Stride Accounting Solutions – Accounting Terminology

General Bookkeeping Terminology

1. **Accrual Accounting**
   Records transactions when they occur—not when cash changes hands. This method provides a real-time picture of your financial status and is commonly used by larger enterprises, though many smaller businesses opt for the simplicity of cash accounting.

2. **Accounts Payable**
   Represents the short-term obligations your business owes to suppliers or creditors. These liabilities appear on your balance sheet and help you track upcoming payments.

3. **Accounts Receivable**
   Refers to the money your clients owe you for products or services delivered. As an asset on your balance sheet, it indicates the expected cash inflow once payments are received.

4. **Account Reconciliation**
   A regular process of comparing your internal records against external statements (like bank statements) to verify that your books are accurate and up-to-date.

5. **Cash Accounting**
   An approach where transactions are recorded only when cash is exchanged. This method is straightforward and is often preferred by small businesses due to its simplicity.

6. **Depreciation**
   The systematic allocation of the cost of a tangible asset over its useful life. This approach helps spread the expense over time, making it easier to manage your financial statements.

7. **Double-Entry Accounting**
   A core accounting system where every transaction is recorded in two separate accounts—debits and credits—to ensure the balance sheet equation (Assets = Liabilities + Equity) always stays in balance.

8. **Financial Statements**
   These include documents like the income statement, balance sheet, and statement of cash flows, which collectively provide a snapshot of your company's financial performance and overall health.

9. **Fundamental Accounting Equation**
   Expressed as Assets = Liabilities + Equity, this equation is the cornerstone of accounting, ensuring that your business's resources are accurately balanced against its obligations and owner contributions.

10. **General Ledger**
    A complete record of all financial transactions over the life of your business. The general ledger is the foundation for producing accurate financial statements.

Balance Sheet Terminology

1. **Assets**
   Items of value owned by your business, such as cash, inventory, property, and equipment. Assets are resources expected to generate future economic benefits.
2. **Contra Accounts**
   These accounts are used to reduce the balance of related accounts. For example, accumulated depreciation offsets the value of fixed assets, providing a more accurate net book value.
3. **Current Assets**
   Assets that are expected to be converted into cash or used up within one year, such as cash, accounts receivable, and inventory.
4. **Current Liabilities**
   Short-term financial obligations that are due within one year. Common examples include accounts payable, short-term loans, and accrued expenses.
5. **Equity**
   The net value of your business calculated by subtracting liabilities from assets. This represents the owner's stake or the business's net worth.
6. **Liabilities**
   Financial obligations or debts incurred during operations, including loans, accounts payable, and other pending obligations.

Income Statement Terminology

1. **Cost of Goods Sold (COGS)**
   The direct costs attributable to producing the goods sold by your business. This may include raw materials, direct labor, and manufacturing overhead directly tied to production.
2. **Expenses**
   The costs incurred in the day-to-day operation of your business that aren't directly tied to production. This includes rent, utilities, insurance, and administrative salaries.
3. **Gross Profit**
   Calculated as revenue minus the cost of goods sold, gross profit reflects the efficiency of your production and pricing strategies before accounting for other operating expenses.
4. **Net Profit**
   Also known as the "bottom line," this figure is obtained after deducting all operating expenses, taxes, and other costs from your total revenue. It is a critical indicator of your business's overall profitability.
5. **Revenue**
   The total income generated from selling goods or services. This figure, often referred to as the "top line," is the starting point for calculating profits.