***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Accounting Terms

Word List

Account:

Nouns - *Microsoft Encarta College Dictionary:*

1) REPORT: a written or verbal report of something
2) EXPLANATION: an explanation of something that has happened, especially one given to somebody in authority
3) BANK ARRANGEMENT: an arrangement in which a customer keeps money in a bank or other financial institution and is offered certain services in exchange
4) MONEY IN BANK: the money that a customer keeps in a bank

Derivation: 14 century, from Old French *aconte* "a counting up" from *aconter* from Latin *computare* "sum up"

Noun – Accounting Principles:

CATEGORY: category per the Chart of Accounts

Accounts:

Noun (plural) - *Microsoft Encarta College Dictionary:*

LIST OF FINANCIAL INFORMATION: a detailed list of everything that a company or individual earns or spends, kept primarily for tax purposes

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Accounting:

Noun - *Microsoft Encarta College Dictionary:*

the activity, practice or profession of maintaining and checking the business records of an individual or organization and preparing forms and reports for tax or other financial purposes

Noun - Accounting Principles:

General accounting and financial accounting apply to the overall accounting for an economic unit. This function is concerned with the recording of transactions for a business or other economic unit and the periodic preparation of statements from these records. The various general purpose and special purpose reports and statements prepared from the accounting records are used to impart useful information to managers, owners, creditors, governmental agencies, and the general public. Of particular importance to financial accountants are the established rules of accounting, termed "generally accepted accounting principles." It is incumbent upon corporate enterprises to abide by such principles in preparing their annual reports on profitability and financial status for their stockholders and the investing public. Comparability of annual reports is an essential element in the allocation of the nation's resources among business organizations in a socially desirable manner. The accounting principles and techniques that will be developed in this book are in large part included in financial accounting. – page 5

Accounting is primarily concerned with the design of the system of records, the preparation of reports based on the recorded data, and the interpretation of the reports. – page 7

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Accountant:

Noun - Accounting Principles:

Accountants often direct and review the work of bookkeepers. The larger the firm, the greater is the number of gradations in responsibility and authority. The work of accountants at the beginning levels may include some bookkeeping. In any event, the accountant must possess a much higher level of knowledge, conceptual understanding, and analytical skill than is required of the bookkeeper. – page 7

Bookkeeping:

Noun - Accounting Principles:

In general, bookkeeping is the recording of business data in a prescribed manner. A bookkeeper may be responsible for keeping all of the records of a business or of only a minor segment. – page 7

Assets:

Noun (plural)- Accounting Principles:

It is customary to refer to the properties owned by a business enterprise as *assets*. – page 11

Any physical thing (tangible) or right (intangible) that has a money value is an *asset*. – page 32

Equities:

Noun (plural)- Accounting Principles:

It is customary to refer to the rights or claims to the properties as *equities* – page 11

Equities may be sub-divided into two principal types: the rights of creditors and the rights of owners. The equity of the owners is called *capital*, or *owner's equity*. – page 12

Liabilities:

Noun (plural)- Accounting Principles:

The equities of creditors represent *debts* of the business and are called *liabilities*. – page 12

Liabilities are debts owed to outsiders (creditors) and are frequently described on the balance sheet by titles that include the word "payable." The two categories occurring most frequently are: (1) *current liabilities* and (2) *long-term liabilities*. – page 33

Capital:

Noun - Accounting Principles:

The equity of owners is called *capital*, or *owner's equity*. – page 12

Capital is the term applied to the owner's equity in the business. It is a residual claim against the assets of the business after the total liabilities are deducted. Other commonly used terms for *capital* are *owner's equity* and *net worth (stockholder's equity, shareholder's equity,* and *shareholders' investment* in referring to a corporation) – page 33

Accounting Equation:

Term - Accounting Principles:

Assets = Liabilities + Capital

- Assets (or Equities): properties owned by the company
- Liabilities: creditors portion of equities (or assets)
- Capital: owner's portion of equities (or assets)

Assets – Liabilities = Capital

- Assets (or Equities): properties owned by the company
- Liabilities: creditors portion of equities (or assets)
- Capital: owner's portion of equities (or assets)

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Transaction (business):

Term - Accounting Principles:

A business *transaction* is the occurrence of an event or of a condition that must be recorded. – page 10

All business *transactions*, from the simplest to the most complex, can be stated in terms of their effect on the three basic elements of the accounting equation. – page 12

Cash:

Noun - Accounting Principles:

Cash is any medium of exchange that a bank will accept at face value; it includes bank deposits, currency, checks, bank drafts, and money orders. – page 32

Accounts Receivable:

Term - Accounting Principles:

Accounts receivable are claims against debtors, less formal than notes, that arise from sales of services or merchandise on account. – page 32

Instead of requiring the payment of cash at the time goods or services are sold, a business may make sales *on account*, allowing the customer to pay later. In such cases the firm acquires a claim against the customer called an *account receivable*. – page 14

Account Payable:

Term - Accounting Principles:

During the month King (Taxi company) purchases $650 of gasoline, oil, and other supplies from various suppliers, agreeing to pay in the near future. This type of transaction is called a purchase *on account* and the liability created is termed an *account payable*. – page 13

Accounts Payable are exactly like their receivable counterparts except that the debtor-creditor relationship is reversed. – page 33

Revenue:

Noun - Accounting Principles:

In general, the amount charged to customers for goods or services sold to them is called *revenue*. Alternative terms may be used for particular types of revenue, such as *sales* for the sale of merchandise or business services, *fees earned* for charges by a physician to his patient, *rent earned* for the use of real estate or other property, and *fares* for King Taxi. – page 13 & 14

Revenue is the gross increase in capital attributing to business activities. It results from the sale of merchandise, the performance of services for a customer or a client, the rental of property, the lending of money, and other business and professional activities entered into for the purpose of earning income. *Revenue* from sales of merchandise or sales of services are often identified merely as *sales*. Other terms employed to identify sources of revenue include *professional fees, commissions revenue, fares earned,* and *interest income*. If an enterprise has different types of revenue, a separate account should be maintained for each. – page 34

Revenue increases capital. (page 35)

Net Income and Net Loss:

Terms - Accounting Principles:

The excess of the revenue over the expenses incurred in earning the revenue is called *net income*. If the expenses of the enterprise exceed the revenue, the excess is a *net loss*. – page 14

Equipment:

Noun - Accounting Principles:

"Long Lived" is a general term that may be applied to assets of a relatively fixed or permanent nature owned by a business enterprise. Such assets that are tangible in nature, used in the operations of the business, and not held for sale in the ordinary course of the business are classified on the balance sheet as *plant assets* or *fixed assets*. Other descriptive titles frequently employed are *property, plant,* and *equipment*, used either singly or in various combinations. – page 235

Depreciation:

Noun - Accounting Principles:

Equipment does wear out with usage and that, in any event, its utility decreases with the passage of time. This decrease in utility is a business expense, which is call *depreciation*. – page 15

With the exception of land, such assets gradually wear out or otherwise lose their usefulness with the passage of time; they are said to *depreciate*. – page 33

Utility as used above:

Noun - *Microsoft Encarta College Dictionary:*

USEFULNESS: the quality or state of being useful for something

Accumulated Depreciation:

Term - Accounting Principles:

...a cumulative record of the recognized depreciation.

...the decrease in plant (fixed) assets. – page 33

Balance Sheet:

Term - Accounting Principles:

The principal accounting statements of a company or entity are the *balance sheet* and the *income statement.* – page 16

A list of the assets, liabilities, and capital of a business entity as of a specific date, usually at the close of the last day of a month. – page 17

Income Statement:

Term - Accounting Principles:

The principal accounting statements of a company or entity are the *balance sheet* and the *income statement.* – page 16

A summary of the revenue and the expenses of a business entity for a specific period of time, such as a month or a year. – page 17

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Retained Earnings:

Illustration - Accounting Principles – page 21:

Net Income for the month	$ 700.00
Less dividends (draws, profit distributions)	$ 500.00

Retained Earnings	$ 200.00

Invetopedia.com:

Retained earnings are the cumulative net earnings or profit of a firm after accounting for dividends and are sometimes referred to as the earnings surplus. Retained earnings are the net earnings after dividends that are available reinvestment in the company's core business or to pay down its debt. It is recorded under shareholders' equity on the balance sheet. The formula calculates retained earnings by adding net income to or subtracting any net losses from, beginning retained earnings and subtracting any dividends paid to shareholders.

Read more: Retained Earnings
https://www.investopedia.com/terms/r/retainedearnings.asp#ixzz5N4QKmeln

Follow us: Investopedia on Facebook

Profit:

Noun - *Microsoft Encarta College Dictionary:*

EXCESS OF INCOME OVER EXPENDITURE: the excess of income over expenditures during a particular period of time.

Profit Distribution:

Term - smallbusiness.chron.com

Profit distributions are not salary. Salary paid to compensate a person for services rendered to the company gets taken out of business revenue before determining the amount of profit available for distribution.

Term – investorguide.com

The allocation of profits to different recipients such as shareholders and owners, or for different purposes such as research or investment

Draw:

Term – investorguide.com

If you are a sole proprietor you are not an employee and you don't take a salary in the form of a regular paycheck. No FICA taxes (Social Security/Medicare) are deducted and no federal or state income tax is withheld. A sole proprietor gets "paid" by taking a distribution from the profits of the business. Amounts taken out of a business by a sole proprietor may be called a *draw* because these amounts *draw* down your capital (ownership) account.

Drawing account:

Term - Accounting Principles:

The owner of a successful enterprise organized as a sole proprietorship may from time to time withdraw cash from the business for his personal use. It is the customary practice if the owner devotes full time to the business or if the business is his principal source of income. Such withdrawals are recorded as debits to an account bearing the owner's name followed by *Drawing* or *Personal*. Debits to the account may be considered either as decreases in capital (negative sense) or as increases in drawings (positive sense). – page 36

Dividends:

Noun (plural)- Accounting Principles:

Distributions of earnings to owners (stockholders) are called *dividends* rather than drawing or withdrawals and are so identified on the retained earnings statement above. (see Retained Earnings illustration above) – page 21

Dividend account:

Term - Accounting Principles:

The dividends account of a corporation is comparable to the drawing account of a sole proprietorship. Distributions of earnings to the stockholders are debited to *Dividends*, and the account is periodically closed to the retained earnings account. Debits to the account may be regarded either as decreases in capital (negative sense) or as dividends (positive sense). – page 36

Ledger:

Noun - Accounting Principles:

A group of related accounts that comprise a complete unit, such as all of the accounts of a specific business enterprise, is referred to as a ledger. – page 29

Double-entry accounting:

Term - Accounting Principles:

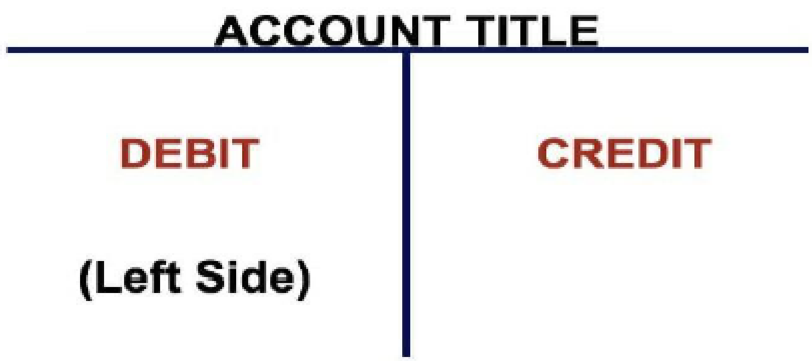
Every business transaction affects a minimum of two accounts. Regardless of the complexity of a transaction or the number of accounts affected, the sum of the debits is always equal to the sum of the credits. This equality of debit and credit for each transaction is inherent in the equation A = L + C (Assets = Liabilities + Capital). It is also because of this duality that the system is known as "double-entry accounting." – page 34 & 35

T-accounts:

Term - Accounting Principles:

The simplest form of an account has three parts: (1) a title, which is the name of the item recorded in the account; (2) a space for recording increases in the amount of the item, in terms of money; and (3) a space for recording decreases in the amount of the item, also in monetary terms. This form of an account, illustrated on the next page, is known as a *T account* because of its similarity to the letter T. – page 29

Accounts in the simple T form are used primarily for illustrative purposes. – page 38



(Illustration provided by corporatefinanceinstitute.com)

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Debit:

Modifier – Accounting Principles:

The left side of the (T) account is called the debit side.

The left side of all accounts, whether asset, liabilities, or capital is called debit.

Affect on the type of account:

Type of Account	Increases	Decreases
Assets	Debit	Credit
Liability	Credit	Debit
Capital	Credit	Debit
Capital Stock	Credit	Debit
Retained Earnings	Credit	Debit
Draws, Dividends	Debit	Credit
Revenue	Credit	Debit
Expense	Debit	Credit

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Credit:

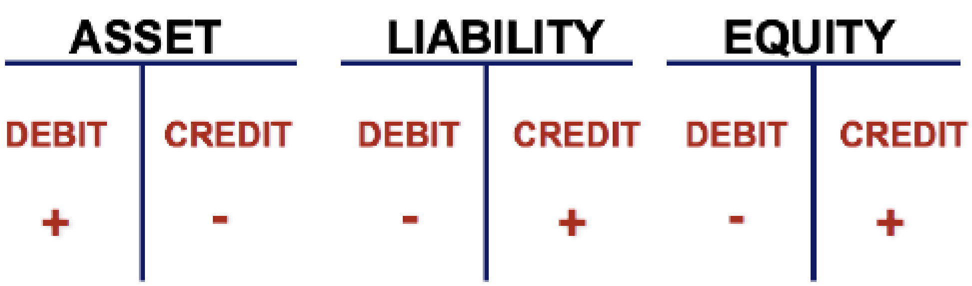
Modifier – Accounting Principles:

The right side of the (T) account is called the credit side.

The right side of all accounts, whether asset, liabilities, or capital is called credit.

Affect on the type of account:

Type of Account	Increases	Decreases
Assets	Debit	Credit
Liability	Credit	Debit
Capital	Credit	Debit
Capital Stock	Credit	Debit
Retained Earnings	Credit	Debit
Draws, Dividends	Debit	Credit
Revenue	Credit	Debit
Expense	Debit	Credit



(Illustration provided by corporatefinanceinstitute.com)

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Journal Entry:

Term - Accounting Principles (page 31)

The effect of the transaction on accounts in the ledger can be...stated in a formalized manner by listing the title of the account and the amount to be debited, followed by a similar listing, below and to the right of the debit, of the title of the account and the amount to be credited. This form of presentation is called a journal entry, and is illustrated as follows:

Cash............................	$3,200	
Capital.........................		$3,200

An entry composed of two or more debits or of two or more credits is called a compound journal entry.

Cash	
$3,200	

Capital	
	$3,200

Posting:

Verb – Accounting Principles (page 31)

The data in the journal entry are transferred to the appropriate accounts by a process known as posting. The accounts after posting the above journal entry (see illustration under Journal Entry) appear as follows:

Cash	
$3,200	

Capital	
	$3,200

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Current Assets:

Term - Accounting Principles:

Cash and other assets that may reasonably be expected to be realized in cash or sold or consumed usually within a year or less through the normal operations of the business are called *current assets*. In addition to cash, the assets in this group usually owned by a service business are notes receivable and accounts receivable, and supplies and other prepaid expenses. – page 32

Notes Receivable:

Term - Accounting Principles:

Notes Receivable are claims against debtors evidenced by a written promise to pay a certain sum in money at a definite time to the order of a specified person or to the bearer. – page 32

Prepaid Expenses:

Term - Accounting Principles:

Prepaid expenses include supplies on hand and advance payments of expenses such as insurance and property taxes. – page 32

Plant Assets:

See Fixed Assets

Fixed Assets:

Term - Accounting Principles:

Tangible assets used in the business that are of a relatively fixed or permanent nature are called *plant assets* or *fixed assets*. – page 33

Typical titles for accounts in this category are: Equipment, Accumulated Depreciation – Equipment, Buildings, Accumulated Depreciation – Buildings and Land. – page 33

Current Liabilities:

Term - Accounting Principles:

Liabilities that will be due within a short time (usually one year or less) and that are to be paid out of current assets are called *current liabilities*. The most common liabilities in this group are *notes payable* and *accounts payable*, which are exactly like their receivable counterparts except that the debtor-creditor relationship is reversed. Other current liability accounts commonly found in the ledger are Salaries Payable, Interest Payable, and Taxes Payable. – page 33

Notes Payable:

Term - Accounting Principles:

are exactly like their receivable counterparts except that the debtor-creditor relationship is reversed. – page 33

Long-term Liabilities:

Term - Accounting Principles:

Liabilities that will not be due for a comparatively long time (usually more than one year) are called *long-term liabilities* or *fixed liabilities*. As they come within the one-year range and are to be paid, such liabilities become current. If the obligation is to be renewed rather than paid at maturity, however, it would continue to be classed as long-term. When payment of a long-term debt is to be spread over a number of years, the installments due within one year from a balance sheet date are classed as a current liability. When notes are accompanied be security in the form of a mortgage, the obligation may be referred to as *mortgage notes* or *mortgage payable*. – page 33

Net Worth:

See Capital

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Expense:

Noun - Accounting Principles:

Costs that have been consumed in the process of producing revenue are *expired costs* or *expenses.* The number of expense categories and individual expense accounts maintained in the ledger varies with the nature and the size of an enterprise. A large business with authority and responsibility spread among many employees may use an elaborate classification and hundreds of accounts as an aid in controlling expenses. For a small service business of the type assumed here, a modest number of expense accounts is satisfactory. – page 34

Expenses have the effect of decreasing capital. (page 35)

Journalizing:

Verb – Accounting Principles

Page 37 [The process of recording a transaction in a journal is called journalizing.

Chart:

Nouns - *Microsoft Encarta College Dictionary:*

DIAGRAM OR TABLE: a diagram or table displaying detailed information

[Late 16th century via French *charte* <Latin *charta* “paper, papyrus leaf.”]

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Chart of Accounts:

Term – From Wikipedia, the free encyclopedia:

A **chart of accounts** (**COA**) is a created list of the accounts used by an organization to define each class of items for which money or the equivalent is spent or received. It is used to organize the finances of the entity and to segregate expenditures, revenue, assets and liabilities in order to give interested parties a better understanding of the financial health of the entity.

Term – Accounting Principles

The number of accounts maintained by a specific enterprise is affected by the nature of its operations, its volume of business, and the extent to which details are needed for taxing authorities, managerial decisions, credit purposes, etc. – page 40

Trial Balance:

Term – Accounting Principles

From time to time the equality of debits and credits in the ledger should be verified. In any event the verification should be performed at the end of each accounting period. Such a verification, which is called a *trial balance,* may be in the form of an adding machine tape or in the form illustrated below. The summary listing of both the balances and the titles of the accounts is also useful in preparing the income statement and balance sheet. The trial balance does not provide complete proof of the accuracy of the ledger. It indicates only that the *debits* and the *credits* are *equal.* – page 47

Capital Stock:

Term – Accounting Principles

The owners' equity in a corporation is commonly called capital, stockholders' equity, shareholders' equity, or shareholders' investment. The capital acquired from stockholders, sometimes referred to as paid-in capital, is recorded in accounts maintained for each class of stock. If there is only one class of stock, the account is entitled Common Stock or Capital Stock. – page 396

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Cost of Goods Sold/Cost of Merchandise Sold:

Term – Accounting Principles

It is customary to accumulate detailed data about the cost of merchandise sold. Such details may be presented on the income statement in the following manner:

Cost of merchandise sold:			
Merchandise inventory, January 1, 1973		$19,700	
Purchases	$105,280		
Less purchases discount	1,525		
Net purchases		103,755	
Merchandise available for sale		$123,455	
Less merchandise inventory, December 31, 1973.		22,150	
Cost of merchandise sold			$101,305

– page 138

Other descriptive terms frequently employed are *cost of goods sold* and *cost of sales.* – page 144

Inventory or Inventories:

Noun – Accounting Principles

The term *inventories* is used to designate merchandise held for sale in the normal course of business and also materials in the process of production or held for such us. – page 185

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Book Value (of the assets):

Term – Accounting Principles

...the difference between the cost of the assets and the loss in utility of that asset. - page 62

Example:

Printing Equipment	$6,000 (cost)
Less accumulated depreciations	100
= Book Value	$5,900

Accrual (basis):

Bench.co

The difference between cash and accrual accounting lies in the timing of when sales and purchases are recorded in your accounts. Cash accounting recognizes revenue and expenses only when money changes hands, but accrual accounting recognizes revenue when it's earned, and expenses when they're billed (but not paid).

Under the *accrual basis*, revenues and expenses are recorded when they are earned, regardless of when the money is actually received or paid. This method is more commonly used than the cash method.

The upside is that the *accrual basis* gives a more realistic idea of income and expenses during a period of time, therefore providing a long-term picture of the business that cash accounting can't provide.

Cash (basis):

Bench.co

The difference between cash and accrual accounting lies in the timing of when sales and purchases are recorded in your accounts. Cash accounting recognizes revenue and expenses only when money changes hands, but accrual accounting recognizes revenue when it's earned, and expenses when they're billed (but not paid).

The *cash basis* of accounting recognizes revenues when cash is received, and expenses when they are paid. This method does not recognize accounts receivable or accounts payable.

Financial Statements:

From Wikipedia, the free encyclopedia:

Financial statements (or **financial report**) is a formal record of the financial activities and position of a business, person, or other entity.

Relevant financial information is presented in a structured manner and in a form easy to understand. They typically include basic financial statements, accompanied by a management discussion and analysis:

1. A balance sheet or statement of financial position, reports on a company's assets, liabilities, and owners equity at a given point in time.
2. An income statement or statement of comprehensive income, statement of revenue & expense, P&L or profit and loss report, reports on a company's income, expenses, and profits over a period of time. A profit and loss statement provides information on the operation of the enterprise. These include sales and the various expenses incurred during the stated period.
3. A Statement of changes in equity or equity statement or statement of retained earnings, reports on the changes in equity of the company during the stated period.
4. A cash flow statement reports on a company's cash flow activities, particularly its operating, investing and financing activities.

Fiscal Year:

Term – Accounting Principles

The maximum length of an accounting period is ordinarily one year, which includes a complete cycle of the seasons and of business activities. Income and property taxes are also based on yearly periods and thus require that annual reckonings be made.

The annual accounting period adopted by an enterprise is known as its *fiscal year*. Fiscal years ordinarily begin with the first day of the particular month selected and end on the last day of the twelfth month hence. The period most commonly adopted is the calendar year, but other periods are not infrequently elected, particularly by incorporated businesses. – page 76

Calendar Year:

See Fiscal Year

General Ledger:

Term – Accounting Principles

When there is a substantial number of individual accounts with a common characteristic, such as accounts with credit customers, it is customary to place them in a separate ledger called a *subsidiary ledger*. The principal ledger, which contains all of the balance sheet and income statement accounts, is then referred to as the *general ledger*. – page 91

Subsidiary ledger:

Term – Accounting Principles

When there is a substantial number of individual accounts with a common characteristic, such as accounts with credit customers, it is customary to place them in a separate ledger called a *subsidiary ledger*. The principal ledger, which contains all of the balance sheet and income statement accounts, is then referred to as the *general ledger*. – page 91

Sales Journal:

Term – Accounting Principles

The sales journal is used solely for recording *sales of merchandise on account*. As was indicated earlier, sales of merchandise for cash are recorded in the cash receipts journal. – page 92

Cash Receipts Journal:

Term – Accounting Principles

The sales journal is used solely for recording *sales of merchandise on account*. As was indicated earlier, sales of merchandise for cash are recorded in the cash receipts journal. – page 92

All transactions that increase the amount of cash are recorded in a cash receipts journal. Cash may be received from a variety of sources, such as investments in the business by the owner, receipts from cash sales, collections from customers to whom sales have been made on account, and collections of principal and interest on notes receivable. – page 97

Sales Return:

Term – Accounting Principle

Merchandise sold may be returned by the customer (*sales return*) or, because of defects or for other reasons, the customer may be allowed a reduction from the original price at which the goods were sold (*sales allowance).* – page 94

Sales Allowance:

Term – Accounting Principle

Merchandise sold may be returned by the customer (*sales return*) or, because of defects or for other reasons, the customer may be allowed a reduction from the original price at which the goods were sold (*sales allowance).* – page 94

Credit Terms:

Term – Accounting Principle

The arrangement agreed upon by the seller and the buyer as to when payments for commodities are to be made are called the *credit terms*. If payment is required immediately upon delivery, the terms are said to be "cash" or "net cash." Otherwise, the buyer is allowed a specified time, known as the *credit period*, in which to pay. – page 97

Cash Discounts:

Term – Accounting Principle

As a means of encouraging payment before the expiration of the credit period, a discount may be offered for the early payment of cash. Thus the expression "2/10, n/30" means that, while the credit period is 30 days, the debtor may deduct 2% of the amount of the bill if payment is made in 10 days from the date of the invoice. This deduction is known as a *cash discount*. For example, assume a sales invoice totaling $500 dated July 6, with credit terms of 2/10, n/30. If the buyer mails his check on or before July 16, he may deduct $10 from the invoice and pay $490. If he wishes to wait the full credit term, he should mail his check for $500, or otherwise deliver it, not later than August 5.

From the seller's point of view, cash discounts are known as *sales discounts*; the purchaser refers to them as *purchases discounts*. – page 98

Sales Discounts:

Term – Accounting Principle

As a means of encouraging payment before the expiration of the credit period, a discount may be offered for the early payment of cash. Thus the expression "2/10, n/30" means that, while the credit period is 30 days, the debtor may deduct 2% of the amount of the bill if payment is made in 10 days from the date of the invoice. This deduction is known as a *cash discount*. For example, assume a sales invoice totaling $500 dated July 6, with credit terms of 2/10, n/30. If the buyer mails his check on or before July 16, he may deduct $10 from the invoice and pay $490. If he wishes to wait the full credit term, he should mail his check for $500, or otherwise deliver it, not later than August 5.

From the seller's point of view, cash discounts are known as *sales discounts*; the purchaser refers to them as *purchases discounts*. – page 98

***Please refer to the Accounting Key Terms Table of Contents and use Ctrl+F to locate specific key terms.*

Purchases Discounts:

Term – Accounting Principle

As a means of encouraging payment before the expiration of the credit period, a discount may be offered for the early payment of cash. Thus the expression "2/10, n/30" means that, while the credit period is 30 days, the debtor may deduct 2% of the amount of the bill if payment is made in 10 days from the date of the invoice. This deduction is known as a *cash discount*. For example, assume a sales invoice totaling $500 dated July 6, with credit terms of 2/10, n/30. If the buyer mails his check on or before July 16, he may deduct $10 from the invoice and pay $490. If he wishes to wait the full credit term, he should mail his check for $500, or otherwise deliver it, not later than August 5.

From the seller's point of view, cash discounts are known as *sales discounts*; the purchaser refers to them as *purchases discounts*. – page 98