GL Codes: What Are They and How To Use Them



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Accuracy is key in accounting. Without accurate financial data recorded in your manual ledger accounts or accounting software application, it’s impossible to know the financial health of your business.

The need for accuracy is nowhere more important than it is when dealing with your general ledger, which serves as a repository for all financial data directly impacting your business.

Every single sale your business makes, every bill paid, or customer payment

received flows directly through your general ledger, using a unique set of numbers called GL codes. In turn, these codes are the basis for your chart of accounts.

The chart of accounts is a list of all required GL accounts your business needs to record transactions for your business.

What Are GL Account Codes?

General ledger codes or GL codes are the backbone of any business and how they are used directly impacts the accuracy of your financial statements.

Each GL code has a unique name and identification code that is used to record financial activity.

Every bookkeeping or accounting entry made in your ledger, either manually or when using accounting software should have a GL code assigned to it for allocation purposes.

GL codes are used to record journal entries, reconcile accounts, and to better track income and expenditures.

For instance, both revenue and expenses are easily tracked using GL codes.

Anytime you receive a payment from a customer, purchase office supplies, or pay the electric bill, the activity is recorded in your general ledger using the assigned GL codes.

For any business using double-entry bookkeeping or accounting, using GL codes is a necessity, since every accounting transaction must have a debit and a credit entry.

For example, if you pay rent on your office space, you would need to debit an account and credit an account, with both of those accounts having a unique GL code.

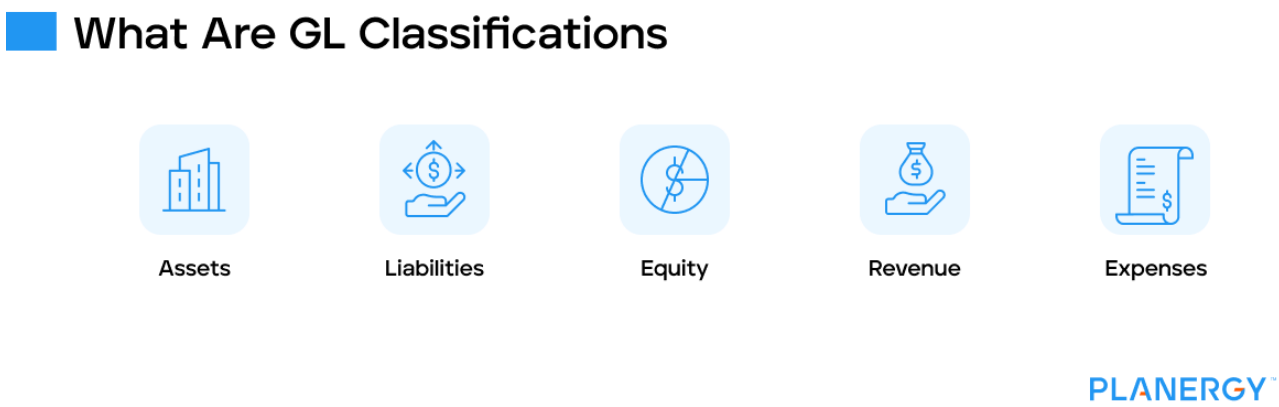
What Is a GL Code in Accounting and Why Do They Matter?

GL codes are used in accounting to properly record all of your financial transactions and are a necessary part of the accounting process, regardless of the size of a business.

Recording transactions using GL codes not only gives you a better way to track both revenue and expenses, but directly impacts financial reports including balance sheets and income statements.

What Are GL Classifications?

Your chart of accounts uses five different general ledger account classifications, with each playing an important role in the accounting process including financial statement creation.



- ## Assets

  Anything you own that has value is considered an asset, including cash and bank accounts, accounts receivable, property, and equipment.
  In the chart of accounts, asset accounts usually begin with the number 1.

- ## Liabilities

  Anything that is owed is considered a liability. Liabilities include accounts

payable, bank loans, credit cards, unearned revenue, and customer credits.

Liability accounts usually begin with the number 2.

- ## Equity

  Equity represents the amount of money invested in the business and includes owner's equity, common stock, owner's contribution, and retained earnings.

  In the chart of accounts, equity accounts begin with the number 3.

- ## Revenue

  Money earned from sales along with the cost of sales is included in revenue.

  If you receive royalties, those would be recorded under revenue. Revenue accounts usually begin with the number 4.

- ## Expenses

  Expenses represent the cost of doing business and include things like wages, rent, utilities, and repairs and maintenance.

  Expense accounts usually begin with the number 5, although a more complex chart of accounts may use numbers 6 and 7 as well.

  No matter how simple or how complex your chart of accounts structure is, these five account classifications should be included in the ledger.

What Is the Common Structure for GL Codes?

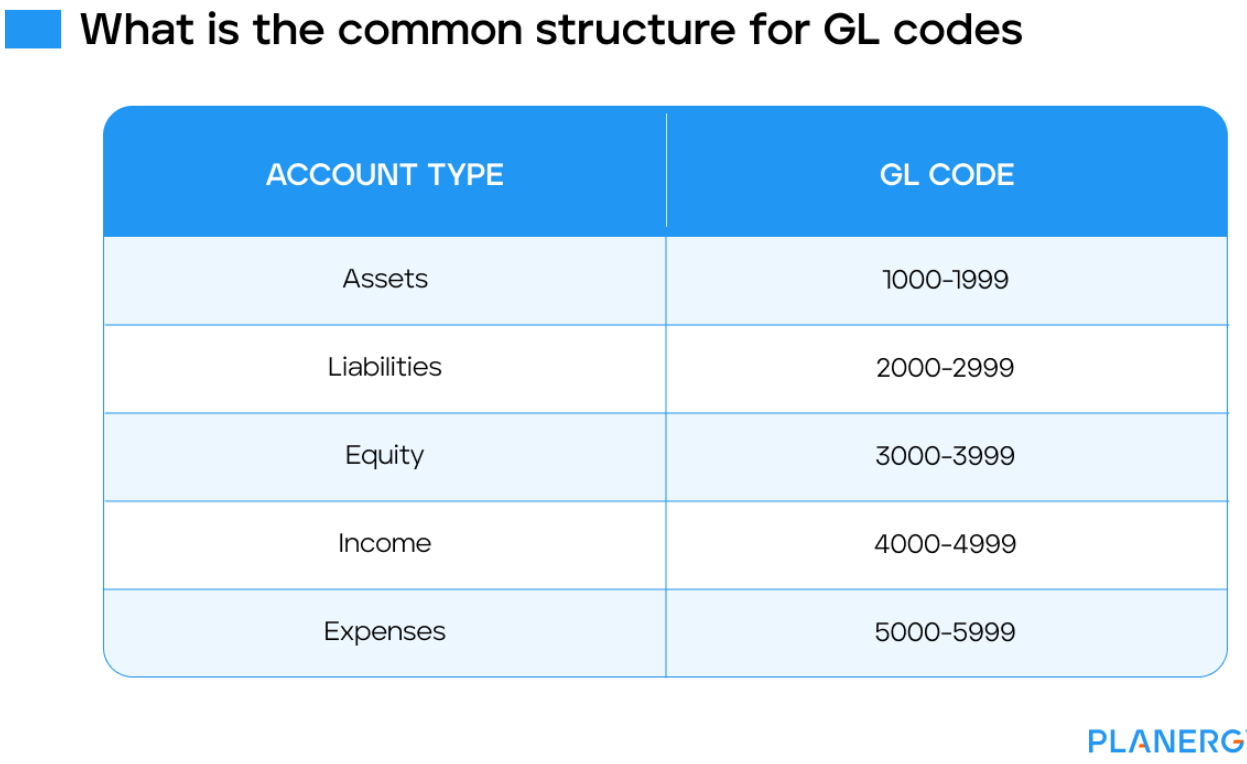
Most chart of accounts structures use four to six numbers for each account.

For example, if you were to add a cash account to your chart of account structure, the GL code would be 1010, with all other asset accounts following the same structure.

When creating your chart of accounts, each GL code entered also needs to be associated with a specific financial statement, which pulls the GL account balance into the statement.

For example, any transactions posted to an asset, liability, or equity account balances in the GL will automatically impact your balance sheet, while a transaction recorded to a revenue or expense account will automatically impact your income statement.

Although the GL account structure can vary from business to business, the most common GL structure looks like this:



- **Assets** – 1000-1999
- **Liabilities** – 2000-2999
- **Equity** – 3000-3999
- **Income** – 4000-4999
- **Expenses** – 5000-5999

GL code number are all assigned by a business, although many accounting software applications include a default chart of accounts that businesses can use.

Below is a chart of accounts and GL structure which lists the financial statement associated with each account code.

Account #	Account	Account Type	Statement
1010	Cash	Assets	Balance Sheet
1020	Savings	Assets	Balance Sheet
1030	Accounts Receivable	Assets	Balance Sheet
2010	Accounts Payable	Liabilities	Balance Sheet
2020	Accrued Liabilities	Liabilities	Balance Sheet
2030	Notes Payable	Liabilities	Balance Sheet
3010	Owner Equity	Equity	Balance Sheet
4010	Sales Revenue	Expenses	Income Statement
5010	Wages & Salaries Expense	Expenses	Income Statement
5020	Utilities Expense	Expenses	Income Statement
5030	Rent Expense	Expenses	Income Statement
5040	Office Supplies	Expenses	Income Statement

Your chart of accounts may be smaller or much larger and even have additional sections for various departments or locations.

For example, if you have two locations, your account number structure can reflect that by the addition of a separate segment that can be used to record transactions for that particular location.

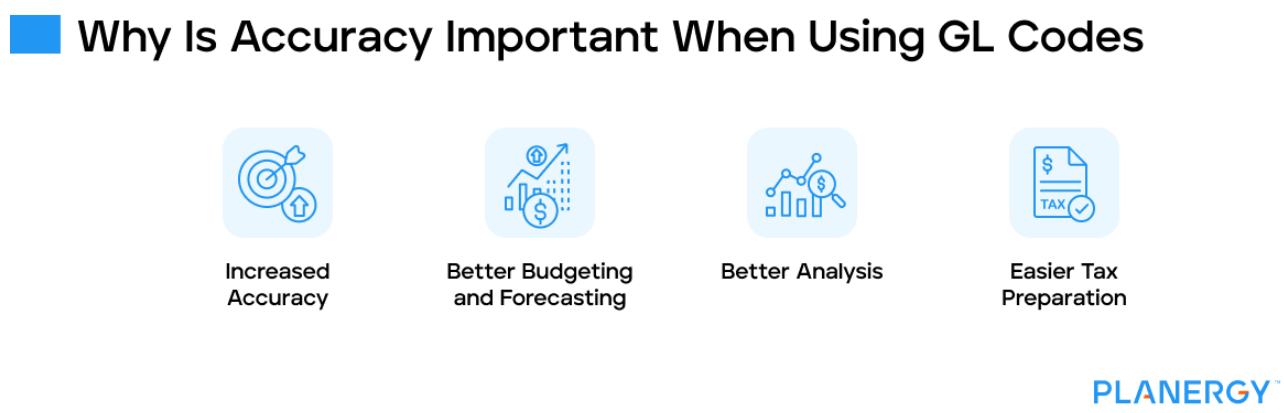
This is accomplished by adding a separate segment to each account number, starting with the cash account, which would become 1010-1 for the first location and 1010-2 for the second location.

Why Is Accuracy Important When Using

GL Codes?

Because the general ledger contains every financial transaction that a business makes, GL coding needs to be accurate.

These are some of the top benefits of accurate GL coding:



- ## Increased Accuracy

  Both internal and external stakeholders rely on the accuracy of financial statements.

  Investors, financial institutions, and CEOs alike operate on the premise that the financial statements they receive are an accurate representation of the business.

- ## Better Budgeting and Forecasting

  To accurately forecast where your business is headed, you must be able to first see where it’s been.

  Accurate GL coding offers assurance that what’s reported can be built upon to predict a more accurate financial future.

- ## Better Analysis

  If you’ve ever spent time at the end of the month reviewing income and

expenses, you understand how important it is that the numbers you're looking at are accurate.

Easier Tax Preparation

Tired of looking through a stack of receipts to find tax deductions?

Using GL coding, you can review each account to see exactly where money was spent and if it's a tax-deductible expense.

Let's take a look at what happens when a transaction is not entered correctly or at all.

In mid-November, Brenda's computer crashed, so she was unable to access her accounting system.

However, the rent for her office space is due on the 15th of the month.

She decides to write out a manual check for $2,500 and send it to the property management company, planning to record the check when her computer is up and running.

By month-end the computer is fixed and Brenda proceeds with closing the month, forgetting to record the check.

When she runs her month-end financial statements, she's happy to see that her bank balance is higher than she expected, so she decides to go ahead and purchase a new computer system for $2,000.

It's not until her account is overdrawn that she remembers that she paid the rent manually and never recorded it.

A variation on the above situation finds Brenda remembering to record the rent payment, but instead of recording the expense to rent, she records it to utilities.

When the rent expense account looks too low and her utility account balance too high at the end of the month,
Brenda researches both accounts to find out that the transaction was posted to the wrong account.

Luckily, she’s able to post a correcting journal entry before the month is closed so that her financial statements will be accurate.

To create a correcting journal entry for the posting error, Brenda will have to complete the following journal entry.

Date	Account #	Account	Debit	Credit
11-30-24	5030	Rent Expense	$2,500	
11-30-24	5020	Utility Expense		$2,500
		Correction		

Looking at the journal entry, you can see that we’re debiting the rent expense account, which will increase the amount of rent expense reflected in GL code 5030.

Brenda also credits the utility expense account, which will reduce the utility expense for the month, putting both GL accounts back into balance while also correcting her financial reporting.

GL Coding and the AP Process

Part of the accounts payable process is coding invoices that have been received to the correct GL code.

When an invoice is received, before it can proceed through the payment process, it must first have a GL code assigned to it.

This process is completed to ensure that the invoice expense is properly allocated and that all expenses are properly accounted for.

However, if GL coding and entry are completed manually, several things could go wrong.

The data entry person may enter the GL code incorrectly or the person approving the invoice may code the invoice to the wrong GL code.

Whatever the reason for the inaccuracy, a correction will have to be completed so both account balances and your business balance sheet and income statement are

accurate.

Making the switch to an automated AP system can reduce the amount of time spent manually coding AP invoices by using a combination of artificial intelligence and machine learning to recognize invoice types based on preset rules, effectively eliminating manual coding and data entry.

How Automation Can Streamline the GL Coding Process

There will always be journal entries that need to be coded manually such as accruals and depreciation and amortization expense.

The good news is that the majority of manual GL coding disappears when your business upgrades to an automated AP software application, where users can create a set of rules governing the GL coding process so that the correct code is applied to an invoice without any manual input required.

GL Coding Is an Essential Part of Any Business

GL coding has traditionally been a manual process, with the AP team reviewing an invoice and then assigning the appropriate GL code to the invoice.

The introduction of AP automation helps streamline the GL coding system considerably.

But whether you're entering GL codes manually or with the assistance of AI, GL accounts provide valuable insight into your business activities and provide you with the information you need to make the best decisions for your business moving forward.

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