



**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**

expense 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 disbursements (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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**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**





**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.

