Twenty-five Words That Will Make You Sound Like You Have an MBA

Every profession has its jargon, including accounting. The challenge with accounting language is, at times, it uses normal English words for very specific meaning and at other times it uses the same word to mean a lot of different things.

An example of the first is a debit. In common English it means to take money out of your possession. "I am going to debit your account." "Take it out of my debit account card.." Credit in ordinary English means something positive/good that adds to your well-being. "I will credit your account." Or even. "I give you credit for taking that on and getting it done." It also means the ability to borrow. "I have good credit." "Charge it on my credit card." In the land of accounting, debit means "put in left column" and credit means "put in right column." We all know what credit means. Right? Left? Confused? Well, if business professionals used normal English, then everyone would understand what was being spoken and we all know the danger in that.

What follows is an attempt to list the twenty-five words that you can master to impress your favorite accountant or banker and sound like a graduate of this year's SBM class!!!

1. & 2. Debits and Credits in accounting comprise a "double entry system". When you want to record a business event or "transaction" you always record it twice. For every addition in the left (debit) hand column of your record book there is a similar transaction on the right (credit) column. If you pay attention, all the transaction in the left hand column will always equal all the transaction in the right hand column. If you add each column up and they will equal each other or "balance".

Balance Sheet

3. Balance Sheet, also known as a Statement of Financial Position, is a financial statement that records the total of all transaction of a business up to a specific date.
In normal English it first lists everything thing you have by recording what you originally paid for it. Then it list how you paid for it..,,,either by paying for it 1) from profits, 2) by selling other things that you have previously bought 3) with borrowed money or 4) with your own money. The basic accounting equation is assets = liability + equity or again in ordinary English everything you have (assets) equals everything you owe (liability) and everything you own (owner's equity).

4. Assets are things of value and usually refer to tangible objects. A house, a car, a tool are all assets. Things that are not as solid….like leases, contracts, and patents can also be assets and even "good will" which is will talk about later

5. Current Assets are cash, inventory, accounts receivables and notes that can be readily turned into cash, usually within a year's time. . Inventory is an asset. When purchasing assets it is "normally" recorded on your balance sheet and not your Profit and Loss Statement.

6. Account receivables are funds owed to you for things that you have sold or services provided. People say… "put it on my account". They mean I owe you and will pay you later… we hope.

7. Fixed Assets are literally things that are fixed to the ground. It is the building and un-moveable equipment in a business.

8. Liability Liabilities have a negative connotation in every day English but in business it a great thing. Someone thought highly enough of you to lend you their hard earned money and actually believes you can pay them back.

9. Current Liabilities are all debts and obligations that are due within one year.

10. Accounts payables are expenses that you owe some one else. They happen when YOU say .."Put that on my account… Your accounts payables are someone else's account receivables.

11. Equity is the portion of an asset that you own. Each asset has two parts, the part that is owned by the owner of the business or owner's equity or the part owned by an outside party known as a liability

12. Draws also known as draws on equity are the funds withdrawn from the business. Draws are not to be confused by wages, which is an expense for work done. When you take Draws from a business you are generally not paying payroll taxes on these withdrawals. It is possible to make draws without making profits by using cash from loans, the sale of assets or equity contributions but to be sustainable draws come from profits and are closely linked. They are not the same thing.

13. Current Income is the profits of the business during the current year.

14. Retained Earnings are the total amount of profits that has been left in the company to purchase assets, pay down debt or pay dividends or draws.

Income Statement

15. Income Statement is also known as a profit and loss statement. It is a financial statement that lists the total amount of revenues and the total amount of expenses over a period of time in a standard form. It lists the revenues first and then subtracts expenses. What is left over is either a profit or loss.

16. Cost of Goods Sold is exactly that. If your inventory is maintained at a constant level then a simple definition would be that your purchases of products to sell are your cost of good sold. Costs of Goods sold are those things that have been consumed as part of the direct generation sales. Inventory is the stuff still sitting on the shelf. Inventory is an asset. Cost of Goods sold is an expense.

17. Gross profit is the first line of profit. Gross profits are revenues minus cost of goods sold.

18. Gross profit percentage is determined by dividing gross profit by revenues. Knowing this percentage is critical in running a business

19. Fixed expenses are defined as expenses that do not run with sales.

20. Operating expenses are fixed expense that are incurred through operation and do not include interest and depreciation expense.

21. Extraordinary revenue and expenses. Sometimes, it makes sense to record extraordinary revenues and expenses in a separate part of the income statement to help with year-to-year comparisons of profits.

22. Net profit is the difference between total revenues and total expenses. It is also known in every day English as the "bottom line".

Cash Flow Statement

23.Cash Flow Statements: A process to help you avoid having your "cash flow" down the drain. A cash flow statement records all the four ways of putting money in your check book… 1) Revenues 2) selling assets 3) borrowing it and 4) putting your own money in and the fours ways of taking you money out of your check book. 1) Expenses 2) buying assets 3) paying back loans and 4) taking your own money back out. It also list adjustments to your various "accounts"….. those payable and receivables. It states how much money you started with and tells you how much is left. Much like a checkbook but with a little bit more consolidated information.

24. **Positive Cash Flow** means that you are not bouncing checks.

25. **Working Capital**: Has nothing to do with the level of productivity in Washington. It refers to cash and other resources available to run the business in the short term (e.g. cash, inventory, well managed accounts receivable). Working capital should be appropriate for the level of sales activity, that is not too little and not too much. Capital is another word that has several meanings depending on use.