KEY TERMS

Balance sheet
Shows the resources (assets) and sources (Liabilities + Owners fund) on a particular date.

Income statement
shows the incomes and expenses during a particular period

Cash flow statement
shows the receipts and payments in cash during a particular period

GAAP
The phrase “generally accepted accounting principles” is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time.

Going Concern:
The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future.

Consistency
It is assumed that accounting policies are consistent from one period to another.

Accrual
Revenues and costs are accrued, that is, recognized as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

The Financial Statements
Every business decision involves financial items. The financial items can be divided into four categories: Incomes, Expenses, Assets and Liabilities. These financial items find place in the financial statements. These financial statements are balance sheet, income statement, and cash flow statement.

Assets
Assets are the economic resources of a company. Asset can be defined as follows: Property owned by a company and benefits of which will accrue over a period of time.

Current Assets
Current assets consists of “cash and other assets or resources commonly identified as reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business.

Non-current assets:
Assets other than current assets are called non-current assets. Non-current assets include fixed assets, investments and other intangibles.

Liabilities

Liabilities are the obligations of a company. The obligations can also be classified into two broad categories: current liabilities and non-current liabilities.

Current liabilities

Obligations whose liquidation is reasonably expected to require the use of existing resources properly classified as current assets are called current liabilities.

Non-current liabilities

Liabilities other than the current liabilities are called non-current liabilities. Following obligations are the examples of non-current liabilities: Bonds/Debentures, Loans, Pension obligations, Liabilities under capital leases.

Equity/ Stockholders money

Equity is also known as the owners fund and net worth. It represents the residual money available after the total liabilities are deducted from the assets.

Other Incomes

The income received by a company from sources other than sales of its main products and services is mentioned separately.

Cost of goods sold (COGS)

As the name suggests, COGS is the cost of the units sold during the accounting period. The cost of goods consumed is arrived at after making suitable adjustments for opening and closing stocks

LIFO: Last-in-first-out.

Method of valuing inventory. Under this method the goods purchased last will be used first. So the unsold stock is generally from the past purchases.

FIFO: First-in-first-out.

Method of valuing inventory Under this method, the oldest purchase is used first. So the unsold stock is from the latest purchases.

Depreciation

Depreciation is the charge for using the assets. It can be described as the cost of the assets used during the year.

Cash Equivalents

The cash equivalents are risk-free short term investments, either in reporting currency or in foreign currency, having a maturity period of not exceeding three months, net of short term advances.

Operating activities

Operating activities are the principal revenue producing activities of the enterprise and other activities that are not investing or financing activities.

Investment activities
Investing activities relate to the acquisition and disposal of long term assets and other investments not included in cash equivalents.

Financing activities
Financing activities are activities that result in changes in the size and composition of the equity capital and borrowing of the enterprise.