Accounting Terms: A Quick Reference Guide

BUSINESS FINANCING

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Accounting Terms – A Quick Reference Guide

The purpose of this terminology list is to help individuals become familiar with terminology needed by a business when working with manual or computerized accounting. The following list is very basic and does not cover all the terms encountered in accounting:

A

Account	Each separate category of asset, liability, equity, revenue or expense for which transactions are recorded separately. An account can have a debit or credit balance. Account records are usually kept as separate pages in a book called a ledger. Accounts are sometimes called ledger accounts.
Accounting	The process of measuring, recording, classifying, summarizing, communicating and interpreting financial data.
Accounting Equation	The span of time covered by an income statement. One year is the accounting period for most financial reports, however financial statements are also prepared by companies for each quarter or each month of the year.
Accounts Payable	Money owed by the business for goods and services provided by its suppliers. An Accounts Payable Ledger contains the individual ledger accounts of all creditors. (A subdivision of current liabilities.)
Accounts Receivable	Money owed to the business by someone to whom the business has given goods and services on credit (or on account.) (A subdivision of current assets.)
Accrual Basis of Accounting	Records revenue in the period in which it is earned and expenses in the period in which they are incurred. The effect of events on the business is recognized as services are rendered or consumed rather than when cash is received or paid.
Accumulated Depreciation	A contra-asset account shown as a deduction from the related asset account in the balance sheet. Depreciation taken throughout the useful life of an asset is accumulated in this account.
Adjusted Trial Balance	A listing of all ledger account balances after the amounts have been changed to include the adjusting entries made at the end of the period.
Adjusting Entry (Adjustments)	The updating of the ledger account balances at the end of the accounting cycle before financial statements are prepared. Adjusting entries serve to apportion transactions properly between the accounting periods affected and to record any revenue

earned or expenses incurred that have not been recorded prior to the end of the period. (Adjustment examples are expired or prepaid expenses or revenues such as insurance, apportionment of unrecorded income, bad debts, depreciation, and other items recorded at the end of the accounting period.)

Assets	All of the possessions (physical things and other items of value) owned by the business. These are listed on the left side of the balance sheet. Assets include finished and unfinished inventory, land, building, cash, and money owed to the business by customers.
Auditing	The principal activity of a public accountant. Consists of an independent examination of the accounting records and other evidence relating to a business to support the expression of an impartial expert opinion about the fairness of the financial statements.

B

Bad Debts	The amounts not paid when a customer fails to pay all or part of what is owed. You make an adjusting entry to record it as an expense.
Balance Sheet	A financial statement that shows the financial condition of a business in terms of assets, liabilities, and owner's equity as of a certain date.
Bookkeeping	The recording, sorting and summarizing of transactions that affect the financial condition of a business. This is considered the record-making phase of accounting.
Book Value	The net amount at which an asset is shown in accounting records. For depreciable assets, book value equals cost minus accumulated depreciation. Also called the carrying value.
Business entity	The concept of a business (an economic units that enters business transactions) as separate from its owner(s).
Business transaction	Any event expressed in dollars that is related to a business and affects the assets, liabilities, or owner's equity of that business.

C

Capital	The ownership of the assets of a business by the proprietor(s). See Owner's equity.

Cash basis accounting	An accounting system that accounts only for cash actually received or disbursed during the accounting period.
Chart of Accounts	A list of the accounts in a ledger, arranged by account number. (These accounts are traditionally set up in the order of the accounting equation.)
Closing entries	Journal entries that usually occur at the end of the accounting period to eliminate the balances in the temporary capital account and to transfer these balances to the income summary account and eventually to the permanent capital account.
Closing the books	The process of posting closing entries to clear the revenue and expense accounts and to transfer the net income to the Retained Earning account at the end of an accounting year. It is done to ensure that the books are ready to record the next accounting year's transactions.
Credit	An entry that signifies a decrease in asset and expense accounts, and an increase in liability, owner's equity, and revenue accounts. This entry is a positive balance on the right-hand side. Increasing the balance of an account with a normal credit balance is called crediting.
Current assets	Assets which can be converted to case or realized in the ordinary course of business, usually within one year.
Current liabilities	Debts that are payable within one year of the balance sheet date, and which will require the use of a current asset.

D

Debit	A positive balance on the left-hand side of an account. Increasing the balance of an account which normally has a debit balance is called debiting.
Depreciation	Allocation of the cost of a physical asset (such as a piece of equipment) over its useful life. Depreciation transactions debit the depreciation expense account and credit (reduce) the value of the asset.
Double Entry Accounting	An accounting procedure where for everything you do to affect one account, there is an equal dollar effect on another account.

E

Earnings	The accumulated total of after-tax profits and losses from operations over the life of the company. Profits add to the total, and losses subtract from it.
Employee's Earnings Record	A form used to record an employee's earnings and deductions.
Equity	The worth of a business to its owner. It is shown on the right side of the accounting equation. To calculate the owner's equity, subtract the liabilities from the assets.
Expenses	The cost of doing business. These amounts are those a business spends to provide goods or services to its customers or to carry on its business, excluding amounts spent to acquire assets.

F

Financial statements	Documents prepared to summarize the effects of business transactions. See Balance Sheet and Income Statement.
Fiscal year	The twelve-month period which a company chooses for accounting purposes. It is not necessarily the same as a calendar year.
Fixed Assets	Assets such as land, buildings, equipment, and trucks that are used in operating the business and which have a long life.

G

General Journal	Those transactions that cannot go into one of the special journals (i.e. purchase, sales, cash receipts, cash payment journals.) This includes any payroll entries, adjusting entries or closing entries.

I

Income	The amount left over after all the revenues for a period are accounted of, and all costs and expenses for the same period are deducted. Income is also called net income, profit, or net profit.
Income statement	A statement which show the revenues, expenses, and the net income for a particular period.
Inventory	The goods a business has for sale to its customers.

J

Journal	A record of all business transactions in daily or chronological order. All transactions are recorded in a journal - this is a book of original or first entries.

L

Ledger	This is a book of second or final entries of transactions in which each page contains the records of one account, thus a ledger consists of a group of accounts. A ledger may be a computer printout, a bound book, or a loose-leaf type book.
Liabilities	All the debts and money owed to others by a business. They are listed on the right side of the balance sheet.
Long-term Liabilities	Liabilities that are not due to be paid within the year. A mortgage notes payable is an example of this type of liability.

N

Notes payable	A subdivision of liabilities that refers to money the business owes to a creditor as seen by an actual note.
Notes receivable	A subdivision of assets that refers to money owed to the business as seen by actual note.

O

Owner's capital account	An account that lists the increases and decreases in capital that an owner has invested in the business.
Owner's equity	The owner's claim against the assets of the business after liabilities have been deducted. Also called capital, proprietorship, or net worth.

P

Payroll	A list of all employees and their respective salaries for a given

	period.
Periodic inventory method	The taking of a physical count of the merchandise on hand at the end of an accounting period.
Perpetual inventory method	The continuous taking of a physical count of the goods available for sale.
Petty cash fund	A fund kept by business from which employees may obtain small amounts of case (on approval) for every day use on insignificant expenditures for which a check would not be accepted or appropriate.
Posting	The process of transferring debits and credits from the five journals to the applicable ledger account.
Post-closing Trial Balance	A trial balance that is prepared after closing the ledger.
Prepaid Expense	An asset account. It is an item that has been paid in advance yet is normally considered an expense, at such a time as the asset is used up, an adjusting entry will convert this prepaid expense (asset) to an actual expense. (An example is insurance on buildings, etc.)
Profit	The amount left over after all the revenues for a period are accounted for, and all costs and expenses for the same period are deducted. Profit is also called net profit, income, or net income.
Purchases journal	A journal that records all purchases made on credit.

R

Revenue	The amounts that a business earns through sales of products or services.

S

Sales Discount	A reduction of sales price offered by a seller to a buyer. The difference between the amount owed by the customer and the amount of cash received is known as the sales discount.
Sales journal	A journal used to record all sales of goods and services on credit.

Subsidiary Ledger	A detailed record of individual customer or creditor accounts which when totalled equal the control account in the general ledger.
Synoptic Journal	This journal's meaning is derived from the Greek meaning "see everything at once." This ledger is sometimes called a combined journal or combined/ledger journal.

T

Trial Balance	A record that may be prepared at any moment in time to prove the accuracy of the ledger. (i.e. the equality of the debts and credits.)
T-4 Slip (Form)	A document indicating an employee's total earnings during the calendar year and also the total taxes withheld from his or her salary. (Used for individual's personal income tax return.)

U

Unearned revenue	An advance payment for services that still must be performed. Unearned revenue represents a liability or obligation of the business receiving the payment for a service not yet rendered.
Unlimited liability	A characteristic of a sole proprietorship or partnership organization that allows creditors to settle their debt by claiming the personal property of the owners of the business when business assets are inadequate to settle the obligation.

W

Withdrawal	The money taken out of a company by a proprietor or partner.
Worksheet	An expanded trial balance which consists of a list of all the accounts in the ledger, used to work out the balance sheet and income statement in a manual accounting system. The purpose of the worksheet is to enable the accountant to prepare easily the adjusting entries as well as various financial statements.

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