Naming an Appropriate Account Title for Propitiousness

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1. Introduction

Once things emerged in the world (such as humans, animals, places, or objects), humans always give them particular names. In the same way, accountants or bookkeepers define account titles or account names for each business transaction before journalizing them into the accounting system. The title should present or reflect data recorded under the specific account title. This is beneficial for the collection of data and preparing the summary for the presentation of financial reports or statements.

Therefore, accountants should provide propitious account title because clear, understandable and relevant data put into its relative account title contribute to the prosperity of business. It also prevents misunderstanding regarding different business financial information. Account titles are listed and presented in the financial report, while details concerning the account titles are presented through the notes to financial report. Titles of accounts in this article are emphasized only on financial accounting (excluding managerial accounting and cost accounting).

2. Definition of Account

An account is a book or a paper or other media (such as electronic) that is used to record business transactions as accounting evidence. In addition, an account is a record or source that is used to gather financial information that presents the increase or decrease in business transactions in figures.

An account is a systematic data management that presents the effect of business transactions and economic events in the statement of financial position and comprehensive income statement. The accounts present the amount of business transactions which will be classified according to the elements of financial statement; asset, liability, owner's equity, revenue, and expense. The account is a method of presenting the different effects on basic business elements. The account also presents the general ledger which contains fundamental accounts such as Cash, Accounts Receivable, and Accounts Payable.

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An account is the relationship between a business and its transaction such as an acquisition between Company A and B. This transaction creates relevant accounts for Company A such as Sales, Cash, and Accounts Receivable. On the other hand, accounts including Purchase, Cash, and Accounts Payable are created for Company B.

Double entry bookkeeping system or double entry accounting is a system of accounting which divides the accounts in two, Debit and Credit. Debit side is the first quantity column located on the left hand side of the accounting paper. Credit side is the second quantity column located on the right hand side of the accounting paper. The abbreviation of account used in Thailand varies such as AC, ac, acc., acct., and บ/ช (in Thai language).

3. Types of Account

Accountants classify types of account based on the presentation of business transactions in financial reporting; asset, liability, owner's equity, revenue and expense. The first three groups of account are the elements of the statement of financial position and the last two groups of account are the elements of the comprehensive income statement.

The author would like to suggest the sixth element which is the other comprehensive income (OCI). It is part of both the statement of financial position and comprehensive income statement. However, some accountants classify the OCI as a subordinate account of the third group of account (Owner's Equity) or Profit and Loss Account (P/L) or Income Summary Account (I/S).

The types of account can also be classified into two types based on the duration of its existence. There are real accounts and nominal accounts. The real accounts or permanent accounts are those accounts that continue to maintain ongoing balance over time until the business liquidation. All accounts those are aggregated into the statement of financial position are considered as real accounts; assets, liabilities, and owner's equity. At the end of the year, accountants will compute for the balance which is carried over to next year (Ending Balance/Beginning Balance).

The nominal accounts or temporary accounts are those accounts that accumulate information for only one fiscal year. All accounts that are aggregated into the income statement are considered as nominal accounts; revenue and expense accounts. At the end of the year, accountants will close balances of revenue and expense accounts into Profit and Loss Account which is done through preparation of closing entries. The results of the closing entries present business performance for the fiscal year it may be income or loss.

In addition, accountants may define auxiliary accounts which are accounts that are related to other accounts such as contra accounts or offset accounts, adjunct accounts, and valuation accounts.

Table 1: Example of Auxiliary Accounts

Auxiliary Accounts	Example
Contra Accounts	- Sales Returns and Allowances, Sales Discounts are contra accounts of Sales - Purchase Returns and Allowances, Purchase Discounts are contra accounts of Purchases
Adjunct Accounts	- Transportation-in Account increases Purchases
Valuation Accounts	- Allowance for Doubtful Accounts reduces the value of Accounts Receivable - Bonds Premium or Bonds Discounts

Significant questions for accountants when doing bookkeeping are accounts that should be defined and how should accountants give appropriate names to those accounts. Accountants are required to determine accounts based on professional skepticism. Overall criteria to be determined regarding account titles are as follows:

1. Type of Account or Group of Account, account is divided into 5 groups; 1) Asset Accounts, 2) Liability Accounts, 3) Owner's Equity Accounts, 4) Income Accounts, and 5) Expense Accounts.

1.1 A group of asset accounts presents a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. (The Federation of Accounting Professions, 2014)

Generally, most businesses (excluding financial institutions and some businesses) will classify asset accounts into current and non-current items (The Federation of Accounting Professions, 2015).

1.1.1 Current Asset Accounts will be recognized once they meet the following conditions;

1.1.1.1 An entity expects to use or re-sale those accounts within 12 months from the reporting date.

1.1.1.2 An entity has the primary objective for trading these assets.

1.1.1.3 An entity expects to receive economic benefit within 12 months from the reporting date.

1.1.1.4 Cash or cash equivalent that is unimpeded for exchange or paying debt within 12 months from the reporting date.

1.1.2 Non-current Asset Accounts are those whose benefits are expected to last more than 12 months from the reporting date. Examples of non-current assets are tangible assets (Property, Plant, and Equipment), intangible assets (Right, Patents, and Goodwill), and financial assets (Loans and Investment)

1.2 A group of liability accounts shows a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Generally, the business will classify liability accounts into current and non-current items; Current Liability and Non-Current Liability Accounts.

1.2.1 Current Liability Accounts will be recognized once they meet the following conditions;

1.2.1.1 An entity expects to pay off within one year from the reporting date.

1.2.1.2 An entity has the primary objective for trading.

1.2.1.3 Those liability accounts due within one year from the reporting date.

1.2.1.4 An entity has unconditional right to defer settlement for at least one year from the reporting date. If the parties have the option to pay the debt through the issuance of equity securities, the duration of payment should not affect the classification.

1.2.2 Non-current Liability Accounts are those accounts that could not be recognized as current liability, such as Long-term Loan and Bonds.

1.3 A group of owner's equity account presents the residual interest in the assets of the entity after deducting all the liabilities.

Generally, an entity classifies accounting for owner's equity based on business forms such as proprietorship, partnership, and corporation. The classification of owner's equity accounts should be determined based on the following criteria;

- Legal conditions
- Other restrictions on the ability of the entity to pay the owner
- Different claims of the owner such as profit sharing and dividend

1.3.1 Proprietorship has relevant owner's equity accounts as the following;

- Capital – (Owner)
- Profit or Loss Account
- Drawing

1.3.2 Partnership has relevant owner's equity accounts as the following;

- Capital – (Each Partner)
- Current Account (Each Partner)
- Profit or Loss Account
- Retained Earnings (Unappropriated Retained Earnings)

1.3.3 Corporation has relevant owner's equity accounts as the following;

- Preferred Stock, Common Stock
- Paid-in Capital in Excess of Par – Preferred Stock

- Paid-in Capital in Excess of Par – Common Stock
- Profit or Loss Account
- Dividend Expense
- Retained Earnings

1.4 A group of revenue accounts presents the increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

An entity should classify revenue account based on the operation of business; normal operation and other operations. Common sources of income from normal operation are Revenue from Sale, Revenue from Service, Fees Earned, Interest Revenue, Dividend Revenue, Rent Revenue, and Patents Revenue. Other sources of income are Gain on Sale of Property, Plant, and Equipment, Gain from Foreign Currency Exchange, Gain from Revaluation of Marketable Securities, Income from Compensation Warehouse Fire, and Gain on Litigation to Compensate for Losses from the Cancellation of the Contract.

1.5 A group of expense accounts presents the decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

An entity should classify expense account based on the operation of business; normal operation and other operations. Common sources of expense from normal operation are Cost of Goods Sold, Cost of Service, Wages Expense, and Depreciation Expense. Other sources of expense accounts from unusual operation are Loss on Sale of Property, Plant, and Equipment, Loss from Foreign Currency Exchange, Loss from Revaluation of Marketable Securities, Loss from Compensation Warehouse Fire, and Loss on Litigation to Compensate for Losses from the Cancellation of the Contract.

An entity is able to present expense accounts in the comprehensive income statement under two approaches; by nature and by function.

1.5.1 The classification of expense accounts by nature of the business

- The transformation of finished goods and work in process
- Raw Material and Factory Supply Expense
- Employee Benefit Expense
- Depreciation and Amortization Expense

1.5.2 The classification of expense accounts by function of expense;

- Cost of Goods Sold
- Selling Expense
- Administrative Expense

The author suggests the sixth group, Other Comprehensive Income

1.6 A group of OCI is revenue and expense accounts (including reclassification entry) that are unrecognized in the profit or loss. The elements of other comprehensive income include:

1.6.1 The changes in surplus from revaluation of assets (such as Property, Plant, and Equipment)

1.6.2 Defined Benefit Plan

1.6.3 Gain and loss from consolidation (Loss from Foreign Currency Exchange)

1.6.4 Gain and loss from revaluation of securities (available for sale)

1.6.5 Gain and loss from hedging transactions

The increase or decrease of OCI during the reporting period will be presented in two statements; comprehensive income statement and changes in owner's equity statement.

2. Appropriate account titles should be related to the emergence of business transactions and the groups of accounts prescribed above. In addition, an entity should define the nature of each account to be used as a guide.

3. Chart of Accounts or Code of Accounts or Classification of Accounts presents a list of account names and account codes that are applied in the accounting system of the entity. The chart of accounts is organized by systematic sorting based on the presentation of financial reports. An example of a chart of accounts is presented below.

Ruamjaipuk Company

Chart of Accounts (partial)

December 31, 20X1

Account Number	**Group of Account**	**Account Name**	**Explanation**
100-199	Assets		
100-149	Current Assets		
101		Petty Cash	Relatively small amount of cash kept at the petty cash cashier for making immediate payments for miscellaneous and small expenses.
105		Cash in Bank	The sum of all coins, currency and other unrestricted liquid funds that have been placed on deposit with a financial institution.
110		Marketable Security	Equity or debt instrument that is listed on an exchange and can be readily bought or sold.

Account Number	Group of Account	Account Name	Explanation
115		Trade Accounts Receivable	Claims from sale on account
116		Other Accounts Receivable	Claims apart from sale on account
120		Trade Note Receivable	Promissory Note and Bill of Exchange from trading activity
121		Other Note Receivable	Promissory Note apart from trading activity
130		Inventory	Available goods for sale
135		Office Supply	Stored supply for using in the office
140		Accrued Revenue	Revenue earned in the current accounting period, but which will be collected in a subsequent period.
145		Prepaid Expense	Cost that are paid in advance
150-199	Non-current Asset		
151		Long-term investment	Long-term debt and equity securities
155		Long-term Loan	The act of giving money to another party in exchange for future repayment of the principal amount along with interest.
160		Land	Property or real estate, not including building or equipment
165		Building	Factory and office building
166		Accumulated Depreciation-Building	The accumulative depreciation of building
170		Machine	Machine in the Factory
171		Accumulated Depreciation-Machine	The accumulative depreciation of machine
175		Office Equipment	Equipment, furniture and fixture
176		Accumulated Depreciation – Office Equipment	The accumulative depreciation of office equipment
180		Vehicles	Car, Truck, Motorcycle, Bicycle
181		Accumulated Depreciation - Vehicles	The accumulative depreciation of vehicles

Account Number	Group of Account	Account Name	Explanation
190		Patents	A government license that give exclusive rights to a process, design or new invention for a designated period of time
191		Accumulated Amortization - Patents	The accumulative amortization of patents
200-299	Liabilities		
200-249	Current Liabilities		
201		Bank Overdrafts	An extension of credit from a lending institution when an account reaches zero.
210		Short-term Borrowings	Any debt incurred by a company that is due within one year
220		Trade Accounts Payable	Obligation from purchase on account
225		Other Accounts Payable	Obligation apart from purchase on account
230		Trade Note Payable	Promissory Note and Bill of Exchange from trading activity
235		Other Note Payable	Promissory Note and Bill of Exchange from trading activity
240		Unearned Revenue	Money received for a service or product that has yet to be fulfilled
245		Accrued Expense	A company obligation to pay in the future for delivered goods or services
246		Dividend Payable	Unpaid dividend
250-299	Non-Current Liabilities		
251		Long-term Loan	Any debt incurred by a company that is due over one year
270		Bond	Long-term debt
300-399	Owner's Equity		
305		Common Stock	A security that presents ownership in a corporation.
306		Paid-in Capital Excess of Par – Common Stock	Surplus on common stock
310		Retained Earnings – Legal Reserve	Legal Reserve

Account Number	Group of Account	Account Name	Explanation
311		Retained Earnings - Reserve for Redemption	Reserve for redemption bonds
320		Unappropriated Retained Earnings	Unrestricted Returned Earnings
340		Dividend Expense	Profit sharing to shareholders
350		Profit or Loss Accounts	Temporary account for summarizing profit or loss for the period
400-499	Revenue		
401		Revenue from Sales or Sales	Revenue from selling merchandise
402		Sales Return and Allowance	The amounts of merchandise that were returned by customer and the amounts granted to a customer because the seller shipped improper or defective merchandise.
403		Sale Discounts	A reduction in the price of a product or service that is offered by the seller, in exchange for early payment by the buyer.
410		Revenue from Service	Revenue from Service
420		Rent Revenue	Revenue incurred by allowing someone to use the business assets
430		Interest Revenue	The earnings that an entity receives from any investments it makes, or on debt it owns.
450		Gain from Selling Assets	Differences between cash received and book value of sold asset
500-599	Expense		
501		Cost of Goods Sold	The direct costs attributable to the production of the goods sold by an entity.
503		Purchase	The amount of goods or service buying from vender/seller
504		Transportation-In Expense	Cost of Transportation for purchasing products or services
505		Purchase Return and Allowance	The amounts of merchandise that were returned to suppliers and the amounts allowed as deductions by suppliers for goods not returned.

Account Number	Group of Account	Account Name	Explanation
506		Purchase Discounts	A reduction in the price of a product or service giving to a buyer if the buyer pays an invoice within a prescribed time
510		Cost of Service	Cost of Service
520		Wages and Salary Expense	Wages and Salary
521		Commission Expense	Sales compensation
530		Transportation-out Expense	Cost of Transportation for selling products
531		Advertising Expense	Expenses associated with promoting an entity, product or service to stimulate a desire to buy the products or services.
540		Electricity Expense	Electricity charge
541		Water Expense	Water charge
542		Telephone Expense	Telephone charge
550		Insurance Expense	Insurance Premium
560		Depreciation Expense-Building	The allocated portion of the cost of a company's building that is appropriate for the accounting period.
562		Depreciation Expense-Machine	The allocated portion of the cost of a company's machine that is appropriate for the accounting period.
563		Depreciation Expense-Vehicles	The allocated portion of the cost of a vehicle that is appropriate for the accounting period.
575		Miscellaneous Expense	Other Expenses
580		Interest Expense	The cost of incurred by an entity for borrowed funds.
590		Income Tax	Corporate income tax

Account Number	Group of Account	Account Name	Explanation
600-699	Other Comprehensive Income		
601		Surplus from Revaluation of Assets	Surplus from revaluation of assets
610		Gain or Loss from Revaluation of Security – Available for Sale	The increases or decreases of investments revaluation

Account number or account code is a letter or number designated for each account name and used as reference. Generally, the use of blocked numbers is used in many businesses. Given numbers have different meanings and the first digit will represent 1) assets, 2) liability, 3) owner's equity, 4) revenue, and 5) expense.

4. Elements of Account

Generally, an account is consisted of 5 elements; 1) title, 2) debit and credit column, 3) account number, 4) date, and 5) reference.

5. Format of Account

There are two types of books of account; journals and ledgers. A journal is a basic accounting book that a business designs to support their bookkeeping. Generally, there are specialized journals and general journals. Specialized journals are designed for a specific purpose of the business. Examples of specialized journals include Purchases Journal, Purchase Returns and Allowances Journal, Sales Journal, Sales Returns and Allowances Journal, Cash Receipts Journal and Cash Disbursements journal. For a general journal, it is a basic book that every business uses to record their primary transactions. The format of this journal is simple with two columns of debit and credit as shown below:

General Journal Page

Date	Items	Account Number	Debit		Credit	
	(Debit Account Name) (Credit Account Name) (Explanation)					

A ledger is a secondary book or database that is used to store or summarize all similar transactions. There are two types of ledgers; general ledger and subsidiary ledger. General

Ledger is the main account for collecting data that serves as a control account. Format of the ledger is presented as a T-account form:

Account Title Account Number

Date	Items	Page	Debit		Date	Items	Page	Credit	

A subsidiary leger is a ledger designed for the storage of specific types of accounting transactions. Examples of subsidiary ledgers are Accounts Payable Ledger, Accounts Receivable Ledger and Fixed Assets Ledger. Format of the ledger is presented as a balance account form:

Account Title Account Number

Date	Items	Page	Debit		Credit		Balance	

6. Definition of Account Title

Account Title is a text used by accountants and managers to refer to business transactions or economic events of an entity during the accounting period. In this light, account title refers to a general ledger, not the subsidiary ledger.

7. Criteria for Defining Account Title

The criteria for defining account title are as follows:

1. Account title presents a group of account clearly, for example:

1.1.1 An entity should define clear, simple and easy account title which will be beneficial for the classification process.

Unclear Account Title	Suggested Account Title	Accounting Group
Interest Account	Accrued Interest or Prepaid Interest	Asset
	Interest Payable or Unearned Interest	Liability
	Interest Revenue	Revenue
	Interest Expense	Expense

Unclear Account Title	Suggested Account Title	Accounting Group
Credit Account	Accounts Receivable	Asset
	Accounts Payable	Liability
	Recovery of Bad Debt	Revenue
	Bad Debt Expense	Expense

1.1.2 An entity should apply account title that is defined in the International Accounting Standard or International Financial Reporting Standard to avoid misunderstanding.

1.1.3 In Thai language, some account titles are not concise.

Account Title	In Thai Language	
	In appropriate	Suggestion
Rent Revenue	Rai dai ka chao rup (รายได้ค่าเช่ารับ)	Rai dai ka chao (รายได้ค่าเช่า) Ka chao rup (ค่าเช่ารับ)
Transportation-in Expense	Ka khon song mua sue (ค่าขนส่งเมื่อซื้อ)	Ka khon song kao (ค่าขนส่งเข้า)

1.1.4 Some Thai account titles made are confusing such as Goodwill and Sales Discounts. Goodwill Account in Thai language is Ka Kwam Ni Yom (ค่าความนิยม). The word "Ka" means expense in Thai language. However, in this content, Ka Kwam Ni Yom is an asset account. For Purchase Discounts, Thai language called it Suan Lod Jai (ส่วนลดจ่าย). The word "Jai" means paid. Some Thai accountants classify this account as an expense instead of revenue because of the word "Jai". However, this account is a subsequent event from a sales transaction. It is a reduction in the price of a product or service given to a buyer for paying within the prescribed period of time. Therefore, this account belongs to group number 4, revenue account.

1.1.5 An account title should not be too broad, such as Utility Expense. Instead of Utility Expense, the author suggests to separate accounts properly such as Electricity Expense, Water Expense, and Telephone Expense. On the other hand, an account title should not be too narrow, such as Blue Car Account, Black Truck, and Red Motor bicycle. When the account concerns cars, trucks, boats, motor bicycle, and bicycle, an entity can use Vehicle account.

1.1.6 An account title must describe the main transaction such as Accounts Receivable which is derived from sales on account. Then, subsequent transactions of Accounts Receivable could be Purchase Returns and Allowances or Notes Receivable.

1.1.7 An account title should be related to each other. For example, Depreciation Expense and Accumulated Depreciation. Vehicle Account may relate to many accounts such as

Depreciation Expense-Vehicle, Accumulated Depreciation-Vehicle, Repair and Maintenance Expense-Vehicle, Insurance Expense-Vehicle, and Gain or Loss from Selling Vehicle.

1.1.8 An entity should avoid ambiguous account titles such as Reserve (In Thai Language, Banchee Samrong (บัญชีสำรอง). Banchee Samrong has several meanings; reserve for asset and liability valuation, reserve for estimated liability and reserve for retained earnings. This can cause confusion to users.

1.1.9 An account title should be clear to be presented in the financial report. For example, transportation expenses should be divided into Transportation-in and Transportation-out. Transportation-in Expense must be presented as a part of Cost of Goods Sold, while Transportation-out Expense must be presented as a part of Selling Expense in the comprehensive income statement. Another example is supply. Factory Supply must be presented as Inventory of an entity and Office Supply must be presented as current asset in the statement of financial position.

8. Conclusion

Accountants or bookkeepers should define clear and understandable account titles because it is beneficial for them to classify those accounts properly whether they are asset, liability, owner's equity, revenue or expense. In addition, appropriate classification using well prepared account numbers assists accountants to avoid misunderstanding and prepare the financial report effectively. This also contributes to the efficiency and effectiveness of auditing practice. Effective financial reporting reduces misunderstanding and presents the right financial position and performance of the entity. Therefore, auditors can concentrate on the right issues and provide a timely and appropriate opinion.

9. References

The Federation of Accounting Professions under the Royal Patronage of His Majesty the King. (2014). *Conceptual Framework for Financial Reporting (Revise 2014),* Retrieved 15 April, 2016 from http://www.fap.or.th.

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