Chart of Accounts

(Explanation)
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

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

<table>
<thead>
<tr>
<th>No.</th>
<th>Account Title</th>
<th>To Increase</th>
<th>Description/Explanation of Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>210</td>
<td>Notes Payable</td>
<td>Credit</td>
<td>The amount of principal due on a formal written promise to pay. Loans from banks are included.</td>
</tr>
<tr>
<td>215</td>
<td>Accounts Payable</td>
<td>Credit</td>
<td>Amount owed to suppliers who provided goods and services but did not require immediate payment.</td>
</tr>
<tr>
<td>220</td>
<td>Wages Payable</td>
<td>Credit</td>
<td>Amount owed to employees for hours worked but not yet paid.</td>
</tr>
<tr>
<td>230</td>
<td>Interest Payable</td>
<td>Credit</td>
<td>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.</td>
</tr>
<tr>
<td>240</td>
<td>Unearned Revenues</td>
<td>Credit</td>
<td>Amounts received in advance of delivering goods or providing services. When the goods are delivered or services are provided, this liability amount decreases.</td>
</tr>
<tr>
<td>250</td>
<td>Mortgage Loan Payable</td>
<td>Credit</td>
<td>A formal loan that involves a lien on real estate until the loan is repaid.</td>
</tr>
</tbody>
</table>

## Owner’s Equity Accounts

<table>
<thead>
<tr>
<th>No.</th>
<th>Account Title</th>
<th>To Increase</th>
<th>Description/Explanation of Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>290</td>
<td>Mary Smith, Capital</td>
<td>Credit</td>
<td>Amount the owner invested in the company (through cash or other assets) plus earnings not withdrawn.</td>
</tr>
<tr>
<td>295</td>
<td>Mary Smith, Drawing</td>
<td>Debit</td>
<td>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).</td>
</tr>
</tbody>
</table>
## Operating Revenue Accounts

<table>
<thead>
<tr>
<th>No.</th>
<th>Account Title</th>
<th>To Increase</th>
<th>Description/Explanation of Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>310</td>
<td>Service Revenues</td>
<td>Credit</td>
<td>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.</td>
</tr>
</tbody>
</table>
Non-Operating Revenues and Expenses, Gains, and Losses

<table>
<thead>
<tr>
<th>No.</th>
<th>Account Title</th>
<th>To Increase</th>
<th>Description/Explanation of Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>810</td>
<td>Interest Revenues</td>
<td>Credit</td>
<td>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.</td>
</tr>
<tr>
<td>910</td>
<td>Gain on Sale of Assets</td>
<td>Credit</td>
<td>Occurs when the company sells one of its assets (other than inventory) for more than the asset's book value.</td>
</tr>
<tr>
<td>960</td>
<td>Loss on Sale of Assets</td>
<td>Debit</td>
<td>Occurs when the company sells one of its assets (other than inventory) for less than the asset's book value.</td>
</tr>
</tbody>
</table>

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.

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.