

Develop a Chart of Accounts

Each company designs its chart of accounts to meet the needs of that company. The companies described in the textbook have a relatively simple chart of accounts, with a small number of accounts. Most use a three-digit account number for each account. A company with more accounts may need to use a four- or five-digit account number for each account. The numbering system used by the company should ensure that each account can be assigned a unique number.

When setting up a chart of accounts, a company does not have to use a straight series of numbers. If a company has several departments, it may choose to use account numbers such as 12-150. The first two digits (12) can be used to designate a specific department. The last three digits (150) identify a unique account within that department. If this company has many departments or many accounts within each department, it may have to increase the number of digits in the account, such as 123- 4567.

A large corporation made up of smaller companies may have one chart of accounts for the entire corporation. If the managers of the corporation also want to be able to separate out the accounts for each company, they may choose to set up the account numbers in an xxyyy-zzzz format. The first two digits (xx) would be a unique number for each company, the second set of numbers (yyy) refer to a department number, and the third set of numbers (zzzz) is a unique account.

Another example would be a company that manufactures goods for its customers. Such a company may want to include the job order number in each account number, so that it can easily trace the cost of each job.

As you can see, there is an infinite number of possible systems that can be followed when assigning account numbers. A company should consider future growth when first setting up a system so that it can avoid having to renumber accounts at a later date.

Activity:

Develop a chart of accounts for an imaginary business. Write a detailed description of the company and a rationale for the account numbering system you have developed.