Glossary of Accounting Terms
Peter Baskerville

'Account for' or 'bring to account': An accounting phrase used to describe the recording of a financial transaction that is required under the generally accepted accounting principles.

'The books': An accounting phrase that describes the accounting records of a business that are used to enter transactions into journals, then classify them into ledger accounts and ultimately produce the financial statements.

Accounting: The process of recording, analyzing, reporting and interpreting the financial affect of business activities.

Accounting basis: Refers to how financial transactions are measured for recording purposes. i.e. cash basis vs accrual basis, historical cost basis, going concern basis.

Accounting cycle: The complete process from identifying and recording the financial transactions of the business to their eventual summarization in the Balance Sheet at the end of an accounting period which forms the start point for the financial activities in the next accounting period.

Accounting equation: Assets = Liabilities + Owners equity. It means that the amount of money that owners (owners equity) and non-owners (liabilities) have provided to the business will always be represented by the total value of the assets that the business legally controls . The accounting equation is represented in the balance sheet of the business.

Accounting entity: A business or organisation which is regarded as having a separate identity from that of the owners and will only record and report on financial transactions where it is a party. e.g. sole proprietor, partnership, company.

Accounting standards: The rules that guide the application of accounting principles for specific situations.

Accounting system: Than part of the MIS (Management Information System) that provides financial information for management for decision-making purposes or to produce financial reports under compliance obligations.

Accounts payable (A/P): The money value of goods and services that a business has acquired, but hasn't yet paid for.

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Accounts Payable Ledger: A subsidiary ledger which holds the account details and amounts owing to the suppliers of a business. The are the firm's promise to pay a vendor for goods or services provided.

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Accounts receivable (A/R): This is the amount of money your customers owe you for products and services that they have bought from you, but haven't yet paid for.

Accounts Receivable Ledger: A subsidiary ledger which holds the account details and amounts owed by the customers of the business.

Accounts: One part in a general ledger devoted to recording details about a single aspect of a business e.g. cash at bank account, advertising expense account, Merchandise sale account. Sub-categories include assets, liabilities, equity, revenue and expense.

Accrual basis accounting: One of the bookkeeping processes that you can follow in preparing your financial statements. Accrual basis accounting records revenue and expenses as they are earned or incurred regardless of when the money exchanges (cash received or paid).

Accruals: A transaction created under the accrual basis of accounting. Accruals bring to account revenue and expenses that have been earned and incurred but have not yet been invoiced. e.g. prepaid expenses, unearned revenue.

Accumulated Depreciation Account: This is the total amount of depreciation expense that has been written off against the asset from the time it was purchased. It is a contra asset account that reflects depreciation expense taken in the current and previous periods.

Accelerated Depreciation. A method of depreciation in which a greater amount of depreciation expense is recorded in the earlier years of an assets useful life than in later years.

Aging Schedule. A schedule that classifies accounts receivable by the amount of days the receivable has been unpaid.

Amortization: This is a process of writing off the value of intangible assets to acknowledge their loss of value. Similar to depreciation for tangible assets.

Assets: Items of future economic value that the business owns or controls. e.g. Cash, inventory, equipment, patent. They are tangible or intangible things that allow a firm to produce goods or services.

Audit Trail: A chronological list of a transaction's process through the accounting system, from the source document to financial statements.

Audit: A set of tests and procedures applied by an independent accounting firm to determine the accuracy of financial statement information. Audits are designed to provide reasonable assurance to third parties that the financial statements represent a true and fair view of the financial performance and position of the business.

Bad Debts Account: An account in the nominal ledger to record the value of un-recoverable debts from customers.

Balance sheet: The balance sheet reflects the financial position of a business on a specific date and outlined according to the accounting equation i.e. Assets = Liabilities + Owners equity. It is one of the basic financial statements that is used to asses the financial condition of a business.

Balance day adjustments: The procedure to ensure that all items of revenue and expense are recorded in their correct accounting periods. Typically these include accruals, depreciation, actual stocktakes, bad and doubtful debts.

Bank statement: A statement supplied by the bank that details the monies received and paid for a customer's account.

Bank reconciliation: A process that demonstrates how the cash details recorded in the books of the business match the statement supplied by the bank.

Bookkeeping: The physical recording of the financial transactions of the business.

Books of original entry: Specially designed forms on which transactions are initially recorded.

Book value: The historical cost of an asset less the value of the accumulated depreciation. AKA (Written down value).

Business Firm. An organization established to earn a profit by the selling of goods or services.

Capital expenditure: The expenditure on fixed assets that are expected to provide economic benefits over several accounting periods. e.g. purchase of a building, upgrade to equipment

Cash Accounting: A simplified form of bookkeeping for small businesses that delays the recording of revenue and expenses until the cash is actually exchanged. i.e. when cash is received or paid.

Cash-at-bank: An account kept in the books of a business that records the amount of money held in the bank account

Cash Flow Statement. A financial statement that reports cash flows from operating, financing and investing activities.

Cash-on-hand: An account kept in the books of a business that records the amount of money held on the business premises (usually undeposited funds or cash register floats)

Cash register float: A term used to describe the amount of money perpetually held in cash registers to provide change in relation to customer sales.

Chart of accounts: A complete listing of every account in your accounting system.

Company: A separate legal entity owner by shareholders that is created for the purpose of conducting business activities.

Contra account: An account created in the same account group that is an offset to another account.e.g. accumulated depreciation, sales discounts.

Control Account: An account held in a general ledger which summarizes the balance of all the accounts in the subsidiary ledger. e.g. accounts receivable control account is the total of all the customer accounts held in the debtors subsidiary ledger.

Corporations: A common form of limited liability firm that ia created and recognized as a separate legal entity by the corporations law of the country.

Cost of Goods Sold (COGS): A formula for working out the direct costs of your stock sold over a particular period. The formula is: Opening stock + purchases - closing stock. It calculates all the direct costs associated with selling goods (inventory).

Credit: Is one of the two aspects of a double-entry bookkeeping system. For every entry into the books of a business, there must be a credit entry and it must equal the debit entry amount made to another account.

Creditors: A list of suppliers to whom the business owes money and typically listed in the creditors ledger.

Current assets: These are those that could be converted into cash easily. e.g. inventory, accounts receivable.

Current Liabilities: Monies owed to external a parties and due for payment within the next 12 months.e.g. Credit cards, trade creditors, tax payable.

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Debit: Is one of the two aspects of a double-entry bookkeeping system. For every entry into the books of a business, there must be a debit entry and it must equal the credit entry amount made to another account.

Debtors (control account): A list of the customers who owe money to the business typically listed in the debtors ledger.

Deferred Revenue. Cash collected from customers or clients prior to the delivery of goods and services.

Depreciation expense: Accounting for the loss of economic value of a fixed asset . This is done by expensing (writing off) a portion of the fixed asset according to its useful life.The portion of an asset's cost allocated to the current accounting period

Direct costs: Expenses that can be directly tracked to a specific job. If the job didn't happen, the direct costs wouldn't have been incurred. e.g. materials, delivery costs, stock purchases.

Dissolution: The disposal of the assets of a sole trader that has ceased trading.

Dividends. Cash distributions from corporate profits to its shareholders.

Double-entry accounting: An accounting system used to keep track of business activities that requires a debit and credit entry to be made into two or more accounts for every financial transaction.

Doubtful debts: A provision in the financial statements that identifies amounts owed by debtors that may not be paid in part or in full.

Drawings: The money taken out of a business by its owner(s) for personal use.

EBIT: Earnings before interest and tax (profit before any interest or taxes have been deducted).

Entry: Part of a transaction recorded in a journal or posted to a ledger.

Equity: The value of the business owing to the owners of the business. It is made up of the initial investment by the owners and the unpaid earnings of the business to date. The difference between a firm's assets and its liabilities.

Expense (costs): Goods or services purchased directly for the running of the business that have completely spent their economic value at the time of the preparation of the financial statements. e.g. Wages expense, Bank charges, Electricity expense. The use of resources to produce the good and services sold to customers and clients.

Extraordinary items: Those items of revenue or expense that occur outside the normal activities of the business. e.g. sale of equipment used to produce products for the business

FIFO. (First in, First out) A flow assumption in valuing ending inventories that assumes that the first goods sold were the first ones purchased.

Financial accounting: A system of reporting on the financial activities of a business according to the requirements of external stakeholders. The format and information required is usually prescribed by governments agencies and accounting standards.

Financial statements: Reports provided to the stakeholders of the business that detail the financial performance and position of the business. They key financial statements are the balance sheet, the income statement and the cash flow statement.

Fiscal year: The term used for a business's accounting year. e.g. Calendar (31 December close) or financial (30 June close).

Fixed assets (non-current asset) : Tangible assets that have a future economic value of greater than one year. e.g. buildings, equipment, vehicles, furniture.

Fixed Asset Schedule. A record of a firm's assets that tracks acquisition dates and costs, depreciation methods used and cumulative amounts of depreciation taken.

Functional classification: A term to describe the grouping of expenses into classifications when presenting the financial statements. e.g. Financial, Sales and distribution, Administration.

General ledger: A place in the accounting system where all the individual accounts from the chart of accounts are collected.The collection of all accounts used by a firm to record changes in assets, liabilities, revenue, expense and equity.

Generally Accepted Accounting Principles (GAAP). The most widely accepted rules of financial accounting.

Going concern: An assumption that a business will continue to sell products and/or provides services into the foreseeable future.

Going Concern Value. The combined value of a firm's assets that would be paid by a purchaser who intended to continue operating the business.

Goodwill. The difference between a firm's going concern value and its liquidating value.

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Gross margin: This is how much money you have left after you have subtracted the direct costs from the selling price: When this is expressed as a percentage, it is call gross margin.The difference between sales and cost of goods sold.

Historical Cost: This describes an accounting practice where assets are recorded in the books of a business at the prices for which they were acquired. The listing of asset values based upon their acquisition price rather than their current market value.

Imprest: An amount of cash provided in advance to an authorized person that allows them to make cash payments for incidental expenses. e.g. Petty cash

Income statement (Profit and loss statement, P&L or statement of financial position): This is a financial report that shows the changes in the equity of the business as a result of its operations. It lists the revenues, subtracts the expenses and so measures the economic performance (profit or loss) of the busines for a accounting given period.
Incurred: An accounting term to describe the act of becoming legally liable for something.

Indirect cost (overhead): These expenses are not directly related to the services you provide to customers. See overheads.

Internal control: A system implemented and maintained by a business to ensure the protection of its assets, the reliability of its financial information and to prevent fraud.

Insolvent: A company is insolvent if the total value of its liabilities are greater than the total value of its assets.

Intangible assets: An item of economic value that is of a non-physical or financial nature. e.g. patents, trademarks, goodwill.

Inventory (stock): Are goods or materials held by the business with the intent to sell them to customers for a profit.

Invoice: A term describing an original document either issued by a business for the sale of goods on credit (a sales invoice) or received by the business for goods bought (a purchase invoice).

Journal entries: A term used to describe the recording of transactions in a journal.

Journal(s): The place in the accounting system where transactions are first entered. It records business activities in a chronological order ensuring that the debit amount of each transaction is matched by a credit amount. e.g. sales journal, purchases journal, cash receipts journal, cash payments journal, general journal.

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Legal entity: A person or non-person (company) who is recognized by law as having the right ot buy and sell property and to sue or be sued. e.g. company or a person.

Leverage. The degree to which a firm uses debt to finance its operations.

Liabilities: The value of monies owed to someone other than the owners. e.g. creditors, tax department, a financial institutions providing a loan to the business.A firm's obligations to its creditors

LIFO. (Last in, First out) An inventory flow assumption that assumes that the most recently sold inventory is also the most recently purchased.

Limited Liability Firms. Firms organized under special state statutes that insure that the owners' liabilities for the firm's actions are limited to their investment.

Liquidating Value. The amount that would be paid for a firm's assets on a piece meal basis.

Liquidity. The availability of cash in a business.

Long term liabilities (non-current liabilities): Typically any debts owed to funders or creditors that lasts for more than one year. e.g. a mortgage for a property purchase

Loss. The excess of expenses over revenue.

Management accounting: A system of reporting on the financial activities of a business according to the needs of the managers and other internal stakeholders. e.g. budgeting, variance reporting, weekly sales reports, business unit profitability reports.

Matching principle: An accounting principle that directs accountants to prepare the income statement so that the revenue and the expenses incurred in earning that revenue are recorded and reported in the same accounting period. The idea behind accrual accounting that holds that revenue should be recognized at the same time as associated expenses are incurred.

Materiality. A threshold amount accountants utilize in deciding if adjustments are needed to particular accounts.

MIS (Management Information System): A system of reporting that assists decision makers in their evaluation planning, organizing, leading and controlling functions.

Money: Money is the medium we use to exchange goods and services for other goods and services.
Narrative: A comment added to an entry made in a journal. It can be used to describe the nature of the transaction, or the other side of the debit/credit entry.

Net income (net profit, net earnings, current earnings or bottom line): This is the money left over in a specific period after deducting from the revenue the expenses incurred in earning that revenue. This amount is reported as the bottom line of the income statement and as current earning in the equity section of the balance sheet.

Net worth (Owners Equity): The accounting value of a business and is determined by subtracting the value of the liabilities of the business from its asset value. It represents the value of the owner's investment in the business.

Operating cycle: The stages involved and the time taken to turn purchased goods into cash receipts from customers. e.g. purchase inventory from cash-at-bank, Store inventory, Sell inventory on account, Accounts receivable collected to cash-at-bank

Operating expenses: Those expenses incurred in producing revenue from the normal activities of the business. e.g. Wages expense, rent, electricity.

Overheads (Indirect costs): Costs of a business that do not change in proportion to business activity and can not be directly attributed to a revenue item. e.g. rent, property insurance, land rates.

Owners Equity: The value of the owner's investment in the business. e.g. initial capital + retained earnings from past periods + current earnings

Partnership. A form of unlimited liability firm with more than one owner.

Periodic Inventory Method. A method of recording inventory purchases that reflects adjustments to the inventory account only at the end of an accounting period.

Perpetual Inventory Method. A method of recording inventory purchases that changes the inventory account balance as purchases are made.

Petty Cash: A system designed to ensure the simple management of incidental payments e.g. Purchasing emergency stationery supplies or staff lunch room supplies.

Posting: An accounting term used to describe the transfer of entries from one part of the accounting process to the next. (i.e. from the journals to the ledgers).The process of transferring transaction information recorded in books of original entry to general ledger "T" accounts.

Provisions: One or more accounts set up to account for expected future costs (i.e. provision for doubtful debts to provide for possible non payment of customer debts).

Prepaid expenses: An accrual account that is created during the balance day adjustment process that recognizes as a assets those expense amounts that still have

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future economic value. e.g. insurance paid in advance. A firm's payment to vendors for goods and services to be provided at some later point.

Profit. The excess of revenues over expenses.

Ratio analysis: A collection of calculations performed on the financial statements that gives insights into the liquidity, profitability and management efficiency of a business. e.g. current ratio, Gross profit %, Inventory stockturn.

Reconciling: The process of checking entries made in the books of a business with those on a statement sent by a third person (i.e. checking a bank statement against your own records).

Retained earnings: The amount of net income owed to the owners but is still retained by the business usually to fund expansion of the business.Undistributed profits of a corporation.

Retainers. A form of deferred revenue collected by attorneys or other service businesses.

Residual value: The estimated value of an asset that is likely to remain at the end of it's useful life.

Revenue: The monies received by a business for the goods and services provided (i.e. Merchandise sales, fees earned, interest received from investments). Cash or receivables received from customers or clients in exchange for goods and services provided.

Segregation of Duties. An internal control which insures that employees with access to assets have no access to accounting records.

Shareholders: The owners of a company or corporation.

Shares: The official documentation issued by businesses to the owners of the business. The percentage of shares held compared with the total shares issued identifies the percentage of the companies equity and profits that you are entitled to. Shares can also be called 'Stock'.

SME: Small and Medium Enterprises. The definition of what quantifies a SME varies in each country.
Sole-proprietor: The self-employed owner of a business.

Sole Proprietorship. An unlimited liability firm with one owner.

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Source document: The original documentation that evidenced the financial event and becomes the basis for the entry of the financial transaction into the books of the business. e.g. deposit book, check butts, purchase and sales invoices.

Straight Line Depreciation. A method of depreciation expense that allocates an asset's purchase cost evenly over the asset's expected useful life.

Statutory bodies: Agencies established by the government to monitor and control specific laws. e.g. Corporate regulators.

Subsidiary ledgers: Ledgers used to record the details of the general ledger's control accounts. They are typically used for individual customers (Debtors) and individual suppliers (Creditors). See Control Accounts.

Suspense Account: A temporary account used to record that part of a transaction that is not yet able to be recorded to a nominal account. i.e. the current unknown origin of a deposit in the bank account. Special records that detail the sales and payment histories for individual customers in the case of accounts receivable, or purchase and payment histories for individual vendors, in the case of accounts payable.

"T" Accounts. General ledger accounts that have a "T" format that clearly demarcate a left side and right side.

Tangible assets: Assets or items of economic value that are of a physical nature like land, buildings, vehicles and equipment. See intangible assets.

Transaction: The original entry into the books of the business that records the debit and credit aspects of the source documents that evidence a financial event. Any events that cause a change in assets, liabilities, equity, revenue and expense.

Ten-column worksheet: A device created to assist in identifying and allocating the effects of the balance day adjustments on the preparation of period-end financial statements. e.g. accruals, depreciation, bad and doubtful debts, inventory adjustments.

Trial Balance: An internal report that checks to see if the double-entry bookkeeping principles have been properly applied for all transactions. It is a list of all the accounts from the general ledger together with their individual debit or credit balances. The general ledger is said to be in balance if the total of the debit balances is equal to the total of the credit balances.

Unearned revenue: An accrual account created as part of the balance day adjustments to record as a liability that revenue that has not yet been earned. e.g. fees received in advance.

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Unlimited Liability Firms. Businesses whose owners remain liable for the actions of a business beyond the amount they actually invest.

Working capital: The on-going capital required by the business to pay its bills as they become due. It is calculated by subtracting the current liabilities from the currents assets of the business.

Weighted Average Cost Method. An ending inventory valuation method based upon the weighted average of purchase costs during the accounting period.

Work in Progress: The value of partly finished goods. Typically found in manufacturing businesses.