# Chart of Account Guidelines

GFOA has developed the following guidelines to assist governments in developing a new chart of accounts as part of an ERP implementation. For all projects, unless there are strict requirements that a specific chart of account structure be used, GFOA recommends that organizations take the opportunity of the ERP system implementation to develop a new chart of accounts. Below are GFOA’s chart of account development recommendations:

1. **Define Each Segment –** Each segment of the chart of accounts should have a strict definition that can be communicated and enforced. This will present internal inconsistencies within the chart of accounts. For example, the City should universally agree on what a “fund” is, what a “department” is, what a “program” is and not allow any exceptions.
2. **Start Over –** When developing the chart of accounts, the City should start fresh and not concern itself initially with mapping back to the existing chart of accounts. The City should be reviewing its actual organizational structure and operations and build the chart off of that rather than its existing chart of accounts. This will prevent the City from replicating an problematic chart of account structure.
3. **Start Simple and Build-Out Detail –** The City should identify major categories within each segment and then work to build out detail. Again, this will help the City take a fresh perspective to the chart of accounts and prevent any unnecessary replication of the old chart.For example, when developing the object code listing, the City should first identify major object code categories and then work to define detail to the extent necessary. This will also help ensure that the overall chart is organized.
4. **Don't Store Unnecessary Data -** A well-developed chart of accounts will not require new accounts to be created often. Most organizations attempt to keep the chart of accounts relatively simple and high level and then utilize other components of the system (example: the project ledger, AR charge codes, salary pay codes, work order detail, etc.) to further define the detail. The will lessen the amount of maintenance required on the chart of accounts
5. **Don’t Repeat or Bring Forward Ineffective Numbering or Accounts –** Simply being able to convert chart of account data or having the ability to re-use existing number schemes is not always beneficial for the organization. As part of training and change management activities for the ERP implementation, many policies, processes, and systems will be changing. In many cases it is not a good idea to hold on to an old taxonomy or vocabulary with the chart of accounts. The City’s end-users will eventually learn the new chart and dealing with the initial learning curve is better than dealing with inefficiencies in the new chart of accounts for the length of time the new ERP system is used.

# Common Chart of Account Structure

GFOA recommends that the City, and almost all other organizations, define a chart of accounts with the following major components. Each one will track a slightly different type of information as described by the blocks below. It will also enable the City to track all required information for accounting, budgeting, and financial reporting.

**Object / Account**

**Project**

**Organizational**

**Unit**

**Program / Activity**

**Fund**

Within each major component, the City could have one or more segments that define the level of detail necessary for the City’s tracking, managerial, and reporting needs. Potential options for each could include:

|  |  |  |
| --- | --- | --- |
| ***Component*** | ***Description*** | ***Possible Segments*** |
| Fund | Fund is the self-balancing accounting unit required for governmental accounting | * Fund
 |
| Organizational Unit | Organizational unit represents the organizational hierarchy represented by an org chart, listing of business units, or locations that the City wants to track data for.  | * Department
* Division
* Business Unit
* Location
 |
| Program / Activity | Programs (also commonly called activity) are the services performed by organizational units. Each program should have a service outcome (result produced). Typically programs are ongoing and not limited to a specific organizational unit | * Function
* Program
* Activity
* Sub-Activity
 |
| Object / Account | The object or account is the classification of the balance sheet item, revenue, or expense. For expense and revenue, this defines what was spent or earned (example: supplies).  | * Object / Account
 |
| Project | Projects are often used to track programs with defined start and end dates or other events that would require additional detail beyond the chart of accounts. Project costs would be summarized in this segment but broken out in more detail in the project ledger. This allows for detailed tracking department by department. | * Project Roll Up
* *(Additional segments defined as part of project/grant accounting)*
 |

*Note: GFOA does not recommend that the City use all of the “possible segments.” This list was supplied as potential examples to select from. GFOA recommends that the City define its chart of account segments using only those segment necessary and make an attempt to keep this structure simple.*

# Chart of Account Segment Considerations

GFOA used the common chart of account structure defined above to illustrate potential considerations and decisions points that will need to be made within each segment. After determining how many segments are most appropriate, the City will need to make decisions on how many values to include and how each should be organized/numbered. For smaller organizations, GFOA recommends that the chart be kept simple and additional segments not be added unless necessary.

* **Funds**

GFOA has observed that many cities create many new funds as a way of tracking information in a legacy financial system because the system lacks the flexibility in the chart of accounts to add segments and track projects, programs, or grants separately. As a result, governments have long list of “funds” many of which should not actually tracked as separate funds. GFOA’s Best Practice advised governments “to establish clear criteria for determining whether a given “fund” in its accounting system should be treated as a fund for purposes of external financial reporting. The application of these criteria to individual “funds” should be documented and then periodically reviewed to take into account changes in circumstances (for example, a significant decrease in a revenue source reported as a separate special revenue fund). A government’s periodic review of its fund structure ought to specifically consider whether the goals of general purpose external financial reporting could better be achieved by combining similar “funds” in the accounting system into a single fund for financial reporting purposes.”

* **Organizational Units**

As stated above, many organizations create one or more segments to refer to the organizational unit. These segments can include department, division (sub-section of department), or any other vocabulary used to create the organizational structure (typically supervisory and personnel reporting structures). When developing the chart of accounts and defining segments, it is important that all information within a segment is kept consistent. Also, because each segment code can only be used once, GFOA would recommend the City consider numbering hierarchical relationships with prefix numbers that identify the grouping. For example in the example below, all divisions belonging to the finance department begin with 10. For smaller organizations, it is likely that one segment is sufficient (only department).

|  |  |  |  |
| --- | --- | --- | --- |
| ***Department Number*** | ***Department*** | ***Division Number*** | ***Division*** |
| 10 | Finance | 1010102010301040 | AccountingPurchasingRevenueBudget |
| 20 | Police  | 2010202020302040 | Office of ChiefPatrolInvestigationJail |

* **Program/Activity**

The example stated in the previous section would therefore not apply to programs or activities. For most governments, these programs would not be limited to one department as divisions are so a different numbering method would be required. In the examples below, all programs /activities would be created under the example roll-up number by major function. While this may be similar to organizational unit or department, the City should avoid establishing a 1:1 relationship between organizational unit and program (as not all police programs are focused on public safety and presumably the police is not the only department that contributes to public safety).

| ***Example Number*** | ***Description*** |
| --- | --- |
| 10000 | General Government |
| 20000 | Public Safety |
| 30000 | Transportation |
| 40000 | Health and Welfare |
| 50000 | Recreation |
| 60000 | Conservation and Planning |
| 70000 | Facilities |
| 80000 | Business Enterprises |

* **Object**

As stated earlier, GFOA recommends that most cities develop a new object code listing and take this opportunity to clear up and organize the set of object codes used throughout the organization. GFOA’s experience with many other governments is that similar to fund, object codes are created to track projects, grants, and programs that should be tracked in other segments of the chart of accounts. Now that the City has the capability to re-do its chart of accounts that should be cleaned up. GFOA offers the following structure for object codes as an example. Within each major category, additional detail can be defined. Note: This structure is provided as an example. GFOA recommends that the City develop a structure that meets its needs.

| ***Example Number*** | ***Type*** | ***Description*** |
| --- | --- | --- |
| **10000** | **Asset** | **Assets** |
| 10100 | Asset | Cash |
| 10200 | Asset | Petty Cash |
| 10300 | Asset | Restricted Cash With Fiscal Agent |
| 11500 | Asset | Investments |
| 12000 | Asset | Receivables |
| 12200 | Asset | Short-Term Receivables |
| 12300 | Asset | Interest Receivables |
| 12400 | Asset | Due From Other Governments |
| 14000 | Asset | Due From Other Funds |
| 15000 | Asset | Non - Current Asset |
| 15100 | Asset | Long Term Receivable |
| 15200 | Asset | Other Assets |
| 15400 | Asset | Property Held For Resale |
| 15500 | Asset | Capital Assets |
| **20000** | **Liability** | **Liability** |
| 21000 | Liability | Current Liability |
| 21100 | Liability | Accounts Payable |
| 21200 | Liability | Accrued Liability |
| 21300 | Liability | Payroll Liability |
| 21400 | Liability | Other Current Liability |
| 22000 | Liability | Due To Other Funds |
| 25000 | Liability | Non-Current Liability |
| 25100 | Liability | Non-Current Accrued Liability |
| 25200 | Liability | Other Non-Current Liability |
| 25300 | Liability | Deferred/Unearned Revenue |
| 25400 | Liability | Long Term Debts |
| 25500 | Liability | Asset Forfeiture |
| **30000** | **Fund Balance** | **Fund Balance** |
| **40000** | **Revenue** | **Revenue** |
| 41100 | Revenue | Property Taxes |
| 41200 | Revenue | Special Assessment Revenue |
| 41300 | Revenue | Sales Taxes |
| 41400 | Revenue | Other Taxes |
| 41600 | Revenue | Franchise Fees |
| 41800 | Revenue | Intergovernmental Revenue - Federal |
| 41900 | Revenue | Intergovernmental Revenue - State |
| 42100 | Revenue | Intergovernmental Revenue - County |
| 42200 | Revenue | Intergovernmental Revenue - Local Agency |
| 42300 | Revenue | Fines & Forfeiture |
| 42400 | Revenue | License  |
| 42500 | Revenue | Permits |
| 43000 | Revenue | Fees And Charges For Services |
| 43400 | Revenue | Other Fees |
| 43500 | Revenue | Utility Fees |
| 44000 | Revenue | Investment Income |
| 45000 | Revenue | Internal Service Charges |
| 46000 | Revenue | Other Revenue |
| 49000 | Revenue | Other Resources - Operating Transfers In |
| **50000** | **Expense** | **Employee Services** |
| 51000 | Expense | Salaries And Wages |
| 51100 | Expense | Salaries And Wages |
| 51200 | Expense | Paid And Unpaid Leave |
| 51300 | Expense | Premium Pay |
| 55000 | Expense | Employee Benefits |
| 55100 | Expense | Employee Benefits |
| 55300 | Expense | Workers Compensation Premium |
| **60000** | **Expense** | **Operating Expenditures** |
| 61000 | Expense | Maintenance & Utilities |
| 61100 | Expense | Maintenance |
| 61500 | Expense | Utilities |
| 62000 | Expense | Supplies & Services |
| 62100 | Expense | Supplies |
| 62200 | Expense | Services |
| 62300 | Expense | Travel & Education Expenditures |
| 62500 | Expense | Internal Service Charges |
| 63000 | Expense | Debt Service |
| **70000** | **Expense** | **Capital Expenditures** |
| **90000** | **Other** | **Other Resource Use** |

* **Project**

The project segment often acts as an “optional” segment that allows the organization track additional detail (in addition to the segments described above) and allows the “project ledger to be used – opening up additional segments for more detailed tracking of and flexibility with expenses and revenues (purple segments below). Use of the project segment therefore does not need to be limited to capital projects, however this will likely be one of the more common uses. The project ledger (also called “job ledger” or “sub ledger”) can define unique attributes by project. Like all other chart of account segments having a clear plan for how to use the chart of accounts and being consistent and an compliance with the plan is key.



The following are common features that *may* be a good fit for the project segment (and project ledger).

* Capital projects
* Operating projects with defined start and end dates (grants)
* Events (Disaster clean-up)
* Expenses that relate to numerous revenue sources
* Activities / Events that require high levels of detail
* Unique department by department tracking needs (project segment can typically be set differently project by project).