

## Chart of Account

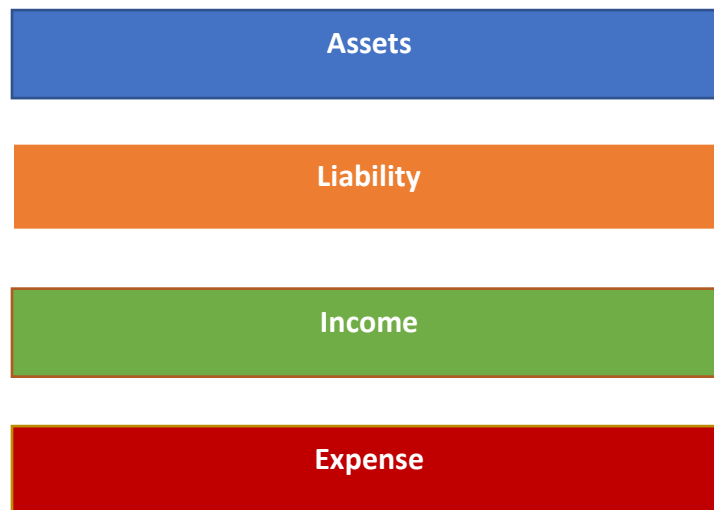
A chart of accounts is a list of all your company's "accounts," together in one place. It provides you with a bird's eye view of every area of your business that spends or makes money. The main account types include **Revenue**, **Expenses**, **Assets**, **Liabilities**, and **Equity**.

Companies in different lines of business will have different looking charts of accounts. The chart of accounts for a major airline will have a lot more references to "aircraft parts" than your local cat cafe.

The chart of accounts should give anyone who is looking at it a rough idea of the nature of your business by listing all the accounts involved in your company's day-to-day operations.

The chart makes it easy to understand the financial performance of the company at any given time.

There are four main type of Accounts:-



Here is sample / Example Chart of Account

Account Code	Accounts Description	Account Type	Statement
0001	Cash	Assets	Balance Sheet
0002	Bank	Assets	Balance Sheet
0003	Accounts Receivable	Assets	Balance Sheet
0004	Stock	Assets	Balance Sheet
0005	Prepaid Income	Assets	Balance Sheet
0006	Account Payable	Liability	Balance Sheet

0007	Owner Equity /Capital	Liability	Balance Sheet
0008	Bank Loan	Liability	Balance Sheet
0009	Outstanding exp.	Liability	Balance Sheet
0010	Unearned Income	Liability	Balance Sheet
0011	Sale	Income	Income Statement
0012	Interest Received	Income	Income Statement
0013	Dividend	Income	Income Statement
0014	Other Income, etc	Income	Income Statement
0015	Advertisement	Expense	Income Statement
0016	Salaries	Expense	Income Statement
0017	Utilities Bills	Expense	Income Statement
0018	Bank Charges	Expense	Income Statement

### **Setting Up the Chart of Accounts**

When setting up a chart of accounts, typically, the accounts that are listed will depend on the nature of the business. For example, a transportation business will include certain accounts that are specific to the transportation business, in addition to the general accounts that are common to all businesses. For example, the transportation business will include a fuel expense account that is not common to all businesses, but it will leave out an inventory account since the taxi business is a **service business** that does not hold stock.

Typically, when listing accounts in the chart of accounts, you should use a numbering system for easy identification. Numbering also makes it easy to record a transaction. Small businesses commonly use three-digit numbers, while large businesses use four-digit numbers to allow room for additional numbers as the business grows.

Groups of numbers are assigned to each of the four main categories, while blank numbers are left at the end to allow for additional accounts to be added in the future. Also, the numbering should be consistent to make it easier for management to compare the performance of the company during one period to the next.

### **Importance of Chart of Account**

Unless you have the name of every single account in your books memorized, you need to have all of them laid out in front of you, like a map. The chart of accounts is designed to be a map of your business and its various financial parts.

A well-designed chart of accounts should separate out all the company's most important accounts, and make it easy to figure out which transactions get recorded in which account.

It should let you make better decisions, give you an accurate snapshot of your company's financial health, and make it easier to follow financial reporting standards.