Financial Accounting

University Business · Vocabulary in context

Word	Example
financial accounting	**Financial accounting** turns a year of sales and costs into reports.
accounting equation	The **accounting equation** says assets = liabilities + equity.
asset /ˈæset/	A delivery van is an **asset**.
liability /ˌlaɪəˈbɪlɪti/	A bank loan is a **liability**.
equity /ˈekwɪti/	**Equity** is what the owners have left after all debts are paid.
income /ˈɪŋkʌm/	Wages are **income** received over time.
expense	Rent is an **expense**.
double effect	Every transaction has a **double effect**: two items change.
double entry /ˈdʌbl ˈentri/	In **double entry**, every amount is recorded twice.
ledger	The **ledger** holds all the accounts.
debit	A **debit** goes on the left side of an account.
credit /ˈkredɪt/	A **credit** goes on the right side of an account.
trial balance	In a **trial balance**, the two columns must add up to the same total.

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accrual basis	On the **accrual basis**, income counts when it is earned, not when cash arrives.
prepayment	Rent paid in advance is a **prepayment**.
accrual	An unpaid electricity bill is an **accrual**.
depreciation /dɪˌpriːʃɪˈeɪʃn/	**Depreciation** spreads the cost of a machine over the years it is used.
matching principle	The **matching principle** puts costs in the same year as the sales they helped make.
income statement /ˈɪŋkʌm ˈsteɪtmənt/	The **income statement** shows the year's profit.
statement of financial position /ˈsteɪtmənt ɒv faɪˈnænʃl pəˈzɪʃn/	The **statement of financial position** shows what the firm owns and owes on one day.
cash flow statement	The **cash flow statement** shows where cash came from and went.
operating activities	Selling bread brings in cash from **operating activities**.
investing activities	Buying a new oven is one of the **investing activities**.
financing activities	Taking out a loan is one of the **financing activities**.
gross margin	A high **gross margin** means the product sells well above its cost.
current ratio /ˈkʌrənt ˈreɪʃɪəʊ/	A **current ratio** of 2 means short-term assets are twice short-term debts.

Word	Example
gearing /ˈgɪərɪŋ/	High **gearing** means the firm uses a lot of debt.
return on equity	**Return on equity** shows profit as a share of the owners' money.

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