

CHART OF ACCOUNTS: A CRASH COURSE

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WELCOME!



Thank you for downloading this ebook! At Digits n Debits, we try to educate business owners on the importance of good bookkeeping practices. I hope this ebook helps you understand a little more about the chart of accounts and how useful it can be to help keep your business on track! If you have any questions, feel free to email **ellenmoore@digitsndebits.com** or give us a call at **601-202-8290**. Check out our website, **www.digitsndebits.com** as well for more free resources!

Definition - The “chart of accounts” is a way to organize the different “folders” or locations you can categorize transactions to.

When you reconcile your accounts in Quickbooks, it will prompt you to categorize each transaction into one of these accounts. Sometimes having too few accounts in your chart is not beneficial and doesn’t give you a clear picture of your finances. On the other hand, having too many accounts in your chart results in headaches and frustration. It’s the Goldilocks Effect... Not too few, not too many, but just the right amount!

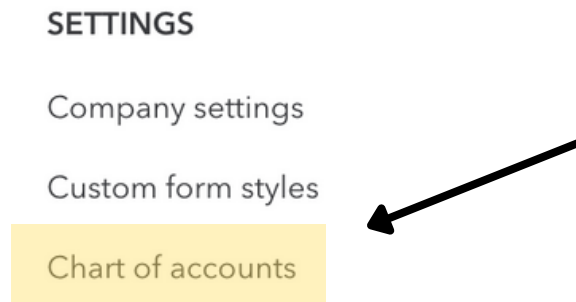
Check out the example chart and account breakdowns on the following pages for a starting point for your own chart of accounts. This is just a starting point - you will not need every account, and you may find out you need one that’s not listed!

Finding the Chart of Accounts

When you open Quickbooks, look to the top right hand corner of your screen to the gear icon for “settings”.

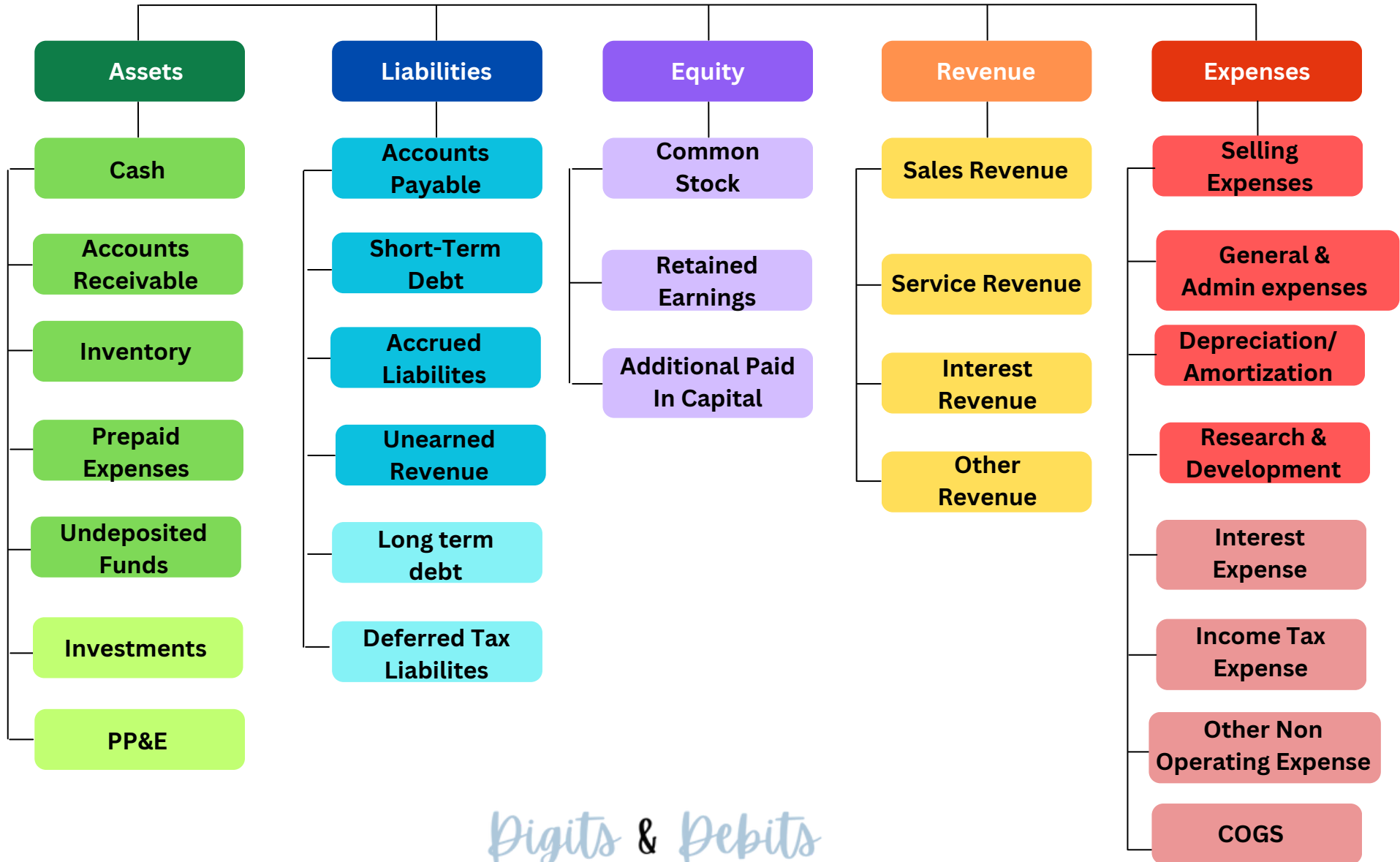


Click on “Chart of Accounts” under the far left underneath “Settings”.



Quickbooks will have a chart of accounts already pre-populated for you as a starting point. Feel free to use this resource to edit you chart as you see fit!

SAMPLE CHART OF ACCOUNTS



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Asset Accounts

These assets are considered “**current assets**” - things that the business plans on using/converting to cash within one year

Cash

This is pretty simple - it's the amount of cash a business has on hand or in their bank accounts. These could be directly linked with your bank account in QBO.

Accounts Receivable

This account is for open invoices, or the money you expect to receive from your customers. It's money you've earned, but may not have in hand at the moment.

Inventory

This account is for the total cost of goods you may keep in inventory. For example, if you are a pet store, this would be the products you sell (leashes, dog food, toys, etc)

Prepaid Expenses

These are payments you've already made in advance - things that were liabilities but you've paid them already. For example, insurance premiums or rent.

Undeposited Funds

This account is for checks or cash that you may have on hand but have not yet deposited into your bank account.

PP&E

“Property, Plant, and Equipment” - assets you have “in real life” that you can touch. (Buildings, vehicles, machinery, etc;)

Investments

This account is for stocks, bonds, other securities held for investing purposes.

These assets are considered “**non-current assets**” - things that the business plans on NOT spending/converting to cash within one year.

Liability Accounts

These accounts are considered “**current liabilities**” - things that the business plans on paying off within one year

Accounts Payable

This account is for YOUR bills as a business. Your utilities, supplies, etc; Anything you owe vendors/suppliers.

Short-Term Debt

Financial obligations due within one year, such as bank loans or lines of credit. These may also be called “notes payable”..

Accrued Liabilities

Expenses that have been incurred but not yet paid, like wages or utilities payable.

Unearned Revenue

Money received before delivering goods or services; a liability until earned. This can be a deposit, or someone paid for a service/good up front.

Long term debt

Loans or financial obligations due after one year, like bonds or mortgages.

Deferred Tax Liabilities

Taxes owed in the future due to temporary differences in accounting and tax rules.

These accounts are considered “**non current liabilities**” - things that the are due outside of a year’s time.

Equity Accounts

Common Stock

This account shows the ownership in the company. It's the value of shares issued to shareholders at their par value. This account shows how much capital the company raised from issuing stock. Every business (especially small businesses) may not have this type of account.

Retained Earnings

The cumulative net income that the company has kept (or "retained") rather than paid out. It reflects profits reinvested back into the business.

Additional Paid In Capital

The amount shareholders paid above the par value of the stock. It shows extra investment from shareholders beyond the nominal share price. Again, especially small business will not have this type of account.

Revenue Accounts

Sales Revenue

This account is for income earned from selling **physical goods** or **products**.

Service Revenue

This account is for income earned from providing **services** instead of goods. Examples are landscaping services, repair services, consulting, etc;

Interest Revenue

This account is for income earned from interest on investments, savings, or loans made to others. Not everyone will have this account, especially small businesses.

Other Revenue

Miscellaneous income that doesn't fit into the main categories—like rental income, royalties, or gains from asset sales.

Expense Accounts

These accounts are called **operating expenses** because they are linked directly to the operation of the business from day to day.

Selling Expenses

Costs directly tied to promoting and selling products or services (e.g., advertising, sales commissions, shipping).

General & Admin expenses

Overhead costs not linked to sales or production, such as office salaries, rent, utilities, and legal fees.

Depreciation/Amortization

Non-cash expenses that allocate the cost of tangible (depreciation) or intangible (amortization) assets over their useful lives.

Research & Development

Costs incurred to innovate or improve products/services—includes lab materials, engineer salaries, and testing.

Interest Expense

The cost of borrowing money—includes interest paid on loans, bonds, or credit lines.

Income Tax Expense

Taxes owed to the government based on taxable income. This appears on the income statement.

Other Non Operating Expense

Irregular or non-core costs, such as losses from asset sales, restructuring charges, or lawsuit settlements.

COGS

Direct costs of producing goods sold—includes raw materials, labor, and manufacturing overhead.

These accounts are called **non-operating expenses** because they are NOT linked directly to the operation of the business from day to day.