

## Accounting Terms

**Account** – This is a record of financial transactions; an account normally refers to an account type, eg. travel expense account or purchase account.

**Accountant** - A person who is qualified to prepare and maintain financial records.

**Accounting** - a system for keeping financial track and records for a business, these are tracked in the appropriate currency.

**Accounting period** - this is a specified period of time over which profits are calculated. Accounting periods are normally monthly, quarterly and annually (fiscal or calendar).

**Accounts payable** -- the amount owed by a company for goods or services the company has purchased from outside suppliers of goods or services. .

**Accounts receivable** - the amount owed to the company by its customers.

**Accrual basis, system, or method** - this is an accounting system that records revenues and expenses at the time when the actual transaction occurs, not at the time payment is received.

EG. If you buy paint from a supplier and charge it, and leave the hardware the paint, the hardware store records or accrues the sale when you walk out with the paint, not when you pay your bill. Accrual basis accounting is used by most businesses. Cash basis accounting is used by individuals.

**Accrued expenses, accruals** -- this is an expense which has been incurred but not yet paid for.

An employee's salary is a good example. Employees earn or accrue their salary every hour they work. Their salaries continue to accrue until payday, when the accrued expense is paid and the accrued expense is eliminated.

**Aging** -- this is a process where accounts receivable are sorted out by age (typically current, 30 to 60 days old, 60 to 120 days old, and so on.) This Aging process allows for collection efforts to focus on accounts that are long overdue.

**Amortize** -this is to charge a portion of an expenditure regularly over a fixed period of time. EG. If a copier cost €1000 and is to be amortized over ten years, the accounting records would show an expense of €100 per annum for 10 years. The entire cost would appear in the accounts as an expense the year the expenditure was made.

**Appreciation** - this is where there is an increase in value. If a painting cost €1,000 last year and is now worth €1,200, it has appreciated in value by €200.

**Assets** - these are things of value that are owned by a business. An example of an asset is a building, or it could also be an object such as a stock certificate or intellectual property like a patent.

**Current Assets** are assets that can be turned into cash within a year or less.

Current assets include cash, marketable securities, accounts receivable, and inventory/stock.

**Fixed Assets** are longterm assets that cannot be easily cashed in without interfering with the operation of business. Fixed assets include land, buildings, machinery, equipment, furniture, and long-term investments.

**Intangible Assets** are not physical objects, but can be often the most valuable to a company. They include items such as patents, copyrights, trademarks, licenses, franchises, and other kinds of rights or things of value to a company. These items can often not appear on financial reports.

**Audit - this is** a review of all financial records to verify their accuracy.

**Bad debts -- is the** amount owed to a company that is not going to be paid. An account receivable becomes a bad debt when it is realised that the amount owed is not going to be paid. . Bad debts are often written off and this is recognised as an expense. A bad debt can also be set up in a reserve list this list is set up to allow for possible bad debts. Adding to a reserve list is also an expense.

**Balance sheet -- this** a statement of the financial position of a company at a single specific time. The balance sheet should list all the companies assets on the left side or top of the statement whilst listing all the liabilities and capital are listed on the right side or bottom of the

statement. The totals calculated on the left side or top must equal or balance the total of all numbers on the right side or bottom.

The balance sheet equation should equal to the following i.e. balances

**Assets = Liabilities + Capital.**

**Bond** -- this is a written record of a debt payable more than a year in the future. The bond will detail the amount of the debt, the due date, and interest rate to be paid.

**Book value** -- this is the total assets less the total liabilities. Book value is also the value of the asset as recorded in the company's financial reports. The book value is often different than real value of a company. It can be more or less.

**Breakeven point** -- this is the amount of revenue from sales which exactly equals the amount of Expense Product sales that exceed the breakeven point produce a profit; sales beneath the breakeven point produces a loss.

**Capital** -this is money invested into a business by its owners. On the bottom or right side of a balance sheet.

A capital investment is also an investment in a fixed asset with a long-term use. Capital can refer to buildings, and other fixed assets in a business.

**Capitalise** - to capitalise is when an expenditure is recorded on the balance sheet as an asset, to be amortized over the future. To capitalise is the opposite of to expense

**Cash - is the** money available to spend now. Cash is usually in a current account.

**Cash flow** -the amount of cash actually generated by business operations, the cash flow is usually differs from profits shown.

**Chart of accounts** a listing of all the accounts into which business transactions are classified and recorded.

**Contingent liabilities - these are** liabilities that are not recorded on the company's accounts but

might become due e.g. if a company is being sued and loses the suit.

**Cost of sales, cost of goods sold** -- the expense or cost of all items sold during an accounting

period. Each unit sold has a cost of sales or cost of the goods sold

An equation often used to calculate the cost of sales is:

Cost of Sales = Beginning Inventory + Purchases During the Period - Ending Inventory.

**Credit - this is** an accounting entry on the right or bottom of the balance sheet. There is usually an increase in liabilities or capital, or a reduction in assets.