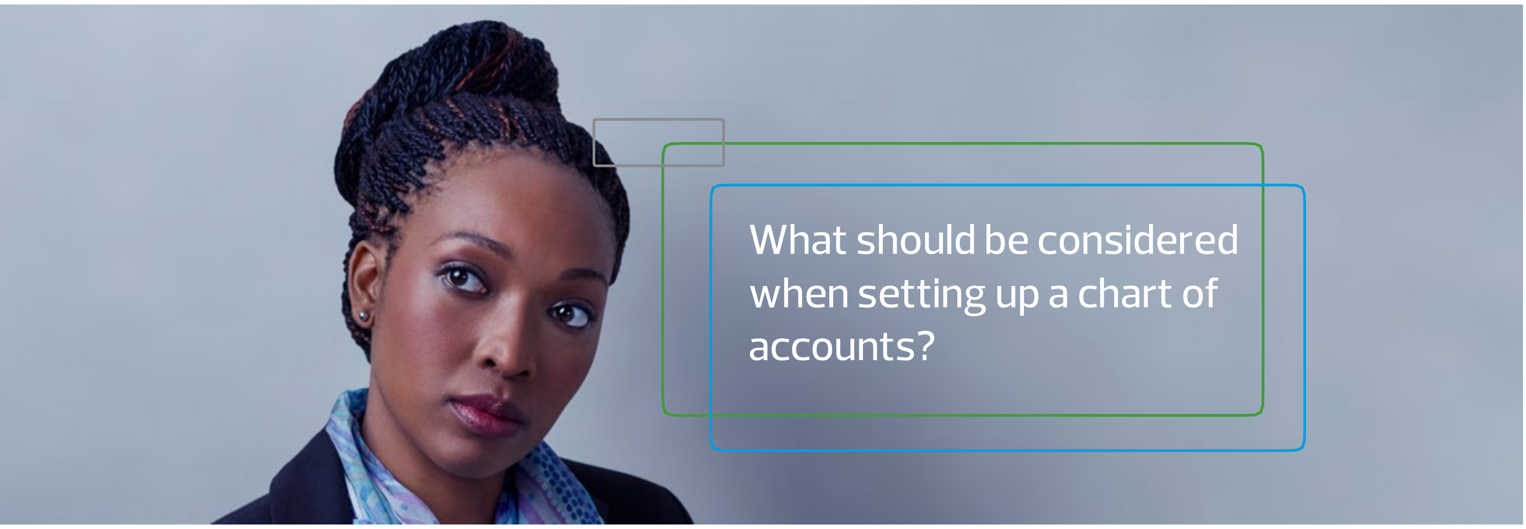

7 things to consider when setting up a chart of accounts

A Chart of Accounts (COA) refers to the listing of every account in an accounting system – it organises the list for each records type i.e. assets, liabilities, equity, income, cost of sales and expenses. This is then incorporated into the accounting software to allow recording of transactions in its general ledger. Usually, it has the account number code, name of the account and a brief explanation of what is to be included in that account.

1. Use account numbers to group the different categories together logically, for example, fixed assets codes from 1000 to 1999, current liabilities from 2000 to 2999, income from 4000 to 4999, cost of sales from 5000 to 6999, expenses from 7000 to 9999 etc.

2. Ensure enough room has been left to expand each category – consider the future, not only the past

3. Set up the structure that is relevant for management accounting purposes – try to ensure your software gives you information in a meaningful way

4. Ensure the gross margin has been computed properly (if relevant for your industry) and the cost of sales includes all direct costs

5. Divide the reporting on what is relevant to you – do you need to track your P&L based on your products or services or by departments or by location etc.? If so, don't duplicate the line items but consider setting up segments in order to compartmentalise the relevant line items

6. Keep the COA in line with the budgeting to avoid duplication of efforts

7. Carefully consider the indirect costs – liaise with all departments to ensure there is consistency and to avoid duplication

In summary, every organisation has the flexibility to tailor its chart of accounts to suit itself. A well-made Chart of Accounts should meet the needs of the management as well as help the business comply with financial reporting.

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