The Structure of the NAHB Chart of Accounts - 3:46

Let's talk a little bit more in detail.

LEVEL ONE of the Chart of Accounts provides the skeleton of the financial reporting system. Think of this **Level One** as the **drawers** of the Accounting File Cabinet - one drawer for ASSETS, one drawer for LIABILITIES and EQUITY, one drawer for INCOME and DIRECT EXPENSE, and so on.

The **1000 series** and the **2000 series** of the chart of accounts comprise the line items to be found on the **Net Worth Statement.**
(Assets = Liabilities + Equity).

The **3000 series** through the **8000 series** comprise the line items to be found on the **Income Statement.** (Income - Expenses = Profit).

The **9000 Series** captures **extraordinary** income and expenses.

Level One Accounts provide an "INVESTOR" view of the business and it is more an over-sight view than in-depth.

LEVEL TWO of the Chart of Accounts introduces more detailed categories for your accounting process. The illustration shows a partial list of the accounts available. For instance, the 2001-current liability line item has been segmented into 2002-Deposits by Customers, 2102-Accounts Payable, 2202-Notes Payable, and 2302 - Other Current Liabilities.

Think of **Level Two** of the Chart of Accounts as the **file folders** that go into the **drawers** of the Accounting filing cabinet.

The rationale behind this further categorization is that it is important for managers to know not only the size of the **Current Liabilities** but also how much of that is due to vendors (**Accounts Payable**) or how much represents **Deposits by Customers** on houses for which you have committed.

In the **Current Assets** section, the **Receivables** asset requires a different management approach than the **Inventory** assets. Therefore, it is important to know the relative size of each and be able to compare them.

Level Two Accounts provide a "MANAGEMENT" view of the business.

LEVEL THREE of the Chart of Accounts drills down into the nitty-gritty of your business. Cash is broken into Petty Cash, bank accounts, and escrow accounts. Receivables are divided into sales receivables, investment receivables, draw receivables, and so on.

Think of Level Three of the Chart of Accounts as the **dividers** in the **folders (Level Two)** in the **drawers (Level One)** of the Accounting filing cabinet.

The purpose of this kind of detail is to allow you, wearing your "department manager" or "business analyst" hat, to easily follow the important financial activities of your company.

- You can track the levels of construction inventory to make certain that you are controlling the size of that account, placing management emphasis on using that left-over insulation before ordering more.
- You can track the size of your accounts receivable to make certain your collection efforts are effective.
- You can track the levels and aging of your retention accounts.
- You can track the remaining draw amounts available from on-going projects.

Level Three Accounts provide an "ANALYST" view of the business.

They also provide you the opportunity to use financial ratios and financial ratio tracking to find out what the trend is in the operation of your business.