ILuvAccounting

Chart of Accounts Explained

Your Chart of Accounts is the master list of every account your business uses to record transactions — get the structure right once and everything else gets easier.

Standard Numbering System

Number Range	Category	Examples
1000–1999	Assets	Cash, Accounts Receivable, Inventory, Equipment
2000–2999	Liabilities	Accounts Payable, Credit Cards, Loans Payable
3000–3999	Equity	Owner's Capital, Retained Earnings, Draws
4000–4999	Revenue	Sales Income, Service Income, Interest Income
5000–5999	Cost of Goods Sold	Materials, Direct Labor, Freight-In
6000–6999	Operating Expenses	Rent, Payroll, Marketing, Utilities, Insurance

Why Numbers Instead of Just Names?

Numbering keeps every report sorted in a logical order automatically — Assets always come before Liabilities, Revenue always comes before Expenses — and it leaves room to insert new accounts later without renumbering everything (e.g. use 1010, 1020, 1030 instead of 1001, 1002, 1003).

Building Sub-Accounts

Add sub-accounts only when you need that level of detail for a real decision — for example, splitting "6100 Marketing" into "6110 Paid Ads" and "6120 Content & Design" if you actually compare channel spend. Don't create a new account just because a new vendor shows up.

Common Mistakes

Creating a new account for every vendor instead of using one expense category · Mixing personal and business expenses in the same accounts · Not separating Cost of Goods Sold from Operating Expenses · Overcomplicating the list before you actually need the detail.