

Accounting and Finance Basics – Every Accountant Should Know

Term	Definition
Assets	Resources owned by a company with economic value.
Liabilities	Obligations the company must settle in the future.
Equity	The residual interest in the assets after deducting liabilities.
Revenue	Income generated from normal business operations.
Expenses	Costs incurred in the process of earning revenue.
Net Income	Profit remaining after all expenses are deducted from revenue.
Balance Sheet	A financial statement showing assets, liabilities, and equity.
Income Statement	A financial report summarizing revenues and expenses.
Cash Flow Statement	A report that shows the inflows and outflows of cash.
Accrual Accounting	Recording revenues and expenses when they are incurred.
Accounts Receivable	Money owed to a company by its customers.
Accounts Payable	Money a company owes to its suppliers.
Inventory	Goods available for sale or used in production.
Gross Profit	Revenue minus the cost of goods sold.
Depreciation	Allocating the cost of a tangible asset over its useful life.
Operating Expenses	Costs required to run the company's core operations.
Operating Income	Gross profit minus operating expenses.
Break-even Point	The level of sales at which total revenues equal total expenses.
Budgeting	Planning future business activities and financial goals.
Amortization	Spreading the cost of an intangible asset over its useful life.
Variance Analysis	Comparing actual financial performance to budgeted figures.
Financial Ratios	Metrics used to evaluate the financial health of a company.
Liquidity	The ability of a company to meet short-term obligations.
Solvency	The ability of a company to meet long-term obligations.
Forecasting	Predicting future financial outcomes based on historical data.
Cost of Goods Sold (COGS)	Direct costs attributable to the production of goods sold.
Return on Investment (ROI)	A measure of the profitability of an investment.
Cash Accounting	Recording revenues and expenses when cash is exchanged.
Earnings Before Interest & Taxes (EBIT)	Operating income before interest and tax expenses.
Earnings Before Interest, Taxes, Depreciation, & Amortization (EBITDA)	EBIT plus depreciation and amortization.