Chart of Accounts

(Explanation)

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Introduction to Chart of Accounts

A chart of accounts is a listing of the names of the accounts that a company has identified and made available for recording transactions in its general ledger. A company has the flexibility to tailor its chart of accounts to best suit its needs, including adding accounts as needed.

Within the chart of accounts you will find that the accounts are typically listed in the following order:

Balance sheet accounts	• Assets • Liabilities • Owner’s (Stockholders’) Equity
Income statement accounts	• Operating Revenues • Operating Expenses • Non-operating Revenues and Gains • Non-operating Expenses and Losses

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.

Sample Chart of Accounts For a Large Corporation

Each account in the chart of accounts is typically assigned a name and 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, etc. For example, if the first digit is a “1” it is an asset. 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
18100 Accumulated Depreciation - Buildings
18300 Accumulated Depreciation - Equipment
18800 Accumulated Depreciation - Vehicles

Current Liabilities (account numbers 20000 - 24999)
20100 Notes Payable - Credit Line #1
20200 Notes Payable - Credit Line #2
21000 Accounts Payable
22100 Wages Payable
23100 Interest Payable
24500 Unearned Revenues

Long-term Liabilities (account numbers 25000 - 26999)
25100 Mortgage Loan Payable
25600 Bonds Payable
25650 Discount on Bonds Payable

Stockholders' Equity (account numbers 27000 - 29999)
27100 Common Stock, No Par
27500 Retained Earnings
29500 Treasury Stock

Operating Revenues (account numbers 30000 - 39999)
31010 Sales - Division #1, Product Line 010
31022 Sales - Division #1, Product Line 022
32015 Sales - Division #2, Product Line 015
33110 Sales - Division #3, Product Line 110

Cost of Goods Sold (account numbers 40000 - 49999)
41010 COGS - Division #1, Product Line 010
41022 COGS - Division #1, Product Line 022
42015 COGS - Division #2, Product Line 015
43110 COGS - Division #3, Product Line 110

Marketing Expenses (account numbers 50000 - 50999)
50100 Marketing Dept. Salaries
50150 Marketing Dept. Payroll Taxes
50200 Marketing Dept. Supplies
50600 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

Sample Chart of Accounts For a Small Company

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 “1” it is an asset, if the first digit is a “3” it is a revenue account, etc. The company decided 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

No.	Account Title	To Increase	Description/Explanation of Account
101	Cash	Debit	Checking account balance (as shown in company records), currency, coins, checks received from customers but not yet deposited.
120	Accounts Receivable	Debit	Amounts owed to the company for services performed or products sold but not yet paid for.
140	Merchandise Inventory	Debit	Cost of merchandise purchased but has not yet been sold.
150	Supplies	Debit	Cost of supplies that have not yet been used. Supplies that have been used are recorded in Supplies Expense.
160	Prepaid Insurance	Debit	Cost of insurance that is paid in advance and includes a future accounting period.
170	Land	Debit	Cost to acquire and prepare land for use by the company.
175	Buildings	Debit	Cost to purchase or construct buildings for use by the company.
178	Accumulated Depreciation – Buildings	Credit	Amount of the buildings' cost that has been allocated to Depreciation Expense since the time the building was acquired.
180	Equipment	Debit	Cost to acquire and prepare equipment for use by the company.
188	Accumulated Depreciation – Equipment	Credit	Amount of equipment's cost that has been allocated to Depreciation Expense since the time the equipment was acquired.

Liability Accounts

No.	Account Title	To Increase	Description/Explanation of Account
210	Notes Payable	Credit	The amount of principal due on a formal written promise to pay. Loans from banks are included in this account.
215	Accounts Payable	Credit	Amount owed to suppliers who provided goods and services to the company but did not require immediate payment in cash.
220	Wages Payable	Credit	Amount owed to employees for hours worked but not yet paid.
230	Interest Payable	Credit	Amount owed for interest on Notes Payable up until the date of the balance sheet. This is computed by multiplying the amount of the note times the effective interest rate times the time period.
240	Unearned Revenues	Credit	Amounts received in advance of delivering goods or providing services. When the goods are delivered or services are provided, this liability amount decreases.
250	Mortgage Loan Payable	Credit	A formal loan that involves a lien on real estate until the loan is repaid.

Owner's Equity Accounts

No.	Account Title	To Increase	Description/Explanation of Account
290	Mary Smith, Capital	Credit	Amount the owner invested in the company (through cash or other assets) plus earnings of the company not withdrawn by the owner.
295	Mary Smith, Drawing	Debit	Amount that the owner of the sole proprietorship has withdrawn for personal use during the current accounting year. At the end of the year, the amount in this account will be transferred into Mary Smith, Capital (account 290).

Operating Revenue Accounts

No.	Account Title	To Increase	Description/Explanation of Account
310	Service Revenues	Credit	Amounts earned from providing services to clients, either for cash or on credit. When a service is provided on credit, both this account and Accounts Receivable will increase. When a service is provided for immediate cash, both this account and Cash will increase.

Operating Expense Accounts

No.	Account Title	To Increase	Description/Explanation of Account
500	Salaries Expense	Debit	Expenses incurred for the work performed by salaried employees during the accounting period. These employees normally receive a fixed amount on a weekly, monthly, or annual basis.
510	Wages Expense	Debit	Expenses incurred for the work performed by non-salaried employees during the accounting period. These employees receive an hourly rate of pay.
540	Supplies Expense	Debit	Cost of supplies used up during the accounting period
560	Rent Expense	Debit	Cost of occupying rented facilities during the accounting period.
570	Utilities Expense	Debit	Costs for electricity, heat, water, and sewer that were used during the accounting period.
576	Telephone Expense	Debit	Cost of telephone used during the current accounting period.
610	Advertising Expense	Debit	Costs incurred by the company during the accounting period for ads, promotions, and other selling and expenses (other than salaries).
750	Depreciation Expense	Debit	Cost of long-term assets allocated to expense during the current accounting period.

Non-Operating Revenues and Expenses, Gains, and Losses

No.	Account Title	To Increase	Description/Explanation of Account
810	Interest Revenues	Credit	Interest and dividends earned on bank accounts, investments or notes receivable. This account is increased when the interest is earned and either Cash or Interest Receivable is also increased.
910	Gain on Sale of Assets	Credit	Occurs when the company sells one of its assets (other than inventory) for more than the asset's book value.
960	Loss on Sale of Assets	Debit	Occurs when the company sells one of its assets (other than inventory) for less than the asset's book value.

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.

At Least Two Accounts For Every Transaction

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 Expense, 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

To learn more about debits and credits, visit our Explanation of Debits and Credits and our Practice Quiz for Debits and Credits.

To learn more about the role of bookkeepers and accountants, visit our topic Accounting Careers.

Conclusion

You should consider our materials to be an *introduction* to selected accounting and bookkeeping topics, and realize that some complexities (including differences between financial statement reporting and income tax reporting) are not presented. Therefore, always consult with accounting and tax professionals for assistance with your specific circumstances.