GLOSSARY OF ACCOUNTING TERMS

Chart of Accounts — All accounts used in the General Ledger of an organization. The accounts are used to filter information into an organization's financial statements. Accounts fall generally into the following categories: income, expenses, assets, liabilities, and equity.

General Ledger (GL) — The general ledger contains a debit and credit entry for every transaction recorded within it, so that the total of all debit balances in the general ledger should always match the total of all credit balances. In most accounting software, the GL entries occur in the background.

Balance Sheet — A standard financial statement that shows an entity's Assets, Liabilities, and Equity at a snapshot in time. The "balance" is an equation: Assets = Liabilities + Equity.

Profit & Loss (P&L) — Also called an Income Statement, this standard financial statement shows an entity's results (shown as income minus expenses) over a period of time.

Bottom Line — The mathematical result of income minus expenses. Operating "in the black" means a positive bottom line (income larger than expenses). Operating "in the red" means a negative bottom line (expenses more than income).

Cash Flow — Cash flow is the net amount of cash that an entity receives and disburses during a period of time. A positive level of cash flow (more cash in than out) must be maintained for an entity to remain in business.

Income — Also called Revenue or Sales, income can be earned (sales of your service or products) or unearned (interest income).

Expenses — Money that leaves your company in the course of business operations.

Cost of Goods Sold	Costs directly related to producing a good or service for sale are recorded as Cost of Goods Sold (COGS) or Cost of Sales (COS).
Assets	Something the entity owns that will be used in the future to generate economic benefit. Long-term or "fixed" assets have a useful life of more than one accounting period and are depreciable (see "Depreciation"), example: production machinery. Short-term or "current" assets have a shorter life, example: checking account.
Depreciation	Depreciation is a planned, gradual reduction in the recorded value of a fixed asset over its useful life by charging it to "depreciation expense."
Liabilities	Your company's debts. They can be current, such as Accounts Payable or long-term, such as a mortgage. Other liabilities include loans, credit card accounts, and withholding taxes.
Equity	The net worth of your business; this comes from money invested in your business and profit/losses from your business.
Customers	Anyone from whom your company receives money.
Vendors	Anyone to whom your company pays money for goods or services.
Payment Terms	Vendor invoices are due upon receipt unless "Payment Terms" have been set up for its customer. Payment terms extend credit by pushing the due date out further. Normally, a vendor requires a credit application before it extends terms to a customer. It may decide to extend terms such as "n/30" to its customer, which means the net invoice amount is due 30 days from the invoice date. Less common terms are n/45, n/60, or 2/10. The latter means the customer receives a 2% discount if the invoice is paid within 10 days of the invoice date.

Accounts Receivable (A/R)	Money that is owed to your company (by customers or granting organizations, for example). A/R is a current asset.
Accounts Payable (A/P)	Money that your company owes (to vendors/suppliers), such as bills. A/P is a current liability.
Employees	People who work for you, whom you pay regularly.
W-2 Employees	These are employees “on payroll” for your company. For these people you pay wages and deduct and pay withholding taxes and matching taxes on behalf of Federal, state, and local governments. You must obtain a form W-4 from the employee at hiring. The employer must provide a form W-2 to the employee at year end.
1099 Contractor	This is a self-employed person who does work for your company. The earnings of a person who is working as an independent contractor are subject to Self-Employment Tax and the entity does not withhold and pay payroll taxes on behalf of a contractor. The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work not what will be done and how it will be done. You must obtain a form W-9 from the contractor at the onset of the relationship. The company must provide a form 1099 to contractors at year end.