

## What Should Our Chart of Accounts Include?

Your chart of accounts, which is a list of each account that the accounting system tracks, should be designed to capture the financial information you need to keep track of your financial information and make good financial decisions. Only information recorded with an account code from the chart of accounts will be recorded into the financial records, and from there into financial reports.

The chart is divided into five categories: assets, liabilities, net assets or fund balances, revenues, and expenses. Each account is assigned an identifying number for use within the accounting system. Aside from certain conventions regarding numbering and the order in which information is presented (see below), you can tailor your chart of accounts to your organization's specific needs.

In order to decide what to include in your chart of accounts you will want to consider each of the following questions:

- What reports do you want to prepare?
- What financial decisions, evaluations and assessments do you need to make on a regular basis?
- What level of detail do you require?
- What is your capacity for tracking financial information?

The best way to design a chart of accounts is to first consider what reports you want to prepare to satisfy external requirements and help you with internal management assessment and decision-making. You can then determine which categories to include in the reports you plan to produce. For example, your chart of accounts should correlate to the categories in your budget so you can easily prepare reports comparing budgeted with actual income and expenses. The Model Chart of Accounts, developed by the Nonprofit Management Group at Baruch College/CUNY, cross-references each account number to the corresponding line items required for reporting on Federal Form 990 (see the Sample Chart of Accounts provided at the end of this FAQ).

As you think about the different types of income your organization receives, you might want to consider what questions you will want to address in your financial reports: Will you need to distinguish between corporate and foundation grants so you can monitor your fundraising efforts? Are some contributions restricted? Do you earn fees for some of your services? If so, can all fees be combined into one account, or do you want information on fees from each type of activity?

You can ask yourself similar questions regarding your organization's expenses: What is the lowest level of detailed information that you would like from your financial records? How will you use the information if you record it? For example, most organizations want to keep track of office supplies in the aggregate rather than accounting separately for paper clips, pens, rubber bands, etc. A less obvious example might be in postage. Do you want to include in the postage expense category fees for messengers and express delivery, or do you want to report these separately? If you are worried about the amount being spent on express delivery you should create a separate expense category. If you do not plan to analyze this level of detail, however, it would be advisable to combine the two categories. You can always pull specific invoices related to express delivery to do a periodic analysis without tracking the information in your general ledger.

In addition to the types of income and expenses you want to keep track of there may be other factors to consider as you put together the chart of accounts. If you have more than one site, do you want to keep track of information separately for each site? Or, if you have more than one program, do you want to keep track of items such as supplies, postage, salaries, etc. for each program? And finally, under the new Financial Accounting Standards Board Statements No. 116 and 117, nonprofits will have to report revenues and expenses in three categories: unrestricted, temporarily restricted, and permanently restricted. It is important, therefore, that the chart of accounts supports these reporting requirements, as well.

The greater the level of detail you require, the greater the likelihood that you will need accounting software to keep track of your financial transactions. Accounting software often allows you to divide up transactions into many small pieces, and then determine what level of detail to use in your reports. Keeping track of very detailed information manually is time consuming, and few nonprofits have the staff to do so.

Of equal importance is the ability and availability of your bookkeeper to manage a complex number of variables. For example, your bookkeeper may need training to be able to support a more complex chart of accounts as your accounting systems becomes more complex.

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A good rule of thumb is to keep the chart of accounts as simple as possible, and revise it as your need for information increases over time. Throughout the year, as you write checks or receive money, keep track of those times when it was unclear to you which account number to assign to the transaction. That can be an indicator that the chart of accounts needs to be revised or that the criteria for assigning account numbers need to be clarified.

## What are the Features of a Simple Chart of Accounts?

The sample chart of accounts provided at the end of this FAQ illustrates how you might track income and expense items, along with conventions which are usually observed when assigning account numbers. This sample is intended to be a guide which you can use for developing your own chart of accounts. It is not comprehensive and some of the accounts included in the sample may not be useful to you. You should note to the following features of the sample chart of accounts:

Account categories are presented in a standard order, beginning with the accounts presented in the Statement of Position (Balance Sheet.) These are:

### Assets

Assets are the tangible items an organization has as resources, including cash, accounts receivable, equipment and property. Assets are usually listed in descending order of liquidity. This means that cash and other assets which are easily converted to cash are listed first, and fixed assets such as property and equipment are listed last. Asset accounts usually start with the number "1."

### Liabilities

Liabilities are obligations due to creditors, such as loans and accounts payable. Current liabilities, those obligations which fall due within the next year, are usually listed first, followed by long-term liabilities. Accounts payable and payroll taxes payable are usually listed before other payables. Deferred revenue and other liabilities are often further down on the list. Liabilities often begin with the number "2."

### Net Assets (or Fund Balances)

Net assets, formerly referred to as the fund balance(s), reflect the financial worth of the organization. They represent the balance remaining after obligations are subtracted from an organization's assets. Accounting software designed with for-profits in mind may report net assets under the heading "equity." Organizations which only receive unrestricted gifts will have only one net asset account. Those with temporarily or permanently restricted net assets, such as endowments will have more than one net asset account. Net asset accounts begin with the number "3."

## Income and Expense Accounts Follow the Statement of Position Accounts.

You will notice that account numbers proceed from lowest to highest, with room between numbers in each category. This allows you to expand the level of detail presented in the chart of accounts as your activities grow.

Certain related accounts are grouped together with related numbers. For example, the general number for payroll taxes is 7310. However, each type of payroll tax expense has been assigned its own account number " F.I.C.A. expense is 7311, Unemployment Insurance is 7312, etc. Some computerized accounting software will allow you to prepare reports which aggregate all accounts with the code 731x into a single line item. Even manually, this type of expense grouping simplifies consolidating information for reports.

Please note, however, that typically you would not post information to account 7310. This account is considered the "heading" for all related expenses.

## How Can We Capture More Complex Financial Information?

If you need to keep track of separate funds (temporarily and permanently restricted), separate programs or departments, separate sites, etc., your chart of accounts can be designed to accommodate these needs using a "multi-tiered" chart of accounts. The sample chart of accounts shows a single tier. Adding a second section or tier to your account codes allows you to code line items into various categories.

For example, suppose an organization has three programs: counseling, tutorial, and recreation. Each program would receive its own account code as follows:

Counseling	01
Tutorial	02

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Recreation      03

Adding these to the codes for natural expense items found in the sample chart of accounts, you would now attribute salaries for counselors as follows:

7210-01

7210            -01

Salary            Counseling  
                         Program

Supplies for the recreational program would be posted to:

7710 - 03

7710            -03

Supplies            Recreation  
                         Program

You can even keep track of both programs and sites by adding a third tier. For example, if you have a tutorial program at each of two schools, you might assign the first school the letter "A" and the second the letter "B." So, salaries for tutors would be divided between:

7210 - 02 - A and 7210 - 02 - B.

7210            -02            -B

Salary            Tutorial            School B  
                         Program

As the chart of accounts becomes more complex, it can enable you to produce reports which are more and more detailed. Again, however, doing so depends on the time and ability of the financial staff and the sophistication of your financial systems since multi-tiered accounting is difficult to maintain without a computer.

### Sample Chart of Accounts

#### Assets

1010 Cash

1011 Checking Account

1012 Petty Cash

1020 Savings and Temporary Cash Investment

1030 Accounts Receivable

1040 Allowance for Doubtful Accounts

1050 Pledges Receivable

#### Expenses

7110 Salaries & Wages of Officers,  
Directors, etc.

7210 Other Salaries & Wages

7310 Payroll Taxes, etc.

7311 FICA Payments (Employer's  
share)

7312 Unemployment Insurance &  
Taxes

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1060	Allowance for Doubtful Accounts	7313	Workers, Compensation Insurance
1070	Grants Receivable	7314	Disability Insurance
1130	Prepaid Expenses	7520	Accounting Fees
1610	Land	7520	Audit & Accounting Fees
1620	Building	7521	Bookkeeping Services Outside
1640	Equipment	7522	Payroll Services Outside
		7523	Bank Service Charges
	<b>Liabilities</b>	7710	Supplies
2010	Accounts Payable		
2410	Loans from Trustees & Employees	7810	Telephone
2510	Mortgage Payable	7910	Postage & Shipping
	<b>Net Assets</b>		
		8010	Occupancy
3100	Current unrestricted net assets	8011	Office Rent
		8012	Janitorial & Similar Service Fees
	<b>Revenue</b>		
		8110	Equipment Rental & Maintenance
4010	Contributions (Direct Mail)		
4050	Special Events (Gift Portion)	8210	Printing & Duplicating
4100	Donated Services and Use of Facilities	8220	Publications
4220	Corporate Grants		
4230	Foundation Grants	8310	Travel

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4510 Government Contributions

8710 Insurance

5040 Sales to Public of Program-Related  
Inventory

5060 Other Program Service Fees

5110 Membership Dues" Individuals

This sample has been developed using some of the broad account headings and codes presented in the Model Chart of Accounts developed by the Nonprofit Management Group for nonprofit organizations. This example illustrates the way in which the Model Chart of Accounts can be tailored to the specific needs of an individual organization To obtain a copy of the complete model chart of accounts please contact:

Nonprofit Management Group  
Department of Public Administration  
Baruch College/CUNY  
17 Lexington Avenue, Box 336,  
New York, NY 10017  
(212)447-3659