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## Account

**Assets:** Things of commercial value (cash, property, furniture, equipment, etc.) examples of assets that are likely to be listed on a company's balance sheet include: cash, temporary investments, accounts receivable, inventory, prepaid expenses, long-term investments, land, buildings, machines, equipment, furniture, fixtures, vehicles, goodwill, and more.

**Liabilities:** Money you owe (mortgages, unpaid bills, etc.) Obligations of a company or organization. Amounts owed to lenders and suppliers. Liabilities often have the word "payable" in the account title. Liabilities also include amounts received in advance for a future sale or for a future service to be performed

**Profit:** shows the profit on a business during a certain period of time (Revenue - Cost). Profit is a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs, and taxes needed to sustain the activity. Any profit that is gained goes to the business's owners, who may or may not decide to spend it on the business.

**Loss:** shows the profit on a business during a certain period of time (Loss = Income - Expenses). The result of the sale of an asset for less than its carrying amount; the write-down of assets; the net result of expenses exceeding revenues.

**Expenses:** Money going out (bill payments, staff salaries, etc.). Costs that are matched with revenues on the income statement. For example, Cost of Goods Sold is an expense caused by Sales. Insurance Expense, Wages Expense, Advertising Expense, Interest Expense are expenses matched with the period of time in the heading of the income statement. Under the accrual basis of accounting, the matching is NOT based on the date that the expenses are paid.

**Revenue:** Fees earned from providing services and the amounts of merchandise sold. even if cash is not received at the time of delivery. Often the term income is used instead of revenues. Examples of revenue accounts include: Sales, Service Revenues, Fees Earned, Interest Revenue, Interest Income. Revenue accounts are credited when services are performed/billed and therefore will usually have credit balances. At the time that a revenue account is credited, the account debited might be Cash, Accounts Receivable, or Unearned Revenue depending if cash was received at the time of the service, if the customer was billed at the time of the service and will pay later, or if the customer had paid in advance of the service being performed.

**Income:** used interchangeably with revenues. Others use the word to signify a net amount, such as income from operations (revenues - expenses). Still others use it when referring to nonoperating revenues, such as interest income.

**Account:** A record in the general ledger that is used to collect and store similar information. For example, a company will have a Cash account in which every transaction involving cash is recorded. A company selling merchandise on credit will record these sales in a Sales account and in an Accounts Receivable account.

**Ledger:** A book containing accounts. For example, there is the general ledger that contains the balance sheet and income statement accounts. There is a *subsidiary* ledger that contains the detailed, customer account balances for the general ledger account Accounts Receivable.

**General Ledger:** A general ledger is a grouping of perhaps hundreds of accounts that are used to sort and store information from a company's business transactions. The general ledger is organized as balance sheet accounts (assets, liabilities, equity), and income statement accounts (revenues, expenses, gains, losses)

**Balance Sheet (Statement of Financial Position):** The Balance Sheet provides a summary of your financial position at a single point in time**.** It does this using the balances in the first three primary sections; Assets, Liabilities, and Equity.

**Equity:** How much you (or the business) is currently worth (i.e. assets less liabilities) Equity can mean the combination of liabilities and owner's equity. For example, the basic accounting equation

Assets = Liabilities + Owner's Equity can be restated to be Assets = Equities.

**Income:** Money coming in (proceeds from sales, interest income, etc.) This term is used in several ways. Some use the word interchangeably with revenues. Others use the word to signify a net amount, such as income from operations (revenues minus expenses in the company's main operating activities). Still others use it when referring to nonoperating revenues, such as interest income.

**Debits and credits** are terms used in accounting and bookkeeping (and have been used for centuries). They are a key part of the double entry system, which means that every business transaction will affect a minimum of two accounts. One of the accounts will receive a debit entry and another account will receive a credit entry. The amounts entered as debits must be equal to the amounts entered as credits.