

Talking Accounting

Definitions

Introduction to Accounting

week 1

Accounting

The information system that measures business activities, processes that information into reports, and communicates the result to decision makers.

Financial statements

Documents that report on a business in monetary amounts, providing information to help people make informed business decisions.

Accounting Cycle

process by which companies produce their financial statements for a specific period.

Journal

The chronological accounting record of an entity's transactions.

International Financial Reporting Standards

Accounting guidelines, formulated by the International Accounting Standards Board, that govern how accountants measure, process and communicate financial information.

Introduction to Balance sheet week 2

Assets

Resources owned by an entity that have the potential for providing it with future economic benefits in the sense that they help to generate future cash inflows or reduce future cash outflows.

Current Asset

Assets that expected to be converted in cash, sold, consumed during the next 12 months, or within the business's normal operating cycle if the cycle no longer then one year.

Current Liabilities

Debts due to be paid in cash or with goods and services within one year, or within the entity's operating cycle if the cycle is no longer than a year.

Long term liabilities

Debts due to be paid in cash or with goods and services in term of more than one year, or within the entity's operating cycle if the cycle is longer than a year.

Capital

This is the amount of money invested in the business by the owners. The amount can be increased by further investment or by the business making a profit.

Accounting Equation

The basic tool of accounting, measuring the resources of the business and the claims to those resources: $Assets = Liabilities + Capital$

Balance sheet

An entity's assets, liabilities, and stockholder's equity as of a specific date. Also called the statement of financial position.

Balance Sheet & Profit week 3

Owner's equity

The claim of a corporation's owners to the assets of the business. Also called shareholders or stockholders equity.

Paid-in Capital

The amount invested in the corporation by its owners, the stockholders. Also called contributed capital.

T-account

Summary device that is shaped like a capital "T" with debits posted on the left side of the vertical line and credits on the right side of the vertical line. A "short-hand" version of ledger.

Tangible Assets

Assets with physical form. Also called real assets.

Intangible Assets

Assets with no physical form. Valuable because of the special rights they carry. Examples are patents, computer programs.

Working capital

Current assets minus current liabilities. Measures a business's ability to meet its short-term obligations with its current assets.

Revenue

Amounts earned by delivering goods or services to customers. Revenues increase retained earnings.

Profit & Loss Account

week 4

Cost of goods sold (COGS)

The cost of the inventory that the business has sold to customers. Also called cost of sales.

Expenses

Decrease in equity that occurs from using assets or increasing liabilities in the course of delivering goods or services to customers.

Gross profit

Excess of net sales revenue over costs of goods sold. Also called gross margin.

Invoice

A seller's request for cash from the purchaser.

Matching Principle

Guide to accounting expenses. Identify all expenses incurred during the period, measure the expenses, and match them against the revenues earned during the same period of time.

Sales

The amount that a merchandiser earns from selling its inventory. Short name for sales revenue.

Voucher

Sequentially numbered document authorizing a cash payment.

Accounting Concepts week 6

Generally Accepted Accounting Principles

Accounting guidelines, formulated by the Financial Accounting Standards Board, that govern how accountants measure, process, and communicate financial information.

Going-Concern Concept

This concept assumes that the entity will remain in operation for the foreseeable future.

Ledger

The record holding all the accounts and amounts.

Double-Entry system

A system of accounting where every transaction affects at least two accounts.

Account Payable

A liability backed by the general reputation and credit standing of the debtor.

Account Receivable

The right to receive cash in the future from customers to whom the business has sold goods or for whom the business has performed services.

Accounts Payable

is money owed by a business to its suppliers shown as a liability on a company's balance sheet. It is distinct from notes payable liabilities, which are debts created by formal legal instrument documents

Accounts Receivable

- is money owed to a business by its clients (customers or debtors) and shown on its balance sheet as an asset. It is one of a series of accounting transactions dealing with the billing of a customer for goods and services that the customer has ordered

Allowance for Doubtful Accounts

A contra account, related to accounts receivable, that holds the estimated amount of collection losses. Also called allowance for uncollectible accounts.

Bank account

Helps control cash because banks have established practices for safe-guarding customer's money.

Periodic Inventory System

A system in which the business does not keep a continuous record of inventory on hand. At the end of the period, the business takes a physical count of on-hand inventory and uses this information to prepare the financial statements.

Perpetual Inventory System

The computerized accounting inventory system in which the business keeps a constant/running record of inventory and cost of goods sold.

Receivable Monetary claim against a business or an individual.

Valuation of Assets

(Stock valuation & adjustments of debts)

week 8

Accumulated Depreciation

The sum of all depreciation expenses recorded to date for an asset.

Amortization

Systematic reduction of the asset's carrying value on the books. Expense that applies to intangibles in the same way depreciation applies to plant assets and depletion to natural resources.

Book Value (of a plant asses)

The asset's cost minus accumulated depreciation.

Capital Expenses

Expenditures that increase the capacity or efficiency of an asset or extend its useful life. Capital expenditures are debited to an asset account.

Depreciation

The allocation of a plant asset's cost over its useful life.

First in, first out (FIFO)

Inventory costing method in which the first costs into inventory are the first costs out to costs of goods sold. Ending inventory is based on the costs of the most recent purchases.

Last in, First out (LIFO)

Inventory costing method in which the last costs into inventory are the first costs out to cost of goods sold. The method leaves the oldest costs those of beginning inventory and the earliest purchases of the period in ending inventory.

Net book value

Original costs of the asset less total accumulated depreciation taken on the asset.

Salvage value

Expected cash value of an asset at the end of its useful life. Also called estimated residual value.

Straight-Line Depreciation Method

Depreciation method in which an equal amount of depreciation expense is assigned to each year of asset use.

Accelerated Depreciation Method

A depreciation method that writes off more of the asset's cost near the start of its useful life than the straight-line method.

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Accruals, Prepayment & Depreciation

Week 9

Accrual

The cash payment occurs after an expense is recorder or the cash is received after the revenue is earned.

Accrued Expense

An expense that the business has incurred but not yet paid.

Notes payable

Represents debts the business owes because it signed promissory notes to borrow money or to purchase something.

Trial Balance

Week 10

Adjusted Trial Balance

The list of all the accounts with their adjusted balance.

Bad debt Expense

Cost to the seller of extending credit. Arises from the failure to collect from credit customers. Also called doubtful account expense or uncollectible account expense.

Trial Balance

A list of all the accounts with their balances at a point of time.

Common-size expenses

A financial statement that reports only percentages (no currency amounts)

Cash Flow

week 11

Cash flows

Cash receipts and cash payments

Earnings per share

Amount of a company's net income for each share of its outstanding common stock.

Free cash flow

The amount of cash available from operations after paying for planned investments in plant, equipment, and other long-term assets and after paying dividends to shareholders.

Retained Earnings

The amount earned over the life of a business by income-producing activities and kept for use in the business.

Return of Assets

The sum of net income plus interest expense divided by average total assets. Measures the success of the company has in using its assets to earn income for those financing the business. Also called rate of return on total assets.

Return on equity

Net income minus preferred dividends, divided by average common stockholder's equity. Also called rate of return of common stock holder's equity.

Return on investment

A measure of profitability and efficiency, computed as operating income divided by average total.

Return on Sales

Ratio of net income to net sales. A measure of profitability.

Statement of Cash Flows

Report of cash receipts and cash payments during a period.