Common Accounting Terms

[A][B][C][D][E][F][G][H][I][J][L][M][N][O][P][Q][R][S][T][U][V][W]

A

accelerated depreciation method
method that charges larger depreciation charges in the early years of an asset's life and smaller charges in later years.

account
a separate record for each type of asset, liability, equity, revenue, and expense used to show the beginning balance and to record the increases and decreases for a period and the resulting ending balance at the end of a period.

account balance
beginning account's balance plus the increases less the decreases posted to the account with debits and credits.

accountant
a person formally trained to prepare, maintain, and analyze financial information.

accounting
is the art of analyzing, recording, summarizing, reporting, reviewing, and interpreting financial information.

accounting cycle
recurring procedures (steps) performed each accounting period.

accounting equation
mathematical expression of the relationship of property and property rights. Also called the Balance Sheet Equation.

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The equation Assets = Liabilities + Equity, which demonstrates the two-sided nature of accounting and is useful for explaining the concept of double-entry accounting (or double-entry bookkeeping).

accounting period
length of time covered by financial statements-months, quarters, and years.

accounting principles
the rules and guidelines that companies must follow when reporting financial data. The common set of accounting principles is called generally accepted accounting principles (GAAP).

accounts payable
creditor's claims against the business's property arising from the business's purchase of goods and/or services on account.

accounts receivable
business claims against the property of a customer arising from the sale of goods and/or services on account.

accrual method (basis) of accounting
method of accounting that records income in the period earned and records expenses and capital expenditures such as buildings, land, equipment, and vehicles in the period incurred.

accrued expenses
expenses incurred but not yet recorded

accrued revenues
revenues earned but not yet recorded

accumulated depreciation
cumulative sum of all depreciation expenses recorded for assets.

adjusting entry
journal entry made at the end of a period to update an asset or liability account's balance to its actual amount and update the related expense and revenue account balances.

advertising
expense account used to record promotional expenditures, such as newspapers, handbills, television, radio and mail.

aging
preparing reports that sort amounts due or owed into categories by age of when they are due to be paid or received.

allowance for uncollectible accounts
contra asset account whose balance contains amounts that match bad debt expenses with sales for a period.

asset
properties used in the operation or investment activities of a business.

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all the good stuff a business owns (anything with value). The goodies.

audit
an independent review of financial records to verify their accuracy.

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B

bad debts
amounts owed a business that are unlikely to be collected.

balance sheet
the financial statement which shows the amount and nature of business assets, liabilities, and owner's equity (capital) as of a specific point in time. It is also known as a Statement Of Financial Position or a Statement Of Financial Condition.

balance sheet account
a type of account that is included in the Balance Sheet; namely the Assets, Liabilities, and permanent Equity Accounts.

balance sheet-account form
horizontal balance sheet form that lists assets on the left side and liabilities and equity on the right side.

balance sheet-report form
The report form of the balance sheet provides information in a vertical format -- essentially one column that goes the full width of the page. The report form starts with assets, providing a total value at the end of the assets section. It then lists liabilities and finishes with equity, with the final line of the report providing the total combined value of liabilities and equity.

bank reconciliation
the process of bringing the checkbook and bank statement balances into agreement.

bank statement
a copy of the bank's record of the business's account showing the balance of the account at the beginning of the month, the deposits and withdrawals (mostly checks) made during the month, service charges, and the balances at the end of the month.

book value
Original cost of a depreciable asset less accumulated depreciation.

bookkeeper
a person who records and classifies the financial transactions of a business

bookkeeping
is the process of recording and classifying business financial transactions (activities). Maintaining the records of the financial activities of a business or individual.

break even point
the sales level at which a business generates exactly zero profits, given a certain amount of fixed costs incurred in a period.

budgeting
preparing a report that forecasts (estimates) planned results for the future.

building rental
expene account used to record expenditures paid to an owner of property (building) for use of the property. A rental agreement called a lease contains the terms.

buildings
asset account used to record expenditures for structures erected on land and used for the conduct of business.

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C

cancelled check
checks that have been processed (paid) by the bank and deducted from the bank's customer's account.

capital
capital is also called equity-see the terms owner's equity and equity.

capital statement
the financial report that summarizes all the changes in owner's equity (capital) that occurred during a specific period.

cash
asset accounts that record monetary items that are available to meet current obligations of the business. It includes bank deposits, currency, coins, checks, money orders, and traveler's checks.

cash basis
accounting method that records revenues when cash is received and expenses when cash is paid.

cash disburements (payments) journal
a special journal used to record only cash payment transactions.

cash discount
deduction from the invoice amount allowed for early payment.

cash forecast
estimate of the timing and amounts of cash inflows and outflows over a specific period (usually one year).

cash method (basis) of accounting
method of accounting that recognizes revenues (earnings) in the period the cash is received and expenses in the period when the cash payments are made.

cash receipts journal
a special journal used to record only cash receipt transactions.

cash sale
a sale in which cash is received for the total amount of the sale at the time of the transaction.

chart of accounts
a coded listing of all the accounts in the general ledger.

check
a written order directing a bank to pay cash from the account of the writer (drawer) of the check.

check book
formal record of all checks written, deposits, bank charges, and miscellaneous charges and credits.

closing the books
process of transferring the balances from the temporary income statement accounts (revenues and expenses) to the permanent balance sheet equity account(s).

common stock
a corporation's basic ownership share -also called capital stock.

compound journal entry
a journal entry that affects at least three accounts.

contingent liabilities
liabilities not recorded in financial reports due to the uncertainty of future events.

contra account
an account which offsets and reduces or offsets the balance of another account.

contra-asset account
has a credit balance and offsets and decreases the debit balance of the related asset account. An example account is Accumulated Depreciation which reduces the equipment account to arrive at the equipment's net value.

contra-liability account
has a debit balance and offsets and decreases the credit balance of the related liability account. An example accounts is the bond discount account that reduces the bonds payable account to arrive at the bond's net value.

contribution margin
amount determined by subtracting variable costs from net sales.

control account
a general ledger account that has a subsidiary ledger that contains the detail balances that total to the amount contained in the summary control account.

corporation
an organization made up of many owners (stockholders) who normally are not active in the operations of the business.

correcting entry
a journal entry made to correct an error previously recorded in the general ledger.

cost of goods available for sale
beginning inventory plus net purchases for a period.

cost of goods sold

expense account that records the cost of inventory sold to customers during a period - also called cost of sales.

credit
an entry (amount) entered on the right side (column) of a journal or general ledger account that increases a liability, owner's equity (capital) or revenue, or an entry that decreases an asset, draw, or an expense.

credit sales
sales made on account. Sales where the customer is allowed to pay at a later date. Noncash sales

creditor
a person or organization that a business owes money.

current asset
cash and other assets normally expected to be converted to cash or used up usually within a year.

current liability
amounts owed (liabilities) that need to be paid or settled usually within a year.

current ratio
ratio used to determine a business's ability to pay its short term obligations.

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calculated by dividing current assets by current liabilities.

customer
a person or organization that buys goods or services from a business.

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D

debit
an entry (amount) entered on the left side (column) of a journal or general ledger account that increases an asset, draw or an expense or an entry that decreases a liability, owner's equity (capital) or revenue.

debtor
customers that owe a business money.

deposits in transit
deposits recorded by the business but not yet recorded by the bank.

depreciation
expense account that records expenses related to the usage of plant and equipment allocated to periods in which they are used.

direct labor
wages of employees who make products.

direct materials
materials of significant value that are an integral component of products.

direct write-off method
method that records bad expenses when specific accounts are determined to be uncollectible.

dividends
a company?s distribution (payments) of profits to shareholders.

double entry
type of accounting/bookkeeping system that requires every transaction to be recorded in at least two places (accounts) using a debit and a credit. Every transaction is recorded in a formal journal as a debit entry in one account, and as a credit entry in another account. Periodically, usually monthly, the summarized balances from the journals are posted (transferred) to a formal business record called the general ledger.

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E

electronic funds transfer (EFT)
use of electronic communication to transfer cash from one part to another.

equipment
asset account used to record expenditures for physical goods used in a business, such as machinery or furniture. Equipment is used in a business during the production of income.

equity
owner's claim to the assets of a business - also called net assets and

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capital-see related terms capital and owner's equity

expense
decrease in owner's equity (capital) resulting from the cost of goods, fixed assets, and services and supplies consumed in the operations of a business.

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the costs of doing business. The stuff we used and had to pay for or charge to run our business.

external users
users of accounting information who are not directly involved with a business such as governmental agencies, creditors, customers, and investors.

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F

factory overhead
costs incurred during the manufacturing process, not including the costs of direct labor and materials. Factory overhead is normally aggregated into cost pools and allocated to units produced during the period.

FIFO -first in first out
cost flow assumption that assumes the oldest products are the first sold.

Financial Accounting Standards Board
independent group of full time members responsible for setting accounting rules.

financial statements
accounting reports prepared periodically to inform the owner, creditors, and other interested parties as to the financial condition and operating results of the business.

finished goods
manufactured products that are fully completed and available for sale.

fixed assets
another name for property, plant, and equipment.

fixed costs
are costs that do not change when the quantity of output changes.

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G

general journal
a journal used to record transctions not recorded in special journals.

general ledger
a record containing the accounts and balances for all of a business's assets, liabilities, equity, revenue, and expense accounts.

Generally Accepted Accounting Principles
rules that specify acceptable accounting practices.

gross pay
amount earned by employees prior to any deductions.

gross profit
amount determined by deducting cost of goods sold from net sales.

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H

historical cost
original cost of an asset.

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I

income statement
the financial statement that summarizes revenues and expenses for a specific period of time, usually a month or a year. This statement is also called a Profit and Loss Statement or an Operating Statement.

income statement account
a type of account that is included in the Income Statement; namely the Revenue and Expense Accounts.

intangible assets

assets of a non-physical nature that have a value-patents-copyrights-trade names

interest expense
expense account that records money paid regularly at a particular rate for the use of money.

interest income
amounts earned from investments.

internal controls
methods put in place by a company to ensure the integrity of financial and accounting information, meet operational and profitability targets and transmit management policies throughout the organization.

internal users
users directly involved with a business such as managers, owners, and employees who work for the business.

inventory
asset account that records expenditures for items held for resale in the normal course of a business's operations.

invoice
a business document showing the names and addresses of the buyer and the seller; the date and terms of the sale; the description, quantity, unit price, and total price of goods purchased or sold and the method of delivery.

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Selling business refers to this document as a Sales Invoice.

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Buying business refers to this document as a Supplier Invoice.

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J

job costing
an order-specific costing technique, used in situations where each job is different and is performed to the customer's specification.

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also called job order costing

journals
a preliminary record where business transactions are first entered into the accounting system. The journal is commonly referred to as the book of original entry.

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L

land
asset account that records expenditures for parcels of the earth such as building sites, yards, and parking areas.

liability
Claims by creditors to the property (assets) of a business.

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Other's claims to a business's good stuff. Amounts the business owes to others.

LIFO -last in first out
cost flow assumption that assumes the newest products are the first sold.

limited liability company (LLC)
relatively new type of business structure that combines the benefits of a partnership and corporation.

loss
amount a business's expenses exceed (greater than) revenues. In other words, we earned less than we spent.

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M

maintenance & repairs
expense account that records expenditures paid to repair and or maintain buildings and/or equipment.

mark up
amount added to the cost of products to determine selling prices.

merchandising business
a business that buys and sells products to consumers.

mortgage payable
notes payable which are secured by a lien on land, buildings, equipment, or other property of the borrower (your company)

multiple step income statement
income statement format that has subtotals between sales and net income and categorizes expenses.

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N

net income
amount earned after subtracting all expenses from revenue (sales) for a period - also called net profit.

net loss
excess of expenses over revenues for a period -expenses are greater than revenues.

net pay
employee's earnings after all deductions.

net sales
sales less discounts and return and allowances.

normal balance of account
a debit or credit balance determined by the side of an account that represents an increase.

notes payable
formal written promises to pay definite sums of money owed at specified times.

notes receivable
formal written promises given by customers or others to pay definite sums of money to the business at specified times.

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O

office supplies
asset or expense account that records expenditures for maintaining a supply of on hand supplies such as typewriter, copier, and computer paper, pens, pencils, and special forms.

organization costs
expenditures incurred in order to start a business.

outstanding checks
checks written but not yet paid by the bank at the bank statement date.

owner drawings (withdrawals)
assets taken out of a business for the owner?s personal use.

owner's equity
owner's rights and claims to the property (assets) of a business-also called proprietorship and net worth.

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,,,,,what the business owes the owner(s). The good stuff left for the owner after all liabilities (amounts owed) are paid.

owner's investments
increase in owner's equity (capital) resulting from additional investments of cash and/or other property made by the owner.

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amounts, either cash or other property, that the owner puts in his business.

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P

partnership
two or more people who share the ownership of a single business.

payroll taxes
expenditures for taxes based on wages paid to employees.

periodic inventory method
inventory determined by performing a physical inventory -counting, weighing, and measuring products on hand.

permanent or real account

another term used to refer to the balance sheet accounts.

perpetual inventory
a book inventory determined by maintaining detailed records of increases and decreases.

petty cash
small amounts of cash in a fund used to pay minor expenses.

posting
process of transferring balances from bookkeeping records called journals to a final bookkeeping record called the general ledger.

prepaid expenses
an asset representing items paid for in advance of receiving their benefits.

process costing
costing procedure used to assign costs when there is mass production of similar products, where the costs associated with individual units of output cannot be differentiated from each other.

profit
amount a business's revenues exceed (greater than) expenses. In other words, the amounts we earned were greater than our expenses.

property
another term for assets.

purchase order
a document originated by the purchaser (buyer) requesting the supplier to ship goods or perform services.

purchases
goods bought on credit and cash to be resold.

purchases journal
a special journal used to record transactions that involve purchases on credit.

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Q

quick assets
cash and other assets that can quickly be converted into cash.

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R

real property
land and anything attached to the land.

receiving report
a document originated by the buying business listing the quantities and condition of the goods and/or services received from a supplier.

rental income
revenue account that records amounts earned from renting properties.

report form balance sheet
a balance sheet that lists the accounts vertically in the order of assets, liabilities, and equity (capital).

retained earnings
total profit or loss from the start of the business to the present not paid out to owners.

revenue
the gross increase in owner's equity (capital) resulting from the operations and other activities of the business.

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amounts a business earns by selling services and products. Amounts billed to customers for services and/or products

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S

salaries
expense accounts that record expenditures for work performed by employees.

sale of products
amounts earned from the sale of merchandise.

sale of services
amounts earned from performing services.

sale on account
sale where the customer is allowed to pay at a future date.

sales journal
a special journal used to record all of the company sales on credit.

sales order
a documented originated by the seller listing the goods and/or services ordered by a customer and other information such as prices and delivery dates.

sales return
amount owed to customers for the return of merchandse previously sold.

sales tax
tax collected for governmental agencies based on sales.

selling expenses
expenses related to promoting (increasing) sales such as sales commissions, catalogues, advertising, and customer support.

semi-fixed cost
see semi-variable costs

semi-variable cost
a cost composed of a mixture of fixed and variable components. Costs are fixed for a set level of production or consumption, becoming variable after the level is exceeded.

service business
a business that sells services and related materials.

single step income statement
income statement format that includes cost of goods sold and has only one subtotal for total expenses.

sole proprietorship
business owned by one person who is normally active in running and managing the business.

source documents
documents that evidence a business transaction has occurred such as invoices and checks.

specialized journals
journals used to initially record special types of transactions such as sales, cash disbursements, and cash receipts in their own journal.

statement changes in financial position
the financial statement that reports the sources and uses of cash or working capital for a specific period of time, normally a year.

statement of cash flows
see statement of changes in financial position

stockholder's equity
value of the owner's equity (capital) in a corporation.

subsidiary ledgers
a separate record set up to record the individual items relating to a single general ledger account (control account). Examples include an accounts receivable and accounts payable ledger.

supplies
asset or expense account that records expenditures for incidental materials needed in the conduct of business.

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T

T-Account
a skeleton outline of an account which provides the same basic data as a formal ledger account. Used as a teaching aid.

temporary account
another term used to refer to the income statement accounts. The accounts are called temporary due to the fact that their balances are set to zero when the books are closed.

transaction
any event or condition that must be recorded in the books of a business because of its effect on the financial condition of the business, such as buying and selling. A business deal or agreement.

trial balance
a worksheet listing of all the accounts appearing in the general ledger with the dollar amount of the debit or credit balance of each account. Used to make sure the books are in balance -total debits and credits are equal.

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U

unearned revenue
a liability created when customers pay in advance for products or services that have not been delivered or rendered.

utilities
expenditures for basic services needed to function in the modern world, such as water, sewer, gas, electricity and telephone. Most businesses track the amount spent for each type of utility service.

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V

variable costs
are costs that varies in relation to changes in the volume of activity.

vendor
seller of goods and/or services-also called supplier.

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W

wholesaler
a business that buys and sells large quanties of products to others for resale.

work in process
unfinished products being manufactured.

working capital
net difference between current assets and current liabilities.

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Working Capital = Current Assets - Current Liabilities

worksheets
forms which are used to summarize all the information necessary to complete the end-of-period financial reports and prepare other financial analysis.

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