

## **Basic Accounting Terms**

### **For use by non-profit board members**

**Accounting** - process of identifying, measuring, and reporting financial information of an entity

**Accounting Equation** - assets = liabilities + equity

**Accounts Payable** - money owed to creditors, vendors, etc.

**Accounts Receivable** - money owed to a business, i.e. credit sales

**Accrual Accounting** - a method in which income is recorded when it is earned and expenses are recorded when they are incurred, all independent of cash flow

**Accruals** - a list of expenses that have been incurred and expensed, but not paid or a list of sales that have been completed, but not yet billed

**Amortization** – gradual reduction of amounts in an account over time, either assets or liabilities

**Asset** - property with a cash value that is owned by a business or individual

**Audit Trail** – a record of every transaction, when it was done, by whom and where, used by auditors when validating the financial statement

**Auditors** – third party accountants who review an entity's financial statements for accuracy and provide a statement to that effect

**Balance Sheet** - summary of a company's financial status, including assets, liabilities, and equity

**Bookkeeping** - recording financial information

**Budgeting** – the process of assigning forecasted income and expenses to accounts, which amounts will be compared to actual income and expense for analysis of variances

**Capitalized Expense** – expenses that are accumulated, not expensed as incurred, to be amortized over a period of time; i.e. the development cost of a new product

**Chart of Accounts** - a listing of a company's accounts and their corresponding numbers

**Cash-Basis Accounting** - a method in which income and expenses are recorded when they are paid.

**Cash Flow** - a summary of cash received and disbursed showing the beginning and ending amounts

**Closing the Books/Year End Closing** – the process of reversing the income and expense for a fiscal or calendar year and netting the amount into “retained earnings”

**Cost Accounting** - a type of accounting that focuses on recording, defining, and reporting costs associated with specific operating functions

**Departmental Accounting** – separating operating divisions into their own sub entities on the income statement, showing individual income, expenses, and net profit by entity

**Depreciation** - recognizing the decrease in the value of an asset due to age and use

**Financial Statement** - a record containing the balance sheet and the income statement

**Fixed Asset** - long-term tangible property; building, land, computers, etc.

**General Ledger** - a record of all financial transactions within an entity

**Income Statement** - a summary of income and expenses

**Inventory** – merchandise purchased for resale

**Liability** - money owed to creditors, vendors, etc

**Liquid Asset** - cash or other property that can be easily converted to cash

**Loan** - money borrowed from a lender and usually repaid with interest

**Net assets** – the net value of the organization: total assets minus total liabilities

**Net Income** - money remaining after all expenses have been paid: total revenue minus total expenses

**Non Cash Expense** - recognizing the decrease in the value of an asset; i.e. depreciation and amortization

**Non-operating Income** - income generated from non-recurring transactions; ie: sale of an old building

**Payroll** - a list of employees and their wages

**Posting** – the process of entering then permanently saving or “archiving” accounting data

**Profit** - see "net income"

**Profit/Loss Statement** - see "income statement"

**Revenue** - total income before expenses