

# Accounting

Business



Developing a firm's corporate charts of accounts Corporate charts of account refer to a list of all accounts that are generated as a result of the normal day to day firms operations. It is a detailed list arbitrarily generated containing all the essential detailed accounts used by the business entity majorly aimed at explaining every single class of the item which involves inflow or outflow of cash. The accounts are critically prepared with the underlying objective of maintaining the firm's funds while segregating the revenue, equity, assets and liabilities so as to make the all the interested parties conceptualize as well as enabling them have a better understanding of the financial soundness of the firm (Donald, 2007). For a new business, as well as an existing one, in order to continue will its operations, meeting customers need and its objectives of wealth maximization, there is a need to source funds (Steven, 2009). The two broad sources of funds are debt and equity which may vary depending on a number of factors, though not limited to the nature of the firm, its operations and its market repute. The combination of these two sources of funds refers to the firm's capital structure. In order to achieve the stated objective of the firms four employees as stated in the question, employees numbers are assigned i. e., employee no. 1, 2, 3, and 4. The most appropriate rate of payment is monthly for easy accounting. To achieve this, firm has to generate some accounts in its charts of account including payroll, salaries and wage payable accounts. These accounts are debit (Dr) and credit (Cr) as argued by (Donald, 2007). For effective operation of the business, tangible assets like plant and machinery, computer, motor vehicles equipment, furniture and fittings among others. According to FASB guideline, all these assets are subject to depreciation due to wear and tear as they

continue being used. Therefore, accounts like depreciation expense, accumulated depreciation as well as individual assets account should be prepared and be included in the firm's charts of accounts. An example of journal entries based on charts of accounts is shown bellow.

## JOURNAL

No.

### ASSETS

DEBIT

CREDIT

125

Equipment

12, 000

135

accumulated depreciation-Equip.

7, 000

### LIABILITIES

210

Payroll payable

8, 000

220

Payroll tax payable

2, 000

240

Income tax payable

2, 000

No.

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EXPENSES

245

Wage expenses

EQUITY

275

Dividends

5, 000

280

Retained earnings

Some of the internal controls which are aimed at reducing the firms overall risk are, compliance with laws and regulation, reliability of financial reporting and effectiveness as well as efficient operation of the firm.

Reference:

Steven M. & Bragg, S. 2009. Essentials of Payroll: Management and Accounting.

Donald, E. Jerry, J. Warfield, & Terry, D. 2007. Intermediate Accounting, Chapter 11