



22 of the Best Tips for Your Chart of Accounts

How to start

- 1 Usually that will not be a problem. There are probably some very good charts available from the internet. And very good charts for your industry.
- 2 A good place to start is with a See Clearly Accounting standard chart and to modify it according to what you need. There is one attached to these 22 Tips.
- 3 The chart of accounts is something that you have to put some thought into because it is the infrastructure of your enterprise: all the recording of transactions and reporting of assets, liabilities, revenues, and expenses are dependent upon your chart.

Definitions

- 4 Definitions:
 - .1 Activity – what a section of a department does
 - .2 Department – usually under the control of a member of your management. Often a larger company will have a few departments.
 - .3 Function – what a section of a department does
 - .4 Natural expense account – salaries and wages, tools, supplies, fuel, purchased services, etc

To use GL account numbers or not to use GL account numbers

- 5 Ever since we started using computers, we have used account numbers for our general ledger accounts.
- 6 We don't even consider the possibility of a business of substance using a chart without account numbers. This paper was written based on our experience with QuickBooks. Here are some of the advantages of using account numbers in QuickBooks, the advantages will be similar for other accounting programs:
 - .1 Using the account number you can force the account to appear in the order you want.
 - .2 In one of our standard charts, we use 5 digits but the last digit is always zero. The advantage of having a zero in the last position is that you can add 9 more accounts. For example between 52310 and 52320, we could add 52311, 52312, etc.
 - .3 Using an account number you can bring order to your memorized reports. See the 22 Tips about memorized reports. You force the

memorized reports into account number order. The memorized report feature is one of the most important features of QuickBooks. As I recall we have over 500 reports memorized in our firm's QuickBooks file.

Class list

- 7 We will discuss the Class list now because it will be important in decisions you make later on. In our view the Chart of Accounts and the Class List are complementary: the chart controls the transactions vertically and the class controls them horizontally. A great idea.
- 8 QuickBooks recommends that you use the Class list for one purpose. I think that restricts your use of this great feature. What they mean is that if you have 10 departments that you need to monitor the expenses for, you would use the Class list for only your departments. That's fine if you do not require the use of Classes for anything else.
- 9 We prefer to use Classes for many tasks. We also prefer to account for expenses for a number of departments by using a group of expense accounts. I will cover that later.
- 10 Keep in mind the fact that you have Classes available to you when you set up your chart. Numbering your Classes may have a similar benefit as numbering your chart of accounts. Think about it.

Balance sheet section of the chart - assets

- 11 We have found that we use 1 for assets and 2 for liabilities, which is 10,000 and 20,000, assuming you accept the benefit of using 5 digit accounts. What individual accounts do you need:
 - .1 If you have more than one account in a group, for example inventories, set up a control account and a sub-account for each account in the group. In this example you have a control account (12000 Inventories) and you have 3 sub-accounts, one for each inventory account:
 - .1 12000 Inventories
 - .2 12010 Finished goods
 - .3 12020 Work in process
 - .4 12030 Raw materials
 - .2 The advantage of using control and sub-accounts is the opportunity to report only one line when you print summarized statements. But you still have the detail to use for controlling your assets, liabilities, revenues, and expenses.
 - .3 Cash and bank accounts - one account for each bank account and cash account.
 - .4 The Sleeter Group recommends that you have one account for General Journal Entries and we suggest you have one for Adjusting Journal Entries. NO amounts are posted to these accounts. They are used for control over entries.
 - .5 The Sleeter Group also recommends that you use one more Zero bank account for recording cheques (checks) when you carry your long-term

contracts in progress on the balance sheet. As with the other Zero accounts no amounts are posted to this account. You will use it for recording completed jobs: for transferring total billings and total costs from the balance sheet to the income statement. To do this effectively you must use Inventory items. We will cover this in another paper.

- .6 One other technique that I read about and cannot remember where and so I cannot give credit for it: if you have one bank account but use it for three purposes (or more or less), you can determine the balance attributable to each purpose by setting up the accounts as sub accounts of the bank account (you have one bank account but you need to allocate the balance to 3 sub-accounts). When you write the cheques (checks) and make deposits, you record them in the applicable sub-account. When you reconcile the bank account, you reconcile the control account. It works.

10300 · Bank account to be reconciled (no checks or deposits recorded in this account; used for reconciling only)

10310 · Group 1's share of bank acc (record checks and deposits)

10320 · Group 2's share (write checks and deposits)

10330 · Group 3's share (write cheques and deposits)

- .7 Accounts receivable and the related allowance account - one account for each.
- .8 Other receivables – one or more accounts as required.
- .9 Inventories – one for each class: finished goods, work in process, raw material
- .10 Prepaids – we usually suggest that you combine them all into one account, which makes it less work if you control them with one system. But some of you might prefer to split them up into major categories.
- .11 Fixed assets or property plant and equipment – you will need one account for the cost of each class of asset and one account for the related accumulated depreciation account. Our preference is to first report all the costs then report the accumulated depreciation accounts. Some accountants prefer to show cost then accumulated depreciation for each class of asset.
- .12 Other accounts – set them up as required.

Balance sheet section of the chart – liabilities and equity

- 12 These are the accounts you will need. Add more accounts as you need them:
 - .1 Bank loans – one account for each loan, in the description of the account you should consider disclosing the interest rate and the security pledged
 - .2 Accounts payable – one account for each.
 - .3 Other payables – one or more accounts as required.
 - .4 Accruals – maybe you prefer to combine them; maybe you want one account for each.
 - .5 Credit cards payable – one account for each.
 - .6 Sales tax payable – one account for each.

- .7 Income taxes payable – one account for each.
- .8 Deferred revenue - one account for each.
- .9 Current portion – you will need one account for each type (mortgages, finance contracts, etc).
- .10 Long-term debt – we believe you need three accounts for each: (1) the total long-term debt currently owed, (2) accrued interest to the end of the accounting period, and (3) the current portion, including the accrued interest (transferred to current liabilities).
- .11 Shareholders' loans – one account for each.
- .12 Share capital – one account for each; you may want to go a step further and set up one account for each shareholder. This will work only if there are few shareholders.
- .13 Retained earnings – one account.
- .14 Dividends paid – one account for each.
- .15 Other accounts – set them up as required.

Income statement – revenues and cost of sales

- 13 There is no need to have an account for each of the 200 or so product classes that you sell.
 - .1 QuickBooks provides a report to analyse your sales and cost of sales. This report will show you gross profit by product line.
 - .2 The best you can get from your income statement is sales by product line. If you have a few product lines and maybe some significant sales reduction accounts, you may set up 4, 5, or 6 revenue accounts. Otherwise probably you need only 1 revenue account.
 - .3 Something similar holds true for cost of sales accounts.
 - .4 But just as there may be some sales reduction accounts (product returns, for example), you will need some extra cost of sales accounts. For example you may need accounts for inventory adjustments for: slow moving inventory, physical count differences, etc. You may also need accounts for direct charges to cost of sales for: in bound shipping, duty, brokerages, etc.

Income statement – expenses and other income/expense

- 14 When you view your income statement, you want it to tell you something. You have revenue and cost of sales, and gross profit. Now when you look at your expenses you need to see the reasons for the major expenses you have incurred. You need to list your expenses by major function or by major activity. We call these expense Categories. In QuickBooks they are control accounts. It is the Categories that are important, more so than the Natural expense accounts that make up the sub-accounts (of the control):
 - .1 It is typical to start your expenses with the major Category, which is usually wages.

- .2 In this category, list the major reasons for incurring wages: administration, bookkeeping, selling, service, etc. It is the way you think about your business that determines most of the expense categories. In the sample chart of accounts we will provide, you will see the names of the sub-accounts we have used.
- .3 You have to decide how you manage the business and how you want to report your wages and other natural expense accounts. You could have a category for Bookkeeping and charge the bookkeeper wages to this category instead of to the wage Category.
- .4 It is your decision. We suggest that you be consistent with how you set up your expense Categories and Natural expense accounts.
- .5 What you will find is that some of your major business functions (Categories or Control accounts) include the same sub-accounts. These are called natural expense accounts.
- .6 For example, within employee benefits you will have a natural expense account for meals. You will also have meals within training, within travel, within advertising and promotion. When you determine what your businesses key functions are, you will find that there are a few natural expense accounts that belong in each one.
- .7 We do not mean to confuse you. Functions or activities relate to one department. You can have a number of departments, each with some or all of the same functions.
- .8 Most of these tips relate to a business using QuickBooks and having only one Department, but a number of expense Categories.

.9 Here is the expense Categories of our accounting firm

42000 · Production salaries Ppr
43000 · Administrative salaries Pmg
44000 · Payroll Benefits Imposed Ppb
45000 · Payroll Benefits Given Peb
47000 · Recruiting Prt
48000 · Training TN
49000 · Library LI
50000 · Contract services CS
53000 · Advertising - Each Medm PMad
55000 · Web site PMws
57000 · Agencies PMag
59000 · Direct marketing PMdm
63000 · Promotion PMpm
66000 · Client appeasements PMca
70000 · Travel TR
71000 · Automobile AT
72000 · Premises PS
75000 · Hardware & software HS
76000 · Furniture & equipment FE
77000 · Supplies SP
78000 · Connectivity & commnicatns CC
79000 · Professional fees PF
83000 · Insurance and security IS
85000 · Social responsibilities SR
86000 · Ecocentric lowcarbon wrkplce EC
88000 · Crdit, collectns, bad dbts BC
89000 · Other production & admin OT

.10 Let's look at these Categories for a minute.

.11 Separating production salaries and management (or administrative) salaries enables us to see what we pay for people who produce.

.12 Separating employee benefits from the salaries enables us to tell what percent the benefits are of the salaries.

.13 We have separated those benefits imposed by government legislation and those that we have offered to or negotiated with employees.

.14 The next three accounts also relate directly to employees but are not payments to them: Recruiting, Training and Library.

.15 Contract services are for those individuals we hire because we do not have a full-time person or it does not make sense to hire someone full-time. Usually it is for someone performing productive client work or internal administrative work. This Category differs from Professional fees, which is for lawyers and accountants who provide service to us and are not a cost of servicing clients.

- .16 Following Categories relating to employees, we have advertising and promotion: from 53000 to 66000. Some of you may want to combine these into one Category and have sub-categories under that from 53000 to 66000. That's OK.
- .17 Then we have Travel, which could be for clients or for vendors. We can use Classes to more clearly define who it is for. We, as an accounting firm, include here Travel in connection with a client that may run a few thousand dollars a month. But it is in and out: it is charged here but in another transaction it is credited here and charged to the client. In another company, you may want to include only travel in connection with the selling to clients or buying from clients. Account 70000 is a Category (and a QuickBooks control account). Accounts 70160 to 70587 are natural expense accounts (and QuickBooks sub-accounts).

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◊70000 · Travel TR
  ◊70160 · paTR Accomodation (rooms)
  ◊70169 · paTR Allowance
  ◊70237 · paTR Connectivity
  ◊70340 · paTR Fares
  ◊70457 · paTR Meals 50%
  ◊70493 · paTR Other
  ◊70587 · paTR Trans within city
  ◊70747 · paTR Travel expenses recovered

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- .18 Then we have Automobile expenses incurred in town. Automobile expenses incurred in connection with Travel (out of the city) are charged the Category Travel and the sub-account Transportation within city (70587).

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◊71000 · Automobile AT
  ◊71169 · paAT Allowance
  ◊71285 · paAT Depreciation
  ◊71364 · paAT Fuel
  ◊71413 · paAT Insurance, licenses
  ◊71422 · paAT Lease
  ◊71500 · paAT Parking
  ◊71528 · paAT Repairs
  ◊71620 · paAT Per Km driven

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- .19 Then we have expense Categories for Premises, Hardware & software, and Furniture & equipment. If you are in a different industry, there would also be Categories for Machinery and Mobile equipment.
- .20 We have a separate Category for Supplies; some accountants may prefer to include these with other Categories.
- .21 Then we have Categories for Communications and Connectivity, Professional fees, and Insurance and security.
- .22 Next we have Categories for (Board of directors,) Social responsibilities, and Ecocentric low-carbon workplace.
- .23 Finally we have Credit, collections, & bad debts and Other production & administrative.
- .24 **One important point in making sure that expenses get charged to the correct Category: have a list of the Categories readily available to you bookkeeper ([EW expense Category listing 2009 02 09.pdf](#))**. This will enable them to more easily charge the correct

Category when distributing charges. When they select the correct Category in processing the expense, they will see the Natural expense accounts available to be charges. Selecting the correct Natural expense account should not be difficult. (See a sample list above of Categories.)

- 15 Other income (expenses)
 - .1 QuickBooks provides two Categories for Other Income and Other Expense. We have only 1 Category for Other Income and Expense. We prefer to Categorize all "others" as Other Income. The result is the QuickBooks reports Other Income a positive amounts and Other Expense as negative amounts. But watch when you import the numbers into your income tax return: the signs are not all correct; you have to edit them manually.
- 16 Natural expense accounts within each expense Category – you see samples above for Travel and Automobile. We provide our list of natural expense accounts and our sample chart so that you can see how they are used.

Departmental expenses – setting up

- 17 When we worked with 10 or 12 departments, we limited the account numbers to 5 digits, the last digit was zero. This enabled us to add 9 more accounts between accounts. We found that we did not need to add any accounts. You may find that if set up your accounts using the suggestions set out in this series of tips you will not need any more accounts (but I say: don't count on it). That means if you are concerned about account numbers, you may be able to get by with 4 digits, but we recommend a minimum of 5 digits.
- 18 To set up expenses for multiple departments, we offer these choices:
 - .1 Use Classes – this means that this is the only purpose for which you will use Classes. Each expense account will include the expenses for each department. You will have to use the Class filter to analyse each expense account for each department. For memorized reports, our system uses the account number to maintain order. You can use the same system but you will have to set up groups of reports for each department.
 - .2 Use the previous 5 digit See Clearly Accounting system – this means that you will assign 5000 to each department and you will start the expenses at 35000 or 40000 and continue to 95000. That means you can have 13 departments. This is what we did with the three high-tech startups we set up. At the set up time, each department has the same expense accounts as every other department. The numbering and the naming are consistent. They are distinguished by the 5000 grouping they are a member of. Before you leave the set up, you should eliminate most of the accounts because they will not be needed by many departments. For example, selling and marketing departments will need the Advertising and Promotion expenses but they will not need the machinery expenses, etc. And many departments will not need most of the advertising expenses.

- .3 Use the standard 3 digit list of Natural expenses and the two digit list of expense Categories – this means that to have departments, you will need to convert your chart to 7 digits (for all accounts). With QuickBooks Enterprise, this should not present a problem. That means you could have about 50 departments (40 to 90, 4041101 to 9041747).

Attachments to these Tips

- 19 Edward Wear Inc., Chartered Accountants chart of accounts. ([EW Firm Chart of accounts 5 digits exp 3 digits Effective 2009 01 01.xls](#)). This excludes the accounts required in connection with forecasting and extra reporting handled by forecasting and reporting software. But it includes the working paper objectives that appear on lead sheets. The related Account Listing includes the GIFL accounts for Canadian tax purposes. ([EW Account Listing Effective 2009 01 01.xls](#)) (K:\EW\QBooks\Chart & FS\)
- 20 See Clearly Accounting's standard chart based on 5 digits. This chart includes samples of departments and points on setting up these departments. ([Sc Tk Chart Standard 5 digits 1 Dept QB Cdn sa Mar 3 07 v12.1.xls](#)) (K:\KB\Toolkit\Chart QB 2007PrmrAE Cdn 1 dep 5 dig\)
- 21 See Clearly Accounting's 3 digit natural expense numbers. These are used in the Edward Wear Inc. chart of accounts and in the 7 digit chart. ([Sc Tk Chart Standard 7 digits 1 department Design02 one series of numbers Effective 2009 01 01.xls](#)) (K:\KB\Toolkit\Chart QB 2009 PrmrAE Cdn 7 digits 1 Series of 3#s for exp\System & documentation\)
- 22 See Clearly Accounting's 7 digit chart. The maximum number of digits that QuickBooks allows you to work with in numbering your accounts. If you need only one department, you need only 5 digits (2 for Category of expenses and 3 for Natural expense accounts). But if you need multiple departments, you will need to use the 7 digit chart. ([Chart 7 digits 1 dept QB2009 PrmrAE Sample balance sheet & PL.xls](#)) (K:\KB\Toolkit\Chart QB 2009 PrmrAE Cdn 7 digits 1 Series of 3#s for exp\System & documentation\)

Bonus tips

- 23 You will note some letters following the expense Categories and some letters preceding the Natural expense accounts. This came about because the amount of space that QuickBooks used to provide to display the general ledger accounts was limited. The first two small letters identify the department and the capital letters identify the expense Category.
- 24 **As part of our entry system, each team member has attached to his monitors the expense Categories and the related account numbers. This makes it faster to process expenses because the processor can usually guess the Category because he or she knows what is going on in our office.** The Natural expense account the invoice should be charged to is usually easy to determine when the bookkeeper knows what expense Category is required.
- 25 This a lot of material. This does not represent a training program. And it is not a manual of accounts. It is intended to be used by experienced accountants. You can consider this to be your reference material.