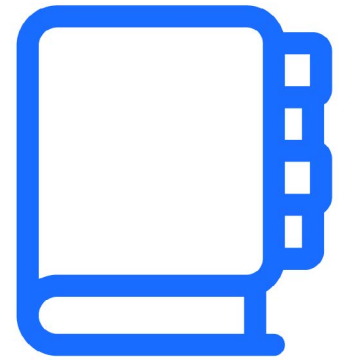


Bookkeeping glossary



Contents

A	2
B	4
C	5
D	8
E	9
F	10
G	11
H	12
I-K	12
L	14
M	15
N	15
O	17
P	17
R	20
S	21
T	23
U-Z	24

A

Term	Definition
Account reconciliation	Compare two sets of records at the end of a particular accounting period. Verify that account balances are correct, identify discrepancies, and make adjustments to the account as required in order to record the correct values in the books.
Accountant	An accountant keeps track of business transactions and financial records to issue financial statements and determine how a business is doing on a financial level.
Accounts payable	Money a business owes to others for goods or services.
Accounts payable reconciliation	Compare statements or invoices provided by vendors to the accounts payable in the books. Verify there are no discrepancies in the amount a vendor is charging for the goods or services received, and the amount recorded in the books matches the amount charged by the vendor.
Accounts receivable	Money that is owed to a business for providing a good or service.
Accounts receivable aging report	Accounts receivable aging is a periodic report that categorizes a business's accounts receivable according to the length of time an invoice has been outstanding. It is used as a gauge to determine the financial health and reliability of a business's customers.
Accounts receivable doubtful	An allowance for doubtful accounts is considered a "contra asset," because it reduces the amount of an asset, in this case the accounts receivable. The allowance, sometimes called a bad debt reserve, represents management's estimate of the amount of accounts receivable that will not be paid by customers.

Term	Definition
Accounts receivable reconciliation	Compare the outstanding customer invoices and balances to the accounts receivable as entered in the general ledger. Verify amounts, uncover errors and irregularities, and identify fraudulent activity.
Accounts uncollectible	Accounts uncollectible are receivables, loans, or other debt that will not be paid by a debtor.
Accrual	An entry to record a future revenue or expense in the current period, even if money hasn't been paid or received yet.
Accrual accounting	Revenues and expenses are reported or recognized on financial reports when they are earned or incurred, rather than when the payment is made or received.
Accumulated depreciation	Accumulated depreciation is the total amount of depreciation expense that has been allocated for an asset since the asset was put into use.
Adjusted trial balance	Listing of the ending balances in all accounts after adjusting entries have been prepared.
Adjusting entries	Creating new entries to record depreciation and accrual adjustments; these are provided to bookkeepers by a CPA or accountant.
Amortization	The structure process of paying both the principal and interest over a period of time.
Assets	Anything the business owns of value or a resource of value that has the potential to be transformed into cash.
Average cost method (AVCO)	Inventory value is based on the average cost of all materials purchased during the reporting period.

B

Term	Definition
Bad debt	Bad debt is the term used for any loans or outstanding balances that a business deems uncollectible. For businesses that provide loans and credit to customers, bad debt is normal and expected.
Bad debt expenses	A bad debt expense is recognized when a receivable is no longer collectible because a customer is unable to fulfill their obligation to pay an outstanding debt due to bankruptcy or other financial problems. Companies that extend credit to their customers report bad debts as an allowance for doubtful accounts on the balance sheet, which is also known as a provision for credit losses.
Balance sheet	The balance sheet is a financial statement that reports a business's assets, liabilities, and equity at a specific point in time.
Balances (account balances)	A total amount in an account at any given time.
Bank deposit receipt (slip)	A bank form used to document the money the customer intends to deposit into their bank account.
Bank reconciliation	Compare the books to the statement issued by the bank. Compare every transaction in the bank statement to the business's internal records (including bank deposit slips and canceled checks) to verify both records are matching.
Bill	Record to show what business owes vendor for goods/ services.
Book balance	The ledger balance as of a certain date.
Bookkeeper	Bookkeepers document transactions, manage accounts, and record financial data.

Term	Definition
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Budget	A forecast of revenue and expenses for a future period of time.
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C

Term	Definition
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C Corp	A business structure that is owned by one or more shareholders, but they do not carry any personal liability.
Capital	The financial monies the business uses for operations and growth, such as cash, debt, or equity.
Capital contribution	The money or assets given to the business by the owner or partners.
Cash	Assets that exist in cash form or can be immediately converted into cash.
Cash payments	Cash receipts are the collection of money, typically from a customer, which increases (debits) the cash balance recognized on a business's balance sheet.
Cash sales	Cash sales refers to transactions where the customer pays for the goods or services immediately with cash, check, or a credit or debit card.
Cash-basis accounting	Revenues and expenses are reported or recognized on financial reports when the payment is received or made, rather than when work is performed.

Term	Definition
Chart of accounts	Lists all of the accounts and sub-accounts used to categorize transactions.
Check	A monetary instrument directing the financial institution to pay the bearer a specified sum of money.
Close the books	Completing all necessary accounting tasks and procedures at the end of a financial period including finalizing financial statements, reconciling accounts, making adjusting entries, and preparing the accounts for the next accounting period.
Commercial loans	A debt-based funding arrangement between a business and a financial institution (traditional model of loan).
Common stock	Refers to the capital the business received in exchange for issuing stock to stockholders.
Compensating error	Two or more errors cancel each other out, for example fixed assets account is incorrectly understated \$600 and rent account is incorrectly overstated \$600.
Complete reversal of entries	The correct amount is posted to the correct accounts but the debits and credits are reversed, for example debiting an account that should have been credited.
Confidentiality	Clients entrust bookkeepers with very sensitive financial information, and a business owner must be able to trust that their bookkeeper will treat their data with the utmost care.
Conflict of interest	When a person's individual interests raise a question about their ability to act or make decisions or judgments objectively.
Contra asset	A contra asset account offsets the balance of the associated value on the balance sheet; the natural balance of the account will either be a zero or a credit (negative) balance. It is set up as a sub-account in the Chart of Accounts.

Term	Definition
Cost of goods sold (COGS)	Cost of goods sold, or cost of sales, is the total cost involved in manufacturing a business' product, or the total cost of a product that is purchased, then sold. This includes all costs and expenses that directly relate to producing goods such as items for resale, raw materials, parts used to make the product, labor costs, supplies to make or sell a product, overhead costs (utilities), and shipping or freight.
Credit card reconciliation	Compare credit card receipts to credit card statements issued by a financial institution. Verify the amount billed in the credit card statement matches with actual payments. If the credit card company has committed any error, it should be reported and rectified.
Credit memo	A document issued by a seller that reduces the amount a customer owes from a previous sales invoice.
Credit sales	A decrease in assets or expenses or an increase in liabilities, owner's equity or revenue.
Credits	A monetary instrument directing the financial institution to pay the bearer a specified sum of money.
Current assets	Assets that can be converted into cash quickly (within a year).
Current liabilities	Debt obligations that come due within one year.

D

Term	Definition
Data entry error	The amount was written incorrectly or under the incorrect account.
Debits	An increase in assets or expenses or a decrease in liabilities, owner's equity, or revenue.
Dedicated accounting software	Specialized computer programs designed specifically for managing and recording financial transactions, generating financial statements, and performing various accounting tasks.
Deferral	An entry to record a current payment or expense at a later period when the money has actually been earned or incurred.
Deferred revenue (unearned revenue)	Revenue that is paid to the business for work not yet performed, recorded in books as liability.
Depreciation	Spreading out the cost of an item over the expected life of the item
Depreciation expense	Depreciation expense is the cost of an asset that has been depreciated for a single period. It shows how much of the asset's value has been used up in that year.
Discrepancy	An inconsistency between the books and supporting documentation.
Disposition	When the business removes, sells, or disposes of an asset.
Dividend	Dividends are what a business pays out to shareholders from business earnings.

Term	Definition
Double-entry accounting	A method of bookkeeping that uses at least 2 entries, a debit and a credit, for every transaction.
Draw	When an owner takes funds from their business holdings for individual use.

E

Term	Definition
Efficiency	How effectively a business is doing something over a given period of time.
Employee	Someone who may be eligible for benefits (such as medical), and the business is responsible for collecting and paying income taxes on them.
Employee vacation payable	A place to store wages for salaries dispersed when an employee is using paid time off/vacation pay.
Equity	Owner's stake in the business, how much they have invested or withdrawn.
Error of commission	A type of data entry error where the bookkeeping entry was made to the correct type of account but the wrong customer/item, for example Customer X paid an invoice but it was credited to Customer Y's account.
Error of omission	A transaction is missing.
Error of original entry (transposition)	During data entry, a type of data entry error where the numbers were flip-flopped. For example, \$87.50 entered as \$85.70.

Term	Definition
Error of principle in accounting	A type of data entry error where the bookkeeping entry is made to the wrong type of account, for example a sale is credited to an expense account instead of a sales account.
Exempt	Costs associated with the action of running a business.

F

Term	Definition
Federal Insurance Contributions Act (FICA)	Taxes going into Medicare and Social Security. This is paid by both employees and employers. An amount on the pay stub indicates the portion the employee contributed.
Federal Unemployment Tax Act (FUTA)	A payroll tax that only the employer pays.
Financial analysis	Financial analysis involves reviewing and comparing a business's financial performance over time.
Financial ratios	Showcase a relationship between two or more accounting numbers that are taken from the financial statements.
Financial statements	Financial statements refer to a set of reports that show how a business is performing financially and all business activities related to running the business. Financial statements include the balance sheet (which shows assets, liabilities, and equity), income statement (provides revenue and expenses and net income for a set period) and cash flow statement (shows how well a business generates revenue to pay operating expenses, fund investments and pay any outstanding debt).

Term	Definition
Financing activities	Part of the statement of cash flows that includes paid-in capital or owner's draw ^s .
Finished goods placeholder	Completed products readily available for sale to a business's customers.
First-in, first-out (FIFO)	The business considers the first units purchased (First In) to be the first units sold (First Out).

G

Term	Definition
General Ledger (or Ledger)	Provides a record of each financial transaction that takes place during the life of an operating business and contains all accounts needed to prepare financial statements.
Gross pay (gross wages)	The total amount earned by an employee for a pay period before any deductions.
Gross profit	Total revenue minus Cost of Goods Sold.
Gross profit margin	The earnings a business makes per item sold. For example, an item that costs \$4 to make and sells for \$10 has a \$6 (60%) profit margin.

H

Term	Definition
Historical cost placeholder	Historical cost is a measure of value used in accounting in which the value of an asset on the balance sheet is recorded at its original cost when acquired by the business.
Honesty	Owning any mistakes and doing everything you can to fix them and being open and transparent with your client about the state of their finance.
Horizontal analysis	Compares historical financial information over a series of reporting periods.
Hospital Insurance (HI or Medicare Tax)	A part of Federal Insurance Contributions Act (FICA).

I - K

Term	Definition
In transit	A transaction recorded on the books but not yet processed and cleared by the bank.
Income statement	Also called the profit and loss (P&L) statement, the income statement shows the business's revenues and expenses during a particular period
Independent contractor	Considered self-employed and are contracted to provide services as a non-employee, therefore must pay taxes independently and are not eligible for benefits or regular employees.

Term	Definition
Insolvency	When a business is unable to pay their debts when they become due.
Interest rate	The percentage of the existing principal loan balance you must pay to the lender for borrowing money.
Inventory	Inventory, or stock, is the raw material a business uses in production or finished goods ready to sell.
Investing activities	Part of the statement of cash flows that includes all cash inflow and outflows related to purchasing fixed assets or investing in another business or venture.
Inventory reconciliation	Compare purchase orders and inventory counts to the numbers in the books. Verify that descriptions, quantities and prices are entered correctly.
Inventory valuation	The process used to assign cost to the inventory on the balance sheet.
Invoice	An invoice (sales invoice) is an itemized bill of goods sold or services provided. Invoices usually carry terms to record credit sales. If a business purchases supplies or raw materials from another business, they might refer to the invoice received from the vendor or supplier as a "purchase invoice."

L

Term	Definition
Last in, first out (LIFO)	The business considers the most recently units purchased (Last In) to be the first units sold (First Out).
Lease	A lease is an agreement to pay rent for a specific period of time for the right to use an asset.
Liability	What the business owes to others.
Limited Liability Company (LLC)	A business structure that is owned by one or more persons, but they do not carry any personal liability.
Liquidity	In business, it indicates a business's capacity to pay down its short-term liabilities and it is typically expressed as a ratio or percentage.
Loan amount	The amount of the loan taken out.
Loan structure	The actual terms of the loan in regard to the repayment schedule.
Lockbox system	Businesses can direct customers to send payments to a lockbox system, which is a bank-operated mailing address. The bank handles all incoming funds and sends the payment information to the business's accounting department.
Long term (fixed) assets	Long term, or fixed assets, are acquired for the long-term benefit of the business. They extend beyond a year.
Long-term liabilities	Debt obligations that will not come due within one year.

M

Term	Definition
Matching principle	Revenues and their associated expenses should be recognized in the same reporting period.
Merchandise	Finished goods a business buys from a supplier for future resale.
Mortgage	A special type of long-term loan for the purchase of a property or structure, they are generally longer term than most loans.

N

Term	Definition
Natural balance	In financial accounting systems, we expect certain types of accounts to have a normal debit or credit balance (as seen on Trial Balance). This is their “natural balance.” Assets and expenses have natural debit balances. Liabilities, revenues, and equity accounts have natural credit balances.
Net Assets	The amount of value that remains for the owners or shareholders of the business once all debts and obligations are accounted for.
Net cash increase/decrease	From the statement of cash flow, total net cash difference between the beginning and ending of the period from operating, investing, and financing sections.

Term	Definition
Net pay	The amount an employee actually takes home. This is the total amount their paycheck is worth or is deposited for that pay period.
Net profit/income	The total of subtracting all expenses (including taxes) from the total revenue.
Net sales	Gross (total) sales minus any returns or discounts.
Non-sufficient funds check	Non-Sufficient Funds (NSF) checks have bounced, meaning that the check has not been paid because the issuer did not have enough money in their bank account. Also called a "rubber check."
Non-exempt	Nonexempt classification indicates that an employee is subject to overtime pay benefits once they have worked over 40 hours per week. Typically, an hourly employee.
Nonprofit Corporations	A business structure that is founded by one or more people, but no person/group is considered the owner as they are considered public organizations governed by a board of directors. Founders do not carry any personal liability.
Notes payable	Notes payable is money that a business owes, so it's a liability.
Notes receivable	Notes receivable is money that is owed to a business, so it is considered an asset.



Term	Definition
OASDI/Social Security	Another term for Social Security. Stands for old age, survivors, and disability insurance tax. This is part of Federal Insurance Contributions Act (FICA).
Objectivity	Never allowing another party to influence your findings or letting personal bias get in the way of performing your duties.
Operating activities	From the statement of cash flow, includes all cash inflows and outflows related to operating a business.
Operating expenses	The day-to-day expenses incurred as the business generates revenue directly associated with the core business activities.
Operating profit	The profitability of a business's core operations before interest, taxes, and non-operating expenses are deducted, calculated by subtracting the total operating expenses from the gross profit.
Outstanding	A check or other payment issued that has not yet cleared and been reported on the bank statement.



Term	Definition
Packing slips	A document that details the contents of a shipment to the receiving customer.

Term	Definition
Paid Time Off (PTO)	Considered a benefit. When used, paid wages for time off will be categorized on a pay stub and journal entry under this heading.
Partnership	A business structure that is owned by two or more partners who take on unlimited personal liability.
Pay or check date	The date pay is given to the employee (pay day).
Pay period	Refers to the frequency payrolls are run by a business.
Payroll records	Employee timecards or other internal business documents that record an employee's wages and number of working hours for a specific period.
Periodicity assumption	A business can report its financial results within specific time periods. This usually involves reporting results and cash flows regularly, such as monthly, quarterly, or annually.
Periodic Inventory System	The inventory account is updated only at regular intervals, such as at the end of an accounting period.
Perpetual Inventory System	The inventory account is continuously or perpetually updated as products are bought and sold.
Petty cash	Petty cash is a small sum of money kept on hand by business to meet unexpected small-ticket expenses that may emerge during normal business operations. It could be anywhere from \$30 to a few hundred dollars, stored in a money tin in the office. Petty cash allows businesses to make minor purchases without providing a receipt through an expense reporting system, which can reduce the time spent bookkeeping for small items. It also gives businesses a readily available source of funds.

Term	Definition
Plant, Property & Equipment (PPE)	PP&E are a business's long-term assets that are expected to generate economic benefits and contribute to revenue for many years. Investment in PP&E is also called a capital investment.
Professionalism	Being courteous and considerate, avoiding any activity that could bring shame to the profession or client, and maintaining proper credentials and skills.
Profit - operating profit	Total left after taking gross profit minus total operating expenses.
Profit (loss) before taxes	Total of operating profit (loss) and other income (such as interest income).
Profit margin	Calculated from the income statement, a ratio of profit to sales revenue used to assess profitability.
Profitability	Measure of financial gain, what percentage of revenue is retained as profit
Promissory note	A promissory note is a signed document containing a written promise to pay a stated sum to a specified person or the bearer at a specified date or on demand.
Purchase order	A document that specifies the details of an order for goods or materials. Copies are sent to both the supplier and the business's own accounts payable department for comparison.

R

Term	Definition
Raw materials	The materials used by a business to create products, such as materials to create shirts.
Reconciliation	The process of comparing transactions and activity to supporting documentation.
Register	A detailed complete transaction history and current of an account. All of the account registers make up the chart of accounts.
Retained earnings	From the statement of equity, also shown on the Balance sheet, this is accumulated net income from previous years minus any dividends paid to shareholders.
Revenue	Income earned through business, gross proceeds or sales.
Revenue - Net sales	Total amount of revenue from sale of goods or services.
Revenue recognition principle	A business recognizes its revenues when the goods or services are provided to the customer, regardless of when the payment is received.
Revenue - Sales revenue	Revenue from the sale of goods or services.
Revenue - Service revenue	Revenue from the sale of services.
Reverse transactions	Transactions that you entered "backward." For example, entering a deposit as a withdrawal.
Rounding error	Numbers were rounded that shouldn't be.

S

Term	Definition
S Corp	A business structure that is owned by no more than 100 shareholders (all must be US citizens) and must maintain a board of directors, but owners do not carry any personal liability.
Salaries payable	Employee wages before taxes and other deductions are withheld, that have not yet been paid.
Sales order	When a business receives a purchase order from a customer, it creates a sales order document.
Sales receipts	A sales receipt is a transaction record that the seller issues at the time of sale to verify the provided product or service and the amount the buyer paid. You'll often need sales receipts for tax calculation and inventory management, while your customers can use them for reimbursement or accounting purposes.
Sales Tax Payable	A liability account in the balance sheet that keeps track of the sales tax collected from the customers that will later be paid to the government.
Sales transactions	Sales transactions generate revenue for a business from the sale of goods and services.
Service life	The useful life of an asset, also known as economic life or service life, is an estimate of how long you can reasonably expect to use an asset for your business.
Shareholder equity	The dollar amount that would be returned to shareholders if the business were liquidated and all outstanding debts were paid.

Term	Definition
Shareholders	Individuals or entities that own the business, which come with certain rights and responsibilities. This type of ownership allows them to reap the benefits of a business's success.
Short-term (current) assets	Short term, or current, assets can be converted into cash quickly (within a year).
Sole Proprietorship	A business structure that is owned solely by one person who takes on unlimited personal liability.
Solvency	This measures a business's ability to pay long term debt.
Source documents	Source documents are the original records that prove that a specific transaction took place. To be adequate for reconciliation, source documents must include the names of businesses or individuals involved, reference number, transaction details (date, description and amount due), and if appropriate, authorizing signature.
State Disabilities Insurance (SDI)	A payroll tax in some states to fund employees financially if they are injured on the job.
State Unemployment Tax Act (SUTA)	Employer paid tax that funds state-administered unemployment programs (only employer pays).
Statement of cash flows (or cash flow statement)	Reports the sources and uses of cash by a business.
Statement of (owner's) equity	Reports the changes in business equity, from the opening balance to the end of the period balance.

T

Term	Definition
T-account	A chart in which debits are on the left and credits are reported on the right.
Taxable wages	Earning from which an employer must withhold taxes and does not include non-taxable wages such as employee contributions to a health savings account.
Term	The term is the number of years the business will pay on its loan before receiving full ownership of the asset.
Total Operating Expenses	Other expenses that go into running a business such as payroll, rent, utilities.
Transaction Journal (or Journal)	Where the detail of an individual event (transaction) is shown, making it easier than searching through General Ledger.
Transactional reconciliation	Compare the books line by line to another source document to make sure that every transaction syncs up and is accounted for.
Transactions	An individual event (such as an expense, revenue, etc.).

U - Z

Term	Definition
Unadjusted trial balance	A form or statement that lists the titles and balances of all ledger accounts at a given date before adjusting entries are made.
Unrealized gains	The theoretical profit that a business will receive when they sell a stock, commodity, or make a currency exchange.
Variance analysis	The practice of evaluating the difference between budgeted costs and actual costs within your business.
Vendor	An entity that the business purchases products or services from, sometimes for resell or for companies use, also known as a supplier.
Vertical analysis	Proportional analysis of a financial statement within a single point of time.
Wage garnishment	A legal procedure in which a person's earnings are required by court order to be withheld by an employer for the payment of a debt such as child support.
Work in progress	Also known as goods-in-process represents raw materials in the process of being transformed into a finished product.
Working capital loan	A loan used to finance a business's daily operations.

Term	Definition
Year to Date (YTD)	<p>Year to Date (YTD) : Year to Date (YTD) refers to the period of time from the beginning of the current fiscal year up to the current date in bookkeeping. It is a cumulative measure that includes all financial transactions that have occurred during that period.</p> <p>On a paycheck, YTD refers to an employee's total amount of withholding, taxes, or accrued compensations from the beginning of the calendar year up to the current pay period. It helps employees keep track of their earnings and deductions for the year</p>