



Balance Sheet Accounts

The Chart of Accounts is normally arranged or grouped by the Major Types of Accounts. The Balance Sheet Accounts (Assets, Liabilities, & Equity) are presented first, followed by the Income Statement Accounts (Revenues & Expenses).

Here we're going to discuss the Balance Sheet Portion of the Chart Of Accounts and how it's organized.

While most balance sheet accounts that need to be set up are common to all businesses, some depend on the type of business. Inventory accounts are needed for those businesses that produce and sell goods or "inventoriable" services as well as those that just buy and resell the goods.

The Assets, Liabilities, and Equity are presented in separate sections of a Balance Sheet in order that important relationships and subtotals and totals can be presented.

Note: This USA Order may vary depending on your country.

• Assets

Formal Definition: The properties used in the operation or investment activities of a business.

Informal Definition: All the good stuff a business has (anything with value). The goodies.

Additional Explanation: The good stuff includes tangible and intangible stuff. Tangible stuff you can physical see and touch such as vehicles, equipment and buildings. Intangible stuff is like pieces of paper (sales invoices) representing loans to your customers where they promise to pay you later for your services or product.

Assets are generally assigned to sub-categories or sub-groups. Similar types of assets are grouped together. The groups are based on the asset's purpose or use and liquidity (availability of the asset for paying debts).

The order that the Assets are presented are based on the following guidelines:

1. List the Items that are cash.
2. List the Items that are held primarily for converting into cash and list them in the order of their expected conversion into cash (beginning with the fastest and moving toward the slowest).
3. List the Items used in operations that could be converted into cash listed in the order of their expected conversion into cash (beginning with the fastest and moving toward the slowest).
4. List the Items whose cost provide future benefits or can not be converted into cash.

○ Current Assets

Current Assets include Cash and Assets that will be converted into cash or consumed in a relatively short period of time, usually within a year or the business's operating cycle. Prepaid Expenses and Supplies (already paid for or a liability incurred) are included because they will normally be used or consumed within the operating cycle.

■ Cash and Cash Equivalents

Anything accepted by a bank for deposit is considered as Cash or Cash Equivalents. Cash in the form of coins and currency, undeposited checks, money orders, deposits in banks are examples. The cash must be available for immediate use and not restricted in any manner.

- Cash On Hand
 - Cash Register Drawer(s) Funds
 - Undeposited Cash
- Petty Cash
- Bank Checking Accounts
 - General
 - Payroll

- Savings Accounts
 - Money Market Accounts

- Short-Term Investments

Short-Term Investments include readily marketable securities that can easily be sold and converted back into cash. These type of investments normally result from a business in the lucky position of having excess cash available. The invested should be temporary in nature and not made to exercise control over another business or satisfy any other requirements and/or agreements. Reported at current market value by using an allowance for unrealized market gains and losses.

 - Certificates of Deposit
 - Stocks
 - Bonds
 - Other Short Term Investments
 - Valuation Allowance for Market Value Fluctuations

- Receivables

Included in this category are Accounts Receivable (open account customer balances resulting from sales) and customer Notes (principal and interest resulting from sales) that are formalized agreements and evidenced in writing. Short term temporary loans and advances are also included. An allowance for estimated uncollectible amounts is also provided.

 - Accounts Receivable

This account will normally have a sub ledger that contains a record for each customer or client.
 - Allowance For Bad Debts (Contra Account)

Used to record customer accounts that may not be collected.
 - Trade Notes Receivable - Current principal portion
 - Interest Receivable
 - Other Receivables
 - Short Term Owner Loans and Advances
 - Short Term Employee Loans & Advances
 - Short Term Travel and Expense Advances

- Inventory

The accounts set up in the inventory section depend on the type of business. Is the business a service, retailer, wholesaler or manufacturer ? For retailers and wholesalers an inventory sub ledger is usually maintained to keep track of each individual product. Manufacturing types of businesses usually and Service types of businesses occasionally maintain sub ledgers for projects, jobs, and processes.

 - Manufacturer
 - Raw Materials
 - Manufacturing Supplies
 - Work In Process
 - Direct Labor
 - Direct Material
 - Manufacturing Costs
 - Direct Labor
 - Direct Material
 - Manufacturing Overhead - Actual
 - Indirect Labor
 - Supervision Salaries
 - Fringe Benefits
 - Manufacturing Supplies
 - Small Parts

- Perishable Tools
 - Utilities
 - Depreciation
 - Rent
 - Leases
 - Repairs & Maintenance
 - Insurance
 - Property Taxes
 - Overhead Costs Applied
 - Finished Goods
- Retailer or Wholesaler
 - Merchandise Inventory
 - Store Supplies
- Service
 - Work In Process - Projects / Jobs
 - Completed / Unbilled Projects / Jobs
- Common To All
 - Office Supplies
- Prepaid Expenses

Prepaid Expenses are assets created by the early payment of cash or assuming a liability. They expire and are charged to expenses based on the passage of time, usage, or other factors. All Prepaid Expenses could be recorded in a single account or separate accounts could be used for each different type.

 - Prepaid Insurance
 - Prepaid Rent
 - Prepaid Advertising
 - Prepaid Interest
 - Other Prepaid Expenses
- Other Current Assets

This category includes other current assets that do not neatly fit into any of the other categories. The amounts must be deemed collectible in a relatively short period of time (operating cycle).

 - Notes Receivable - Current principal portion of Long-term Notes
 - Other Current Assets

■ Long-Term Investments

Investments that are intended to be held and not converted into cash for an extended period of time (longer than the operating cycle). Reported at current market value by using an allowance for unrealized market gains and losses.

- Stocks
- Bonds
- Other Long Term Investments
- Valuation Allowance for Market Value Fluctuations

■ Property, Plant, and Equipment

Assets of a durable nature that are used to provide current and future economic benefits to the business.

These accounts will normally have a sub ledger that contains a record for each parcel of

land, building, or piece of machinery and equipment along with depreciation calculations and amounts.

- Land
- Buildings
- Accumulated Depreciation - Buildings (Contra Account)
- Building Improvements
- Accumulated Depreciation - Building Improvements (Contra Account)
- Machinery and Equipment
- Accumulated Depreciation - Machinery and Equipment (Contra Account)
- Office Equipment
- Accumulated Depreciation - Office Equipment (Contra Account)
- Computer Equipment
- Accumulated Depreciation - Computer Equipment (Contra Account)
- Vehicles
- Accumulated Depreciation - Vehicles (Contra Account)
- Furniture and Fixtures
- Accumulated Depreciation - Furniture and Fixtures (Contra Account)
- Leasehold Improvements
- Accumulated Amortization - Leasehold Improvements (Contra Account)
- Computer Software
- Accumulated Amortization - Computer Software (Contra Account)
- Other Property, Plant, or Equipment
- Accumulated Depreciation - Other Property, Plant, or Equipment

■ **Other Noncurrent Assets**

All assets that are noncurrent and that do not fit neatly into any of the other categories.

- Long Term Owner Loans & Advances
- Long Term Employee Loans & Advances
- Notes Receivable - Long-term principal portion of Long-term Notes
- Security Deposits
- Intangible Assets
 - Patents
 - Organization Costs
 - Goodwill
 - Accumulated Amortization (Contra Account)

○ **Liabilities**

Formal Definition: Claims by creditors to the property (assets) of a business until they are paid.

Informal Definition: Other's claims to the business's stuff. Amounts the business owes to others.

Additional Explanation: Usually one of a business's biggest liabilities (hopefully they are not past due) is to suppliers where they have bought goods and services and charged them.

Liabilities are listed in the order of their expected payment date (maturity). In other words, how soon they must be repaid. Liability accounts are separated into current (short-term) liabilities and long-term liabilities. Short-Term Liabilities generally are debts that must be repaid within 1 year from the date of the balance sheet. Long-Term Liabilities are debts that must be paid more than 1 year from the date of the balance sheet.

■ **Current Liabilities**

Current liabilities are the portion of obligations (amounts owed) due to be paid within the current operating cycle (normally a year) and that normally require the use of existing current assets to satisfy the debt.

- Short Term Notes (Demand Notes)
- Accounts Payable Trade
 - A sub ledger is normally maintained in order to keep up with and track amounts owed to individual suppliers.
- Accounts Payable Other
- Payroll Liabilities
 - Accrued Salaries and Wages Payable
 - Employee Payroll Withholdings (Deductions)
 - Employee U.S. Federal Income Tax Withheld
 - Employee State Income Tax Withheld
 - Employee Local Income Tax Withheld
 - Employee FICA Withheld
 - Employee Medicare Withheld
 - Employee Garnishments Withheld
 - Employee Benefits
 - Employee Insurance Deduction Withheld
 - 401 K Deduction Withheld
 - IRA Deduction Withheld
 - Other Payroll Withholdings
 - Employer Provided Benefits
 - Mandatory
 - Employer FICA Contribution Payable
 - Employer Medicare Contribution Payable
 - Employer Federal Unemployment Payable
 - Employer State Unemployment Payable
 - Employer Workmen's Compensation Insurance Payable
 - Optional
 - Employer Provided Health Insurance Payable
 - Employer Provided Life Insurance Payable
 - Employer Provided 401 K Contributions Payable
 - Employer Provided IRA Contributions Payable
- Sales Tax Payable
- Unearned Revenues
- Customer Advances and Deposits Payable
- Interest Payable
- Bank Loans (Notes Payable) - Current principal portion of Long-Term Notes
- Notes Payable (other than bank notes) - Current principal portion of Long-Term Notes
- Accrued and Estimated Liabilities
 - Accrued / Estimated Taxes Payable
 - Accrued Real Estate and Property Taxes Payable
 - Accrued Income and Franchise Taxes Payable
 - Accrued Federal Taxes Payable
 - Accrued State Taxes Payable
 - Accrued Local Taxes Payable
 - Other Accruals Payable
- Other Current Liabilities

■ Long-Term Liabilities

Long term liability accounts are the portions of debts with due dates greater than a year or the operating cycle. These are obligations that are not expected to be paid within the current operating cycle.

- Bank Loans (Notes Payable) - Long Term principal portion
- Notes Payable (other than bank notes) - Long Term principal portion
- Other Long-Term Liabilities

o **Equity Capital**

Formal Definition: The owner's rights or claims to the property (assets) of the business.

Informal Definition: What the business owes the owner(s). The good stuff left for the owner(s) assuming all liabilities (amounts owed) have been paid.

The accounts set up in this section will depend on the legal structure of your business. These accounts report the Owner's Capital Invested and the Accumulated Profits or Losses for the business since it began. Owner sub ledgers may also be maintained to keep up with and track shares and interests and amounts owed individual owners.

■ **Sole Proprietorship**

- Owner's Capital
- Owner's Drawing

■ **Partnership or Limited Liability Company**

- Partner's or Member's Capital
- Partner's or Member's Drawing

■ **Corporation**

- Capital Stock
 - Common Stock
 - Common Stock Par or Stated Value
 - Premium Paid on Common Stock
 - Preferred Stock
 - Preferred Stock Par or Stated Value
 - Premium Paid on Preferred Stock
- Retained Earnings