What are the Basic Accounting Terms:

Basic Accounting Terms are very important for Accounting's beginner to understand it. before starts learning accounting one must read and learn all the terms to understand accounting well.

Basic Accounting terminologies includes all those important terms

Basic Accounting Terms:

The general and common accounting terms which are most important and widely used while learning accounting are as follow,

List of key Accounting Terms;

A

Accountant:

The First Accounting Terms in my list is Accountant. The person who categories and pass financial data to a bookkeeping system or in any accounting information system, People often thinks that bookkeeper and accountant is the same thing. Similarly Accountant refers to the person who makes the annual financial statements and tax calculations.

Account:

It is device, which contains a systematic record of increase or decrease in an item during a certain particular period of time.

Account Receivable /Debtor:

A person to who goods are sold on credit by a business organization is called account receivable or debtor.

Account Payable / Creditor:

A person from whom a business organization or individual purchases goods on credit is called creditor.

Assets:

The basic accounting terms Assets means anything valuable possessed by a firm with the following three features qualifies as assets.

1. The legal title of ownership
2. Right to use
3. Right to sale/dispose off

Amortization:

The intangible assets whose property right is obtained for specific period of time, diminishes in value with passage of time this called as amortization.

The example are patient rights, copy right, goodwill etc similarly, the value of leasehold property also decreases with the passage of time.

B

Business:

The **Basic Accounting Terms** in my list is Business. Business includes any activity undertaken for the purpose of earning profits such as buying and selling of goods, rendering services and manufacturing goods.

The business organization which are encased in buying and selling of goods merchandise are called merchandising or trading concerns, while those, which are engaged in providing any services are called concerns. The business organizations engaged in producing goods are called as manufacturing concerns.

Bookkeeper:

A trained and qualified person who collects, records and report on the financial transactions carried out by a business is called Bookkeeper.

Note there is a difference between bookkeeper and Accountant we explained in another separate topic **Accountant Vs Bookkeeper**

Balance:

The balance means the remaining. It may be balance of cash, goods, accounts receivable and accounts payable which is carried down/forward for next period for treatment. The difference between two sides of an account is called balance.

Bankrupt:
A company inability to pays debts is called bankrupt or insolvent.

Bank:

The bank is financial institution where person/businesses deposit their incomes and from which they pay their bills. Banks provide different kind of services and business advice as well. and also provide advances loans to businesses for development.

Budget:

The budget is a financial plan in which a business decides what it estimates it will earn in the year ahead, where these estimated will be spend, and then comparing/checking the actual figures and budgeted figures.

Bad Debts/ Uncollectables:

The amount which cannot be received from debtors is called bad debts.

Balance Sheet:

The last but not the least **Basic Accounting Terms** in my list is Balance sheet represents the financial position of the firm on the certain fixed date. Usually at the closing of the financial period. All the assets possessed by the firm are written on one side and equities on the other side. Both the assets and the equities are grouped under various classifications. Both the sides are equal.

Basic Accounting Terms list is very important to understand before start learning accounting.

C

Chart of Accounts

Chart of Accounts is a listing of all accounts used in the general ledger, usually organized in order by account number. The accounts are usually numeric, but can also be alphabetic or alphanumeric. The account numbering system is used by the accounting software to aggregate information into an entity's financial statements.

Note: we explain char of Accounts in separate topic go here: Chart of Accounts

Cash Memo:

Any written proof evidence for the goods purchased from a particular seller is called cash memo.

Cash Discount:

A discount, which allowed or received at the time of cash payment on credit sale or purchase is called cash discount. It has two types.

1. Discount received
2. Discount allowed.

Commission:

Remuneration for services performed by one person to another normally on the percentage basic is called commission.

Cash Book:

A book of original entries in which all cash receipt and payments are recorded as is called cash book.

It has three types.

1. **Single column cash book**
2. **Two column cash book**
3. **Three column cash book**

Cash Flow: Total amount of money being transferred into and out of a business, (e.g sales, manufacturing, etc.)

Cost of Goods Sold *:* It is the accumulated total of all costs used to create a product or service, which has been sold. These costs fall into the general sub categories of direct labor, materials, and overhead.

D

Drawings:

The cash or commodities withdraw by the owner for his personal uses from business are known as drawings.

E

"Equation":

This is Basic accounting Terms. The total assets is always equal to total liabilities plus owner equity this is basic accounting equation

Expenses:

To active the objectives of business certain payments or obligation are expenses of business.

The examples of such expenses are carriage, freight, cartage, salaries, rent, advertisement etc.

Equities:

The rights possessed by owner or outsiders against the assets are called as equities.

These equities are further divided into two categories:

1. **Owners' Equity:**It is the capital inverted by the proprietor of the business.

It is the claim of the owners on the assets of the business organization It is also internal equities or owners fund.

1. **Liabilities:** It us the claim of the outsiders against the assets of the enterprise. The liabilities are also called the external equities.

F

Financial Statements:

The basic accounting term "financial statements" means that the statements shows the financial positions of a business organization after a year are called Financial Statements.

G

GAAP: This accounting terms is very frequently used; It stands for Generally Accepted Accounting principles; A set of rules and guidelines developed by the accounting industry for companies to follow when reporting financial data.

H

Holding gain:

A gain that happens by holding an asset.
For instance, if a firm bought land for Rs.300, 000 many years ago and today the firm continues to hold the land and its value is now Rs.475, 000,

the company has a holding gain of Rs.175, 000. Though, the company cannot record the holding gain on its financial statements because of the cost principle and the revenue recognition principle. On the other hand, if the company sells the land for Rs.475, 000 a holding gain of Rs.175, 000 will appear on its income statement as the company also records the Rs.475, 000 on its balance sheet and removes the land's original cost of Rs.300, 000.

I

Income Statements:

One of the major objectives of accounting is to know the results of the business. This means that profit earned or loss suffered is calculated at the end of accounting period. For this purpose a statement is prepared where all the incomes of the period are added and all the expenses of that period are deducted.

This statement is called as "Income Statements".

Invoice:

A written evidence/ document given by the seller to the buyer for credit sale of goods is called invoice.

J

Job Order Costing:

Job order costing is a cost accounting system in which direct costs are traced and indirect costs are allocated to unique and distinct jobs instead of departments. It is appropriate for businesses that provide non-uniform customized products and services.
Note: I have written a separate article on Job Order Cost

K

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L

Loss:

If the expenses or the cost of the product or good is higher than the revenue that amount is called loss.

M

Merchandise:

The things purchased by a business organization for the purpose of reselling them in same condition are called merchandise or goods.

Reserve / provision:

An amount to the estimated bad debts is set aside. When bad debts actually occur they are meet out of this account. The is done by creating a provision for bad debts account.

N

Notes Payable:

A note or bill from the view of its drawee is called Notes /bill payable.

Notes Receivable:

A note or bill from the view of its drawer is called notes /bill receivable.

O

Outstanding /Accrued / payable / unpaid Expenses:

It means those expenses which incurred but have not been actually paid are called outstanding expenses.

P

Proprietor:

A person who invests the money or things in the business is called owner/ proprietor. In fact he is that person who invests capital and gives its time and attrition to business transaction. He is entitled to receive the profit and bear the loss of the business.

Purchases:

The cost of merchandise is called purchase. When the price of goods purchased is paid in cash is called cash purchase and when it is paid on any future dates, is called credit purchase.

Profit/Income:

The amount which a business organization by deducting the cost of the product from the revenue.
In simple words the excess amount over the expenses or cost from the revenue is called profit.

Prepaid / paid in advance / un-expired expenses :

Means those incomes, which have been earned in current year but not received, are known as accrued income.

Present Value: It means that the value of how much a future sum of money is worth today,

Q

Quick assets:
it is basic accounting Terms, Quick assets included Assets such as Cash, Temporary Investments, and Accounts Receivable which can easily convert into cash.

Quick ratio:

Quick ration also called acid test ratio. Quick ration compares the amount of current assets to the amount of current liabilities.

R

Revenue:

The basic accounting term revenue means sorts of income received or accrued are called as Revenue. This revenue may be earned from sale of merchandise or by rendering for the customer. It is also earned in shape of commission interest or discounts etc.

ROI: It stands for Return on Investment, it means to measure the financial performance of organization related to the money that was invested. it can be calculated by dividing Net profit by the investment cost. ROI result express in percentage.

S

Sales:

The amount earned from sales of goods is called sales. If this price is received in cash, it is called as cash sales and when it is to be received on any some future dates, is called credit sales.

Stock/Inventory:

Goods or merchandise on hand that is goods remaining unsold is called stock Inventory or stock in Trade.

T

Transaction:

Any dealing between two or ore persons for goods or services which effect the financial position of business and also can be measured in term of money is called business transaction. It is of two types i.e. cash transaction and credit transaction.

Trade Discount:

Trade Discount is a basic accounting terms which means When concession or allowance or rebate is given by seller to buyer on listed or scheduled price of goods at the spot of sale is called trade discount and there is no accounting of trade discount.

Trade discount is usually allowed or granted in following circumstances.

1. When selling to a fellow trade.
2. When the buyer is an old customer.
3. When sale are made in bulk.
4. As a custom of trade.

Turnover:

Turnover is basic accounting terms which means the process of goods in which it will complete from raw material to finished goods. It is called stock turnover or inventory turnover .Simply turnover mean the sale of goods after the completion from raw material to finished goods.

U

Unadjusted Trial balance:

Unadjusted trial balance is prepared before the recording the adjusting entries. The purpose of creating un-adjusted trial balance is to verify that the total amount of Debit is equal to total amount of Credit in ledger accounts.

V

Voucher:

Any written evidence of business transaction is called voucher. The voucher may be cash memo, bill, invoice etc.

W

Wages:

The compensation given to the labor on hourly basis.

Withdrawals:

It is also called drawing, the amount which is withdrawal in business by the owner, it reduce the owner equity and not a business expense.

Work-in-progress:

Y

Yield:

In business and accounting terms yield is called Market interest rate, current return, and effective interest rate**.**

Basic Accounting Terms list is very important to understand before start learning accounting. These basic accounting term can be helpful for interview and frequently asked in interviews.