

# THE ABC'S OF THE COA (CHART OF ACCOUNTS)

---

PAUL ROSENBLUM/NUMEREX SERVICES – [NUMEREX@NUMEREXONLINE.COM](mailto:NUMEREX@NUMEREXONLINE.COM)  
(ONLY FOR QEDC)



# THERE ARE UP TO 6 KINDS OF ACCOUNTS IN THE CHART

---

(SOME COMPANIES ONLY USE 5)

# BALANCE SHEET

---

- The Balance Sheet consists of three types of accounts:
  - ASSETS
  - LIABILITIES
  - EQUITY

# PROFIT AND LOSS

---

- The Profit and Loss consists of
  - Income (Revenue)
  - Cost of Goods (COGS or COS) – not all companies
  - Expenses

# ASSETS

---

- Types of Assets:
  - Cash (Bank accounts and Petty cash)
  - Inventory Value
  - Accounts Receivable (Money owed to you)
  - Fixed Assets
  - Current Assets
  - Other Assets (Including 'Startup Expenses')

# FIXED ASSETS

---

- Fixed Assets are made up of furniture, equipment, computers, air conditioners, microwaves, desks, Television sets, cell phones, refrigerators, stoves, and vehicles.
- A Fixed Asset has to have a life expectancy of more than one year. If you purchase a computer, most accountants will expect it to last for 3 years, so that purchase would fall under a 'Fixed Asset'. Fixed Assets are depreciated every year for their life expectancy.

# CURRENT ASSETS

---

- Current Assets are the same as Fixed Assets, but they have a life expectancy of less than 12 months.
- Sometimes it's a judgement call – hard to figure out if something is a Fixed or a Current Asset
- A \$70 printer for the office --- how long should it last? Not really sure. Tough call

# “OTHER ASSETS”

---

- If you pay a Security Deposit on an office or factory space, that amount would be an ‘other asset’ called Security Deposits. They are Assets because even though a landlord has your money, in theory, you get that back when you move out.
- The most common ‘other asset’ for new businesses are called ‘Startup Expenses’. These are expenses that occur *before* the business makes a sale. Typically, these kind of expenses might be office supplies, travel, rent, business meals, Research and Development, samples and sometimes ‘buildouts’.
- If you make an improvement to a building before you open, these are called Leasehold Improvements which are Fixed Assets and get depreciated over many years.



# LIABILITIES

---

- Types of Liabilities
  - Accounts Payable
  - Credit Lines
  - Loans (Or Funding)
  - Credit Cards
  - Sales Tax
  - Like Assets, there are Long Term Liabilities and short term liabilities (Current Liabilities)

# CURRENT LIABILITIES

---

- Money that is owed by your company is a Liability.
  - Accounts Payable consists of all the bills that the company has that are not paid.
  - Sales Tax is money that you collect (if NY State says that you have to), but it belongs to NY State.
  - Credit Lines, Loans or Funding, or Credit Cards are liabilities because the money you owe is either going to be paid within 1 year (Current Liability) or over a period of years (Long Term Liability)
  - Kabbage Funding or other funding companies: Principle and interest (they don't call it interest!)

# EQUITY ACCOUNTS

---

- Each person or company who invests money into a company (even a single owner) has to have 2 Equity accounts just for them to use:
  - Capital (Money coming in as an investment)
  - Draw (Money going out paying back the investor)
  - Shareholder Distributions (Corporations)
- These accounts are not part of the Profit or Loss of company's' finances. These accounts are extra important if the company is owned by more than one person or others are investing into a company who are not owners of the company. Very complicated taxes for the accountant. These values have to be correct.

# ASSETS, LIABILITIES AND EQUITY -----

---

- .....Make up the BALANCE SHEET.
- This is one part of your Books.This is only half the story!
- Equity: Owner(s), partners, or outside company INVESTMENTS– Each investor has a Capital and a Draw Equity account
- The Other Half make up your PROFIT and LOSS -----→

# PROFIT AND LOSS ACCOUNTS

---

- Income
- Cost of Goods (with many companies but not all)
- Expenses

# REVENUE – INCOME ACCOUNTS

---

- Accrual : All sales are considered taxable when the income is ‘earned’. NOT when it’s collected from the customer.
- Cash: All sales are considered taxable only AFTER it’s collected from the customer.
- You can have one revenue/income account or 100 accounts. The IRS just wants one total number.

# COST OF GOODS (COGS) SOMETIMES CALLED 'COST OF SALES'

---

- These are expenses (but a separate category) that are *directly* related to making a sale.
  - Shipping product to a customer
  - Customer credit card fees (Merchant fees)
  - Cost of labor in manufacturing
  - Sometimes parts of payroll
  - Ingredients
  - Shipping boxes
  - Inventory AFTER being sold (Purchase price)

# EXPENSES

---

- Depending on the kind of business that you have, what you spend money on belong in different categories. But the standard categories that everyone uses are:
- Office Supplies
- Local Travel (Uber, Lyft, trains, busses) (Taxi and Local Transportation)
- Auto (company car or in some cases a personal car used for company purposes)
- Insurance
- Business Meals (used to be Meals/Entertainment) (Continued)



# EXPENSES (CONTINUED)

---

- Computer and Internet Expenses (Office Expenses)
- Dues and Subscriptions
- Garbage disposal (Carting)
- Professional Services (Accounting, Bookkeeping and Legal services)
- Subcontractors
- The Schedule C form ([www.irs.gov](http://www.irs.gov)) will show you all the categories needed for a single owner LLC or Sole Proprietorship (Continued)

# EXPENSES (CONTINUED)

---

- The 1120 or 1120S form (Corporation) will give you the expenses categories needed for that kind of entity.
- The 1065 form will show you expense categories for LLC's with multi owners or investors.

Your Chart of Accounts can have any names of accounts that you want, but the more you stray from the wording of categories on these forms, the more the accountant or tax preparer will charge you to convert your expense accounts to what the IRS needs.

# THE BOTTOM LINE IS ....

---

- This is something that most business owners don't want to do but it's necessary
- IT'S NOT EASY!!!! (And you will eventually need a good bookkeeper! )