What are the basic accounting terminology

Entering into the accounting field can be a little confusing at first with all of the new terminology to learn. Don't feel left out in conversations and don't be left behind because you aren't sure what someone is talking about. Check out the accounting terms below and find out what that last conversation was about. Learn these terms before starting your first big job and you will WOW your employer. Learn these terms before your accounting classes start and you will definitely be a step ahead of everyone else in your classes. Accounting Equation – The Accounting Equation is Assets = Liabilities + Equity. With accurate financial records, the equation balances.Accounting – Accounting keeps track of the financial records of a business. In addition to recording financial transactions, it involves reporting, analyzing and summarizing information.Accounts Payable – Accounts Payable are liabilities of a business and represent money owed to others.Accounts Receivable – Assets of a business and represent money owed to a business by others.Accrual Accounting – Records financial transactions when they occur rather than when cash changes hands. For example, when goods are received without payment, an Accounts Payable is recorded.Accruals – Accruals acknowledge revenue when it is earned and expenses when they are incurred even though a cash transaction may not be involved.Amortization – Reduces debts through equal payments that include interest.Asset – Items of value that are owned.Audit Trail – Allow financial transactions to be traced to their source.Auditors – Examine financial accounts and records to evaluate their accuracy and the financial condition of the entity.Balance Sheet – Provides a snapshot of a business' assets, liabilities, and equity on a given date.Bookkeeping – Recording of financial transactions in an accounting system.Budgeting – Budgeting involves maintaining a financial plan to control cash flow.Capital Stock – Total amount of common and preferred stock issued by a company.Capital Surplus – The amount in excess of par value for shares of common stock.Capitalized Expense – Accumulated expenses that are expensed over time.Cash Flow – The difference in money flowing in and out. A negative flow indicates more money going out than coming in. A positive flow shows more money coming in than going out.Cash-Basis Accounting – Records when cash is received through revenues and disbursed for expenses.Chart of Accounts – An organization's list of accounts used to record financial transactions.Closing the Books/Year End Closing – Closing the Books occurs at the end of the annual period and allows for a start with a clean book at the beginning of the next year.Cost Accounting – Used internally to determine the cost of operations and to establish a budget to increase profitability.Credit – Entered in the right column of accounts. Liability, equity and revenue increase on the credit side.Debit – Entered in the left column of accounts. Assets and expenses increase on the debit side.Departmental Accounting – Shows individual departments' income, expenses and net profit.Depreciation – The decrease in an asset's value over time.Dividends – Profits returned to the shareholders of a corporation.Double-Entry Bookkeeping – Requires entries of debits and credits for each financial transaction.Equity – Represents the value of company ownership.Financial Accounting – The accounting branch that prepares financial reporting primarily for external users.Financial Statement – Financial Statements detail the financial activities of a business.Fixed Asset – Used for a long period of time, e.g. – equipment or buildings.General Ledger – Where debit and credit transactions are recorded.Goodwill – Intangible asset a business enjoys like its reputation or brand popularity.Income Statement – A Financial Statement documents the difference in revenue and expenses resulting in income.Inventory Valuation – A valuation method modified for use in real estate and business appraisals.Inventory – Inventory consists of raw materials, work in progress, and finished goods.Invoice – An Invoice shows the amount of money owed for goods or services received.In The Black – Makes reference to a profit on the books; opposite of "in the red." Black Friday sales are known for the profit retailers are adding to their books.In The Red – Makes reference to a loss on the books; opposite of "in the black." In the days of handwritten accounting, ledger entries written in black meant there was a profit, but those in red meant there was a loss. Job Costing – Job Costing tracks costs of a particular job against its revenues.Journal – The first place financial transactions are entered. They are entered chronologically.Liability – Liabilities are the obligations of an entity, usually financial in nature.Liquid Asset – Consist of cash and other assets that can be easily converted to cash.Loan – A monetary advance from a lender to a borrower.Master Account – A Master Account has subsidiary accounts. Accounts Receivable could be a master account for various individual receivable accounts.Net Income – Net Income equals revenue minus expenses, taxes, depreciation and interest.Non-Cash Expense – Does not require cash outlay, e.g. – depreciation.Non-operating Income – Income not generated from the business. An example might be the sale of unused equipment.Note – A Note is a document promising to repay a debt.Operating Income – Determined by subtracting operating expenses from operating revenue. Interest and income tax expenses are not included.Other Income – Non-recurring income, e.g. – interest.Payroll – An account listing employees and any wages and salaries due them.Posting – Refers to the recording of ledger entries.Profit – Profit is revenue minus expenses. Reductions for taxes, interest, and depreciation are included.Profit/Loss Statement – A financial report issued by a company on a regular basis that discloses earnings, expenses and net profit for a given time period.Reconciliation – The act of proving an account balances; debits and credits equal. An example of reconciling an account is to verify that the bank statement matches the checkbook balance, making allowances for outstanding checks and deposits.Retained Earnings – Money left after all the bills have been paid and all the shareholder dividends have been distributed; often reinvested in the business.Revenue – The actual amount of money a company brings in during a particular time period; gross income.Shareholder Equity – A company's total assets less its total liabilities; owner's equity; net worth. Shareholder equity comes from the start-up capital of the business plus retained earnings amassed over time.Single-Entry Bookkeeping – An accounting process that uses on one entry, instead of debit and credit entries. Small businesses using cash accounting system benefit from the ease of this system, which is much like keeping a checkbook.Statement of Account – A written document that shows all charges and payments; accounts receivable statement; accounts payable statement. Generally, a monthly accounts receivable statement is sent to a charge customer; and reconciled by an accounts payable clerk for payment.Subsidiary Accounts – Accounts that are under a control account; they must equal the main account balance. Examples of subsidiary accounts may be "Office Supplies," or "Cleaning Supplies," under the control account called "Supplies."Supplies – Consumable materials used in business and replenished as needed. Supplies are not inventory for sale; rather they are used to carry out business activities. Treasury Stock – Shares a company retains or buys back once offered to the public for purchase.Write-down/Write-off – An accounting transaction that reduces the value of an asset. TAKE THE NEXT STEP Photo Courtesy: boonchai wedmakawand/Getty Images Are you thinking of taking your finance skills to the next level by learning the ropes of investing? If so — and if you're considering investing in financial products like stocks, mutual funds and exchange-traded funds (ETFs) — it's important to understand brokerage accounts and the role they play in helping you invest. Whether you want to get into the stock market or learn what it means to diversify a portfolio, opening a brokerage account can be one of the most important initial steps on your journey. But first, you'll want to understand what brokerage accounts are, the ways they work, how they can help you and what you need to do to open one. Use this guide to learn all that — and more — about brokerage-account basics.What Are Brokerage Accounts? Photo Courtesy: Michael H/Getty Images A brokerage account is a type of financial account that you can use to buy and sell stocks, mutual funds, bonds and ETFs. You can think of a brokerage account sort of like a bank account — except that instead of just saving up money, you can also use it to keep stocks and other assets you choose to invest in. Additionally, your brokerage account keeps you connected to the market because you can use it to track your investments, in addition to buying or selling them.Years ago, brokerage companies acted as intermediaries between their customers and the stock market, with brokers making trades on their customers' behalf. While this is still true of some types of brokerage accounts, there are now several different kinds to choose from. Some newer online brokerage accounts offer investors the chance to execute their own trades without ever actually speaking to another person, eliminating the need for a broker to buy or sell stocks for a client.Are Brokerage Accounts Safe? Photo Courtesy: Strauss/Curtis/Getty Images Yes, brokerage accounts are safe — as long as you open one through a Securities Investor Protection Corporation (SIPC) member brokerage firm. The SIPC is a federally chartered nonprofit that, among other things, protects investors and the assets in their brokerage accounts — it's sort of the brokerage-account equivalent of the FDIC and its role in protecting regular bank accounts. Generally speaking, most legitimate brokers are SIPC members. However, if you want to make sure the account you're considering is protected, you can also search for the brokerage in question on the SIPC member list. The SIPC is important because it's almost like a form of insurance for brokerages. If, for instance, the brokerage where you opened your account suddenly went bankrupt, the SIPC would refund the money you had in your brokerage account — as long as that brokerage was an SIPC member.That said, it's vital to understand that the SIPC cannot protect you against poor investment decisions. In other words, if you buy shares of a company's stock for $100 apiece and a month later the price drops to $10 per share, then that loss is yours to cover. The SIPC doesn't provide any safeguards against market fluctuations.Online vs. Managed Brokerage Accounts Photo Courtesy: MoMo Productions/Getty Images Opening a brokerage account is almost always the first step in investing in stocks, bonds, mutual funds and other financial assets. But before you jump in, it's important to figure out exactly what kind of brokerage account is right for your needs. Full-Service Managed Brokerage AccountsOn one end of the spectrum are traditional full-service brokerages that offer managed brokerage accounts. If you go this route, you'll have knowledgeable professionals managing your money. These pros, called brokers, get to know your goals and then execute trades on your behalf.These types of accounts come with the benefit of advice and guidance from professional investors who have ample experience. But they also tend to have higher fees, which are usually calculated as an annual percentage of the assets the broker manages for you. Some also have fees associated with individual trades, so make sure you understand — and are comfortable with — the fee structure before signing up. Online Brokerage AccountsAt the opposite end of the spectrum, you also have access to commission free-online brokerages with which you can open an account and make completely self-directed trades — sometimes for free. If you're looking for a more independent approach or one that's typically more affordable, then this may be the route for you. Once you open an online brokerage account, you can fund it with money from your standard bank account and then buy and sell whatever assets you want, whenever you want. The primary downside is that you'll receive little to no guidance on your strategy, so it's essential to know and understand what you're doing. On the bright side, many online brokerages now offer free educational tools that can help you learn to make smarter investments. Cash vs. Margin Accounts Photo Courtesy: Weiquan Lin/Getty Images No matter what type of brokerage you choose to open an account with, you'll be asked whether you'd like to open a cash or a margin account. Understanding the difference is very important, as each comes with a different level of risk. Cash AccountsA cash account is straightforward in that you can only use the amount of money you're holding in your account to buy assets. If you deposit $100, for instance, and invest it all in stocks, then to buy additional stocks you'll need to either deposit more money or sell one of your current investments.Margin AccountsMargin accounts are sort of like the credit cards of the investing world in that they allow you to trade with money that isn't yours initially. When you open a margin account, you can borrow money from your brokerage to make trades and execute strategies like short selling. This can be a profitable strategy if you know what you're doing, but it can set you up for financial difficulties if you don't. If your trade goes wrong, you may get what's known as a margin call. A margin call happens when your brokerage asks you to return the money you borrowed, either by depositing more money into your account or selling off an asset. If you don't, it can sell any of the other investments in your portfolio at will to cover your debt. How Do You Open a Brokerage Account? Photo Courtesy: Oscar Wong/Getty Images These days, opening a brokerage account is a straightforward process. First, make sure you do your research and find a brokerage that aligns with your goals. If you have friends who are well-versed in investing, ask around to find out if there are any specific brokerage accounts or brokers they recommend and why. Once you're ready to open your account, you'll be asked to provide a bit of basic identity and other information, such as: Your Social Security number or IRS taxpayer ID Your driver's license, passport or other government-issued ID Employment status information Basic financial details like your annual income Answers to questions about your investment goals Most brokerages allow you to sign up online and make the process incredibly easy by guiding you through a step-by-step process. Once your account is open, you'll be able to connect it to your regular bank account so you can start depositing funds.If you choose to go with a full-service brokerage, the process may be a little more in-depth as far as targeting your investment strategies is concerned. If you opt for an online brokerage, as soon as your deposit clears you can start trading as soon as you like. MORE FROM ASKMONEY.COM

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