

CARR, RIGGS & INGRAM

GLOSSARY OF ACCOUNTING TERMS



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A love for accounting is rarely the reason someone chooses to become a business owner, but inevitably, accounting knowledge becomes necessary. That's because regardless of what's happening — in the business or in the wider economic landscape — finances influence business decisions.

Business leaders looking to improve their financial and accounting literacy should review the following terms and abbreviations. Though this list is not exhaustive, these terms can be a great jumping-off point for more in-depth conversations with your accountants.

Accelerated Depreciation

A depreciation method that reflects higher-value reductions in earlier years. Examples include declining balance method, sum-of-the-years'-digits method, and double declining balance method. See: [***Depreciation***](#)

Accrual

The recognition of income or expense items before exchanges of money take place. See: [***Understanding Your Accountant's Language***](#)

Accrual Basis

A method of accounting that records revenue when earned and expenses when incurred, regardless of when the money is received or paid. See: [***Cash Basis***](#)

Accumulated Depreciation

All depreciation that has amassed over the life of the asset. See: [***Depreciation***](#)

AGI

Adjusted gross income, a tax term that is defined as gross income less certain deductions. See: [***Don't Let These 7 Tax Terms Scare You***](#)

Apportionment

How a business divvies up its income, expenses, profits, and losses. See: [***Understanding Your Accountant's Language***](#)

Audit

An independent examination of a business's financial statements that seeks to determine whether there are any material misstatements in the financial statements and whether they conform to the company's chosen reporting framework. An audit provides reasonable assurance over the financial statements. See: [***Reporting Framework, What Is an Audit?***](#)

Auditor's Opinion

A formal statement given by the auditor at the conclusion of an audit as to whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. There are four types of audit opinions:

Unmodified Opinion

The financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the business. Also known as a clean opinion.

Qualified Opinion

The financial statements contain a deviation from GAAP or a limitation to the audit procedures performed, but the issues are not pervasive, and the financial statements are fairly presented with the exception of the specified area.

Disclaimer of Opinion

The auditor provides no opinion related to the financial statements.

Adverse Opinion

The financial statements do not fairly present the financial position, results of operations, and cash flows of the business.

Balance Sheet

An overview of a business's assets, liabilities, and equity taken at a specific point in time (such as the last day of the report year).

Basis

A value that represents an investment in an item of property or a business ownership. For a fixed asset, basis begins at the price the individual paid for the asset and is adjusted for money they contribute toward or remove from the asset. See: [***Don't Let These 7 Tax Terms Scare You***](#)

Book-to-Tax Adjustments

Adjustments that reconcile income and expenses reported on the financial statements to the income and deductions reported on the tax return. See: [***Tax Basis of Accounting***](#)

Capital

Anything that provides value or benefit to a business.

Capital Account

Net worth or investment in a business at a given point in time. See: [***Understanding Your Accountant's Language***](#)

Capital Asset

See: [***Fixed Asset***](#)

Capital Stock

Shares of company ownership. There are three types of capital stock:

Common Stock

Standard class of capital stock. This class of stock typically includes voting rights.

Preferred Stock

Class of company stock with special features, such as higher dividend payments, first claim to assets in the event of a liquidation, or the ability to purchase future stock at a certain price. This class of stock typically does not include voting rights.

Treasury Stock

Shares of company stock owned by the business. Treasury stock is stock that has been repurchased from shareholders.

Cash Basis

A method of accounting that records revenue when cash is received and expenses when cash is paid. See: [Accrual Basis](#)

Cash Equivalents

Assets that can be converted into cash quickly, typically within 90 days. Examples: securities, money market accounts, certificates of deposit (CDs), Treasury Bills.

Chart of Accounts

An index of all the accounts and subaccounts in the general ledger. See: [General Ledger](#)

All Accounts							
Assets		Liabilities		Equity	Expenses	Revenue	Archive
Delete	Archive	Change Tax Rate	No accounts selected			<input type="text"/>	Search
<input type="checkbox"/>	Code ▲	Name	Type	Tax Rate	YTD		
<input type="checkbox"/>	090	Business Bank Account	Bank	BAS Excluded	(3,242.62)		
<input type="checkbox"/>	091	Business Savings Account	Bank	BAS Excluded	(49.51)		
<input type="checkbox"/>	200	Sales	Revenue	GST on Income	43,184.12		
<input type="checkbox"/>	260	Other Revenue	Other Income	GST on Income	0.00		
<input type="checkbox"/>	270	Interest Income	Other Income	GST on Income	89.23		

Compilation

A basic attestation service provided by an accounting firm, in which accountants compile a summary of the business's books and records into a standard format. A compilation provides no assurance over the financial statements.

Cost of Goods Sold (COGS)

All costs of producing or purchasing an item that's for sale.

Credit

One side in a double-sided accounting entry, opposite a debit, that indicates the flow of value into and out of a business. See: [***Double-Entry Accounting, Accounting 101: Debits and Credits***](#)

Debit

One side in a double-sided accounting entry, opposite a credit, that indicates the flow of value into and out of a business. See: [***Double-Entry Accounting, Accounting 101: Debits and Credits***](#)

ACCOUNT	Increase by	Decrease by
Assets	Debit	Credit
Liabilities	Credit	Debit
Equity	Credit	Debit
Revenue	Credit	Debit
Expenses	Debit	Credit

Department of Revenue (DOR)

An agency that handles the taxes for a jurisdiction, such as a state. At the federal level, the [***IRS***](#) is the DOR.

Depreciation

A decrease in asset value over time due to assumed wear and tear.

Depreciation Method

The method by which businesses calculate the decrease in asset value over time. Many businesses use at least two depreciation methods: one for financial reporting purposes and one for tax reporting purposes.

Disclosure

Information supplemental to the financial statements that provides additional relevant details. See: [***Understanding Your Accountant's Language***](#)

Discount Rate

An interest rate that helps determine the present value of future cash flows. See: [***Present Value***](#)

Double-Entry Accounting

A method of bookkeeping that accountants use to record transactions. Under this method, accountants make two simultaneous and equivalent entries for each transaction — a debit and a credit — that balance the equation:

$$\text{Equity} = \text{Assets} - \text{Liabilities} + \text{Revenue} - \text{Expenses}$$

Fair Market Value

The price at which a product would sell on the open market between knowledgeable, willing, and unrelated parties.

Financial Statements

A set of reports that reflects a company's financial performance. The three main reports in most financial statements are the Balance Sheet, the Income Statement, and the Statement of Cash Flows. See: ***Income Statement, Balance Sheet, and Statement of Cash Flows***

Fixed Asset

Long-held tangible business property used to produce income for the business. Fixed assets are sometimes referred to as property, plant and equipment (PP&E). See: ***PP&E***

Generally Accepted Accounting Principles (GAAP)

Collection of commonly-followed accounting rules and standards for financial reporting adopted by the U.S. Securities and Exchange Commission. The purpose of GAAP is to ensure that financial reporting is transparent and consistent from one organization to another. This is the most common reporting framework used by businesses in the U.S. and is required for most U.S. publicly traded entities. See: ***Reporting Framework***

General Ledger

A master record of a business's individual financial transactions. General ledgers show the detail behind the financial statements.

Gross Income

Total income before any reductions.

Income Statement

A summary of a business's revenues and expenses over a specific period of time, such as one calendar or fiscal year. Sometimes known as a Profit and Loss (P&L) Statement. See: ***Understanding Your Accountant's Language***

Journal Entry

A single record in the general ledger that represents a business transaction. Journal entries include the following information:

- Transaction Date
- Account Number
- Account Name
- Debit and Credit Amounts

Leverage

A company's use of debt to fund the organization's activities or purchases.

Material

The term that refers to whether information influences decisions.

Net Income

Revenue less certain reductions, including cost of goods sold, expenses, taxes, and interest. See: ***Cost of Goods Sold***

Net Worth

A party's financial assets net of its financial liabilities.

Power of Attorney

State-specific documents that authorize a third party to act on behalf of another. See: ***Understanding Your Accountant's Language***

PPE

Personal protective equipment, typically in reference to COVID-19-related expenses.

PP&E

Property, plant, or equipment. See: ***Fixed Asset***

Present Value

The value of future cash flows in today's dollars. Present value is determined by multiplying future cash amounts by one or more discount rates. See: ***Discount Rate***

Profit & Loss Statement

See: ***Income Statement***

Related Party

A person or entity having the potential to control the other party or exercise significant influence over the other party. Most commonly due to familial ties or ownership in another business.

Reporting Framework

The set of rules a company uses to determine when and how to recognize events and transactions in the financial statements and when and how to disclose information on the financial statements. Examples: U.S. Generally Accepted Accounting Principles (GAAP), International Financial Reporting Standards (IFRS)

Review

An analytical, limited examination of a business's financial statements to determine whether material modifications should be made for the financial statements to conform to the company's chosen reporting framework. A review provides limited assurance over the financial statements.

Safe Harbor

A legal provision that protects a party from liability if certain conditions are met.

Statement of Cash Flows

A summary of the flow of cash and cash equivalents into and out of the business. Also known as the Cash Flow Statement. The three types of cash flows are operating, investing, and financing. Each can be presented in either direct or indirect formats. See: ***Cash Equivalents***

Tangible Asset

An asset that has a physical form.

Tax Basis of Accounting

The method of accounting required by the IRS, which often differs from the method businesses use for financial reporting purposes.

Trial Balance

A preliminary financial report that reflects the debit and credit balances in each account.

Working Capital

Current assets minus current liabilities.

Translating the Language of Business

Seemingly simple accounting terms are often more nuanced than they appear, and that's where we come in. **Your CRI CPAs** will help you understand all the accounting terms and concepts you encounter.