

**University of Colorado at Colorado Springs**  
**Accounting 101**  
**Definitions**

**Accounts receivable** - amounts owed to the company by an identified debtor. In many circumstances, the accounts receivable refers to the amount due from a customer for the sale of goods or services, when the goods or services have been delivered to the customer, and payment is not received by the seller prior to or at the time the goods were received by the customer. In other situations, the accounts receivable results from charging fines, assessing late fees, accepting a non-sufficient funds check, etc.

**Accounts payable** – amounts owed for goods and services received but that have not yet been paid for. Any other amount where the business has a legal obligation to pay.

**Accrual basis of accounting** – transactions are recorded at the time the event occurs regardless of when the cash is exchanged.

- Assets are recorded when received regardless of when the cash is paid.
- Liabilities are recorded when there is a legal obligation to pay regardless of when actually paid.
- Revenues are recorded when earned regardless of when the cash is received.
- Expenses are recorded when goods/services are received and accepted regardless of when the cash is paid.

**Accumulated depreciation** – a contra-asset representing the total amount of capital asset cost that has been expensed as depreciation expense – consumed to produce revenue. The offset to depreciation expense.

**Advertising expense** – the cost of advertising received, owed and used.

**Allowance for bad debts** – a contra-asset representing the amount of accounts receivable estimated to be uncollectible. The offset to bad debt expense.

**Asset** – something a company owns that has future economic value – economic resources of a company – money, investments, inventory, land, building, equipment, prepaid expenses. Basically, something you own that you could convert to cash.

**Bad debt expense** – the offset to the allowance for bad debts. The change in the estimate of allowance for bad debts for the period.

**Balance sheet** – a report of assets, liabilities and owner's equity for a business as of a specific point in time – The Unbalanced Bookstore Balance Sheet **as of** December 31, 2004.

**Balance sheet equation** – assets = liabilities + owner's equity, debits = credits, economic resources = claims on the economic resources.

**Balanced set of books** – double entry system, debits = credit.

**Benefits expense** – the costs incurred and owed by the business to provide benefits to employees such as health, dental and life insurance, FICA, Medicare tax, retirement, etc.

**Business transaction** – any event that both affects the financial position of the business and can be reliably recorded.

**Capital assets** – personal and real property with a cost exceeding a set amount and a life exceeding a set time period. For example, all items costing \$5,000 or more with a life of more than 1 year.

**Cash** – coin of the realm represented by paper currency, coins, checks, credit card receipts, etc.

**Cash basis of accounting** – transactions are recorded only when cash is paid or cash is received.

**Change fund** – cash held in the cash register to make change with customers. At the end of each day, cash from the day's sales is deposited in the bank and the change fund is left in the cash register to begin tomorrow's business.

**Chart of accounts** – the categories of assets, liabilities, owner's equity, revenue and expenses the company chooses to use to record all transactions and provide external and management reporting.

**Closing** – the process to zero out all revenue and expense accounts to the owner's equity – credit balances (usually revenue) increases owner's equity while debit balances (usually expenses) decreases owner's equity.

**Copy machine expense** – cost for the copy machine and supplies received, owed and used to operate the copy machine for a period of time. Includes cost of copy supplies used and rent for the period covered.

**Cost principal** – transactions are generally measured by the *cash equivalent* price attached to the asset or property right given up, or acquired, whichever is more clearly evident at the date of the transaction.

**Cost-of-goods sold** – cost of the inventory received, owed and sold.

**Credit** – right hand side of a T account – entry will increase liabilities, owner's equity and revenue, decrease assets and expenses.

**Debit** – left hand side of a T account – entry that will increase assets and expenses, decrease liabilities, owner's equity and revenue.

**Depreciation expense** – allocating the acquisition cost of a capital asset over the estimated useful life of the asset, usually measured in years, but sometimes based on volume of usage. Each accounting period is charged with a proportionate depreciation expense for the estimated useful life of the asset, rather than charging the full cost of the asset as an expense in the year in which it was acquired. Offset to the accumulated depreciation.

**Expense** – costs of goods/services received, owed and consumed in the production of income regardless of when the cash is paid for the goods/services.

**Income statement** – a report of revenues and expenses for a business over a stated period of time – The Unbalanced Bookstore Income Statement **for the Year Ended** December 31, 2004.

**Insurance expense** – the cost of insurance to cover the business for a defined time period. If insurance is paid for the whole year, then only 1/12<sup>th</sup> of the payment should be recognized as insurance expense each month of the year covered by the policy.

**Interest expense** – the amount of interest paid or owed to a lending institution for the amount of time the money is borrowed.

**Inventory** – an asset consisting of the completed goods to be sold by the company.

**Inventory adjustment** – changes to the book value of the inventory so that it equals the calculated value of the actual inventory on hand.

**Journal entry** – a written record of the debit and credit entries required to record a business transaction – date, title of debit and credit accounts, amount of the debits and credits, and description of the transaction.

**Ledger** – a digest of all accounts utilized by an entity during an accounting period.

**Liability** – something a company owes – outside claims to economic resources of a business – money, services, product – accounts payable, sales tax payable, loans payable, unearned revenue.

**Loans payable** – amount owed to a lending institution as the result of borrowing money.

**Matching concept** – reporting expenses in the same time period as the associated revenue is recognized. Capital assets are expensed over the periods benefited by the capital asset to generate income.

**Owner's equity** – what's left of assets after liabilities have been deducted – net assets – owner's claim on the business's economic resources.

**Posting** – the transfer of information from the journal entry into the ledger.

**Prepaid expense** – an asset representing payments to suppliers for goods or services to be received or consumed at a future date.

**Refund** – money returned to a customer usually due to the return of goods bought by the customer.

**Revenue** – amounts received or to be received from customers for sales of products or services.

**Salary expense** – the cost of salary owed to employees for work performed for a period of time.

**Sales tax payable** – amounts collected from customers as taxable goods are sold. These amounts are collected on behalf of and remitted to the taxing authority. Therefore, they are a liability of the business, not revenue, until they are paid to the taxing authority.

**Supplies expenses** – the cost of office and other supplies received, owed and used in the business.

**Unearned revenue** – a liability representing payments received from customers in advance of providing the goods or services.

**Utility expense** – the cost of utilities received, owed and used for a defined time period.