

EASY PROFIT GAME



GLOSSARY OF ACCOUNTING TERMS

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Accounts Receivable - AR: The amount of money owed by your customers after goods and/or services have been delivered and/or used.

Accounting - ACCG: A systematic way of recording and reporting financial transactions.

Accounts Payable - AP: The amount of money a company owes creditors in return for goods and/or services they have delivered.

Accrual Accounting - ACR: Accrual accounting relies on the following two principles: cash accounting and the revenue recognition principle. The revenue recognition principle states that revenues are recognized when they are realized or realizable, and are earned, no matter when the payment is received. Also review Cash Accounting.

Assets (Fixed and Current) - FA and CA: Fixed assets are longer-term and will likely provide benefits to a company for more than one year, such as a building, land or equipment. Current assets are those that will be used within one year. Typically this could be cash, inventory or accounts receivable.

Bad Debt: Bad Debt includes all reasonable means to collect a debt have been tried and have failed so the amount owed is written off as a loss and becomes categorized as an expense on an income statement.

Balance Sheet - BS: A financial report that summarizes a company's assets, liabilities and owner's equity at a given time.

Capital - CAP: A financial asset and its value, such as cash or goods. Working capital is calculated by taking your current assets subtracted from current liabilities.

Cash Accounting - CAS: Cash Accounting is an accounting method where receipts are recorded during the period they are received, and expenses are recorded in the period in which they are actually paid. Small businesses often use cash accounting because it is simpler and more straightforward, and it provides a clear picture of how much money the business actually has on hand. Also review Accrual Accounting.

Cash Flow - CF: The revenue or expense expected to be generated through business activities (sales, manufacturing, etc.) over a period of time. Maintaining positive cash flow is essential in order for businesses to survive.

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Certified Public Accountant - CPA: A designation given to someone who has passed a standardized CPA exam and met government-mandated work experience and educational requirements to become a CPA.

Chief Executive Officer - CEO: “The Big Cheese” Chief Financial Officer - CFO: “The Bean Counter”

Cost of Goods Sold - COGS: The direct expense related to producing the goods sold by a company. This may include the cost of the raw materials and amount of employee labor expended.

Credit - CR: An accounting entry that may either decrease assets or increase liabilities and equity on the company's balance sheet, depending on the transaction. When using the double-entry accounting method there will be two recorded entries for every transaction: a credit and a debit.

Debit - DR: An accounting entry where there is either an increase in assets or a decrease in liabilities on a company's balance sheet.

Expenses (Fixed, Variable, Accrued, Operation) - FE, VE, AE, OE:

The fixed, variable, accrued or day-to-day costs that a business may incur through its operations. Examples of expenses include payments to banks, suppliers, employees or equipment.

Generally Accepted Accounting Principles - GAAP: A set of rules and guidelines developed by the accounting industry for companies to follow when reporting financial data. Following these rules is especially critical for all publicly traded companies.

General Ledger - GL: A complete record of the financial transactions over the life of a company.

Gross Profit - GP: Gross Profit refers to what is left after you subtract the cost of goods sold from the sales. It is also called gross margin. For example, if an organization buys in an item for \$50 and sells it for \$75, then the gross profit will be \$25. Gross Profit calculations do not include or consider taxes.

Liabilities (Current and Long-Term) - CL and LTL: A company's debts or financial obligations it incurred during business operations. Current liabilities are those debts that are payable within a year, such as a debt to suppliers. Long-term liabilities are typically payable over a period of time greater than one year. An example of a long-term liability would be a bank loan.

Liquidity and Money - LM: Liquidity is the ability to meet current obligations with cash or other assets that can be quickly converted into cash in order to pay bills as they become due. In other words the organization has enough cash or assets that will become cash so that it is able to write checks without running out of money.

Modified Cash Accounting: Modified Cash Accounting (or Basis) is an accounting method that combines elements of the two major accounting methods, the cash method and the accrual method. The modified cash basis method uses accruals for long-term balance sheet elements and the cash basis for short-term ones. Also review Accrual Accounting and Cash Accounting.

Net Income - NI: A company's total earnings, also called net profit or the "Easy Profit." Net income is calculated by subtracting total expenses from total revenues.

Owner's Equity - OE: An owner's equity is typically explained in terms of the percentage amount of stock a person has ownership interest in the company. The owners of the stock are commonly referred to as the shareholders.

Present Value - PV: The value of how much a future sum of money is worth today. Present value helps us understand how receiving \$100 now is worth more than receiving \$100 a year from now.

Profit and Loss Statement - P&L: A financial statement that is used to summarize a company's performance and financial position by reviewing revenues, costs and expenses during a specific period of time; such as monthly, quarterly or annually.

Return on Investment - ROI: A measure used to evaluate the financial performance relative to the amount of money that was invested. The ROI is calculated by dividing the net profit by the cost of the investment. The result is often expressed as a percentage.

Sales or Revenue - Sales or REV: Sales or Revenue is the income that flows into an organization, and it is often used almost synonymously with sales. In government and nonprofit organizations it includes taxes and grants. Don't confuse revenues with receipts. Under the accrual basis of accounting, revenues are shown in the period they are earned, not in the period when the cash is collected. Revenues occur when money is earned; receipts occur when cash is received.

Working Capital - WC: Working Capital is the difference between current assets and current liabilities. An organization without sufficient working capital cannot pay its debts as they fall due. Poor financial management practices can lead even a profitable company to close due to Working Capital shortages.