The Chart of Accounts
Section 0110A

Presentation Objectives

The goal of this section is to present the following concepts to the reader.

1. An introduction into the concept of debits and credits associated with journalizing business transactions.
2. The role of the chart of accounts.
3. An introduction into the concept of permanent or real accounts and nominal or temporary accounts.
4. An introduction to assets and basic journal entries associated with assets.
5. An introduction to liabilities and basic journal entries associated with liabilities.
6. An introduction to owners' equity and basic journal entries associated with owners' equity.
7. An introduction to revenues and basic journal entries associated with revenues.
8. An introduction to expenses and basic journal entries associated with expenses.
9. A brief introduction to comprehensive income and expenses.
10. A brief introduction to Sage 50 Complete Accounting's Chart of Accounts report.

Contents

The Editor's Questions about Types of Accounts

When someone asks, "What type of account is that?" the answer, once again, will vary based on the context that the question is asked in and the preferences of the individual responding to it. So, while some degree of order, this section could be presented in a number of different sequences. You can identify accounts as assets, liabilities, owners' equity, revenues, and expenses. Some expand owner's equity to include revenue and expenses. I prefer to keep them apart as discussed later. You could answer permanent / real or nominal or temporary. You could identify them as balance sheet accounts or income statement accounts. So we will dissect them into their lowest element and work from there after we discuss why we have these classifications.

Debits and Credits

When an account is classified as an asset account that puts it onto the balance sheet and determines that it will be increased with a debit and decreased with a credit. Debits and credits, part of that new language, go back in accounting for more than several hundred years. You can look it up "Debit" in a dictionary and it comes down to one word being repeated often – left. When you look up "Credit" it gets a bit more complex until you get to the "accounting" section of the definition where it keeps repeating "right" and it gets repetitive. Do not take Debit any farther than left and do not take Credit any farther then right.

Later in this material you will be instructed to debit one account and credit another account. That means place the debited account's title and value left while you place the credited account title and value to the right. Assume that you are told to debit Cash for $100 and credit Accounts Receivable for $100 due to the receipt of payment from Dana on January 2, 2015.

The journal entry would look like this.

Jan. 2, 2015	Cash	100.00	
	Accounts Receivables – Dana		100.00
	Received payment from Dana of $100 cash.		

Debits increase the value of certain types of accounts – assets, and expenses along with dividends and treasury stock. If debits, left entries, increase the value of those accounts, the credits, right entries, decrease the accounts values. In the previous journal entry the asset Cash increased by $100 and the asset Accounts Receivable decreased by $100. Suppose that on January 3, 2015, you pay $250 to Office Stuff-B-Us for office supplies while on a shopping trip. That journal entry would look like this.

Jan. 3, 2015	Office Supplies	250.00	
	Cash		250.00
	Purchased $250 in office supplies from Office Stuff-B-Us with cash		

In this journal entry the debit to Office Supplies increased the asset Office Supplies while the credit to Cash decreased the asset Cash.

Recap, do not make it any more complicated than debit goes left and credit goes right.

The Role of the Chart of Accounts

There are in this text asset accounts, adjunct asset accounts, contra asset accounts, liability accounts, owners' equity accounts, contra owners' equity accounts, revenue accounts, contra revenue accounts, and expense accounts. By removing the adjunct and contra issues you have asset, liability, owners' equity, revenue, and expense accounts. The following table, massive in nature, is the combination of the chart of accounts from Sage Publishing's Complete Accounting sample companies – Bellwether Garden Supply and Stone Arbor Landscaping, as such they are protected by Sage Publishing's copyrights to the educational and professional development side of their software. I have combined the two companies accounts and added several other accounts commonly used in the learning process of accounting.

Within each category, assets, liabilities, owners' equity, revenues, and expenses you will find modifiers used to clarify the account and ensure its placement in the proper position when financials are presented. Each will be discussed as we walk through this massive list.

Permanent or Real Accounts and Nominal or Temporary Accounts

Permanent or real accounts are those accounts that reside on the balance sheet. These are all of the asset accounts, all of the liability accounts, and most of the owner's equity accounts. These accounts never intentionally get set to zero at the end of the fiscal. Nominal or temporary accounts are all of the revenue accounts, all of the expense accounts, and the dividends accounts. At the end of each fiscal period all nominal or temporary accounts are intentionally set to zero to retain the activity portrayed in that account relative to the fiscal period. In this manner you can easily go back and say my revenues in the fiscal period of January 2015 was $15,000. This is relevant information as it allows you to compare different fiscal periods to see the changes in your company. While the statement of cash flows will identify the cash flow changes during the month of January 2015 the important issue is, real or permanent account, the value of cash in the company's account on January 31, 2015, is $87,225.49. This is not of value acquired only in the month of 2015 but a value acquired from the first moment of the company's life.

Assets

You can look up the technical definition of an asset on line. I prefer, an asset is a resource of the company, it will render a value or a service in the future. The future may be in one second, in one month, in twenty years, or over the next forty years. There are modifiers to "assets" such as Cash, Other Current Assets, and Fixed Assets. Assets increase with debits and decrease with credits. There are some adjunct asset accounts – which increase with debits and decrease with credits. And there are some contra asset accounts with increase with credits and decrease with debits.

Cash Accounts

In the computerized accounting applications and in real life cash is what you can spend, whether it be hard currency or a checkbook with checks. The common cash accounts are shown here.

Petty Cash

Petty cash is usually a small fund, often no more than $250, kept in a secure location that is easily accessible. It is established to ease the burden on accounting and speed the process of business up. When a delivery person stops by with shipping due of $1.75, you do not want to make him / her wait while you go through accounting to write a check. So you pull out your petty cash box, pull out the hard cash, have him / her sign a chit or get a receipt for the funds, and let him / her go. Many delivery people will not wait for long and will reschedule, often for a second delivery fee, the next day.

Cash on Hand

The titles and uses change, it may be called a “till” or a “drawer.” When a store opens for business in the morning it must have a mix of cash in the register to provide change. This cash must be accounted for is often called the till or the drawer. This is hard currency, not client and customers’ checks which are to be deposited.

Regular Checking

This is the checking account used for the payment to suppliers and vendors for normal operations of the company. This is the main checking account. Often the checks for this account will say something like “Two signatures required for amounts in excess of $2,500.00.” While this is a degree of protection, it does not an absolute method.

Payroll Checking

Payroll checking is one of those special accounts. It is recommended that even small companies set up a payroll checking account to protect both the company and the employees. A small amount, $25 or so, is left in the account at all times and just before payday the amount paid, net pay, is deposited in the account. In this manner it is assured all employee paychecks will clear. The illegal modification of a check will not deprive the company of operating cash. Because of the

information related to taxes is a requirement for a paycheck the stub of a payroll check is different than the stub of a regular check.

Savings Account

The company will accumulate funds over time and they 1) should not be left idle in the checking account and should not be exposed to the risk of loss through the illegal modification of a company check for the presentation of a fraudulent check. So excessive funds should be held in a savings account. With online access, the movement of funds between accounts is easy and secure if appropriate asset protection procedures are used.

Deposits

Deposits is an added account to the Sage Publishing chart of accounts. When you receive payment from a client or customer in the form of a check, traveler's check, bank draft / check, credit card, or ATM card it is not cash available to write checks on until it is in your account. By placing the value in Deposits until confirmation of it in your account through online access, you will not be overstating your balance available for check writing. NSF checks are easy to write and hard to recover from.

Journal Entries Associated With Cash Accounts

Since the cash accounts are all assets, they increase with debits and decrease with credits. You can change the account titles with these examples as you must to match the event.

Assume that you are told that you receive payment of $175 in cash for design services rendered to a client on January 3, 2015. The journal entry would look like this.

Jan. 3, 2015	Cash on Hand		175.00
		Sales - Design Services	175.00
	Received payment of $175 cash for design services rendered.		

The account titles used must be in your chart of accounts. This journal entry increases Cash on Hand by $175 due to the debit and it increases Sales – Design Services with its credit. It maintains Debits = Credit.

Suppose that on January 4, 2015, you decide to deposit $150 into your regular checking account. To reduce the possibility of an overdraft / NSF check, initially

move the funds from Cash on Hand to Deposits with a journal entry that would look like this.

Jan. 4, 2015	Deposits	150.00	
	Cash on Hand		150.00
Deposited $150 into regular checking			

When you check your regular checking account online on January 5, 2015, the deposit is recorded and the funds are available for use. The journal entry would look like this.

Jan. 5, 2015	Regular Checking Account	150.00	
	Deposits		150.00
Jan. 4 deposit of $150 is available for use			

This journal entry increases the Regular Checking Account with its debit and reduces the Deposits account with its credit by $150.

When you make large deposits with items such as checks, bank drafts, and money orders financial institutions may hold your funds available for several days until those items have had time to process and be recognized by the institutions they are drawn on. Using the "Deposits" account precludes these funds appearing to be available when they are not.

Common Cash Accounts

Account ID	Account Description
10100	Petty Cash
10200	Cash on Hand
10300	Regular Checking Account
10400	Payroll Checking Account
10500	Savings Account
10600	Deposits

Accounts Receivable

Accounts receivable have two types of accounts within them, the asset accounts and a contra asset accounts. The asset accounts will increase with debits, the contrast accounts will increase with credits. The asset accounts include Accounts Receivable, Contracts Receivable, and Other Receivables. These accounts increase because of interactions with your clients and customers. They are values coming

into the company, not cash. You make a sale to a client or customer that you trust on account you are entitled to record that event as a growth in your company with a journal entry. Assume that on January 7, 2015, you made a sale to Dana for $225 and agreed to put this on Dana's account. The journal entry would look like this.

Jan. 7, 2015	Accounts Receivable	225.00	
	Sales		225.00
	Made a sale on account to Dana		

Your asset, Accounts Receivable increased by $225 with its debit and your revenue account of sales increased by $225 with its credit. This same format applies to the Contracts Receivable, and Other Receivables accounts.

Allowance for Doubtful Account

The Allowance for Doubtful Accounts account is a contra asset account. This means that it opposes the normal structure of assets, it increases with a credit and decreases with the debit. This account exists because of one of the rules of accounting which says we cannot overstate are assets, and Accounts Receivable is an asset, and life which has a rule that says not everyone we trust is trustworthy therefore we can expect some degree of nonpayment when sales and services are provided on account. We do not know who these individuals are at the time we make the sale or provide the service or we wouldn't do it in the first place. So we have this Allowance for Doubtful Accounts account in place as a contra asset account for our receivables which reduces the apparent value to what we call net realizable value, or NRV. The journal entries to create this account are done at the end of fiscal periods and are referred to as adjusting entries. We build the account value into the Allowance for Doubtful Accounts account with a journal entry that looks like this.

Jan. 31, 2015	Bad Debt Expense	45.00	
	Allowance for Doubtful Accounts		45.00
	Adjusting entry – Bad Debt Expense / Allowance for Doubtful Accounts		

With this journal entry our Bad Debt Expense account increased by $45 with the debit value and our Allowance for Doubtful Accounts account increased by $45 with its credit value. This $45 offsets part of the asset of accounts receivable, $255

from the preceding journal entry to become a net realizable value, or NRV, of $180.

Common Accounts Receivable Accounts

Account ID	Account Description
11010	Accounts Receivable
11020	Contracts Receivable
11030	Other Receivables
11040	Allowance for Doubtful Account
61040	Bad Debt Expense

Inventory Accounts

Inventory is what you purchase or build for sale to your clients and customers. Different from supplies which is what you use to provide services to your clients and customers such as cash register tapes and bags or operate your company such as printer toner, paper, and janitorial materials. Inventory is an asset because they will render a value or service in the future, usually a value, you will exchange your Inventory, an asset, for cash or Accounts Receivable with your clients and customers. Depending on whether you are a retailer or wholesaler versus a manufacturer or company that recovers natural resources your inventory accounts will change. Retailers and wholesalers uses simple Inventory as a general. Manufacturers take Raw Materials Inventory and invest labor and overhead and convert that Raw Materials Inventory into Finished Goods Inventory. Because this is not done in one step they may have a Semi-finished Goods Inventory and because they do not finish everything at the end of every fiscal. They will have a Work in Process Inventory. Companies that recover natural resources will have a Natural Resources Inventory account.

Inventory can be purchased with cash, on accounts payable, or with Notes payable. Assume that on January 9, 2015, you purchase $1000 in inventory by making a prepayment of $250 in cash and putting the balance, $750, on accounts payable. The journal entry would look like this.

Jan. 9, 2015	Inventory		1,000.00	
		Cash		250.00
		Accounts Payable		750.00
	Purchased $1000 in inventory by paying $250 in cash, balance on account.			

With this journal entry your Inventory account, an asset account, increases by $1000 with that debit, your Cash account, also an asset account, decreases by $250 with that credit, and your liability account, Accounts Payable, increases by $750

with that credit. This is called a compound journal entry as it has more than one debit account and or more than one credit account. These are quite common.

Assume that $75 worth of your inventory is sold on January 15, 2015, for $145 on account. The journal entry, using a concept called perpetual inventory, would look like this.

Jan. 15, 2015	Accounts Receivable	145.00	
	Sales Revenues		145.00
	Cost of Goods Sold	75.00	
	Inventory		75.00

Sold $75 worth of inventory for $145 on account.

In real life and in computerized accounting applications you will not be buying inventory, you will be buying items such as 24 packages of men's T-shirts. All of the items the computerized accounting system thinks you still have available-for-sale will be summarized into the value of the Inventory account and underneath it will be detail of item and cost.

Common Inventory Accounts

Account ID	Account Description
12010	Inventory
12020	Raw Materials Inventory
12030	Work in Process Inventory
12040	Semi-finished Goods Inventory
12050	Finished Goods Inventory
12060	Manufacturing Overhead
12090	Natural Resources Inventory

Other Current Assets / Prepaid Expenses

Other current assets are things that are going to be consumed within the annual fiscal period. A quick review of the account titles gives you a clue. Many say "prepaid" and many that do not indicate that they will allow your company to do something – "supplies." Most of these accounts are coupled with an expense account with a similar name. For example Prepaid Interest is "coupled" with Interest Expense and Prepaid Insurance is "coupled" with Insurance Expense. On January 28, 2015, you discuss the risks your company is exposed to and the underwriters determine that the cost of the appropriate annual policy is $19,200. For the policy will provide coverage for your company from February 1, 2015, through January 31, 2016.

The journal entry to purchase this prepaid expense would look like this.

Jan. 28, 2015	Prepaid Insurance	19,200.00	
	Cash		19,200.00

Purchased one-year insurance policy for $19,200, Feb. 1, 15 to Jan. 31, 16.

This journal increases the asset Prepaid Insurance, left side, debit, increases assets, and decreases the asset Cash, right side, credits, decrease assets.

Insurance policies are often written for periods of one year / twelve months and paid in annual or semi-annual payments to reduce the administrative burden on the insurer, not the insured, reducing the cost of the policy. As a coupled account, as this policy expires monthly, at a rate of ($19,200 ÷ 12 months) $1,600. This value comes under adjusting entries. On February 28, 2015, the adjusting journal entry would look like this.

Feb. 28, 2015	Insurance Expense	1,600.00	
	Prepaid Insurance		1,600.00

Adjusting entry for prepaid insurance / insurance expense.

Some accounts, such as Office Supplies and Store Supplies are values you may need to hunt and figure out by looking in supplies lockers. The balance at the end of the fiscal period, usually a month, of your Store Supplies account may be $748 due to a beginning balance and several purchases during the month. Your "audit" of the locker at the end of the month shows $147 worth of supplies remaining. You had $748 in assets, now you have ($748 - $147) $601 consumed in the month, an expense. The January 31, 2015, adjusting entry would look like this.

Jan. 31, 2015	Store Supplies Expense	601.00	
	Store Supplies		601.00

Adjusting entry for store supplies / store supplies expense.

With this entry the expense account of Store Supplies Expense increases with the debit, left entry, of $601 and the asset account of Store Supplies is decreased with a credit of $601 to attain the correct ending value of store supplies, $147.

Common Other Assets / Prepaid Expense Accounts

Account ID	Account Description
13010	Prepaid Interest
13020	Prepaid Insurance
13030	Prepaid Rent
13040	Prepaid Expenses

13050	Prepaid Advertising
13060	Office Supplies
13070	Store Supplies
13080	Other Current Assets
14010	Notes Receivable-Current

Fixed Assets and Accumulated Depreciation

Fixed assets, often called Property, Plant, and Equipment (PPE), are items that are going to enable you to conduct business. Land gives you a place to conduct your business, plants give you a structure into which you can conduct your business, and equipment gives you the capability to conduct your business. These assets render, by definition, services over a longer period of time than assets such as Office Supplies or Store Supplies. As such, through a process you'll learn later as depreciation, we move these values, with the exception of land, to the income statement in small increments. For example if you have a building with a depreciable cost of $1.2 million and then expected lifetime of 20 years, you will depreciate this asset at a rate of [($1,200,000 ÷ 20 years) ÷ 12 months] $5,000 per month. This precludes having a loss of $1.2 million in one month and then benefiting from that loss for the next 19 years and 11 months.

All fixed assets except land are considered to have a finite life. Land is considered infinite and never decreasing in value under normal conditions. Therefore land is not depreciated.

Fixed assets are coupled with two sets of accounts, accumulated depreciation and depreciation expense. Accumulated depreciation is a contra asset account and as such it increases with a credit and decreases with the debit. Depreciation expense increases with a debit and decreases with a credit.

Assume that on January 2, 2015, you purchase a machine for $1.2 million. You determine that this machine has a 20-year life and no salvage or residual value at the end of its life. Salvage or residual value is any value you expect to attain at the disposal of the property at the end of its useful life. Usually it is something and we will discuss that in detail in the section on depreciation. The math shows your annual depreciation is ($1,200,000 ÷ 20 years) $60,000 per year. With adjusting entries being made monthly so we have management documents available to us our monthly depreciation is ($60,000 annually ÷ 12 months) $5,000. This also allows us to depreciate assets bought in later months of the year or in the middle of the month.

The journal entry for the purchase of this equipment with cash would look like this.

Jan. 2, 2015	Equipment	1,200,000.00	
	Cash		1,200,000.00

Purchased equipment for $1.2 m, 20-year life, no salvage value.

The debit to equipment, the left side entry increases the asset by $1.2 million while the credit to Cash, the right side entry, reduces your asset of cash by $1.2 million.

To show the interaction between the asset account, the contra asset account, and the expense account here is the adjusting entry for depreciation at the end of January 2015.

Jan. 31, 2015	Depreciation Expense-Equipment	5,000.00	
	Accum. Depreciation-Equipment		5,000.00

Adjusting entry – Depreciation for equipment.

The adjusting entry does not touch the primary account of Equipment in most accounting actions. In this adjusting entry the expense account, Depreciation Expense – Equipment, increases by $5,000 with the credit, left hand entry, while Accumulated Depreciation – Equipment, the contra asset account, increases with its credit, the right hand entry, of $5,000.

There is an option where the adjusting entry would credit equipment, however few companies use it because it requires additional footnotes to explain exactly what their adjusting entry did in relation to what you see above.

Common Fixed Asset and Accumulated Depreciation Account Titles

Because most computerized accounting applications have limitations as to the length of account titles you will frequently see abbreviations in long account titles, especially those associated with fixed assets. If we use full-length text account titles in the sections remember you may find abbreviated account titles in a computerized application.

Account ID	Account Description
15010	Furniture and Fixtures
15011	Accum. Depreciation-Furniture
15020	Equipment
15021	Accum. Depreciation-Equipment
15030	Vehicles
15031	Accum. Depreciation-Vehicles
15040	Other Depreciable Property
15041	Accum. Depreciation-Other

15050	Leasehold Improvements
15051	Accum. Depreciation-Leasehold
15060	Buildings
15061	Accum. Depreciation-Buildings
15070	Building Improvements
15071	Accum. Depreciation-Bldg Imp
15090	Land

Other Assets

The process of accounting and its principles of operation require some degree of rigidity while real life require some degree of flexibility. This conflict is addressed by account categories such as "Other."

In this category of other assets you will usually find things that are not associated with everyday operation of the company such as Organization Costs and Bonds Receivable. These items, under my definition of assets, resources or items that render a value or service to the company increase with debits, left entries and decrease with credits, right entries. However accounts such as Accumulated Amortization - Organization Costs and Bonds Receivable – Discounts are contra asset accounts and increase with credits, right hand entries, and decrease with debits, left hand entries.

Amortization is one of those new language words for many. It simply means taking a big value and dividing it up and passing it out over time. You will see this action in numerous accounting processes particularly those associated with bonds and fixed assets.

The rules often change within accounting while the process and principles of accounting seem to remain the same. In most new startups today organization costs will not be a in other asset, it will be an immediate expense.

Assume that on January 3, 2015, your company purchases a patent from another company for $18,000. Your professional estimate is that this patent will render a value or service to your company over the next five years. To purchase this patent with cash this is what the journal entry would look like.

Jan. 3, 2015	Patent	18,000.00	
	Cash		18,000.00

Purchased patent with five year life for cash of $18,000.

Like numerous other asset accounts you will find that these accounts are often coupled with an expense account. The asset Patent is coupled with the Patent / Copyright Amortization Expense asset which is in the chart of accounts due to its text length as Pat / Copyright Amort Expense. Due to its life of five years this patent has an amortization expense of ($18,000 ÷ 5 years) $3,600 per year and a monthly amortization expense of ($3,600 ÷ 12 months) $300 per month. To record this at the end of January the journal entry would look like this.

Jan. 31, 2015	Pat / Copyright Amort Expense	300.00	
	Patent		300.00
	Adjusting entry for patent.		

With this adjusting entry the left hand, or debit entry, increases the Patent / Copyright Amortization Expense account while the right hand or credit entry decreases the asset account of Patent.

There is a process in some companies where you do not credit the principal account, patent, but an Accumulated Amortization – Patent account, a contra asset account.

Common Other Asset Accounts

Account ID	Account Description
16010	Organization Costs
16011	Accum Amortiz-Organiz Costs
17010	Notes Receivable-Noncurrent
17020	Bonds Receivable-Noncurrent
17030	Bonds Receivable-Premium
17040	Bonds Receivable-Discount
17050	Short-term Investments
17060	Other Noncurrent Assets
18010	Patents and Copyrights
18020	Franchise

Liabilities

Liabilities, by my definition, are obligations which the company must resolve with a value or service. Examples of this can be clarified by how the accounts were titled. For example, Accounts Payable are increased when you call a vendor or supplier and purchase on account. The word payable generally means that you are going to write a check, provide value, to resolve this obligation. The same rule applies with other accounts such as Taxes Payable, Salaries Payable, and Wages

Payable. These individuals do not want to 250,000 crayons in compensation for their week's work. They want hard currency which they can pay other obligations with. Consider your company as a manufacturer and produces a consumer product with a warranty. When the consumer purchases your product and it fails in accordance with the warranty stipulations, while they may be happy with a value such as a refund, chances are they would rather have their / your product fixed. This is an obligation, recorded in Warranty Liabilities, that is resolved by providing a service, that of fixing the product.

There are two basic types of liabilities and the first is current liabilities. Current liabilities are those which will be addressed with a value or service within the next 12 months. Because of this definition current liabilities continue to roll as the year goes by. Long-term liabilities are those liabilities which will be addressed beyond the current liabilities. These actually interact when you commit to a note payable which requires monthly payments for the next 30 years, this note will continuously have a current and long-term portion for its life just short of the last year. The next 12 months of payments would be the short-term, the balance would be the long-term.

Accounts Payable

Accounts Payable is a specific type of current liability which implies that it will be resolved with cash. Titles may be specific such as Accounts Payable to indicate that this is an obligation incurred through the primary operations of the company. Interest payable is a little more specific and allows you to track how much the time value of money is costing you through notes and loans. Stock dividends payable are obligations incurred because you announced dividends to your shareholders.

Assume that you contact your prime supplier and purchase $25,000 in product on account on January 12, 2015. The journal entry for this transaction would look like this.

Jan. 12, 2015	Inventory	25,000.00	
	Accounts Payable		25,000.00
	Purchased $25,000 in inventory for resale.		

With this journal entry the asset inventory increases with the debit, left entry and the liability account, Accounts Payable, increases with the right value the credit.

When this obligation is paid on February 9, 2015, the obligation is resolved with a value, cash, and the journal entry looks like this.

Feb. 9, 2015	Accounts Payable	25,000.00	
	Cash		25,000.00

Paid invoice for $25,000 in inventory purchased on Jan. 12, 2015.

With this journal entry the liability account, Accounts Payable, decreased with the debit or left entry value of $25,000, wealth the asset cash decreased with the right journal entry value, a credit of $25,000. This type of series of entries is going to be common with Accounts Payable. It gets slightly more complicated when discounts are offered for earlier timely payment. That issue will be covered in the accounts payable section.

Common Accounts Payable Accounts

Account ID	Account Description
20010	Accounts Payable
20020	Interest Payable
20030	Legal Fees Payable
20040	Preferred Stock Dividend Payable
20050	Common Stock Dividend Payable

Other Current Liabilities

Other Current Liabilities are those accounts and obligations which do not fall into Accounts Payable. These classifications are quite common inside computerized accounting applications. The first one is warranty liability, often called warranty obligation. It does not contain the word payable since you are expected to either fix or replace the broken item.

Another grouping inside this category is the unearned grouping. These are the groups of values were clients and customers have prepaid for services and products and it is now your obligation to resolve those events. You will also find in this category numerous payable accounts that are kind of on the edge of operating activities and usually associated with an obligation to a governmental agency for items such as payroll taxes, sales taxes, unemployment taxes, and wages payable. Depending on how the company wants detail presented you may not find all of these employee and payroll related taxes detailed as an option is inside of the system to simply consider them as payroll tax obligations.

There is an issue that you need to understand that has come up in the courts in relation to numerous company activities that were inappropriate. An employee

earns a gross income from which you are required as the employer to deduct specific taxes such as income taxes, Social Security, and Medicare. When deducted from your employees paychecks you become a trustee of your employees money. The money you are holding is the employees money in route to a governmental agency. It is not yours and the inappropriate use or exploitation of these funds is a legal issue most likely resolved in a criminal court.

Assume that your store has a parking lot larger than needed and the neighboring store is deficient of appropriate parking spaces. The agreement is that signs will be posted announcing that your neighbors clients and customers can park in your lot without concern. For this privilege your neighbor pays $250 a month and makes payments of six months at a time. On January 2, 2015, your neighbor makes the payment for the first half of the year. The journal entry looks like this.

Jan. 2, 2015	Cash	1,500.00	
	Unearned Rent Revenues		1,500.00

Received prepayment of 6 months of park lot rent.

This journal entry increases the asset cash with the left, debit value, and increases the liability with the right, credit value. This obligation is going to be incrementally reduced over the next six months with adjusting entries that look like the following.

Jan. 31, 2015	Unearned Rent Revenues	250.00	
	Rent Revenues		250.00

Adjusting Entry – parking lot rent, 1 month, $250 / month.

In this adjusting entry the unearned rent revenues liability is reduced by the left, debit value while rent revenues is increased by the right, credit value. In computerized accounting applications you can normally make this adjusting entry a recurring entry so that you write it once and the computer will write at the next five times.

Common Other Current Liability Accounts

Account ID	Account Description
20110	Warranty Liability
20120	Unearned Service Revenues
20130	Unearned Admissions Revenues
20140	Unearned Legal Fees
20150	Unearned Rent Revenues
20210	Accrued Expenses Payable

20220	Wages Payable
20230	Sales Tax Payable
20240	401 K Deductions Payable
20250	Health Insurance Payable
20260	Federal Payroll Taxes Payable
20270	FUTA Tax Payable
20280	State Payroll Taxes Payable
20290	SUTA Tax Payable
20300	Local Payroll Taxes Payable
20310	Income Taxes Payable
20320	Other Taxes Payable
20410	Current Portion Long-Term Debt
20420	Contracts Payable-Current
20430	Other Current Liabilities
20440	Suspense-Clearing Account

Long-term Liabilities

Long-term liabilities, as previously discussed, are those obligations that will not be resolved in the next 12 months. Not uncommon to see "Noncurrent" in their account title. Many of these obligations will have a current liabilities portion associated with them, the payments made in relation to these obligations within the next 12 months. If your company was to purchase a truck with a 10 year loan as the method of payment the payments for the next 12 months would be considered current liabilities while the payments from that point to the end of the loan would be considered long-term liabilities. Because the reality of it is that the financials printed by a computerized accounting application are frequently adjusted in an application such as Microsoft Excel© before being printed as publicly release financial statements it is not uncommon for companies not to transfer the current values out of long-term liability accounts. In this text, when the issue comes up, we will be making those journal entries.

Assume that on January 2, 2015, your company purchases a truck for $75,000 with a 60-month note payable at 5% interest compounded monthly. Using a tool such as Microsoft Excel and it's time value of money formulas your loan payment is going to be $1415.34 with principal and interest values changing each. The table that follows shows the payment schedule in relation to principal and interest. In recording the purchase of the truck and the obligation of the note payable we will make several journal entries.

The first journal entry would look like this.

Jan. 2, 2015	Vehicle	75,000.00	
	Notes Payable-Noncurrent		75,000.00

Purchased truck, $75,000, 60 months, 5% annually, compounded monthly.

This journal entry increases are assets with the left, debit entry of $75,000 and increases our long-term notes payable with its right, credit entry of $75,000. Note that it is specific to Notes Payable – Noncurrent.

Period	Principal	Interest	Payment
1	$1,102.84	$312.50	$1,415.34
2	$1,107.44	$307.90	$1,415.34
3	$1,112.05	$303.29	$1,415.34
4	$1,116.69	$298.66	$1,415.34
5	$1,121.34	$294.00	$1,415.34
6	$1,126.01	$289.33	$1,415.34
7	$1,130.70	$284.64	$1,415.34
8	$1,135.41	$279.93	$1,415.34
9	$1,140.14	$275.20	$1,415.34
10	$1,144.90	$270.45	$1,415.34
11	$1,149.67	$265.68	$1,415.34
12	$1,154.46	$260.89	$1,415.34
13	$1,159.27	$256.08	$1,415.34
14	$1,164.10	$251.25	$1,415.34
15	$1,168.95	$246.40	$1,415.34
16	$1,173.82	$241.53	$1,415.34
17	$1,178.71	$236.63	$1,415.34
18	$1,183.62	$231.72	$1,415.34
19	$1,188.55	$226.79	$1,415.34
20	$1,193.50	$221.84	$1,415.34

Period	Principal	Interest	Payment
21	$1,198.48	$216.87	$1,415.34
22	$1,203.47	$211.87	$1,415.34
23	$1,208.48	$206.86	$1,415.34
24	$1,213.52	$201.82	$1,415.34
25	$1,218.58	$196.77	$1,415.34
26	$1,223.65	$191.69	$1,415.34
27	$1,228.75	$186.59	$1,415.34
28	$1,233.87	$181.47	$1,415.34
29	$1,239.01	$176.33	$1,415.34
30	$1,244.18	$171.17	$1,415.34
31	$1,249.36	$165.98	$1,415.34
32	$1,254.57	$160.78	$1,415.34
33	$1,259.79	$155.55	$1,415.34
34	$1,265.04	$150.30	$1,415.34
35	$1,270.31	$145.03	$1,415.34
36	$1,275.61	$139.74	$1,415.34
37	$1,280.92	$134.42	$1,415.34
38	$1,286.26	$129.08	$1,415.34
39	$1,291.62	$123.72	$1,415.34
40	$1,297.00	$118.34	$1,415.34

Period	Principal	Interest	Payment
41	$1,302.40	$112.94	$1,415.34
42	$1,307.83	$107.51	$1,415.34
43	$1,313.28	$102.06	$1,415.34
44	$1,318.75	$96.59	$1,415.34
45	$1,324.25	$91.10	$1,415.34
46	$1,329.76	$85.58	$1,415.34
47	$1,335.30	$80.04	$1,415.34
48	$1,340.87	$74.47	$1,415.34
49	$1,346.46	$68.89	$1,415.34
50	$1,352.07	$63.28	$1,415.34
51	$1,357.70	$57.64	$1,415.34
52	$1,363.36	$51.99	$1,415.34
53	$1,369.04	$46.31	$1,415.34
54	$1,374.74	$40.60	$1,415.34
55	$1,380.47	$34.87	$1,415.34
56	$1,386.22	$29.12	$1,415.34
57	$1,392.00	$23.35	$1,415.34
58	$1,397.80	$17.55	$1,415.34
59	$1,403.62	$11.72	$1,415.34
60	$1,409.47	$5.87	$1,415.34

We now need to transfer the value of the first 12 months payments to principal, $13,541.64, to the Current Portion Long-Term Debt account. That journal entry would look like this.

Jan. 2, 2015	Notes Payable-Noncurrent	13,541.64	
	Current Portion Long-Term Debt		13,541.64

Transferred the current portion of long-term liability for the truck.

With each month of cash payment is made to address this that, the details are in the table as to principal and interest values. The monthly payment is consistent at $1,415.34. For the first payment, due January 31, 2015, the journal entry would look like this using the table values.

Jan. 31, 2015	Current Portion Long-Term Debt	1,102.84	
	Interest Expense	312.50	
	Cash		1,415.34

Jan. 31, 2015 payment on truck.

With this journal entry the liability account Current Portion Long-Term Debt decreases with its debit entry, to the left by $1,102.84 and interest expense

increases with its debit entry, to the left of $312.50. Cash, an asset account decreases by a value of $1,415.34 with its right, credit entry. In middle to high and computerized accounting applications you will find a fixed asset manager which will take all of the information related to this vehicle and structure a payment system and a depreciation system for it requiring you to review and approve it. Even though it is computer-generated it's your responsibility to ensure that it is correct.

With regards to Bonds payable there is an adjunct asset account, Bonds Payable-Premium which adds value to the account and a contra asset account, Bonds Payable-Discounts, which decreases the value of the account. These will both be covered in later section of this text.

Common Long-term Liability Accounts

Account ID	Account Description
20450	Notes Payable-Noncurrent
20460	Contracts Payable-Noncurrent
20470	Other Long-Term Liabilities
20510	Bonds Payable-Noncurrent
20520	Bonds Payable-Premium
20530	Bonds Payable-Discount

Owners' Equity

Inside owners' equity we are going to find several types of accounts and the issues related to answering the questions go back to that editors questions issue. First, owners' equity is the balance of assets minus liabilities. That is the accounting equation and it is a powerful tool since you can find the missing value if you know any two of the three values. I classify owners' equity as the value at risk because not one penny can be paid to this group and the liquidation of the company until 100% of the liabilities have been resolved. Not uncommon to see owners receive substantially less than their investment in liquidation.

In this aspect there are two types of accounts, contributed capital and retained capital. Watch the wording carefully, this does not say cash, these are values. Contributed capital has common account titles such as Preferred Stock, Additional paid-in Capital-Preferred Stock, Common Stock, Additional Paid-in Capital-Common Stock, and Additional Paid-in Capital-Treasury Stock. This is value contributed to the company by shareholders. It may be by cash contributions or contributions of other assets such as property, buildings / plants, and equipment as well as inventory. Retained earnings, as you will see later is the result of revenues

less expenses less dividends distributed to the shareholders. Again, this is a value, not cash.

Another way to answer the question is you have owners' equity accounts which never gets closed intentionally or get closed at the end of the period. The permanent or real accounts which do not get closed include Preferred Stock, Additional paid-in Capital-Preferred Stock, Common Stock, Additional Paid-in Capital-Common Stock, Treasury Stock, Additional Paid-in Capital-Treasury Stock, and Retained Earnings. Then there are owners' equity accounts such as all of the dividend accounts and the income summary account which will be closed at the end of the fiscal periods to an intentional value of zero.

If a company is a C corporation it can have a complex stock structure, preferred and common stock. If a company is an S corporation it can only have common stock or an untitled stock, the same thing. For this example we will assume that our corporation is a C corporation with preferred Stock having a par value of $100 per share and the stock is being issued at $115 per share with 100 shares being issued. The common stock has a one dollar per share par value and 10,000 shares are issued at $1.05 each on January 2, 2015. That complex journal entry would look like this.

Jan. 2, 2015	Cash		22,000.00	
		Preferred Stock		10,000.00
		Add Paid-in Capital-P/S		1,500.00
		Common Stock		10,000.00
		Add Paid-in Capital-C/S		500.00
Issued 100 sh of $100 par P/S at $115 and 10,000 sh of $1 par C/S at $1.05				

This journal entry is obviously one of the most complex journal entries you have seen yet and yet it is incredibly simple taken one step at a time. There are some rules about the stock accounts when a stock has a par or stated value the only value that can go into or come out of that account is that par or stated value times the number of shares for that particular event. The balance whether it's a debit or credit goes into the additional paid in capital account associated with that class of stock. So, bypassing the first line of the journal entry for the moment preferred stock is 100 shares times $100 par value per share, or $10,000. The investors paid $115 per share so the difference is ($115 - $100) $15 per share for a total of 100 shares times $15, or $1500. That is our Additional Paid-in Capital-Preferred Stock amount. Since this is owners' equity and owners' equity increases with credits these two values, $10,000 and $1,500, are entered as credits, to the right.

Common Stock works the same way. We issued 10,000 shares of $1.00 par value Common Stock for $1.05 per share. The value going into the Common Stock account is 10,000 shares times $1.00 per share or $10,000. The value going into Additional Paid-in Capital-Common Stock is ($1.05 - $1.00) $0.05 times 10,000 shares, or $500. As an owners' equity account this value goes to the right to increase the value of owners' equity.

The cash contributed to the company is simply the addition of these for values, $10,000 for Preferred Stock + $1500 for Additional Paid-in Capital-Preferred Stock + $10,000 for Common Stock + $500 for Additional Paid-in Capital-Common Stock equaling $22,000. Since cash is increasing and Cash is an asset that value goes to the left. When you look at the journal entry debits equal credits.

Dividends are a Contra owners' equity account and therefore they increase with debits and decrease with credits. There are some dates associated with dividends in large corporations such as date of declaration, date of record or ownership, and date of distribution. Assume that the date of declaration, when the corporation announced dividend entitlements is January 5, 2015. The announcement states that preferred Stock will receive a 5% dividend on their par value and common stock will receive a $0.02 per share dividend. With the announcement the company incurs a liability, obligation to pay this debt. Until it makes this announcement there is no obligation.

To compute the dividends for Preferred Stock it is par value of $100 per share times 5% times 100 shares, or $500. The dividend for common stock is 10,000 shares times $0.02 per share or $200. On the date of declaration, January 5, 2015, the journal entry would look like this.

Jan. 5, 2015	Preferred Stock Dividends	500.00	
	Common Stock Dividends	200.00	
	Preferred Stock Dividends Payable		500.00
	Common Stock Dividends Payable		200.00

Declared dividends, 5% of par on P/S, $0.02 per share on C/S.

If you notice preferred usually goes first, hence preferred. Because of the declaration date, date of record, date of distribution interactions we must record the obligation, liability, to pay these dividends. The journal entry above shows Preferred Stock Dividends, a contra equity account, increasing by the $500 computed value with a debit amount, to the left, and with Common Stock Dividends, a contra equity account, increasing by the computed $200 amount with

a debit value to the left. At the same time Preferred Stock Dividends Payable and Common Stock Dividends Payable both increase with their credit values, to the right, for the appropriate amounts.

Assuming that at the end of the fiscal period no other dividends have been declared the two dividend accounts will be close to retained earnings. Assume the end of the fiscal period is March 31, 2015. The journal entry to close these two accounts would look like this.

Mar. 31, 2015	Retained Earnings	700.00	
	Preferred Stock Dividends		500.00
	Common Stock Dividends		200.00

Closing entry, P/S and C/S dividends.

In this journal entry the owners' equity account of retained earnings is reducing owners' equity with the debit value of $700 and the nominal or temporary accounts of Preferred Stock Dividends and Common Stock Dividends are closed for the fiscal period by crediting them for an amount equal to their debit value for the fiscal period. You will hear that accounts are closed and the closing process associated with nominal or temporary accounts while in reality fiscal periods are closed by intentionally setting the balances of nominal or temporary accounts to zero as we have just done.

Common Owners' Equity Accounts

Because Owners' Equity has both permanent or real accounts and nominal or temporary accounts within it, those differences are shown here. Permanent or real accounts are "Equity-Doesn't Close" and nominal or temporary accounts are "Equity-Gets Closed." These classifications determine how the computerized accounting system handles the account.

Account ID	Account Description	Classification
30000	Beginning Balance Equity	Equity-doesn't close
30110	Preferred Stock	Equity-doesn't close
30120	Add Paid-in Capital-P/S	Equity-doesn't close
30130	Preferred Stock Dividends	Equity-gets closed
30210	Common Stock	Equity-doesn't close
30220	Add Paid-in Capital-C/S	Equity-doesn't close
30230	Common Stock Dividends	Equity-gets closed
30310	Treasury Stock	Equity-doesn't close
30320	Add Paid-in Capital-T/S	Equity-doesn't close
30410	Retained Earnings	Equity-Retained Earnings

30510	Unrealized Gains-Equity	Equity-doesn't close
30520	Unrealized Losses-Equity	Equity-doesn't close
30610	Income Summary	Equity-gets closed

Revenues / Sales Discounts / Sales Returns and Allowances

Within this category we have revenue accounts which increase with a credit or right-hand value and contra revenue accounts which increase with a debit or a left-hand value. These reflect the operations of the normal company. In the chart of accounts that I placed the word revenues and all revenue accounts and constructed the Sales Returns and Allowances, or "SRA" accounts and the Sales Discounts accounts following them in sequential order.

Revenues are values coming into the company through normal operations. For a retail store, a wholesaler, or a manufacturer revenues are increased when goods are sold. It is important to appreciate that revenues are not cash. Remember cash is an asset and increases with a debit and is on the balance sheet. Revenues are values coming into the company, they are credits, and they are on the income statement. The revenue account is a nominal or temporary account and will intentionally be set the zero at the end of each fiscal period. For internal management reports fiscal periods will usually be months, for external reporting to the SEC fiscal periods will be quarters, and for external reporting to the shareholders fiscal periods will be years.

Assume that on January 10, 2015, you sell $100 worth of inventory for $175 to a customer on account. Using the perpetual inventory system, which records the cost of goods sold at the same time as the sale, your journal entry would look like this.

Jan. 10, 2015	Accounts Receivable	175.00	
	Sales Revenues		175.00
	Cost of Goods Sold	100.00	
	Inventory		100.00

Sale on account, Revenues $175, COGS $100.

The client or customer's side of this journal entry would look like this.

Jan. 10, 2015	Inventory	175.00	
	Accounts Payable		175.00

Purchase on account, Inventory $175.

In the client or customer's journal entry his asset of Inventory have increased with the debit entry and his liabilities have increased with that credit entry to Accounts Payable.

With this journal entry your asset account, accounts receivable increased by $175 with that left entry, debit entry. Your Sales Revenues account increased by the same $175 with its credit, or right entry value. At the same time, you are recognizing the Cost of Goods Sold, a special expense account, with the value of $100 through a debit or left hand entry and you are recognizing that $100 in Inventory has been sold and is no longer available with that credit entry.

Sales Discounts

Sales Discounts are an agreement between the seller and the buyer before the point of sale, "POS. These offers are usually between a manufacturer and his broker, distributors, wholesalers, or retailers. They are not usually between retailers and resellers to retail or final clients and customers. You will see terms such as "2/10, 30" which translates as "you can take a discount of 2% on the merchandise value of this purchase if you remit your payment within 10 days of the invoice date, otherwise payment in full is due 30 days from the invoice date." You'll learn in business math that terms such as "2/10, 30" may appear small while in reality this is 36% annual interest rate. Good business discipline says you take advantage of this discount.

Let us assume that the purchaser in the previous journal entry was a retailer and was given terms "2/10, 30" on his purchase. The invoice date is January 10, 2015, and you do not count the first day and you do count the last. His remittance envelope must have a postmark not later than January 20, 2015. This is referred to as the mailbox rule and he is entitled to the discount even when you receive remittance after January 20, 2015. The client or customer remits full payment with the discount taken on January 20, 2015 with a journal entry such as this.

Jan. 20, 2015	Accounts Payable	175.00	
	Cash		171.50
	Purchases Discount		3.50
	Paid within discount period, 2/10, n30.		

With this journal entry the client or customer's full obligation of accounts payable has been resolved by remitting only $171.50. However, your company has $171.50 20 days before it would have $175. You have to ask yourself a simple question associated with discounts and early payments. Would you rather have 98% of what

is owed now in hand as cash, or would you like to risk default on 100% of the value owed?

Your journal entry to receive this payment through the mail on January 22, 2015, would look like this.

Jan. 22, 2015	Cash	171.50	
	Sales Discounts-Sales	3.50	
	Accounts Receivable		175.00

Received payment on account within discount period, 2/10, n30.

With this journal entry your asset cash has increased with the value of $171.50, that debit. A contra revenue account called Sales Discounts-Sales is debited for $3.50 indicating that the client or customer took advantage of our terms of 2/10, n30. Our client or customer has no further obligation to us so the full value of $175 is removed with our credit to Accounts Receivable even though only $171.50 was received, due to the discount.

Notice and these two journal entries that while one company is debiting an account the other company is crediting the same account or its paired account. The purchaser credits cash the seller debits cash the purchaser debits purchases discounts, the seller debits sales discounts, the purchaser debits accounts payable while the seller credits Accounts Receivable. When we say debits equal credits it often applies inside the company as well as between companies.

Sales Returns and Allowances

Sales Returns and Allowances are a reality of business because sometimes things just are not correct or acceptable to the client or the customer. Assume that the customer comes in and buys a shirt as a present for someone else, the size of the shirt is large. The receiver of the shirt, truly wears a large, and tries to shirt on and finds it too tight to where. The client or customer should be able to bring the shirt back for a refund. Assuming that the shirt cost $30 with a cost of goods sold of $20, the journal entry to record the sale on January 21, 2015, would look like this.

Jan. 21, 2015	Cash	30.00	
	Sales Revenues-Sales		30.00
	Cost of Goods Sold	20.00	
	Inventory		20.00

Cash sale, $30, COGS 20, shirt, gift wrapped.

With this journal entry your asset Cash increased with the debit, your Sales Revenues-Sales increased with a credit, your Cost of Goods Sold increased with a debit, and your Inventory decreased with a credit.

On January 25, 2015 the client or customer returns the shirt in satisfactory condition for a refund your journal entry for that event would look like this.

Jan. 25, 2015	SRA-Sales	30.00	
	Cash		30.00
	Inventory	20.00	
	Cost of Goods Sold		20.00

SRA - Cash sale, $30, COGS 20, shirt, gift wrapped.

Your Sales Returns and Allowances account associated with Sales Revenues-Sales would increase with the debit as it is a contra revenue account offsetting the original sale value and your asset Cash would decrease with a credit while Inventory increases with its debit and cost of goods sold is decreased with its credit.

Allowances are made after the sale to keep the sale at some lower value. Supposed to shirt was purchased in royal blue to be part of an outfit but it turns out the outfit needs navy blue. You don't have navy blue in stock at the moment so the client or customer agrees to keep the royal blue shirt if you drop the price by $10. You accept the offer. Your journal entry on January 25, 2015, would look like this.

Jan. 25, 2015	SRA-Sales	10.00	
	Cash		10.00

SRA - Cash sale, $30, COGS 20, shirt, gift wrapped, $10 SRA, not returned.

In this journal entry debits, increases the contra revenue account of Sales Returns and Allowances associated with sales and decreases your asset Cash with a credit I $10. Since the inventory is not returned there is no inventory portion associated with this journal entry. With luck this client or customer were returned due to the exemplary customer service you have provided.

Common Revenues / Sales Discounts / Sales Returns and Allowances Accounts

In the chart of accounts I built I kept the Sales Revenues, Sales Returns and Allowances (SRA), and Sales Discounts in the same group as you can see. The Sales Revenue accounts are increased with credits right hand values. The Sales Returns and Allowances and Sales Discount accounts, being contra revenue accounts, increase with debits, left hand values.

Account ID	Account Description
40010	Sales Revenues
40013	SRA-Sales
40015	Sales Discounts-Sales
40020	Red Crayons Revenues
40023	SRA-Red Crayons
40025	Sales Discounts-Red Crayons
40030	White Crayons Revenues
40033	SRA-White Crayons
40035	Sales Discounts-White Crayons
40040	Blue Crayons Revenues
40043	SRA-Blue Crayons
40045	Sales Discounts-Blue Crayons
40050	Green Crayons Revenues
40053	SRA-Green Crayons
40055	Sales Discounts-Green Crayons
40060	Book Revenues
40063	SRA-Books
40065	Sales Discounts-Books
40110	Graphics Revenues
40210	Interest Income
40220	Finance Charge Income
40230	Other Income

Cost of Goods Sold

Cost of goods sold is a special expense account and one of the few if any accounts that does not actually contain the word expense in its title. You will usually see it listed as the second category after revenues for retailers, wholesalers, and occasionally manufacturers as revenues minus cost of goods sold is a value identified as gross profit. Cost of goods sold is the direct expense account associated with or for paired with inventory. Using the perpetual inventory concept of valuation where the cost of goods sold is recorded at the same time of the sale journal entries will usually violate the concept of all debit entries before any credit entry. We will use this previous journal entry as an example. On January 21, 2015, you sell a shirt which cost you $20 for $30 to a cash customer.

The journal entry would look like this.

Jan. 21, 2015	Cash	30.00	
	Sales Revenues-Sales		30.00
	Cost of Goods Sold	20.00	
	Inventory		20.00
	Cash sale, $30, COGS 20, shirt, gift wrapped.		

With this journal entry your asset Cash increased with the debit, your Sales Revenues-Sales increased with a credit, your Cost of Goods Sold, that special expense account, increased with a debit, and your Inventory decreased with a credit. This journal entry is considered a perpetual inventory concept journal entry as it records the cost of goods sold at the time of sale. The opposing concept is periodic inventory which does not record the cost of goods sold until the end of the fiscal period. While the periodic inventory concept may be utilized for financial reporting, look at your next sales receipt from virtually any retail store, food store, or fast food facility and you will find that operationally virtually everybody is operating on perpetual inventory. They are allowing their computer system to help them determine what they need to order and when they need to order it.

Common Cost of Goods Sold Accounts

Account ID	Account Description
50010	Cost of Goods Sold-Sales
50020	COGS-Red Crayons
50030	COGS-White Crayons
50040	COGS-Blue Crayons
50050	COGS-Green Crayons
50060	COGS-Books
50110	COGS-Graphics
50120	COGS-Direct Labor-Graphics
50130	COGS-Direct Materials-Graphics
50140	COGS-Subcontractors-Graphics

Expenses

Expenses are the cost of doing business. Other than on late-night television I have never seen a business that could operate without having an expense. There are several classes of expenses and will try to address them in a reasonable manner. Looking at the big box retail store you have what are referred to as selling expenses. These expenses, excluding the cost of goods sold, are the expenses incurred as the direct interaction and making sales. One of the guidelines for determining a selling expense may be if the customer does not see it or cannot

touch it it's probably not a selling expense. The bags at the cash registers, the tape inside the cash register, the depreciation on the cash register, the wages for the cashier, the wages for the cashier supervisor, the janitorial expenses of keeping the sales area clean, the utilities for the sales area, and the insurance for the sales area are all examples of selling expenses.

The second category is general and administrative expenses, commonly referred to or titled G&A. These are the costs or expenses of doing business that are necessary but the customer may not directly see them. The store manager, possibly department managers depending upon their individual roles, payroll, human resources, accounting, and anything to do with district or headquarters in the way of allocated costs.

For a manufacturing operation expenses are slightly different. There are front office expenses which will immediately go to the income statement. These are things like the president's salary, human resources costs, accounting costs, legal costs, and anything not directly associated with the manufacturing floor. These are all expenses going straight to the income statement titled general and administrative. Other costs, called prepaid expenses, are associated with the manufacturing process and they are capitalized or put into the balance sheet as work in process, semi-finished goods, and finished goods available for sale. Some of these costs are going to be direct and things the customer can see and appreciate such as direct material and direct labor. Others are going to be indirect costs that were necessary but customer may not see them such as insurance, janitorial, material movement, quality control etc. these costs are frequently called factory overhead (FOH) or manufacturing overhead (MOH). There still prepaid expenses in that they will end up on the income statement as cost of goods sold, that special expense account As we get deeper into accounting you'll see how these interact.

Assume that on January 2, 2015, you contract with an ad for your retail store to run for the time frame of January 5 through January 15, 2015. The cost of the ad is $2,000 and you pay that fee with cash. The journal entry when you pay this fee would look like this.

Jan. 2, 2015	Advertising Expense	2,000.00	
	Cash		2,000.00

Ad campaign for Jan. 5-15, 2015, paid cash.

With this journal entry your Advertising Expense increases with the debit, left value, of $2,000 and your cash, an asset, decreases with the right value of $2,000.

A prepaid expense is an asset as discussed earlier. In this journal entry your purchasing a prepaid expense, Prepaid Insurance, on January 2, 2015, for $18,000 by paying cash.

Jan. 2, 2015	Prepaid Insurance	18,000.00	
	Cash		18,000.00

Purchased 2015 annual insurance policy for $18,000 cash.

This prepaid asset expires as time passes so at the end of each fiscal period usually a month for managerial reports which can be combined into quarterly reports for the SEC reports and annually for shareholder reports and adjusting entry is made. This journal entry shows the recognition of the expense due to the passage of time associated with the prepaid expense, Prepaid Insurance.

Jan. 31, 2015	Insurance Expense	1,500.00	
	Prepaid Insurance		1,500.00

Adjusting entry, insurance.

Some of the other adjusting entries to recognize expenses due to the passage of time are going to be associated with items such as depreciation. Depreciation is the consumption of fixed assets such as plant / buildings, and equipment. Land is not depreciated. The following is a repeat from earlier text to show how this works in light of expenses. Assume that on January 2, 2015, you purchase a machine for $1.2 million. You determine that this machine has a 20-year life and no salvage or residual value at the end of its life. Salvage or residual value is any value you expect to attain at the disposal of the property at the end of its useful life. Usually it is something and we will discuss that in detail in the section on depreciation. The math shows your annual depreciation is ($1,200,000 ÷ 20 years) $60,000 per year. With adjusting entries being made monthly so we have management documents available to us our monthly depreciation is ($60,000 annually ÷ 12 months) $5,000. This also allows us to depreciate assets bought in later months of the year or in the middle of the month. The journal entry for the purchase of this equipment with cash would look like this.

Jan. 2, 2015	Equipment	1,200,000.00	
	Cash		1,200,000.00

Purchased equipment for $1.2 m, 20-year life, no salvage value.

The debit to equipment, the left side entry increases the asset by $1.2 million while the credit to Cash, the right side entry, reduces your asset of cash by $1.2 million.

To show the interaction between the asset account, the contra account, and the expense account here is the adjusting entry for depreciation at the end of January 2015.

Jan. 31, 2015	Depreciation Expense-Equipment	5,000.00	
	Accum. Depreciation-Equipment		5,000.00

Adjusting entry – Depreciation for equipment.

The adjusting entry does not touch the primary account of Equipment in most accounting actions. In this adjusting entry the expense account, Depreciation Expense – Equipment, increases by $5,000 with the debit, left hand entry, while Accumulated Depreciation – Equipment, the contra asset account, increases with its credit, right hand entry, of $5,000.

Common Expense Accounts

Looking at the expense accounts in most companies you will find that that is probably the most numerous number of accounts in any category. The reason is this high level of detail allows a greater degree of accuracy and control of costs. When someone asks "What does the cost to bring our product into the store?" You want to build find that answer quickly, especially if this is a repetitive type question which it often is. In my chart of accounts I make two distinctions for the movement of materials and product. I utilize the phrase "Freight-in" for things coming to me and I envision this as a bunch of guerrillas throwing things around and manhandling the products and I'd rather have the product that's going to be damage coming to me than going from me to my customers. This is just memory tool. I use the phrase "Transportation-out" to process of getting my goods to my customers as this implies some degree of care and concern so, hopefully, my product will reach my customers without damage. Simply a memory tool.

Account ID	Account Description
57500	Freight-in Expense
57510	Transportation-out Expense
58500	Inventory Adjustments Expenses
59000	Purchase Returns and Allowance
59500	Purchase Discounts Expense
60220	Office Salaries Expense
60230	Office Wages Expense
60240	Store Salaries Expense
60250	Store Wages Expense
61000	Vehicle Expenses
61500	Bad Debt Expense

62000	Bank Charges Expense
62500	Cash Over and Short
63000	Charitable Contributions Expense
63010	Interest Expense
63020	Insurance Expense
63030	Rent Expense
63050	Advertising Expense
63060	Office Supplies Expense
63070	Store Supplies Expense
63500	Commissions and Fees Expense
64500	Dues and Subscriptions Expense
65000	Employee Benefit Programs Expense
65011	Depreciation Expense-Furniture
65021	Depreciation Expense-Equipment
65031	Depreciation Expense-Vehicles
65041	Depreciation Expense-Other
65051	Depreciation Expense-Leasehold
65061	Depreciation Expense-Buildings
65071	Depreciation Expense-Bldg Imp
68000	Laundry and Cleaning Expense
68500	Legal and Professional Expense
69000	Licenses Expense
69500	Loss on NSF Checks
70000	Maintenance Expense
70310	Income Taxes Expense
70500	Meals and Entertainment Expense
71000	Office Expense
71500	Other Taxes-Expense
72000	Payroll Tax Expense
72500	Penalties and Fines Expense
73000	Pension/Profit-Sharing Plan Expense
73100	Printing Offsite Expense
73500	Postage Expense
75011	Organization Costs Expense
75100	Salaries Bonus Expense
76500	Travel Expense
77000	Utilities Expense
78010	Pat / Copyright Amort Expense
78020	Franchise Amort Expense
89000	Other Expense

Comprehensive Income / Expenses

As investors seek greater detail and numerous inappropriate activities have occurred with in the financial reporting while the process of accounting has not really changed in several hundred years, the reporting of accounting has. When you look at a big box retail store its income is considered to be from the operations of the sales floor earning revenues and incurring expenses associated with bringing a product to a customer and a customer walking out the door with that product after paying. The big box retail store does not often purchase or sell property or plants / buildings and the move has been to segregate these unusual values from what is considered to be operating income into their own category called Comprehensive Income. This assists the reader of the financials from separating what he or she can expect the find next year based on the trends of previous years from these infrequent actions necessary by the company. Looking at the chart of accounts associated with comprehensive income and expenses you will frequently see the phrases gains and losses as well as fixed assets along with unrealized gains and losses associated with income. All of these are related to some amount of cash flow not specifically the value of the gain or the loss and not considered to be repetitive in daily operations of the business associated with its main line of operations.

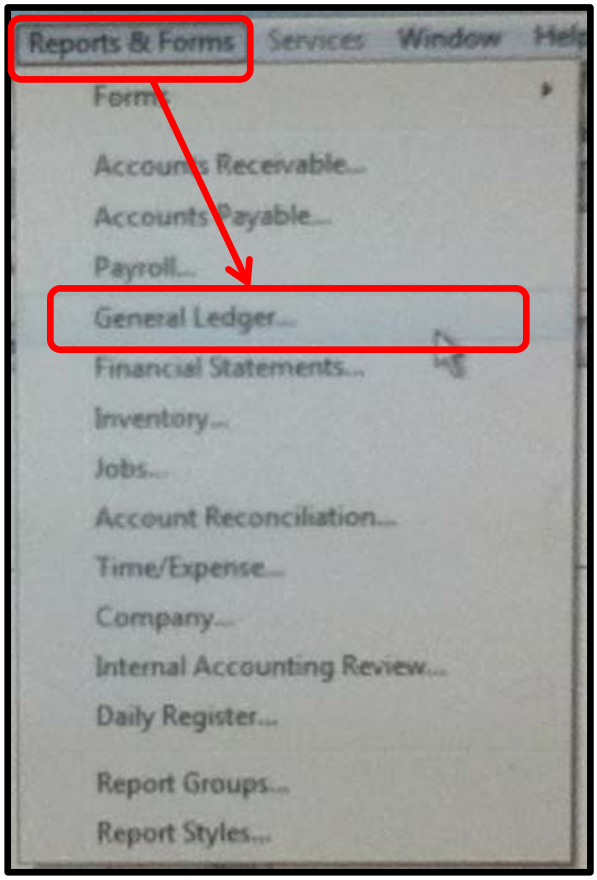
In this concept you need to understand what the business does to understand how this works. If the big box retail store has a delivery van and sells it at a gain or loss that value will be reported in comprehensive income. However a car dealer selling a car has a different aspect of the same sale event. For the car dealer the sale of a car is an everyday event and will be part of operating income.

Common Comprehensive Income and Expense Accounts

Account ID	Account Description
90000	Gain on Disposal of Fixed Assets
90010	Loss on Disposal of Fixed Assets
90020	Gain on Exchange of Fixed Assets
90030	Loss on Exchange of Fixed Assets
90040	Unrealized Gain-Income
90050	Unrealized Loss-Income
90060	Loss on Impairment

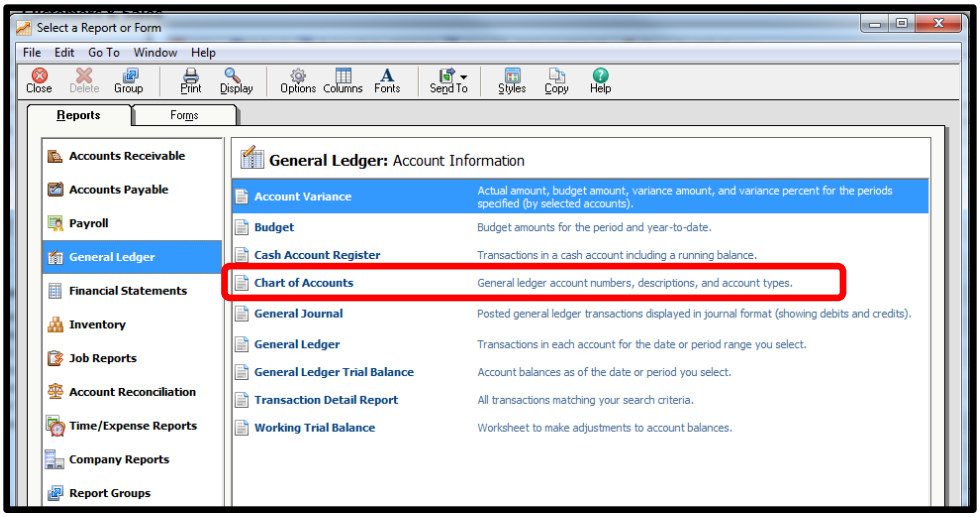
The Chart of Accounts Within Sage 50 Complete Accounting

First, a bit of advice, if you are within an established and operating company, you should be very skeptical of creating a new account. If working with a more qualified accountant, I recommend you check with him or her first.



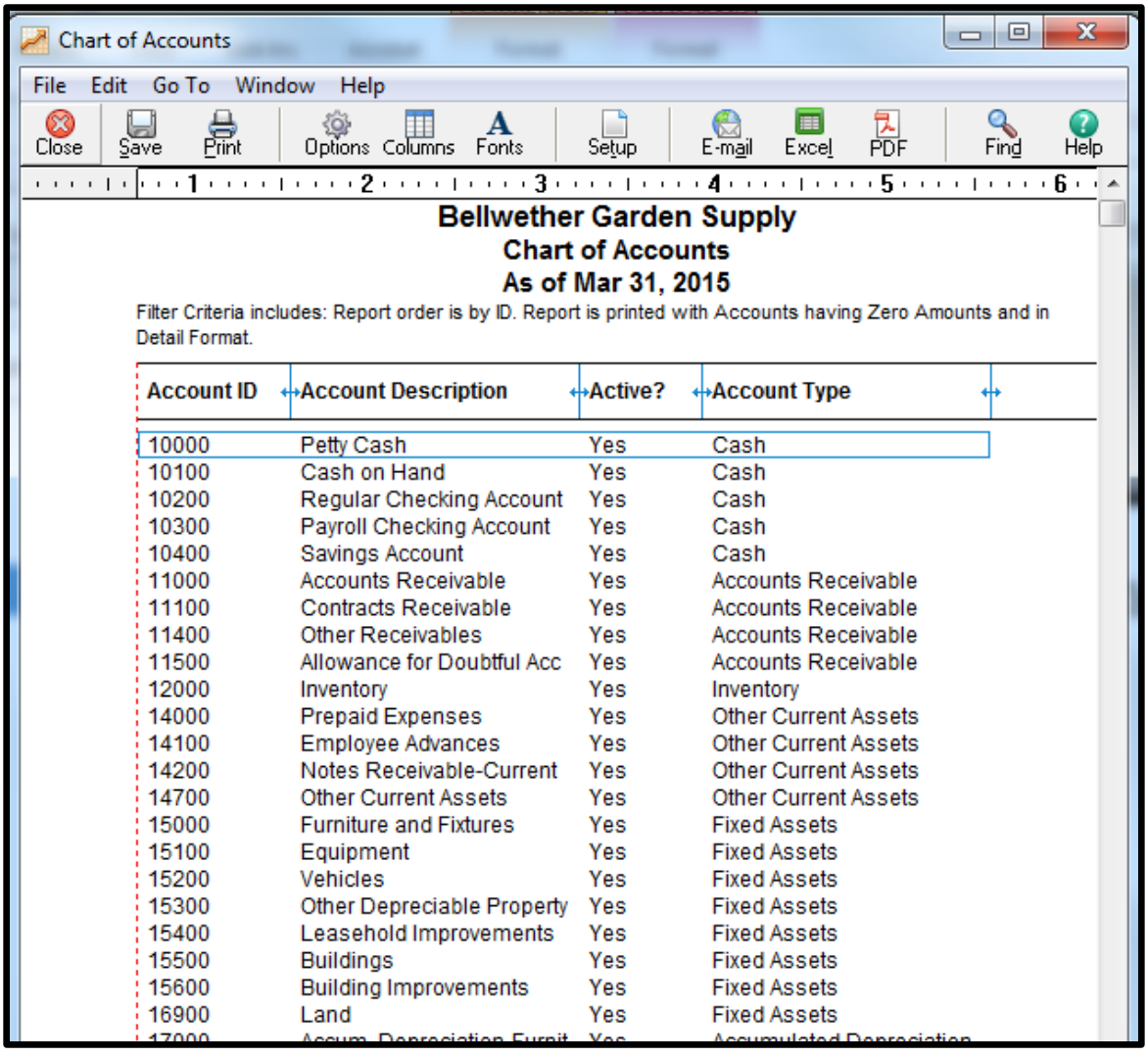
Within Sage 50 Complete Accounting you can view the chart of accounts through the path Reports > General Ledger to access the General Ledger reports group. Sorry about the quality, the path is shown here, click on Reports & Forms, then, from the drop-down menu, ***SINGLE*** click on General Ledger … to attain the General Ledger report menu.

From the General Ledger Select a Report or Form menu double-click on the Chart of Accounts report.



This is a screen print of Sage 50 Company Accounting's sample company Bellwether Garden Supply. This educational and professional development information provided by Sage Software, Inc. and should be considered protected by them through copyrights and patents.

The report gives you the account number, the account description, whether it is active or not, and the type of account. While basic accounting has assets, liabilities, owners' equity, revenues and liabilities, computerized accounting applications expand these for reporting purposes. These expanded types are what make creating an account a bit more complex in real accounting over textbook accounting. However, most mistakes in computerized accounting can be corrected.



Account ID	Account Description	Active?	Account Type
10000	Petty Cash	Yes	Cash
10100	Cash on Hand	Yes	Cash
10200	Regular Checking Account	Yes	Cash
10300	Payroll Checking Account	Yes	Cash
10400	Savings Account	Yes	Cash
11000	Accounts Receivable	Yes	Accounts Receivable
11100	Contracts Receivable	Yes	Accounts Receivable
11400	Other Receivables	Yes	Accounts Receivable
11500	Allowance for Doubtful Acc	Yes	Accounts Receivable
12000	Inventory	Yes	Inventory
14000	Prepaid Expenses	Yes	Other Current Assets
14100	Employee Advances	Yes	Other Current Assets
14200	Notes Receivable-Current	Yes	Other Current Assets
14700	Other Current Assets	Yes	Other Current Assets
15000	Furniture and Fixtures	Yes	Fixed Assets
15100	Equipment	Yes	Fixed Assets
15200	Vehicles	Yes	Fixed Assets
15300	Other Depreciable Property	Yes	Fixed Assets
15400	Leasehold Improvements	Yes	Fixed Assets
15500	Buildings	Yes	Fixed Assets
15600	Building Improvements	Yes	Fixed Assets
16900	Land	Yes	Fixed Assets
17000	Accum. Depreciation Furnit	Yes	Accumulated Depreciation

There is a separate section on creating an account within Sage 50 Complete Accounting.

Copyright, Patent, Trademark, Trade Logo, and Service Marks Acknowledgements

Sage Software, Inc.

This course is based on the utilization of Sage 50 Complete Accounting. All references to, and images of Sage products are protected by Sage Software, Inc. Their U.S. contact information is Sage Software, Inc., 6561 Irvine Center Drive, Irvine, CA 92618-2301. As the author of this text, Sage Software has been very generous in offering their software for educational endeavors. This software has restrictions to its use, it cannot be utilized in a non-educational application, and cannot be sold, resold, or traded for compensation.

Texas Instruments Incorporated

Devices such as the Texas Instruments BAII Plus Professional, BAII Plus, and TI-84 series calculators are protected by Texas Instruments Incorporated (TI). Their reference here is not intended to violate any of the legal protections that TI has. I use their BAII Plus Professional Emulator in my classroom and may have used it in this section to clarify the information or to show how to utilize this device. TI can be contacted at Texas Instruments Incorporated, P.O. Box 660199, Dallas, TX 75266-0199.

Microsoft Corporation

Microsoft has legal protections over products such as Microsoft Office and its elements such as Microsoft Word (Used to write this text), Microsoft Excel, Microsoft PowerPoint, and Microsoft Access. It also has legal protection in place for its products such as Microsoft Dynamics ERP. Their contact information is Microsoft Corporation, One Microsoft Way, Redmond, WA 98052-6399.

Adobe Systems Incorporated

Adobe has legal protections over products such as Adobe Acrobat, Adobe Photoshop, and Adobe Dreamweaver. Several of those products were utilized in the production of this text. Adobe Reader can be downloaded from:
http://get.adobe.com/reader/?promoid=KLXME
Their contact information is Adobe Systems Incorporated, 345 Park Avenue, San Jose, CA 95110-2704.

Index