

Every profession requires basic principles. As bookkeepers and accountants, we forget that our computer technician or our client may not have a clue when we inject "Debit" or "General Ledger" into a conversation. Herein is accounting's most basic terms. For an editable copy of this document (one which you can add your logo to and distribute), send an email to: [arlene@addventive.com](mailto:arlene@addventive.com)

### **Basic Accounting Terms**

**CHART OF ACCOUNTS** is a list of all account titles and numbers used in the financial transactions of a business. The **Chart of Accounts** lists the accounts from top to bottom in the following order:

- Assets and Accounts Receivable
- Liabilities and Accounts Payable
- Equity (also called Capital)
- Income (also called Revenue)
- Cost of Goods Sold (also called Cost of Sales)
- Expenses

**Note:** ASSETS have a debit (DR) balance, LIABILITIES and EQUITY both have a credit (CR) balance.

**DEBITS AND CREDITS** are the manner in which entries are designated as either "increasing" an account or "decreasing" an account. Essentially, in accounting, the "pluses" and "minuses" must balance out. For every "plus" entered onto the ledgers, there are one or more corresponding "minuses".

Debit is shown as DR. Credit is shown as CR.

Debits and credits are the manner in which the "pluses" and "minuses" of the dollars and cents are recorded (the following includes the net amounts only **not including taxes**):

Example:

You wrote a cheque for a total of \$80. (assume no tax) to buy printer cartridges, \$45. and \$35. respectively. Obviously, the **bank account** is affected. The other account affected is **office supplies**. The entry onto the ledgers would look like this:

<b>bank account</b>	\$80.	CR
<b>office supplies</b>	\$80.	DR

Perhaps the next day, you returned the cartridge that cost \$45. because it was the wrong type. You were refunded cash and you immediately put the cash back into the bank account. The entry onto the ledgers would look like this:

<b>bank account</b>	\$45.	DR
<b>office supplies</b>	\$45.	CR

**BALANCE SHEET** is a statement which reports ASSETS, LIABILITIES AND EQUITY ("Equity" is also called "Capital"). It is the first report that must be properly completed when starting a business. The **Balance Sheet** is a financial picture AT A GIVEN POINT IN TIME. The **Balance Sheet** *does not* show income and expense accounts.

The **Balance Sheet** must *balance* by the following equation: ASSETS = LIABILITIES + EQUITY.

ASSETS have a debit (DR) balance, LIABILITIES and EQUITY both have a credit (CR) balance.

ASSETS are shown at the top of the **Balance Sheet**, LIABILITIES are shown below the ASSETS, and EQUITY (the difference) is shown at the bottom of the **Balance Sheet**.

**TRIAL BALANCE** is a statement which proves the equality of debits and credits recorded in the **General Ledger**. The **Trial Balance** shows the account balances line-by-line in two (2) columns. Debits (DR) are in the left column, and credits (CR) are in the right column. Essentially, the totals of the two columns must be equal. The **Trial Balance** is a financial picture AT A GIVEN POINT IN TIME.

**STATEMENT OF PROFIT AND LOSS** (also called "**Income Statement**") is a statement showing the income (revenue) and expenses for a **fiscal period**, and the net profit (or loss). The **Income Statement** lists the income (revenue) at the top of the report, and the expenses at the bottom. The total income is shown at the bottom of the income section, and the total expenses are shown at the bottom of the expense section. These amounts are added together to arrive at a net profit or net loss, which is recorded at the very bottom of the report. The **Income Statement** is a financial summary OVER A GIVEN PERIOD OF TIME and usually is not for a period longer than a fiscal year.

**GENERAL LEDGER** is the ledger where all transactions are recorded. In accounting software, the entries are recorded in the **General Ledger** by the software. The user simply keys in the transaction using the appropriate module, and the software does the rest. The **General Ledger** lists all transactions BY ACCOUNT in the order that they appear on the **Chart Of Accounts**. For example, where an entry affects the bank account, GST and fuel expense, the **General Ledger** will list the dollar amount affecting the bank account, and further down will list the amount affecting GST, still further down will list the amount affecting fuel expense.

**GENERAL JOURNAL** is the journal where entries can be posted using account numbers, debits (DR) and credits (CR). In accounting software, it is an entry where the user must be aware of the accounts to be used and must key in the appropriate accounts, debits and credits. The **General Journal** records transactions that cannot be posted into the General Ledger in any other way.

Each entry in the **General Journal** is given a **Transaction Number**. This sequence of numbers does not shift when an entry is removed from the **General Journal**. In essence, an entry should never be deleted. If an entry is found to be incorrect, the error is either reversed, voided or corrected by means of a subsequent entry called an **Adjustment**.

A note on the "Minus" sign: When writing out a calculations on a worksheet or other documentation, do not use a traditional MINUS SIGN "-". Instead, negative amounts are shown inside brackets "( )":

INCORRECT:	\$ 150.00	CORRECT:	\$ 150.00
	- 25.00		( 25.00)
	<u>\$ 125.00</u>		<u>\$ 125.00</u>

Arlene Nora Arlow is a Certified QuickBooks ProAdvisor, QuickBooks instructor, author of *Bookkeeping with QuickBooks® The Canadian Guide* and Director of the Addventive Academy, a resource for Canadian Bookkeepers. Arlene can be reached by email at [arlene@addventive.com](mailto:arlene@addventive.com) or [arlene-addventiveacademy@usa.net](mailto:arlene-addventiveacademy@usa.net)

© 2004-2006 Intuit Developer Network Advisory Council (IDNAC). All rights reserved.  
This article is strictly for informational/educational purposes and is not intended to be an endorsement.

Intuit and the Intuit logo are used with permission.

Visit us on the web at [www.idnac.org](http://www.idnac.org)