



Accounting Fundamentals

Key Terms



Key Terms

Account: An accounting element that categorizes the nature of a transaction as a specific type of revenue, expense, fund balance, asset, or liability.

Account Balance: The total of the debit and credit amounts that have been entered on transactions for a specific account code.

Account Type: a method of grouping transactions that are classified with accounts. Account types include: asset, expense, liability, transfer, equity and revenue. Account types determine whether balances are carried forward at year-end.

Accounting: The process of identifying, recording, measuring and communicating financial information in a consistent, accurate and timely manner.

Accounting Standards: The authoritative guideline for financial accounting and reporting. The Generally Accepted Accounting Principles (GAAP) include many individual accounting standards.

Accounting Transaction: A business event having a monetary impact on the financial statements of an entity.



Key Terms (continued)

American Institute of Certified Public Accountants (AICPA): The national professional organization of Certified Public Accountants (CPA) in the United States, with more than 394,000 members in 128 countries and more than a 125-year heritage of serving the public interest.

Appropriation: The legislative act authorizing the expenditure of a designated amount of public funds for a specific purpose.

Asset: An economic resource that is owned or controlled by an entity.

Balance Sheet: Lists the assets, liabilities and changes in fund balance at a specified point in time.

Basis of Accounting: The different accounting methods that could be used in a transaction. The different accounting basis are: accrual, modified accrual and cash. The basis may be different based on the type of fund used for the transaction.

Budgeting: The process of estimating financial activities over a specified future period of time.



Key Terms (continued)

Capitalize: A capitalized cost is a cost that is recognized as part of a fixed asset on a company's balance sheet, rather than being charged to expense in the period incurred. If a cost is capitalized, then it is charged to expense over a period of time through the use of amortization (for intangible assets) or depreciation (for tangible assets).

Chart of Accounts: The accounting structure that sets hierarchies and rollups for financial data. The chart of accounts (COA) structure and values are maintained in the General Ledger and aids in the recording and reporting of accounting information.

ChartField: A field on the Chart of Accounts. It represents one category of data (e.g., Business Unit, Department, Account, etc.), with various values that further define a transaction.

Commitment Control: Enables the tracking or controlling of expenses against budgets and revenues against estimates.

Comprehensive Annual Financial Report (CAFR): A set of financial statements including a financial report of the governmental entity that complies with the accounting requirements promulgated by the Governmental Accounting Standards Board (GASB).

Credit: An amount that is entered on the right side of the account ledger.

Debit: An amount that is entered on the left side of the account ledger.



Key Terms (continued)

Double-Entry Accounting: A system that uses debits and credits for recording and summarizing transactions to produce financial statements.

Deferred Revenue: Revenue income received in advance of it being earned. An example is receiving a deposit on a service before it is performed. The deferred revenue account is a liability that is reduced once the service is performed and the revenue can be recognized.

Double-Entry Accounting: A system that uses debits and credits for recording and summarizing transactions to produce financial statements.

Expenditure: The current outflow of financial resources for personal and contractual services, supplies, materials, debt service and capital. Expenditures are the costs incurred to acquire goods and services.

Expense: The expired cost of using goods and services, including depreciation and amortization.

Financial Accounting: The process of reporting financial information in financial statements that describe the past financial performance and annual budget reports that describe the past and expected future financial activity.

Financial Statements: Reports that outline the financial activities of an organization. Their intent is to provide financial information in a concise, consistent format so that people can use the information to make decisions. The main financial statements for government entities include the following: balance sheet, statement of activities, statement of revenues, expenses, and changes in fund balances.



Key Terms (continued)

Financial Accounting Foundation (FAF): Independent, private-sector organization with responsibility for: establishing and improving financial accounting and reporting standards, fostering financial reporting that provides decision-useful information to investors and other users of financial reports.

Financial Accounting Standards Board (FASB): Established by the Financial Accounting Foundation, the FASB has been delegated the authority to establish standards of financial accounting and reporting and reporting for private-sector entities including business and not-for-profit organizations.

Fund: A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities and balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fund Accounting: Accounting processes performed in government entities that involves the segregation of activities and transactions into separate, fiscally independent funds.

Fund Balance: The difference between the assets and liabilities in a governmental fund.

General Ledger: A collection of accounts (e.g., Budget, Actuals, Modified Accrual, Full Accrual, and Cash) used to track accounting transactions. The General Ledger serves as the basis for the preparation of financial statements.



Key Terms (continued)

Generally Accepted Accounting Principles (GAAP): The common set of accounting principles, standards and procedures that organizations use to create their financial statements. GAAP is a combination of policy standards and commonly accepted ways of recording and reporting accounting information.

Governmental Accounting Standards Board (GASB): An organization established by the Financial Accounting Foundation to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities. Its main purpose is to improve and create accounting reporting standards or generally accepted accounting principles (GAAP).

Internal Controls: Methods and procedures adopted by an organization to promote fiscal responsibility and safeguard of resources.

Journal: An accounting entry used to post transactions to a ledger.

Liability: A debt or obligation for resources that have been purchased or funds borrowed that have not yet been paid for.

Managerial Accounting: The process of reporting accounting information on the nature, type and amount of costs involved in an operation to help managers make better decisions.



Key Terms (continued)

Month-End Close: The procedures that are followed at the close of a month to confirm that all transactions have been recorded in the accounting system, all reviews and reconciliations have been performed and all checklist items have been performed before the final step of preparing and reviewing the financial statements.

Normal Balance: The side (e.g., debit or credit) where an increase in the account is recorded.

Permanent Account: Accounts that are kept active as long as the entity is operating. The account balances are not closed at the end of the fiscal year. The balances at the end of the fiscal year are rolled forward to the new fiscal year.

Prepaid Expense: An expense paid in advance of it being incurred (used). An example is prepaid rent where rent is paid for a full year, but then expensed each month. The prepaid expense account is an asset that is reduced each month for the monthly amount that is expensed.

Revenue: The income generated from the sale of goods or services. Government revenue is money that is received by a government.

Statement of Revenues, Expenses, and Changes in Fund Balance: Describes the flow of resources in (revenue) and out (expenses). Explains how an entity operated over a specific period of time (e.g., one year).



Key Terms (continued)

T-Account: A visual aid used to depict an account listing both debits and credits. It is also a method of displaying a double-entry accounting transaction.

Temporary Account: Accounts that are closed at the end of the fiscal year into the changes in fund balance (which is then closed into the fund balance account). The balances at the end of the fiscal year are not rolled forward to the new fiscal year.

Transparency: The extent to which individuals have access to financial information about a governmental entity and audited financial reports. It is a standard practice to present financial statements that adhere to generally accepted accounting principles (GAAP). Transparency encourages accountability from government officials and provides information to citizens.

Trial Balance: A report that displays the balance of each account at a specified point in time and is also used to verify that accounting transactions are balanced.

Year-End Close: The procedures that are followed to close the financial records for the current year and to roll-forward certain account balances for the beginning of the new fiscal year.