• RESOURCE GUIDE · HERMIT BUSINESS SOLUTIONS

Building a Chart of Accounts in QuickBooks, Xero and Sage

The thinking behind a good chart of accounts and how it plays out ***differently once you sit down in each piece of software.***

Why this matters

Your chart of accounts is the skeleton that every report is built on; your profit and loss, your balance sheet, your management accounts. Get it right at the start and your figures stay clear and easy to compare year on year. Get it wrong or bolt on new accounts at random as you go and you end up with a mess that someone (often us) has to untangle later. It is worth having a structure before you build one, whichever platform you use.

The questions to ask before you build one

- What decisions do I actually need this data to help me make, week to week and year to year?
- How much detail is useful and how much is just noise that I will never look at? Do I really need project analysis, information by location?
- Does this need to line up with a specific tax return, VAT return or industry reporting standard?
- Will this still make sense in three years once the business has grown or changed shape?
- How easy is it to change my mind later in this if I get the structure wrong? How easy is it to add new codes within the structure without invalidating it?

Two ideas worth understanding first

The first is a question of how much detail do you actually need? Every extra account that you create makes one report more precise and every other report harder to read. A landscaping business does not need ten different fuel accounts split by vehicle. It might need to separate materials from subcontractor costs because that split actually changes a pricing decision. Good chart of accounts design starts from the decisions that you need to make then adds only the accounts that support them.

The second is structure versus categorisation. Some platforms organise accounts around a number (a nominal code) where the number itself carries meaning. Others organise around a label (an account type) and the number, if there is one, is just a reference. Neither approach is better but they lead to a different thought process when you sit down to plan, which is why the same business can end up with three quite different looking charts of accounts depending on the software behind it. Small businesses and sole traders tend to favour non-numeric charts of accounts as it just makes reports more difficult to review quickly (which favours Quickbooks as this is the only software of the three that doesn’t demand a nominal code).

How QuickBooks, Xero and Sage actually differ

A simplified comparison of the approach each platform takes, based on their standard UK setup.

	QuickBooks Online	Xero	Sage
How accounts are classified	Account Type and Detail Type, a two tier label system. Numeric codes are optional and switched on separately.	A numeric account code (commonly 3 digits) paired with an account type tag, for example 200 for sales.	A numeric nominal code (commonly 4 digits), where the number range itself defines the category.
Typical structure	No fixed number ranges. You think in categories: income, cost of sales, expenses, assets, liabilities, equity.	Loose banding by convention, for example 200s for income, 300s to 500s for costs and expenses, 600s to 700s for assets, 800s to 900s for liabilities and equity.	Firm banding, for example 0000s for fixed assets, 1000s for current assets, 4000s for sales, 7000s to 8000s for overheads.
How easily it can change later	Very flexible. Accounts can be renamed, merged or made inactive at almost any point.	Flexible. Codes can be renamed or archived and reused reasonably freely.	Planning matters most here. Once a code has transactions posted against it, renumbering is best avoided, so gaps are deliberately left in the sequence for accounts you might add later.
Best suited to	Businesses who want to think in plain categories rather than memorise numbers.	Businesses who want a numbered structure but still want room to adjust it as they grow.	Businesses who want a strict, traditional nominal ledger with a tight, disciplined audit trail.

FOOD FOR THOUGHT

Sketching the chart of accounts on paper before doing anything else is very useful. Following the guidelines above helps to decide on which software would work best for your business. Also, it is important to review 'who' will be using the chart of accounts in what way – data input, accounts review, analysis or a director high level review. It is far easier to add an account later than to merge two that should never have existed, especially in Sage where a code with history behind it is much harder to unpick. If you are switching platforms, this is also the moment to map your old chart of accounts to the new one properly rather than letting the software's default list decide it for you.

What to do next

- List the handful of reporting decisions your accounts genuinely need to support
- Sketch a chart of accounts on paper first before you touch the software
- Check it against your VAT and tax reporting requirements
- Ask us for a review before you commit, particularly if you are setting up Sage or migrating platforms