is usually the largest expense on the income statement of a company selling products or goods. Cost of Goods Sold is a general ledger account under the perpetual inventory system. Under the periodic inventory system there will not be an account entitled Cost of Goods Sold. Instead, the cost of goods sold is computed as follows: cost of beginning inventory + cost of goods purchased (net of any returns or allowances) + freight-in - cost of ending inventory. This account balance or this calculated amount will be matched with the sales amount on the income statement. The accounting term that means an entry will be made on the left side of an account. The 500 year-old accounting system where every transaction is recorded into at least two accounts. To learn more, see Explanation of Debits and Credits. A current asset account which includes currency, coins, checking accounts, and undeposited checks received from customers. The amounts must be unrestrained. (Restricted cash should be recorded in a different account.) Under the accrual basis of accounting, the account Rent Expense will report the cost of occupying space during the time interval indicated in the heading of the income statement, whether or not the rent was paid within that period. (Rent that has been paid in advance is shown on the balance sheet in the current asset account Prepaid Rent.) Depending upon the use of the space, Rent Expense could appear on the income statement as part of administrative expenses or selling expenses. If the rented space was used to manufacture goods, the rent would be part of the cost of the products produced. Advertising Expense is the income statement account which reports the dollar amount of expenses run during the period shown in the income statement. Advertising Expense will be reported under selling expenses on the income statement. Lifetime Access (One-Time Fee) Bookkeeping Video Training Financial Statements Video Coaching Certificate - Debits and Credits Certificate - Adjusting Entries Certificate - Financial Statements Certificate - Balance Sheet Certificate - Income Statement Certificate - Cash Flow Statement Certificate - Working Capital Certificate - Financial Ratios Certificate - Bank Reconciliation Certificate - Accounts Receivable and Bad Debts Expense Certificate - Inventory and Cost of Goods Sold Certificate - Depreciation Certificate - Payroll Accounting Custom Public Page of Achievements Read 3,033 Testimonials The Chart of Accounts is one of those unknown parts of your accounting software that we don't often think about. What most entrepreneurs don't realize is that the chart of accounts represents the foundation of your accounting process, if you don't set up the chart of accounts correctly, your bookkeeping and financial records will have major negative impacts. In this ultimate guide, not only do we explore examples of a common chart of accounts but also we discuss best practices on how to properly set up your chart of accounts. What is the Chart of Accounts? As we discussed in our article: Bookkeeping Services for Small Business, the chart of accounts is a listing of all accounts tracked by your business in your accounting software general ledger. Why is The Chart of Accounts important? Think about the chart of accounts as the foundation of a building, in the chart of accounts you decide how your transactions are categorized and reported in your financial statements. While the chart of accounts can be similar across businesses in similar industries, you should create a chart of accounts that is unique to your individual business. You should ask yourself, what do I want to track in my business and how do I want to organize this information? For example, we often suggest our clients break down their sales by revenue stream rather than just lumping all sales in a Revenue category. By doing so, you can easily understand what products or services are generating the most revenue in your business. Be careful not to overly complicate your chart of accounts. If you create too many categories in your chart of account, you can make your entire financial reports difficult to read and analyze. Therefore, you need to find the right balance between, creating a chart of accounts that organizes transactions in broad categories and provides the level of detail you need in order to make informed business decisions. Chart of Accounts examples: In virtually all accounting software, chart of accounts are grouped in a specific numeric range that identifies the type of account and where is reported in the financial statements. Below is how Xero usually groups their chart of accounts, QuickBooks uses a similar methodology: Numeric Range Account Type Financial Report 300 - 199 Assets Balance Sheet 200 - 299 Liabilities Balance Sheet 300 - 399 Equity Balance Sheet 400 - 499 Revenue Profit & Loss 500 - 599 Cost of Goods Sold Profit & Loss 600 - 699 Operating Expenses Profit & Loss 700 - 799 Taxes Paid Profit & Loss 800 - 899 Other Expenses Profit & Loss Below is an example of a typical chart of account: *Code *Name *Type 101 Checking Account 100 201 Savings Account 120 Accounts Receivable Accounts Receivable 130 Prepayments Current Asset 140 Inventory Inventory 150 Office Equipment Fixed Asset 160 Computer Equipment Fixed Asset 161 Less Accumulated Depreciation on Office Equipment Current Asset 161 Less Accumulated Depreciation on Computer Equipment Fixed Asset 160 Computer Equipment Fixed Asset 161 Unpaid Expense Claims 170 Current Liabilities 180 Current Liabilities 190 Current Liabilities 200 Current 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authorities. Avoid making changes to the format; otherwise, it will cause confusion and error. Design your COA to suit the business needs for the upcoming years. This will result in the creation of a more consistent, comparable and helpful index. Keep an eye on the unnecessary accounts whose amount you can transfer to the larger accounts. This step will aid you in keeping the COA list short and accessible. Many large corporations use accounting software like SAP to make their COA. A chart of accounts is created as an excel spreadsheet, with many using an online template such as Quickbooks' for ease. Chart of Accounts What is a chart of accounts? A chart of accounts is a tool that lists all the accounts in the general ledger with unique numbering to help locate them in the relevant accounting book. Stakeholders can refer to the COA and balance sheet, and income statement to find the source of expense and earnings. What is a chart of accounts example? Below is an excerpt of a chart of accounts example Account Number Account Description Account Type Financial Statement 1001 Cash Asset Balance Sheet 2001 Accounts Payables Liability Balance Sheet 3001 Owner's equity Equity Balance Sheet 4009 Interest Received Income Statement 5004 Raw Material Expense Income Statement What are the types of chart of accounts in SAP? In SAP, the categories of a COA are as follows: 1. Operating COA: It comprises accounts used to record regular business transactions, i.e., expenses and revenue accounts. 2. Group COA: It consists of standard accounts applicable at the corporate level by all the business units. 3. Country-Specific COA: Useful for MNCs, this COA is used to maintain accounts as per the legal requirements of a particular country.