

Bean Counter's

So, you want to learn Bookkeeping!

Glossary Of Common Bookkeeping Terms

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.

Accounting Equation-Mathematical expression of the relationship of property and property rights. Also called the Balance Sheet Equation.

Accounts Payable-TL Creditor's claims against the business's property arising from the business's purchase of goods and/or services on account.

Accounts Receivable-TA 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.

Advertising-TE Promotional expenditures, such as newspapers, handbills, television, radio and mail.

Assets

Formal: The properties used in the operation or investment activities of a business.

Informal Definition: All the good stuff a business has/owns (anything with value). The goodies.

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.

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.

Building Rental-TE Expenditures paid to an owner of property (building) for use of the property. A rental agreement called a lease contains the terms.

Buildings-TA Expenditures for structures erected on land and used for the conduct of business.

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

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-TA 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.

Chart Of Accounts-A coded listing of all the accounts in the general ledger.

Check Book-Formal record of all checks written, deposits, bank charges, and miscellaneous charges and credits.

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

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)

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.

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.

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.

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.

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.

Equipment-TA Expenditures for physical goods used in a business, such as machinery or furniture. Equipment is used in a business during the production of income.

Expense / Cost

Formal Definition: 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.

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

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. The three basic financial statements are:

General Ledger-A book containing the accounts and balances for all of a business's assets, liabilities, equity, revenue, and expense accounts.

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..

Interest Income-TR Amounts earned from investments.

Inventory-TA 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.

Selling business refers to this document as a Sales Invoice.

Buying business refers to this document as a Supplier Invoice.

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.

Land-TA Expenditures for parcels of the earth. It includes building sites, yards, and parking areas.

Liabilities

Formal Definition: Claims by creditors to the property (assets) of a business until they are paid.

Informal Definition: Other's claims to the business's good stuff. Amounts the business owes to others.

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

Maintenance & Repairs-TE Expenditures paid to repair and or maintain buildings and/or equipment.

Accounting Equation

Abbreviated or Simple Version:

Property = Property Rights

Expanded Version:

Assets = Liabilities + Owner's Equity (Capital)

Fully Expanded Version:

Assets = Liabilities + Beginning Owner's Equity (Capital) + Additional Owner Investments + Revenues - Expenses - Draws

Mortgage Payable-TL Notes payable which are secured by a lien on land, buildings, equipment, or other property of the borrower (your company).

Notes Payable-TL Formal written promises to pay definite sums of money owed at specified times.

Notes Receivable-TA Formal written promises given by customers or others to pay definite sums of money to the business at specified times.

Office Supplies-TA Expenditures for maintaining a supply of on hand supplies such as typewriter, copier, and computer paper, pens, pencils, and special forms.

Owner's Drawing

Formal Definition: Decrease in owner's equity (capital) resulting from withdrawals made by the owner.

Informal definition: Amounts the owner withdraws from his business for living and personal expenses.

Owner's Equity / Owner's Capital

Formal Definition:The owner's rights to the property (assets) of the business; also called proprietorship and net worth.

Informal Definition:What the business owes the owner; assuming all liabilities (amounts owed) have been paid.

Owner's Investments

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

Informal definition: Additional amounts, either cash or other property, that the owner puts in his business.

Payroll Taxes-TE Expenditures for taxes based on wages paid to employees.

Permanent or Real Account-Another term used to refer to the balance sheet accounts.

Posting-Process of transferring balances from bookkeeping records called journals to a "final" bookkeeping record called the general ledger.

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. In future lessons the term property and assets both mean the same thing-all the good stuff a business has.

Purchase Order-A document originated by the purchaser (buyer) requesting the supplier to ship goods or perform services.

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-TR Amounts earned from renting properties.

Revenue / Income

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

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

Salaries-TE Expenditures for work performed by employees.

Sale of Products-TR Amounts earned from the sale of merchandise.

Sale Of Services-TR Amounts earned from performing services.

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.

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

Statement of Changes in Cash-The financial statement that reports the sources and uses of cash for a specific period of time, normally a year.

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-TE Expenditures for incidental materials needed in the conduct of business, such as office supplies.

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. Used to make sure the books are "in balance" -total debits and credits are equal.

Types of Assets-Cash, Acct Receivable, Notes Receivable, Inventory, Office Supplies, Land, Building, Equipment, Furniture,

Types of Expenses-Supplies, Salaries, Payroll, Advertising/Promotional, Utilities, Building, and Maintenance Expenditures

Types Of Liabilities-Accounts Payable, Notes Payable and Mortgage Payable

Types of Revenue (Income)-Sale of Products, Sale Of Services, Rental Income, Interest Income

Utilities-TE 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.

Working Capital-Net difference between current assets and current liabilities.

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.

Abbreviations:

TA-Type Of Asset

TL-Type Of Liability

TE-Type Of Expense

TR-Type Of Revenue