

FINANCING YOUR ORGANIZATION - CHART OF ACCOUNTS*

Global Text Project

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Abstract

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Setting up an appropriate chart of accounts will take some careful thought on your part because you want to be sure that accounts are set up in each category (i.e. assets liabilities, etc.) that will enable you to accumulate accounting transactions in a meaningful way. As a starting point, you should consider the kinds of information you will need in order to run your business. You may then go on to consider other types of information that may be required for financial reporting, as we discussed earlier. Setting up a chart of accounts is best understood if we walk through an example. Let us suppose a young entrepreneur plans to start a men's clothing store and needs to develop a chart of accounts. Typically, accounts in a chart of accounts each have an account number. This is no different than you having a unique account number for companies you deal with, such as a bank or a telephone company. A number uniquely identifies you from another customer that might have exactly the same name and is easier to use in a computerized customer accounting system. In the same way, an account number in a chart of accounts uniquely identifies an account and is easier to use in a computerized general accounting system. It is common to assign a range of numbers to each type of account. One common way is illustrated in Table 1:

Account Type	Account Number Range
Asset accounts	100-199
Liability accounts	200-299
Equity accounts	300-399
Income accounts	400-499
Expense accounts	500-599
Contra accounts	600-699, or in the range to which they relate

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Table 1: Range of account numbers in a sample chart of accounts

The next step is to decide the breakdown of accounts you need so that you set up an account for the detailed information you need for each account type. For example, starting with the asset account category, you may decide that you need to begin your business with at least the following accounts:

Account Number	Account Name
100	Cash on Hand (Petty cash)
105	Cash in Bank
110	Accounts Receivable
115	Inventory for resale
120	Office equipment

Table 2: Examples of current asset accounts in a chart of accounts

The same process is followed with all of the account types until your chart of accounts is complete, and contains all of the categories you believe will be needed in order to accumulate accounting information in meaningful categories.

Fortunately, there are many sources where you can obtain *sample* charts of accounts by type of business that you can use as a guide and starting point. One source of such information can be the national associations (or institutes) of professional accountants we referred to previously in this chapter. Another source is the providers of accounting software we will discuss later in this chapter and in Chapter 10. One other option is to do an Internet search for a sample chart of accounts for your type of business. For example, we did a simple Google search for a “Bed and Breakfast” (B&B) sample chart of accounts and found a 98 page document that discusses almost every issue someone who wants to start a B&B needs to know, including a sample chart of accounts, beginning on page 90 ([here](#)¹).

¹"Financing Your Organization - References" <<http://cnx.org/content/m35496/latest/#id1170665356420>>