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The Chart of Accounts and the Double-Entry Method: Their Significance in Accounting

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Abstract

Background: The quality of financial information depends directly on the methodological foundations of accounting, namely the chart of accounts and the double-entry method. Aim: to reveal the essence of the chart of accounts and the double-entry method, to substantiate their role in the accounting system, and to identify directions for improving their application in practice. Methods: general and specific methods of scientific inquiry (analysis and synthesis, induction and deduction, a historical and logical approach, comparative analysis, and a systems approach) were applied, and the practical mechanism of double entry was demonstrated with a hypothetical example, on the basis of the Law on Accounting, the national accounting standards, and the chart of accounts of Uzbekistan. Results: the historical development and the logical and mathematical basis of double entry (the accounting equation), as well as the structure and functions of the chart of accounts, are described. Their interrelationship and their informational, control, managerial, and digital significance are shown. Four main problems in the practice of Uzbekistan were identified: harmonization with international standards, insufficient use of the chart of accounts in accounting policy, accountants' qualifications, and limitations of automation. Conclusions: the two methods are complementary, and their joint application ensures the reliability of financial statements, the control of accounting, and the soundness of management decisions. Five directions for improving their application are proposed.

Introduction

In a market economy, the need of business entities for reliable, complete, and timely information about their financial position is growing. The main source of such information is accounting, and its quality depends directly on the methodological foundations of accounting, namely the chart of accounts and the double-entry method. It is precisely these elements that make it possible to group, record, and summarize business transactions in a single system [1].

The accounting method consists of a number of interrelated elements: documentation, inventory, valuation, costing, accounts, double entry, the balance sheet, and reporting. Among them, accounts and double entry occupy the central place, because the data collected through the other elements are systematized precisely by means of this mechanism. The chart of accounts serves as the "framework" of this system, determining which object is reflected in which account and in what order.

The system of accounting regulation in Uzbekistan has been consistently improved. The adoption of a new edition of the Law "On Accounting" the intensifying transition to International Financial Reporting Standards, and the widespread introduction of digital technologies require a reconsideration of the methodological foundations of accounting and a deeper understanding of their significance [2].

The scientific foundations of the double-entry method go back to the fifteenth century. The Italian mathematician and friar Luca Pacioli, in his work Summa de arithmetica, geometria, proportioni et proportionalita systematically described the accounting method used by Venetian merchants. For this reason, Pacioli is often called the "father of accounting", although he was not the inventor of the method but the scholar who was the first to describe it systematically [3].

In the following centuries, the theory of double entry developed on the basis of different approaches. The proprietary (personal account) theory interpreted accounts as relations between the owner of the enterprise and its counterparties [4]. Later, approaches emphasizing the objective nature of accounting emerged, including theories based on the balance sheet equation. In the international literature (the works of Hendriksen and Van Breda, Weygandt, Kimmel, and Kieso)]double entry is explained precisely on the logic of the "accounting equation" (Assets = Liabilities + Equity). Y. Ijiri [6], in turn, examined double entry from the standpoint of the theory of exchange and measurement and substantiated its logical integrity [5].

In the works of economists of the Commonwealth of Independent States, including Uzbekistan, the chart of accounts has been studied mostly in its practical and normative aspects, that is, in the context of grouping accounting objects, coding account numbers, and forming accounting policy. At the same time, the informational potential of the chart of accounts for managerial decision-making and its role in digital accounting systems have not been sufficiently covered. This article aims to partially fill this scientific gap [6].

The aim of the study is to reveal the essence of the chart of accounts and the double-entry method, to substantiate their place in the accounting system, and to identify directions for improving their application in practice.

To achieve the aim, the following **objectives** were set:

- to study the historical development and theoretical foundations of the double-entry method;
- to analyze the content, structure, and functions of the chart of accounts;

- to reveal the interrelationship between the chart of accounts and double entry;
- to assess the informational, control, and analytical significance of these methods;
- to identify problems in practice and develop proposals for improvement.

Methods

The study used general and specific methods of scientific inquiry: analysis and synthesis, induction and deduction, a historical and logical approach, comparative analysis, and a systems approach. The practical mechanism of double entry was demonstrated by means of a hypothetical example (modeling).

The regulatory and legal basis of the study consisted of the Law of the Republic of Uzbekistan "On Accounting" the national accounting standards and the chart of accounts for the accounting of the financial and economic activity of business entities together with the instruction on its application. The works of local and foreign scholars were studied as the theoretical basis.

Results

An accounting account is a method intended for grouping and currently recording information about economic resources, their sources, and business processes. Each account consists of two sides: the left side is called the debit, and the right side the credit. These terms do not in themselves mean "increase" or "decrease"; their meaning depends on the type of account [7].

By economic content, the following main groups of accounts are distinguished:

- **active accounts** (accounting for assets): the opening and closing balances are shown on the debit side; increases are recorded on the debit and decreases on the credit;
- **passive accounts** (accounting for liabilities and equity): the balance is shown on the credit side; increases are recorded on the credit and decreases on the debit;
- **active-passive accounts** (mixed): the balance may be on both the debit and the credit, for example, some settlement accounts.

Depending on the level of generalization of data, **synthetic** and **analytical** accounts are distinguished. Synthetic accounts reflect objects in aggregated monetary terms by large groups (for example, "Raw materials and supplies"). Analytical accounts, in turn, provide detailed information in natural and monetary units on specific objects within each synthetic account (for example, a particular type of material, or a particular customer or supplier). The turnovers and balances of a synthetic account must equal the total of the corresponding analytical accounts. This equality is an important means of verifying the accuracy of accounting data [8].

The chart of accounts is a systematized list of synthetic accounts (and, where necessary, subaccounts) used to reflect the activity of a business entity; it determines the name, number (code), and procedure for using each account [9]. The chart of accounts performs the following functions:

1. **Unifying function (creating a single system).** It ensures a uniform procedure for naming and grouping accounting objects for all entities, which leads to the comparability of data.
2. **Classification function.** It divides resources and their sources into sections according to their economic content.
3. **Information function.** It determines the structure of the data needed to form the indicators of financial

statements.

4. **Control function.** It helps to prevent the incorrect classification of transactions, that is, their reflection in incompatible accounts.
5. **Coding and automation function.** Numerical codes make it easier to process, search, and analyze data in information systems.

The chart of accounts in force in Uzbekistan divides accounts into sections according to their economic content: long-term assets, inventories, current expenses, finished goods and merchandise, cash, settlements, liabilities, equity, income and expenses, and financial results are among such groups [10]. Account numbers consist of four-digit codes, in which the first two digits denote the synthetic account and the remaining digits denote the subaccount. This structure ensures that accounting is hierarchical and consistent.

Another important feature of the chart of accounts is that it gives the entity a certain freedom in forming its accounting policy. Taking the specifics of its activity into account, a business entity may independently expand the subaccounts and analytical accounts provided for in the chart. However, this freedom is exercised on the condition that the content of the synthetic accounts is not changed [11].

Double entry is a method of recording each business transaction simultaneously in two interrelated accounts, as a debit in one and a credit in the other, in the same amount. The logical basis of the method is the balance sheet equation:

Assets = Liabilities + Equity

Every business transaction affects at least two elements of this equation and does not disturb the equality [12]. For this reason, the total of debit amounts is always equal to the total of credit amounts. According to their effect on the balance sheet, there are four types of business transactions (Table 1).

Table 1. Types of business transactions by their effect on the balance sheet total

Type	Content	Effect on the balance sheet total
1	One type of asset increases and another decreases	No change
2	One type of liabilities or equity increases and another decreases	No change
3	Both assets and liabilities (or equity) increase	Increases
4	Both assets and liabilities (or equity) decrease	Decreases

An accounting entry (posting) expresses the interrelation of accounts; this interrelation is called account correspondence. Each entry must clearly show which account is debited and which account is credited. Even in compound entries (involving several accounts), the equality of the total debit and credit amounts is maintained [13].

The practical mechanism of the method is considered in the following hypothetical example (VAT and other taxes are ignored for simplicity; the account numbers are given for classification purposes and must be verified against the current instruction). Suppose that a manufacturing enterprise performed the following transactions during the reporting period (Table 2).

Table 2. Hypothetical business transactions and accounting entries

No.	Business transaction	Amount (UZS)	Debit	Credit
1	Materials were received from a supplier	10,000,000	1010	6010
2	Payment was made to the supplier from the settlement account	10,000,000	6010	5110
3	Finished products were sold to a customer (selling price)	15,000,000	4010	9010
4	The cost of the products sold was written off	9,000,000	9110	2810
5	The customer transferred payment to the settlement account	15,000,000	5110	4010

Here, 1010 is "Raw materials and supplies", 6010 is "Accounts payable to suppliers", 5110 is "Settlement account", 4010 is "Accounts receivable from customers and clients", 9010 is "Income from the sale of finished products", 9110 is "Cost of finished products sold", and 2810 is "Finished products".

The example shows that each transaction is reflected in two accounts in equal amounts. As a result, at the end of the period the total of debit turnovers (10,000,000 + 10,000,000 + 15,000,000 + 9,000,000 + 15,000,000 = 59,000,000) equals the total of credit turnovers. Moreover, the financial result of the enterprise (15,000,000 − 9,000,000 = 6,000,000 UZS of gross profit) is determined through the interrelation of accounts. This is an important feature that provides internal logical control of accounting data [14].

The chart of accounts and double entry are mutually complementary elements. The chart of accounts determines "where" a transaction should be reflected, whereas double entry determines "how" it should be reflected. Without the chart, entries would be disorderly and incomparable between entities. Without double entry, accounts would turn into separate lists that merely record data, and the mutual control among them would be lost.

At the same time, the double-entry method provides the operating principle of accounts, and the chart of accounts provides the structure within which this principle is implemented. Their combined application produces the following results:

- complete and continuous recording of business transactions;
- the possibility of checking the arithmetic accuracy of accounting on the basis of the interrelation of accounts (the trial balance);
- the formation of the balance sheet and financial statements on the basis of data from accounting registers;
- a higher probability of detecting errors and abuses.

Informational aspect. Data grouped according to the chart of accounts and recorded through double entry form the basis of financial statements (the balance sheet, the statement of financial results, the cash flow statement, and others). Each indicator of the statements is supported by a specific account or group of accounts. This increases the confidence of users of the statements, including investors, creditors, tax authorities, and management.

Control aspect. Double entry creates a self-checking mechanism among accounts. The equality of debit

and credit totals in the trial balance makes it possible to detect certain types of arithmetic errors. It should be emphasized that this equality reveals only some errors (for example, one-sided entries or incorrect amounts). Errors such as reflecting a transaction in the wrong account, or not recording it at all, may not disturb the balance equality. For this reason, the method must be used together with other control tools such as inventory, document verification, and internal audit.

Management and analysis aspect. By expanding analytical accounts and subaccounts, the chart of accounts can be adapted to the needs of management accounting. Coding by cost centers, product types, customers, and projects provides management with the detailed information needed for decision-making. In this way, financial and management accounting rely on a single information base.

Digital aspect. In modern accounting software (for example, 1C and ERP systems), the chart of accounts is the main reference directory of the database. When each transaction is entered, the system automatically assigns the debit and credit accounts, checks the equality, and generates reports. This reduces errors caused by the human factor but further increases the requirement for the correct configuration of the chart of accounts, because a configuration error affects many transactions throughout the system.

Discussion

The results show that the practical significance of the chart of accounts and double entry is high. At the same time, the following problems are observed in practice:

1. **Harmonization with international standards.** There are differences in classification and recognition between the national chart of accounts and the requirements of IFRS. As a result, additional adjustment (transformation) work is required when preparing international reporting.
2. **Insufficient justification of the use of the chart of accounts in accounting policy.** Some entities, especially small businesses, apply the chart of accounts formally and do not adapt analytical accounts to management needs.
3. **Accountants' qualifications.** Errors in the correct correspondence of transactions, especially in complex transactions (foreign currency, leasing, tax differences), affect the quality of financial statements.
4. **Limitations of automation.** Incorrect configuration of the chart of accounts in software, or the uncontrolled entry of manual adjustments, reduces the reliability of accounting data.

These problems are consistent with the results presented above. Because the chart of accounts defines the structure within which double entry operates (Section 3.5), the quality of its configuration determines the quality of all data that follow from it; this is why a configuration error is especially serious in digital systems (Section 3.6), and why a purely formal use of the chart limits the managerial potential of analytical accounts. Likewise, since the equality of debit and credit totals does not reveal the reflection of a transaction in the wrong account, the problem of accountants' qualifications cannot be solved by the double-entry mechanism itself and requires qualified staff and additional controls [15].

To resolve these problems, the following proposals are put forward:

- gradually bring the chart of accounts closer to the requirements of IFRS and, where necessary, develop mapping tables;
- provide business entities with methodological recommendations on forming analytical accounts in accounting policy in accordance with management needs;

- include practical case methods and skills in working with digital accounting systems in accountants' training programs;
- introduce automatic verification of accounting entries (validation rules) and the keeping of a change log in digital systems;
- strengthen the procedure for the regular verification of the correctness of transaction classification in the internal control system.

This study is theoretical and descriptive. The practical mechanism of double entry is illustrated with a hypothetical example in which taxes are ignored and the account numbers must be verified against the current instruction [3]. The problems described in Section 4.1 were identified on the basis of the analysis of the regulatory framework and the literature and are not supported by survey or enterprise-level data. Evidence of this kind, for example from surveys of accountants or from the analysis of how charts of accounts are configured in digital systems, would be needed to verify and quantify them.

Conclusion

On the basis of the results of the study, the following conclusions were reached.

First, the double-entry method is the logical core of accounting; it is based on the balance sheet equation and ensures the internal integrity of accounting data by reflecting each business transaction in two accounts in equal amounts.

Second, the chart of accounts brings accounting objects into a single system and creates the structure needed for classification, coding, and the formation of reporting indicators. It increases the comparability of data between entities and serves as the basis for forming accounting policy.

Third, the chart of accounts and double entry are interrelated and mutually complementary elements, and their harmonious application ensures the reliability of financial statements, the controllability of accounting, and the soundness of management decisions.

Fourth, in the digital economy the significance of these methodological elements is increasing, because the correct operation of automated systems depends on the precise configuration of the chart of accounts and the consistent application of the principles of double entry.

Fifth, harmonizing the chart of accounts with international standards, adapting analytical accounting to management needs, and improving accountants' qualifications are the main directions for resolving the existing problems in practice. It is appropriate to direct future research to the transformation of the chart of accounts under the transition to IFRS and to the possibilities of automatic classification based on artificial intelligence.

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