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# Account Groups

*by Sophia*

WHAT'S COVERED

This tutorial will cover the topic of account groups, discussing the different types of accounts and how they are used.

Our discussion breaks down as follows:

# 1. Types of Accounts

An **account** is a record that provides information about a given asset, liability, equity, revenue, or expense. All accounts organize into what is called a chart of accounts, which details all of the accounts contained within a company's financial system.

There are two main types of accounts, which we will cover in more detail in the next sections:

1. Permanent accounts, which are a company's assets, liabilities, and equity.
2. Temporary accounts, which are a company's revenue and expenses.

TERM TO KNOW

**Account**

A record that provides information about a given asset, liability, equity, revenue or expense.

## 1a. Chart of Accounts

As mentioned above, a chart of accounts is a detail of all the accounts contained within a company's financial system. It is organized by account type and categories, as shown in the example below:

| Chart of Accounts |
|---|
| 1000 Cash |
| 2000 Curent Assets |
| 3000 Fixed Assets |
| 4000 Short-term Liabilities |
| 5000 Long-term Liabilities |

| |
|---|
| 6000 Equity |
| 7000 Revenue |
| 8000 Direct Expenses |
| 9000 G&A |

As you can see, the chart outlines the asset accounts: cash, current assets, and fixed assets. It also details the liabilities, which are the equity, revenue, and expenses. It is numerically ordered in a manner that allows a company to easily pinpoint specific accounts within a category of accounts.

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# 2. Permanent Accounts

Let's dive a bit deeper into the two main type of accounts, beginning with **permanent accounts**. Permanent accounts are accounts whose balances carry over from one accounting period to the next accounting period. There are three categories within this permanent account classification:

- Assets
- Liabilities
- Equity

**Assets** are physical or non-physical resources owned by an organization that have economic value--resources like cash, inventory, and equipment.
**Liabilities** are the debts and other financial responsibilities of an organization, like accounts payable and loans payable, if money is owed to the bank, for instance.

The last category, **equity**, is the remaining value, once liabilities are subtracted from assets; think of this as the owner's capital accounts, retained earnings, or owner's draw.

TERMS TO KNOW

**Permanent Accounts**
Accounts whose balances carry over from one accounting period to the next accounting period.

**Assets**
Physical or non-physical resources owned by an organization that have economic value.

**Liabilities**
Debts and other financial responsibilities of an organization.

**Equity**
The remaining value once liabilities are subtracted from assets.

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# 3. Temporary Accounts

The other main type of account are **temporary accounts**, which are accounts whose balances are closed at the end of an accounting period, and reopened at the beginning of the next period.

There are two types of temporary accounts

- **Revenues**, which are earnings from interest, or from the sale of goods or services.
- **Expenses**, which are costs associated with operating or maintaining a business.

Now, why do we consider these accounts temporary? It's because they are activity-based or period-based. Since they are closed and reopened, they are reporting on the activity for that specific period only. They are closed out annually.
Revenues, when they are closed, record all of a business's profits or earnings, which results in net income. Expenses, when closed, record all of a business's losses--all of those costs associated with operating the business--which contribute to a net loss. Now, a business can either be in a net income position--meaning revenues are greater than expenses--or in a net loss position, where expenses exceed the revenues.

TERMS TO KNOW

**Temporary Accounts**
Accounts whose balances are closed at the end of an accounting period and reopened at the beginning of the next period.

**Revenue**
Earnings from interest or from the sale of goods or services.

**Expenses**
Costs associated with operating or maintaining a business.

## SUMMARY

Today we learned about the two main **types of accounts**: permanent accounts and temporary accounts. **Permanent accounts** track three categories: liabilities, equity, and assets. **Temporary accounts** track two categories: revenues and expenses. All of these accounts can be organized within a **chart of accounts**, which is a detail of all the accounts contained within a company's financial system.

Source: Adapted from Sophia instructor Evan McLaughlin.

## TERMS TO KNOW

**Account**
A record that provides information about a given asset, liability, equity, revenue or expense.

**Assets**
Physical or non-physical resources owned by an organization that have economic value.

**Equity**
The remaining value once liabilities are subtracted from assets.

**Expenses**
Costs associated with operating or maintaining a business.

**Liabilities**

 

Debts and other financial responsibilities of an organization.

**Permanent Accounts**

Accounts whose balances carry over from one accounting period to the next accounting period.

**Revenue**

Earnings from interest or from the sale of goods or services.

**Temporary Accounts**

Accounts whose balances are closed at the end of an accounting period and reopened at the beginning of the next period.