

Common Accounting Terms

The following is a list of some common financial and accounting terms and a brief description of each term as they relate to a not-for-profit organization.

Asset – Property or economic resource owned by an organization which has an ability to provide future economic benefit; what the organization owns (examples – cash, investments, equipment, buildings)

Liability – Financial obligation or debt of an organization; an amount that is owed to someone else (examples – accounts payable, accrued expenses, deferred revenue, loans)

Net Assets – the accumulated net income of an organization (for a business it would be retained earnings or owner's equity) $\text{Total Assets} - \text{Total Liabilities} = \text{Net Assets}$

Revenue (Income) – funds received or earned by the organization (examples – fees for services, donations, fundraising proceeds, grants)

Expense – costs incurred for obtaining a good or service related to operating the organization

Net Income – the residual amount of income after all expenses have been deducted (may also be referred to as Surplus/Deficit) $\text{Revenues} - \text{Expenses} = \text{Net Income}$

Balance Sheet – a summary of the financial position of an organization at a point in time; a summary of business Assets, Liabilities and Net Assets (may also be referred to as Statement of Financial Position)

Income Statement – a summary of the organization's Revenues and Expenses over a period of time; determines Net Income for that period of time

Budget – detailed estimate of anticipated income and expenditures for a future period

Projected Cash Flow Statement – summary of expected cash inflows and outflows for an upcoming period of time; used to project available cash and/or financing requirements for a future period

Cash Accounting – a method of accounting where revenues and expenses are recorded when the cash is received or paid regardless of when the good or service was sold or received

Accrual Accounting – a method of accounting where revenues and expenses are recorded when they are earned or acquired regardless of when the cash is received or paid