Let's review some of the accounts that a company would use in recording business transactions.

Assets

Assets are economic resources that provide a future benefit for a business. Most firms use the following asset accounts:

Cash. Cash is money and any medium of exchange including bank account balances, paper currency, coins, certificates of deposit, and checks.

Accounts Receivable. Like most other companies, sells its goods and services and receives a promise for future collection of cash. The Accounts Receivable account holds these amounts. Some entities prefer to use the label Debtors or Receivables for this account.

Notes Receivable. Company may receive a notes receivable from a customer, who signed the note promising to pay later. A notes receivable is similar to an accounts receivable, but it is usually more binding because the customer signed the promissory note to pay on a certain day (or after a certain period). Notes receivable usually specify an interest rate.

Inventory. Business's most important asset is its inventory—the cars it sells to its customers. Other titles for this account include *Stocks* and *Merchandise Inventory*.

Prepaid Expenses. Don't be misled by the word "expenses" in this account title. **A prepaid expense** or prepayment is an asset because the payment provides a *future* economic benefit for the business. Businesses can often be asked to pay early for rental charges and insurance premiums. Such businesses could also be asked to place deposits for services required.

Property, Plant and Equipment (PPE). This is a summary account for company's assets that are expected to be used for more than one period for the purposes of production or supply of goods or services or for administrative purposes. Some of the more common **PPE** items are described below:

- **Land.** The Land account shows the cost of the land a business uses in its operations.
- **Buildings.** The costs of a business's office building, manufacturing plant, and the like appear in the Buildings account.
- **Equipment, Furniture, and Fixtures.** A business has a separate asset account for each type of equipment, for example, Manufacturing Equipment and Office Equipment. The Equipment, Furniture, and Fixtures account shows the cost of these assets, which are similar to equipment.

Liabilities

Recall that a *liability* is an obligation to pay an individual or organization. A payable is always a liability. The most common types of liabilities include:

Accounts Payable. The Accounts Payable account is the direct opposite of Accounts Receivable. A business's promise to pay a debt arising from a credit purchase of inventory or from a utility bill appears in the Accounts Payable account. Similarly, some businesses prefer to label the accounts payable as Creditors or Payables.

Notes Payable. A notes payable is the opposite of a notes receivable. The Notes Payable account includes the amounts A business must *pay* because it signed notes promising to pay a future amount. Notes payable, like notes receivable, usually carry interest.

Accrued Liabilities. An **accrued liability** is a liability for an expense you have not yet incurred. Interest Payable and Salary Payable are accrued liability accounts for most companies.

Equity

The owners' claims to the assets of a corporation are called *shareholders' equity*, *owners' equity*, or simply *equity*. A corporation such as A business uses Share Capital, Retained Earnings, and Dividends accounts to record the various components of shareholders' equity. In a proprietorship, there is a single capital account. For a partnership, each partner has a separate capital account.
Share Capital. The Share Capital account shows the owners' investment in the corporation. A business receives cash and issues shares to its shareholders. A company's common share capital is its most basic element of equity. All corporations have ordinary shares

Retained Earnings. The Retained Earnings account shows the cumulative net income earned by business over the company's lifetime, minus its cumulative net losses and dividends.

Dividends. Dividends are optional; they are *declared* by the board of directors (may require shareholders' approval at the corporation's annual general meeting). After profitable operations, the board of directors of business may declare and pay dividends. The corporation usually keeps a separate account titled *Dividends*, which indicates a decrease in retained earnings for the financial year.