Chapter 21: Chart of Accounts

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21.100: GAAP Accounting for Non-Profits

The concept of **fund accounting** is unique to church and non-profit organizations. Fund accounting is defined as a system for recording receipts and disbursements for different purposes or different funds. Restrictions may be placed on receipts or contributions that require disbursements to be made for a particular purpose. The congregational treasurer is required to account for all funds (receipts and disbursements), but it is not necessary to have a separate bank account for each fund.

Generally Accepted Accounting Principles (GAAP) are accounting rules used to prepare, present, and report financial statements for a wide variety of entities, including publicly-traded and privately-held companies, non-profit organizations, and governments. Although some management discretion is allowed, financial statements will be presented according to accepted accounting rules and standards. Organizations seeking an unqualified opinion (audit) on their financial statements from a Certified Public Accounting firm are required to prepare their financial statements in accordance with GAAP.

In 1994, the American Institute of Certified Public Accountants (AICPA) issued, through its Financial Accounting Standards Board (FASB), a number of new requirements affecting Not-For-Profits, including churches. Since churches are generally not required to have a professional audit or prepare their financial statements in accordance with GAAP, many churches have chosen not to adopt the 1994 changes.

For congregations interested in following GAAP, many resources are available. **The intent of this manual is to provide a framework for the many congregations that continue to use fund-based accounting system.** The concepts presented are actually a hybrid between fund accounting and GAAP, acknowledging GAAP's definition of unrestricted, temporarily restricted, and permanently restricted net assets.

21.150: Accounting Basis for Churches

Some congregations choose the **cash basis for accounting**, simply recording transactions as cash income is received and cash disbursements are made.

Some congregations choose an accrual basis for accounting. Accrual accounting provides a more accurate snapshot of the congregation's finances at any time—properly reflecting all assets owned by and owed to the congregation and all amounts owed by the congregation. Under the accrual basis, expenses are recorded as soon as they are incurred (even if not paid) and income is recorded as soon as it is earned (even if not received).

Many congregations will choose a **hybrid basis for accounting**, combining some accrual accounting with the cash basis of accounting. For instance, although a congregation records all invoices as expenses as soon as they are received, it may choose to record contributions only on a cash basis versus picking up promises to pay (grants and pledges) as required by true accrual basis accounting.

21.200: Typical Funds

Typical funds that a congregation might have are as follows:

■ **Unrestricted funds:**
All receipts and disbursements that are not subject to restrictions placed on the receipts by donors but identified for the general purposes of the organization.

■ **Temporarily Restricted funds (Donor Restricted funds):**
Funds, the use of which have been restricted (expressed or implied) by the donor for a particular purpose, i.e., altar fund or organ fund. The donor is contributing with the intent that the funds are to be disbursed for that purpose.

■ **Permanently Restricted funds (Endowment funds):**
Funds restricted by the donor to be kept in perpetuity, with only the earnings used for ministry. The principal of the investment is not expended, and the income is distributed under the stated conditions.

■ **Board-designated funds:**
These funds are distinguished from restricted funds because the limitation on use is placed on the funds by the congregation for a specific purpose and not the donor. The church has the right, then, to remove the limitation or reclassify the fund's use.

21.400: Chart of Accounts

The chart of accounts is the complete list of all general ledger accounts for each fund within the congregation. The normal order and sequence of the major classification of accounts are as follows:

Assets	10000
Liabilities	20000
Fund balances	30000
Income–Unrestricted	40000
Expenses–Unrestricted	50000
Income–Restricted	60000
Expenditures–Restricted	70000

For the purpose of this manual, a five-digit account number is used. The digits are used as follows:

First digit—type of account
Second and third digits—program or function
Fourth and fifth digits—account detail

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21.500: Expenditures

Expenditures are divided into functions (the second and third digits) that normally relate to how the congregation sets up its organization. Each board or committee is responsible for various functions and, therefore, is responsible for the expenditure items included in that function.

A sample breakdown of these expenditures follows:

First Three Digits	Function	Board/Committee
5 01 00	Outreach beyond congregation	Missions/Elders
5 02 00	Pastoral support	Elders
5 03 00	Christian worship	Elders
5 04 00	Christian witness	Evangelism
5 05 00	Christian stewardship	Stewardship
5 06 00	Christian growth	Education
5 07 00	Christian youth	Youth
5 08 00	Christian welfare	Social Ministry
5 09 00	Christian day school	Education
5 10 00	Administration	Elders
5 11 00	Church property	Trustees

21.600: Expense Account Classifications by Description of Expenditures

The last two digits (fourth and fifth digits) of the expense account classifications identify the type of expenditures. These two digits can be used for all functions of the congregation.

Account Name	Last Two Digits
Salaries and Allowances	
Salary	01
FICA and Medicare Taxes	03
Employee benefits—Concordia Plans	04
FICA and Medicare Taxes	05
Housing Allowance	07
Automobile	09
Continuing Education Allowance	10
Utilities allowance	11
Conferences and workshops	12
Guest pastors, speakers	19
Supplies	
Office supplies	20
Altar supplies	21
Service bulletins	22
Hymnals	23
Choir music	24
Publicity and signs	25
Radio-TV	26
Offering envelopes	28
School supplies	29
Postage	30
Sunday school	40
Vacation Bible school	41
Adult Bible study	42
Church library	43
Lutheran Witness	44
Portals of Prayer®	45
A/V materials	47
School curriculum	48
Rental	51
Maintenance	52
Major repairs	53
Depreciation—equipment	54
Other Programs	
Leadership training	60
Scholarship and grants	61
Social ministry	63
Building and Utilities Expense	
Telephone	70
Utilities—church	72
Insurance	73
Maintenance and repairs	74
Rent	75
Depreciation—building	76
Interest Expense	77
Utilities—parsonage	78
Repairs—parsonage	79
Mission Work	
District/Synod support	80
Convention assessment	85
Mission work—local	89
Other expense	90

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21.700:
Chart of Accounts Detailed

	Description	Sub Account	Account Number	Explanation
Assets	■ Cash and Cash Equivalents	11000		Each cash account should have a different account number. A new bank account would require a different account number. These numbers could range from 1010-1019 depending on the number of accounts. Petty cash funds should be maintained under this classification.
	First National Bank		11011	
	Second National Bank		11012	
	Petty Cash		11015	
	■ Investments	12000		Any investment in a stock, bond, or CD should be separately identified in an account. Each account should consist of the total investment for that type at a specific rate of return.
	First National Bank		12010	
	Church Extension Fund		12020	
	Term Note		12030	
	Stocks		12040	
	■ Receivables	13000		Amounts due the congregation from others.
	Accounts receivable		13010	
	Promises to give receivable		13020	
	Accrued Interest Receivable		13030	
	Notes and Contracts Receivable		13040	
	■ Inventories	13200		Quantities of supplies or materials to be maintained for future use.
	■ Prepaid Expenses	14000		Certain expenses are prepaid and should be considered as assets until the period has lapsed.
	Insurance		14010	Prepaid insurance is a good example. The premium is paid for a full year's coverage.
	■ Land and Buildings	15000		Each acquisition of real estate or major improvement to buildings should be reflected in a G/L account. These accounts allow one to easily distinguish the cost of the particular asset. Land is a non-depreciable asset. However, buildings are depreciable.
	Land		15010	
	Church building		15020	
	Fellowship hall		15030	
	School building		15040	
	Gymnasium		15050	
	Parsonage		15060	
	Accumulated Depreciation		15070	
	■ Furniture and Equipment	16000		Equipment with an extended life and with a value of $200 or more (or other amount established by the congregation) should be a capitalized asset. This assists the congregation in determining if adequate insurance is carried on the assets it owns. Furniture and equipment are depreciable assets.
	Office Equipment		16010	

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	Description	Sub Account	Account Number	Explanation
	School Equipment		16020	
	Playground equipment		16030	
	Audiovisual equipment		16040	
	Accumulated Depreciation		16070	
Liabilities		20000		This balance represents expenses due for expenditures not disbursed.
	■ Accounts Payable	21000		
	Trade Payables		21011	
	■ Accrued Payroll	22000		This balance represents expenses for payroll already earned by not yet disbursed.
	Accrued vacation pay		22011	
	■ Payroll Taxes Withheld	23000		Normally, taxes that are withheld from employee paychecks are due the following month. At the time the taxes are withheld the become a liability to the congregation.
	Federal income tax		23021	
	Social Security taxes		23022	
	Medicare taxes		23023	
	State income taxes		23024	
	County income taxes		23025	
	Other tax		23026	
	■ Promises to Payable	24000		These accounts are used to record unconditional promises to give (pledge, grants, etc.) to district or other agencies or ministries.
	■ Agency Funds Payable	25000		A congregation regularly receives contributions for a charity or organization other than itself. These funds, on receipt, are a liability to that organization. The congregation should keep a separate accounting for each organization's funds.
	American Bible Society		25001	
	Armed Forces		25002	
	Bethesda Lutheran Home		25005	
	Concordia Seminary —St. Louis		25010	
	Concordia Seminary —Fort Wayne		25011	
	Lutheran Hour		25020	
	Lutheran TV		25021	
	Wheat Ridge Seals		25040	
	World Hunger		25041	
	World Relief		25042	
	Local ministry program		25050	
	■ Mortgages and Notes Payable	26000		This balance represents any amount incurred by the congregation for short term or long term borrowing from a local bank or other financial institution, including Lutheran Church Extension Fund.
	First National		26010	
	Lutheran Church Extension Fund		26020	

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	Description	Sub Account	Account Number	Explanation
Net Assets		30000		The net assets are determined by the difference between assets and liabilities for each fund. Each group under restricted funds should have a separate account number to identify the specific reason for the restriction on the amount.
	General Fund—unrestricted		31000	
	Net investment in property		32000	
	Board designated funds		33000	
	Donor restricted funds		34000	
	Endowment funds		35000	
Income—Unrestricted		40000		
	■ Worship Service offerings	41000		
	Regular envelopes		41010	Offerings received through the use of offering envelopes should be recorded in total to this account.
	Mission offerings		41020	Offerings received for the work of missions. However no designated missions should be entered into this account; only those offerings to support missions in general.
	Building fund offerings		41030	Contributions designated to payoff building debt. This amount may or may not be in addition to the congregation's monthly debt retirement. This amount also may be set aside for a future building program.
	Plate offerings		41040	Weekly plate collections of currency and coins not included in envelopes.
	■ Special-service offerings	41050		Special service (Lent, Advent, etc) offerings should be shown separately. A congregation might designate the amount for a particular purpose.
	Christmas Day offerings		41050	
	Christmas Eve offerings		41060	
	Thanksgiving Day offering		41070	
	Lent		41080	A congregation regularly receives contributions for a charity or organization other than itself. These funds, on receipt, are a liability to that organization. The congregation should keep a separate accounting for each organization's funds.
	Advent		41090	
	■ Other Receipts	42000		The amount received from the district for assistance in the congregation's ministry.
	Gifts and bequests		42010	Any special gifts or bequests for the congregation's ministry without any special restriction placed on the amount by the board or donor.
	Interest Income		42020	Income received through amounts invested by the congregation.
	Investment income		42030	
	■ Day school fees	43000		
	Tuition—members		43010	
	Tuition—non members		43020	
	School registration fees		43030	
	Book rentals and fees		43040	
	School lunch program fees		43050	

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	Description	Sub Account	Account Number	Explanation
Expenses—Unrestricted		50000		See 21.500 and 21.600 for Descriptions and Explanations of Expenses.
	Outreach—Beyond Congregation		50100	
	District—Synod support		50180	
	Convention assessment		50185	
	Local mission support		50189	
	■ Pastoral support	50200		
	Salaries		50201	
	FICA and Medicare Taxes		50203	
	Employee benefits		50204	
	Housing allowance		50207	
	Automobile expense		50209	
	Continuing education		50210	
	Utilities allowance		50211	
	Conferences and workshops		50212	
	Guest pastors/speakers		50219	
	■ Christian worship	50300		
	Altar supplies		50321	
	Service bulletins		50322	
	Hymnals		50323	
	Choir Music		50324	
	■ Christian witness	50400		
	Publicity/Signs		50425	
	Radio—TV		50426	
	■ Christian stewardship	50500		
	Offering Envelopes		50528	
	■ Christian growth	50600		
	Sunday school materials		50640	
	Vacation Bible school		50641	
	Adult Bible study materials		50642	
	Church library		50643	
	Lutheran Witness®		50644	
	Portals of Prayer®		50645	
	Audio Visual materials		50647	
	■ Christian youth	50700		
	Conferences and workshops		50712	
	Leadership Training		50760	
	■ Christian welfare	50800		

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	Description	Sub Account	Account Number	Explanation
	■ Christian day school	50900		
	Salaries		50901	
	FICA and Medicare Taxes		50903	
	Employee benefits		50904	
	Housing allowance		50907	
	Automobile expense		50909	
	Continuing education		50910	
	Utilities allowance		50911	
	Conferences and workshops		50912	
	Substitute teachers		50919	
	Office supplies		50920	
	School curriculum		50948	
	Equipment maintenance		50952	
	Equipment repairs		50953	
	Depreciation—equipment		50954	
	Telephone		50970	
	Utilities		50972	
	Insurance		50973	
	Other expense		50990	
	■ Administration	51000		
	Salaries		51001	
	FICA and Medicare Taxes		51003	
	Employee benefits		51004	
	Housing allowance		51007	
	Conferences and workshops		51012	
	Office supplies		51020	
	Equipment maintenance		51052	
	Equipment repairs		51053	
	Depreciation—equipment		51054	
	Telephone		51070	
	Other expense		51090	
	■ Church Property	51100		
	Rental		51151	
	Utilities		51172	
	Telephone		51170	
	Maintenance and repairs		51174	
	Depreciation—building		51176	
	Interest expense		51177	

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	Description	Sub Account	Account Number	Explanation
	Utilities—parsonage		51178	
	Repairs—parsonage		51179	
	Other expense		51190	
Income—Restricted		60000		
	Building Fund		60010	
	Organ Fund		60020	
	World Mission Project		60030	
Expenses—Restricted		70000		
	Building Program		70010	
	Organ Fund		70020	
	World Mission Project		70030	

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