

# Basic Accounting terms

Look over these simple accounting concepts and start memorizing them. In this way, you will feel like you are a step ahead and speak the language when you launch your accounting path.

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## **Accounts receivable (AR)**

- **Accounts receivable (AR) Definition:** The amount of money owed by customers or clients to a business after goods or services have been delivered and/or used.

## **Accounting (ACCG)**

- **Accounting (ACCG) definition:** A systematic way of recording and reporting financial transactions for a business or organization.

## **Accounts payable (AP)**

- **Accounts payable (AP) definition:** The amount of money a company owes creditors (suppliers, etc.) in return for goods and/or services they have delivered.

## **Assets (fixed and current) (FA, CA)**

- **Assets (fixed and current) definition:** **Current assets (CA)** are those that will be converted to cash within one year. Typically, this could be cash, inventory, or accounts receivable. **Fixed assets (FA)** are long-term and will likely provide benefits to a company for more than one year, such as real estate, land, or major machinery.

## **Asset classes**

- **Asset class definition:** An asset class is a group of securities that behaves similarly in the marketplace. The three main asset classes are equities or stocks, fixed income or bonds, and cash equivalents or money market instruments.

## **Balance sheet (BS)**

- **Balance sheet (BS) definition:** A financial report that summarizes a company's assets (what it owns), liabilities (what it owes), an owner or shareholder equity, at a given time.

## **Capital (CAP)**

- **Capital (CAP) definition:** A financial asset or the value of a financial asset, such as cash or goods. Working capital is calculated by taking your current assets subtracted from current liabilities—basically the money or assets an organization can put to work.

## **Cash flow (CF)**

- **Cash flow (CF) definition:** The revenue or expense expected to be generated through business activities (sales, manufacturing, etc.) over a period of time.

## **Cost of goods sold (COGS)**

- **Cost of goods sold (COGS) definition:** The direct expenses related to producing the goods sold by a business. The formula for calculating this will depend on what is being produced, but as an example, this may include the cost of the raw materials (parts) and the amount of employee labor used in production.

## **Credit (CR)**

- **Credit (CR) definition:** An accounting entry that may either *decrease* assets or *increase* liabilities and equity on the company's balance sheet, depending on the transaction. When using the double-entry accounting method there will be two recorded entries for every transaction: A credit and a debit.

## **Debit (DR)**

- **Debit (DR) definition:** An accounting entry where there is either an *increase* in assets or a *decrease* in liabilities on a company's balance sheet.

## **Diversification**

- **Diversification definition:** The process of allocating or spreading capital investments into varied assets to avoid over-exposure to risk.

## **Enrolled Agent (EA)**

- **Enrolled Agent (EA) definition:** A tax professional who represents taxpayers in matters where they are dealing with the Internal Revenue Service (IRS).

## **Expenses (fixed, variable, accrued, operation)**

- **Expenses (FE, VE, AE, OE) definition:** The fixed, variable, accrued, or day-to-day costs that a business may incur through its operations.
- **Fixed expenses (FE):** payments like rent that will happen in a regularly scheduled cadence.
- **Variable expenses (VE):** expenses, like labor costs, that may change in a given time period.
- **Accrued expense (AE):** an incurred expense that hasn't been paid yet.

- **Operation expenses (OE):** business expenditures not directly associated with the production of goods or services—for example, advertising costs, property taxes, or insurance expenditures.

### **Equity and owner's equity (OE)**

- **Equity and owner's equity (OE) definition:** In the most general sense, equity is assets minus liabilities. An owner's equity is typically explained in terms of the percentage of stock a person has an ownership interest in the company. The owners of the stock are known as shareholders.

### **Insolvency**

- **Insolvency definition:** A state where an individual or organization can no longer meet financial obligations with the lender(s) when their debts come due.

### **Generally accepted accounting principles (GAAP)**

- **Generally accepted accounting principles (GAAP) definition:** A set of rules and guidelines developed by the accounting industry for companies to follow when reporting financial data. Following these rules is especially critical for all publicly traded companies.

### **General ledger (GL)**

- **General ledger (GL) definition:** A complete record of the financial transactions over the life of a company.

### **Trial balance**

- **Trial balance definition:** A business document in which all ledgers are compiled into debit and credit columns in order to ensure a company's bookkeeping system is mathematically correct.

### **Liabilities (current and long-term)**

- **Liabilities (current and long-term) definition:** A company's debts or financial obligations incurred during business operations. Current liabilities (CL) are those debts that are payable within a year, such as a debt to suppliers. Long-term liabilities (LTL) are typically payable over a period of time greater than one year. An example of a long-term liability would be a multi-year mortgage for office space.

### **Limited liability company (LLC)**

- **Limited liability company (LLC) definition:** An LLC is a corporate structure where members cannot be held accountable for the company's debts or liabilities.

This can shield business owners from losing their entire life savings if, for example, someone were to sue the company.

### **Net income (NI)**

- **Net income (NI) definition:** A company's total earnings, also called net profit. Net income is calculated by subtracting total expenses from total revenues.

### **Present value (PV)**

- **Present value (PV) definition:** The current value of a future sum of money based on a specific rate of return. Present value helps us understand how receiving \$100 now is worth more than receiving \$100 a year from now, as money in hand now has the ability to be invested at a higher rate of return.

### **Profit and loss statement (P&L)**

- **Profit and loss statement (P&L) definition:** A financial statement that is used to summarize a company's performance and financial position by reviewing revenues, costs, and expenses during a specific period of time, such as quarterly or annually.

### **Return on investment (ROI)**

- **Return on investment (ROI) definition:** A measure used to evaluate the financial performance relative to the amount of money that was invested. The ROI is calculated by dividing the net profit by the cost of the investment. The result is often expressed as a percentage.

### **Bonds and coupons (B&C)**

- **Bonds and coupons (B&C) definition:** A bond is a form of debt investment and is considered **fixed-income security**. An investor, whether an individual, company, municipality, or government, loans money to an entity with the promise of receiving their money back plus interest. The "coupon" is the annual interest rate paid on a bond.