

# Accounting Basics



**BROUGHT TO YOU**  
by the makers of AccountEdge

***Written by:***

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Like all small business owners, you went into business with a dream: to sell your unique product or services and make a good living for you, your family, your employees and your partners. You also wanted to change the world so you made the decision to run your small business using AccountEdge! Now reality has kicked in and you are faced with the challenge of managing your operations and your finances, all on a Macintosh. In this special edition of Accounting Basics we'll explain the basics of accounting in easy to understand terms with real life examples, showing you the impact on your financial statements. We'll also discuss working with your accountant, no matter which platform they are using.

Let's review what you've probably already done today. When you got to work you probably checked your email for any incoming orders. Then you checked voice mail to see if any previous quotes have been accepted. You also checked the post, where you found a stack of supplier invoices and a few customer cheques. Next, you reviewed your online bank balance and saw that the big deposit you were waiting for finally arrived. Next, you made some online payments and ordered more stock. Feeling kind of flush, you went online and placed an order for that new MacBook Pro you wanted, using your credit card. Since it's Friday, you also had to run payroll and pay the wages as well as paying last month's PAYE & NIC online. Then it's off to the bank to pay in cheques from the few remaining customers who still can't be persuaded to pay online. When you got back to the office you had a stack of phone messages, including one from your best supplier offering a one-day sale and from your newest customer who wanted to exchange some parts and place another order, he was also asking for credit terms, and he had a lead for some new business you had discussed. Then your mobile phone rings, another new client with a huge order asking if you accept credit cards. Finally, you realise you better pay yourself, if there is any money left! Then you ask yourself: how's cash flow; who owes me money; who do I owe money to; and, most importantly, is my business going to succeed?

Does this sound like a typical day for you? As a Mac small business entrepreneur, it probably does. Most likely, you deal with all this stuff and more before your first cup of coffee. Admit it, you probably struggle a little bit to keep it all together. No matter how you handle all these transactions, the fact is, they are all accounting transactions: taking orders, buying stock, making sales, buying equipment, paying-in at your bank, paying wages, remitting PAYE & NIC payments, paying yourself, and more. In the average day, you probably do more accounting than you ever thought possible. How you track that data, what reports you use and how accurate and up to date they are play a large part in determining your financial success as well as how you work with your bookkeeper (if that's not you) and your accountant.

Understanding what it all means and using that information to your advantage is what this document is all about.

When you started your small business you probably did as most small business entrepreneurs do and tried to use the tools that came with your Mac or PC to run your business. Maybe you tried Apple's Numbers software or Excel. If you are a creative professional, you may have used a system that looks like this: invoices were done in QuarkXPress (because you could put your logo on them in 1200dpi...), bank payments and receipts in Excel, and everything else done by hand. Your first experience with 'bookkeeping' may have been to use a personal finance app since it worked so well for your home finances. Not a bad place to start. But, as your business grew 'beyond the cheque book,' your record keeping, reporting, and compliance requirements also grew.

Now you have customers to track, suppliers to pay, sales to record, VAT and payroll taxes to track and a full set of accounts to maintain. You probably also have an accountant who is preparing your business taxes and maybe your VAT and payroll taxes for you. Maybe you have stock, or bill your employees' time, or hire lots of subcontractors – all of these things require integrated record keeping, they require...  
a-c-c-o-u-n-t-i-n-g!

By now you find yourself spending more time keeping your books than keeping your customers happy. You understand the importance of having accurate books, but you have a lot of demands on your time, so accounting and record keeping never seem to get the attention they require. Not only are you an accountant, you are a lawyer, a shipping clerk, a customer service rep and more – all in the pursuit of your dream.

So what can you do to make this work? The first step is to understand the basics and how they all fit together. At the end of this booklet is a glossary of all the relevant accounting terms that will help you understand the science of accounting. Understanding the terminology will help you understand the concepts and their relevance to you, and more importantly, they will help you analyse and run your small business. All the information you need to run a successful small business is contained in your accounting system – recording your transactions, verifying their accuracy, and interpreting your financial statements – that's your goal!

Before we go any further, keep this in mind: **you don't have to be an accountant to run AccountEdge.** All too often small business owners use this line to shun doing any type of record keeping (and therefore, business management), to their own detriment. The reality is, I'm not a mechanic, but I can drive my car. I'm also not a plumber, but I can fix a dripping tap and I'm certainly not a doctor, but I can put a plaster on my child's knee, even take out a splinter. All it takes is the will to succeed and the desire to run a successful operation. Will it be easy? I wish I could say yes. Will it be frustrating? I wish I could say no. Will it be invaluable to your business and your long-term success? You bet! Will you ever need outside help? You might, so don't be afraid to call in a professional – either your accountant or one of our independent AccountEdge Certified Consultants (local, tech-savvy, business management experts) in your community.

Our goal is to help you understand the basic concepts of accounting and how they relate to your business. One of the great things about AccountEdge is that it does all the debits and credits for you empowering you to manage your business. Smarter.

## ■ Your Daily Life

First, let's start with an overview of how accounting fits into your daily life. Quite simply, every transaction you make results in an entry into your 'books'. Whether it is a receipt of cash, a sale, a payment you've made or a deposit from a customer – every transaction gets recorded in your books at some point. The timeliness and accuracy of when and how you record your transaction directly affects your ability to manage your business and your cash flow because accurate and timely data entry equal accurate and timely financial statements. Want to know how you're doing year to date? As long as all your transactions are entered correctly, a simple click of the mouse will produce the information you need.

If you think your business is 'payment centric', remember that there are plenty of transactions that do not involve payments that should be recorded in your books. For example, you might sell items or services on credit and record the sales when your invoice is issued, and then subsequently record the receipt when your customer pays you. And, anything that affects what you owe (liabilities) like VAT or PAYE/NIC requires a transaction to be recorded. Also, you may record your supplier invoices when received and again when they are paid.

## ■ The Golden Rules of Accounting

Double-entry bookkeeping means that every transaction has at least one debit and one corresponding credit.

Lets discuss the Golden Rules of Accounting. They are:

- 1.) Debits ALWAYS EQUAL Credits
- 2.) Increases DO NOT NECESSARILY EQUAL Decreases
- 3.) Assets - Liabilities = Owner's Equity (The accounting equation!)

Don't let the words 'debits' and 'credits' scare you. They simply refer to the 'left side' and 'right side' of a 'T Account', a graphical representation of the amounts recorded in an account (see the examples below). The T Accounts themselves being representations of the left and right hand side pages of an open book: debits on the left, credits on the right remembered by generations of trainee accountants as 'drive in the left, crash on the right'.

 When your bank says that they are **crediting** your account, they are referring to an entry on **THEIR** books.

*Your money in the bank is a liability to the bank; therefore, when they **credit** your account, they are increasing their liability to you on their books.*

Every transaction recorded in AccountEdge is posted to your accounts as a combination of debits and credits; we do all the work for you, so relax, get more coffee...

## ■ Chart of Accounts

The chart of accounts, or simply 'accounts', is a list of categories into which all your accounting transactions will be recorded. In AccountEdge they are defined by a five-digit number and account name: a one-digit prefix designates what type of account it is (asset, liability, expense) and where it will be displayed on your financial statements, followed by a four-digit main account number. With AccountEdge you have complete control over your account numbers and their names. You can add your own, delete ones you don't use or combine similar accounts. When creating a new company data file you can select an account template from a list provided by us or create your own. Either way, this list becomes the basis for your financial statements and can be moulded as your business and your requirements change. You can add, edit, delete, and combine accounts.

Here is a table that will help you understand what this means and how it applies to your business.

	<b>ACCOUNT NUMBER</b>	<b>ACCOUNT TYPE</b>	<b>INCREASE</b>	<b>DECREASE</b>
<b>Balance Sheet</b> (As of a 'point of time')	1-xxxx	Assets	DEBIT	CREDIT
	2-xxxx	Liabilities	CREDIT	DEBIT
	3-xxxx	Capital	CREDIT	DEBIT
<b>Profit and Loss</b> (For a 'period of time')	4-xxxx	Revenue	CREDIT	DEBIT
	5-xxxx	Cost of Goods Sold	DEBIT	CREDIT
	6-xxxx	Expenses	DEBIT	CREDIT
	8-xxxx	Other Income	CREDIT	DEBIT
	9-xxxx	Other Expenses	DEBIT	CREDIT

*The exceptions are contra accounts, which are accounts that are offset against another account. Examples include: Accumulated Depreciation, Sales Discounts, and Sales Returns and Allowances.*

Let's drill down on how each account type actually relates to your small business.

### ■ **Assets**

An asset is anything you own in your business. They are the things in your office, your laptops and desktops, scanners, hard drives, your vehicles, your invoices owed by customers, your bank balances and any cash on hand. Everything you own is considered an asset of the business. Assets are used to generate revenue and purchase other assets. For example, when you buy a new computer, you use one asset (money in your bank account) in exchange for another asset (computer equipment).

### ■ **Liabilities**

Your liabilities are the things you owe, like unpaid supplier invoices, VAT on sales not yet paid to HMRC, bank loans etc. Another example is business credit cards – unless you pay your balance off every month, the money you owe to your credit card company is considered a liability on your books. Liabilities represent claims against your assets.

### ■ **Capital**

The difference between the value of your assets and the total of your liabilities is the value of your company. As the Accounting Equation states: Assets - Liabilities = Capital. Depending on the type of business entity (Sole Trade, Partnership or Limited Company) you created when you first set-up your business, the Capital section of your Chart of Accounts and Balance Sheet may have different sub accounts but the principle remains the same.

## ■ Revenue

The revenue of your company is the total amount of proceeds generated for providing goods and services to your customers. This is typically the total amount of the invoices that you generated for your customers.

## ■ Cost of Sales

Cost of Sales (or COS) refers to the total value of the goods and services that were sold to your customers. Typically, this refers to items-based businesses that buy stock for resale, or a manufacturer who builds items for resale. Total revenue less cost of goods sold equals your gross profit. Other directly related costs such as shipping may also be included in COS.

## ■ Expenses

Expenses (or overheads) are the costs you incur to run your business, that are largely independent of the amount of business that you do. Examples are rent, insurance and admin salaries etc.

*Below are a series of typical accounting. The next page shows the T account entries resulting from the transactions.*

## ■ Examples (Part 1):

- 1.) There is an initial £5,000 cash investment by the owner.
- 2.) You buy an iMac at the Apple store and pay £1,299 by debit card
- 3.) You buy two Mac Minis for £1,000 with your company credit card\*
- 4.) You buy 10 Widgets for stock at £150 each and pay cash on delivery
- 5.) You sell 4 Widgets from stock for £250 each on Net 30 day terms
- 6.) You pay your monthly rent of £800
- 7.) You pay with your credit card company for your new Mac Minis
- 8.) Your customer pays for the Widgets they purchased
- 9.) You sell 3 Widgets for £300 each, cash
- 10.) You buy 10 Widgets for stock at £150 each and pay cash on delivery
- 11.) You sell 3 Widgets for £350 each and take a £500 deposit

### **Please Note:**

- VAT is ignored
- In the T Accounts shown below 'C/fwd' means the balance carried forward to the next accounting period.

**Bank (1-xxxx)**

1.	£5,000	2.	£1,299
8.	£1,000	4.	£1,500
9.	£900	6.	£800
11.	£500	7.	£1,000
		10.	£1,500
	C/fwd		£1,301
	<b>£7,400</b>		<b>£7,400</b>

**Trade Debtors (1-xxx)**

5.	£1,000	8.	£1,000
11.	£1,050	11.	£500
	C/fwd		£550
	<b>£2,050</b>		<b>£2,050</b>

**Stock (1-xxxx)**

4.	£1,500	5.	£600
10.	£1,500	9.	£450
		11.	£450
	C/fwd		£1,500
	<b>£3,000</b>		<b>£3,000</b>

**Computer Equipment (1-xxxx)**

2.	£1,299		
3.	£1,000		
	C/fwd		£2,299
	<b>£2,299</b>		<b>£2,299</b>

**Company Credit Card (2-xxxx)**

7.	£1,000	3.	£1,000
	C/fwd		£-
	<b>£1,000</b>		<b>£1,000</b>

**Capital (3-xxxx)**

		1.	£5,000
	C/fwd		£5,000
	<b>£5,000</b>		<b>£5,000</b>

**Sales (4-xxxx)**

		5.	£1,000
		9.	£900
		11.	£1,050
	C/fwd		£2,950
	<b>£2,950</b>		<b>£2,950</b>

**COS (5-xxxx)**

5.	£600		
9.	£450		
11.	£450		
			C/fwd £1,500
	<b>£1,500</b>		<b>£1,500</b>

**Rent (6-xxxx)**

6.	£800		
			C/fwd £800
	<b>£800</b>		<b>£800</b>

## Financial Statements

The primary financial statements of any business include the Balance Sheet and the Profit and Loss. Together, they represent the total financial picture of your business. They must be reviewed as a set because collectively they tell you about your business, both in the short term and the long term.

### The Balance Sheet

The Balance Sheet, one of the primary financial statements, is a reflection of your total assets, less total liabilities and the difference, is the owner's capital. The balance sheet reflects a 'point in time' in the life of the business; for example, you could produce a Balance Sheet as of December 31, 20xx that would reflect all the account balances "as of" a point in time (a specific date).

### The Profit and Loss Statement

The Profit and Loss, also one of the primary financial statements, is a reflection of your total revenue generated, less the cost of items sold (which equals your gross profit), less your operating expenses (overheads), which will give your net profit or loss. The Profit and Loss statement reflects results for a 'period of time' - the net income or loss for a specific period of time, for example, January 1, 20xx to December 31, 20xx

Here's the Balance Sheet and Profit & Loss account resulting from the entries above:

ABC Ltd. Balance Sheet December 31, 20xx		ABC Ltd. Profit & Loss Statement 1 January to 31 December 20xx	
<b>Assets</b>		<b>Revenue</b>	
Bank balance	£1,301	Sales	£2,950
Trade debtors	£550	COGS	<u>(£1,500)</u>
Stock	£1,500	Gross profit	£1,450
Computer equipment	<u>£2,299</u>	<b>Expenses</b>	
Total Assets	£5,650	Rent	<u>£800</u>
		Total expenses	£800
Total Assets	<u>£5,650</u>	<b>Net profit</b>	<u>£650</u>
<b>Liabilities</b>			
Company credit card	£-		
<b>Net Assets</b>	<u>£5,650</u>		
<b>Equity</b>			
Owners investment	£5,000		
Current year earnings	£650		
<b>Total Equity</b>	<u>£5,650</u>		

The Equity section of your AccountEdge Balance Sheet includes an account called Current Year Earnings that represents the year to date net income or loss of your business. The life to date history of profit and losses for your business is recorded in the Retained Earnings account. At the close of every year, the Current Year Earnings accounting is rolled (closed) into the Retained Earnings account. In our example above, our business is brand new, so the loss for the year is presented on the Balance Sheet as a reduction of Equity in the Current Year Earnings account. If, say, the next accounting year produces a £2,000 profit, the Retained Earnings account will reflect the balance of £2,650 (a £650 profit in the example above plus total profits from the next accounting year of £2,000).

Each year, your Profit and Loss information is closed into your Retained Earnings account, which is how the Balance Sheet and the Profit and Loss report are tied together. Again, it is important to remember, that a Balance Sheet represents a point in time e.g. 31 December while a Profit and Loss represents a period of time e.g. January 1 to 31 December.

Now, let's add some additional entries to the example above.

### ■ Examples (Part 2):

- 12.) You buy office furniture and receive Net 30 Day terms for £1,900
- 13.) You buy a new X Serve and 3 workstations, receive Net 60 Day terms, total investment - £7,500
- 14.) You record your first month's depreciation on your new hardware\*
- 15.) You buy 1,000 Widgets for stock at £150 each and receive 2% Net 30 terms
- 16.) You ship an order for 400 Widgets at £300 each and get a 50% deposit
- 17.) You pay your monthly rent of £800
- 18.) You pay your employee's monthly salary of £1,000, less; £150 in PAYE income tax and £77 in National Insurance
- 19.) You make pay the PAYE income tax and National insurance due in 18. above (total £227)
- 20.) You sell 500 widgets for £325 on Net 30 Day terms
- 21.) You pay for the 1,000 Widgets and take the 2% discount

\* Just for the purpose of this example, we are going to depreciate our new hardware over 3 years, using straight-line depreciation (cost divided evenly over 36 months). If depreciation worries you, just ask your accountant how it should appear on your monthly financial statements and what monthly Nominal Journal Entries you should be recording. Then, set them up as automatically recurring journal entries in the Accounts Command Centre in AccountEdge.

### **Please note:**

- VAT is ignored
- in the T Accounts shown below 'B/fwd' means the balance brought forward from the last accounting period – see examples in part 1 above) and 'C/fwd' means the balance carried forward to the next accounting period.

**Bank (1-xxxx)**

B/fwd	£1,301		
16.	£60,000	17.	£800
		19.	£277
		21.	£147,000
		18.	£723
C/fwd	£87,499		
	<b>£148,800</b>		<b>£148,800</b>

**Trade Debtors (1-xxx)**

B/fwd	£550		
16.	£120,000	16.	£60,000
20.	£162,500		
		C/fwd	£223,050
	<b>£283,050</b>		<b>£283,050</b>

**Stock (1-xxxx)**

B/fwd	£1,500		
15.	£150,000	16.	£60,000
		20.	£75,000
C/fwd			£16,500
	<b>£151,500</b>		<b>£151,500</b>

**Office Equipment (1-xxxx)**

B/fwd	£-		
12.	£1,900		
		C/fwd	£1,900
		<b>£1,900</b>	<b>£1,900</b>

**Computer Equipment (1-xxxx)**

B/fwd	£2,299		
13.	£7,500		
		C/fwd	£9,799
		<b>£9,799</b>	<b>£9,799</b>

**Accumulated Depreciation -  
Computer Equipment (1-xxxx)**

		B/fwd	£-
		14.	£272
C/fwd	£272		
<b>£272</b>			<b>£272</b>

**Trade Creditors (2-xxxx)**

B/fwd	£-		
21.	£147,000	12.	£1,900
21.	£3,000	13.	£7,500
		15.	£150,000
C/fwd	£9,400		
<b>£159,400</b>			<b>£159,400</b>

**Company Credit Card (2-xxxx)**

		B/fwd	£-
C/fwd	£-		
	<b>£-</b>		<b>£-</b>

**Salaries Control Account (2-xxxx)**

		B/fwd	£-
18.	£723	18.	£723
C/fwd	£-		
	<b>£-</b>		<b>£-</b>

**PAYE/NI Due (2-xxxx)**

		B/fwd	£-
19.	£277	18.	£227
C/fwd	£-		
	<b>£277</b>		<b>£277</b>

**Capital (3-xxxx)**

		B/fwd	5,000
C/fwd	£5,000		
	<b>£5,000</b>		<b>£5,000</b>

**Sales (4-xxxx)**

		B/fwd	£2,950
		16.	£120,000
		20.	£162,500
C/fwd	£285,450		
	<b>£285,450</b>		<b>£285,450</b>

**COS (5-xxxx)**

		B/fwd	£1,500
		16.	£60,000
		20.	£75,000
		C/fwd	£136,500
			<b>£136,500</b>

**Discounts Received (5-xxxx)**

		B/fwd	£-
		21.	£3,000
C/fwd	£3,000		
	<b>£3,000</b>		<b>£3,000</b>

**Depreciation Charge (6-xxxx)**

		B/fwd	£-
		14.	£272
		C/fwd	£272
			<b>£272</b>

Rent (6-xxxx)	
B/fwd	£800
17.	£800
	C/fwd £1,600
<b>£1,600</b>	<b>£1,600</b>

Salaries (6-xxxx)	
B/fwd	£-
18.	£1,000
	C/fwd £1,000
<b>£1,000</b>	<b>£1,000</b>

The new Balance Sheet and Profit & Loss Account:

ABC Ltd. Balance Sheet December 31, 20xx	
<b>Assets</b>	
Bank balance	£-
Trade debtors	£223,050
Stock	£16,500
Office furniture	£1,900
Computer equip	£9,799
Accum. depn	(£272)
Net book value	£9,527
<b>Total Assets</b>	<b><u>£250,977</u></b>
<b>Liabilities</b>	
Bank overdraft	£87,499
Trade creditors	£9,400
Company credit card	£-
Salaries control account	£-
PAYE/NIC payable	£-
<b>Total Liabilities</b>	<b><u>£96,899</u></b>
<b>Net Assets</b>	<b><u>£154,078</u></b>
<b>Capital</b>	
Share capital	£5,000
Current year profit	£149,078
<b>Total Capital</b>	<b><u>£154,078</u></b>

ABC Ltd Profit and Loss Statement 1 January to 31 December 20xx	
<b>Revenue</b>	
Sales	£285,450
COGS	£136,500
Less: Discount	<u>£3,000</u> (£133,500)
<b>Gross profit</b>	<b>£151,950</b>
<b>Expenses</b>	
Depreciation	£272
Rent	£1,600
Salary	<u>£1,000</u>
Total expenses	£2,872
<b>Net profit</b>	<b><u>£149,078</u></b>

## ■ Perform an 'AccountEdge Self-Check'

A list of 5 things you can do to perform a 'self-check' on your AccountEdge data file.

1. Check Trade Debtors and Trade Creditors vs. the details – run the Trade Debtors and Trade Creditors Reconciliation Reports, which will compare your outstanding Trade Debtors and Trade Creditors, detailed by customer and supplier, to the balance in your Trade Debtors account (1-xxxx) and your Trade Creditors account (2-xxxx).
2. Are your bank and credit card accounts reconciled? AccountEdge makes reconciling your bank and credit card accounts really easy and you should be doing this at least monthly. If not, take some time to get this together, with the help of your bookkeeper, accountant or an AccountEdge Certified Consultant (see below). Use the bank statement download feature to speed up the reconciliation process.
3. Is your Balance Sheet complete and accurate – print a Balance Sheet as of right now. Look at each account and ask yourself three simple questions:
  1. Do I have all my assets listed here?
  2. Do I have supporting documentation for each of these accounts?
  3. Is the ownership section of the report correct?
4. Have you closed your books for the last complete accounting year? Make any adjustments needed to agree your AccountEdge file to your accounts (get your accountant to help you) and then go through the process to Start a New Fiscal Year. Please note AccountEdge allows you to have 26 open periods, by the end of the 26<sup>th</sup> period, you'll have to close a year, by selecting Start a New Fiscal Year under the File menu in AccountEdge.
5. Are you keeping current and backing up – this is the single most valuable piece of advice in this entire document. It is imperative that you keep your records up to date by entering all the relevant transactions when they happen. And, of course, you want to backup daily, weekly, monthly, quarterly and annually.

## ■ Other Sources of Information

- **Speak to your Accountant**

Ask them what they need from you in order to complete work on your accounts on a quarterly and annual basis - from financial reports to your tax return. Ask them specifically what reports they want, what backup data they want, in what format, and how often.

- **Work with an AccountEdge Certified Consultant**

If you need on-site assistance with all issues related to AccountEdge consider working with an AccountEdge Certified Consultant. These are small business experts that can provide services and support beyond what AccountEdge can offer over the phone or online. See the Directory in your box of software, under the Help menu in AccountEdge or on our web site.

- **Access our Support tools**

As a user of AccountEdge you are entitled to a Support Plan which covers you bumper to bumper, including telephone, email and web support, as well as tax tables and product updates and upgrades – simply put – the best investment you can make.

- **What Support can and can't help you with**

There will be issues that our Support reps won't be able to help you with. They include tax issues, networking issues and accounting help. While we will do our best to help you get the most out of AccountEdge, such things are better handled by specialists.

- **Work with Apple**

Apple's website has lots of small business information, find it at <http://www.apple.com/business>. They also have a legion of consultants called ACN's details at <http://consultants.apple.com/uk/> or visit an Apple Dealer, or an Apple retail store, locate all of them near you at <http://www.apple.com/uk/retail/storelist/>.

## ■ Accounting Terminology

The key to understanding the concepts of accounting is understanding the terminology used. Much like you learned the lexicon of using a Mac (Command key, control-shift, drop downs, cheque boxes, double click, etc.), common phrases used in accounting will help you understand the language of business.

**Accruals.** Amounts that you owe at the end of a particular accounting period that were paid after the end of the period or are still to be paid. Amounts invoiced by suppliers that have been included in Trade Creditors (see below) are excluded. An example would be accountancy fees payable in respect of the accounting period.

**Accrual Based Accounting.** Represents a method of recording accounting transactions when they occur, whether or not cash has changed hands.

**Accrued Liabilities.** Represents expenses that are incurred prior to being paid. For example, salaries earned by your employees and paid in a subsequent month are accrued as a liability until they are paid.

**Accrued Revenue.** Represents revenue that is earned and recorded but not yet received in the form of cash.

**Asset.** The things a company owns, seen on the Balance Sheet and represented as 1-xxxx accounts in your Chart of Accounts.

**Balance Sheet.** The primary financial statement that shows detailed assets, liabilities and equity at a point in time.

**Chart of Accounts.** A list of categories or accounts where transactions are recorded.

**Cost of Sales (COS).** Represents the cost of items or services sold to customers. These costs are kept in the Stock asset account (1-xxxx) until they are sold. Then they are passed over to the COGS (5-xxxx) account. Seen on the Profit and Loss and represented as 3-xxxx accounts in your Chart of Accounts.

**Credit.** A credit is the right hand side of an account, represented in T-Account format on the previous page.

**Current Year Earnings.** This account represents year to date earnings, not yet recorded into the Retained Earnings account.

**Debit.** A debit is the left hand side of an account, represented in T-Account format on the previous page.

**Deferred Revenue.** Represents income received, but not yet earned. This is typically a liability account.

**Double Entry Accounting.** AccountEdge follows the convention of Double Entry Accounting. Every accounting transaction is comprised of debits that equal credits.

**Equity (Capital).** The owner's interest in the business, which is the total assets minus the total liabilities of a company, seen on the balance sheet and represented as 3-xxxx accounts in your Chart of Accounts.

**Expenses.** Costs incurred in the business used to generate revenue, seen on the Profit and Loss report and represented in your Chart of Accounts as 6-xxxx accounts.

**Gross Profit.** Represents your revenue from sales of stock or services, less Cost of Goods Sold, before overhead expenses.

**Journals.** Account ledgers where entries are recorded. AccountEdge has Nominal, Disbursements, Receipts, Sales, Purchases and Stock journals. Every transaction creates a corresponding set of debit and credit entries in a specific journal.

**Liability.** The things a company owes in cash or other resources, represented as 2-xxxx in your Chart of Accounts. These are claims against assets.

**Net Profit/Loss.** Total income minus total expenses.

**Nominal Ledger.** An accounting record where all of your accounts are maintained. In AccountEdge, when you enter any transaction, the Nominal Ledger accounts are automatically updated.

**Operating Profit.** Profit before Other Income is added and Other Expenses are subtracted.

**Overhead Expenses.** Represents the expenses of a business independent of how much revenue is generated. Can also be considered Fixed Costs, things like rent, salaries, and utilities.

**Prepaid Expenses.** Represents expenses that are paid in advance of incurring them. For example, you might pay a year's worth of insurance and accrue 1/12 of it each month. This is typically an asset account.

**Profit and Loss Statement.** The primary financial statement that shows detailed revenues and expenses for a period of time.

**Retained Earnings.** Represents the cumulative net income or loss of a business since its inception. When you Start a New Year in AccountEdge, the program automatically transfers your year-end income or (Current Year's Earnings) loss to this account. This is called the closing entry.

**Start a New Year.** The process in AccountEdge that closes a fiscal year, transfers your Current Years Earnings to Retained Earnings and prepares the accounts for a new fiscal year. All Income and Expense accounts are 'zeroed out' to start the new year.

**Stock.** Items that you have purchased to sell to customers that you haven't sold at the end of a particular accounting period.

**Subsidiary Ledgers.** Customer and supplier balances that equal the amount of the Trade Debtors and Trade Creditors Nominal Ledger accounts.

**Trade Creditors:** Money or other obligations owed to creditors for services and materials, a Liability on the Balance Sheet.

**Trade Debtors.** Money or other obligations due for services rendered or items sold on terms, an Asset on the Balance Sheet.

**Trial Balance.** A list of all your Nominal Ledger accounts and their current balances.

**Work in Progress.** For a manufacturing business this would be Raw Materials that had partially been converted in to Finished Goods. For a business that provided services it could be a partially complete project that was invoiced to the Customer at a later date.