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Accounting Jargon

Term	Part of Speech	Definition	Pronunciation	Example Sentence	Synonym	Antonym
Ledger	Noun	A book or other collection of financial accounts.	/ˈlɛdʒər/	"All transactions are recorded in the company's ledger for reference."	Accounting book	-
Balance Sheet	Noun	A financial statement that summarizes a company's assets, liabilities, and shareholders' equity at a specific point in time.	/ˈbæləns ʃi:t/	"The balance sheet showed an increase in the company's total assets."	Financial statement	-
Cash Flow	Noun	The total amount of money being transferred into and out of a business, especially as affecting liquidity.	/kæʃ flɔʊ/	"Maintaining a positive cash flow is essential for business operations."	Cash movement	-
Depreciation	Noun	A reduction in the value of an asset over time, particularly due to wear and tear.	/dɪˌpri:ʃiˈeɪʃən/	"The company accounted for the depreciation of its equipment in its financial reports."	Asset devaluation	Appreciation
Equity	Noun	The value of the shares issued by a company; also, the value of an owner's interest in a company, calculated as assets minus liabilities.	/ˈɛkwɪti/	"The owners' equity in the business has grown steadily over the years."	Ownership interest	Debt
Amortization	Noun	The gradual repayment of a debt over a period of time, typically through regular payments of principal and interest.	/ˌæmɔ:rtəˈzeɪʃən/	"The mortgage was structured with a 30-year amortization schedule."	Debt repayment	-
Liabilities	Noun	A company's legal financial debts or obligations that arise during the course of business operations.	/ˌlaɪəˈbɪlɪtiz/	"The company's liabilities include loans and accounts payable."	Debts, obligations	Assets

Term	Part of Speech	Definition	Pronunciation	Example Sentence	Synonym	Antonym
Revenue	Noun	The income generated from normal business operations, typically from the sale of goods and services.	/ˈrɛvənjuː/	"The company's revenue increased by 10% this quarter due to higher sales."	Income	Expenses
Gross Profit	Noun	The difference between revenue and the cost of producing goods or services sold by a company.	/grɒs ˈprɒfɪt/	"After deducting the cost of goods sold, the gross profit was calculated."	Gross income	Gross loss
Net Income	Noun	The total profit of a company after all expenses and taxes have been deducted from total revenue.	/nɛt ˈɪnkʌm/	"The company's net income showed a significant increase after reducing operational costs."	Net profit	Net loss
Accounts Receivable	Noun	Money owed to a company by its debtors.	/əˈkaʊnts rɪˈsɪvəbl/	"The business had a large amount of accounts receivable due from clients."	Debtors	Accounts payable
Accrual Accounting	Noun	A method of accounting where revenue and expenses are recorded when they are earned or incurred, regardless of when cash is exchanged.	/əˈkruːəl əˈkaʊntɪŋ/	"Under accrual accounting, the revenue was recorded when the service was performed, not when the payment was received."	-	Cash accounting

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Mnemonic Devices

Ledger: Think of ledger as the ledge on which all financial records rest – the foundation of accounting.

Depreciation: Depreciation causes an asset's value to depress over time – think of it as a gradual 'depressing' of value.

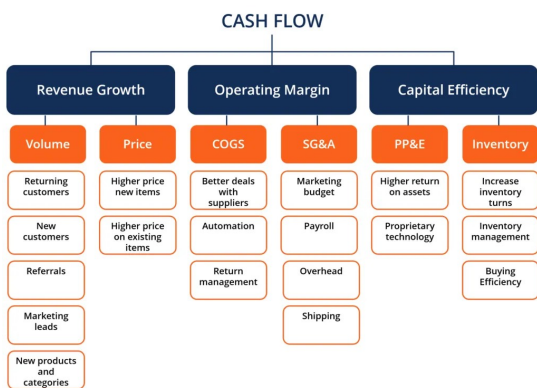
Amortization: Amortization sounds like 'A mortgage,' as it's often used to refer to paying off a loan over time.

Visual Aids

Balance Sheet

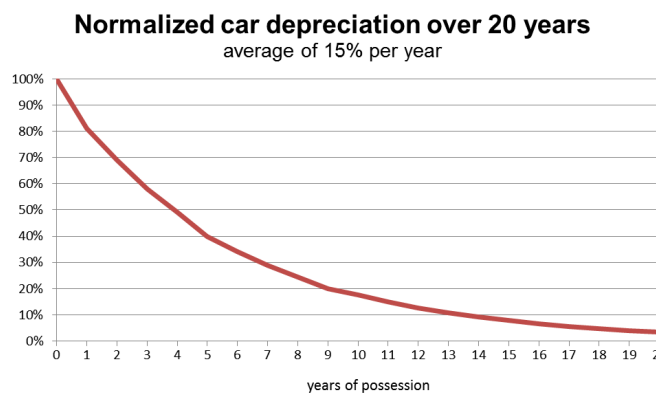
[Company Name]		© Corporate Finance Institute®. All rights reserved.				
Balance Sheet		[USD \$ millions]				
	2014	2015	2016	2017	2018	
Assets						
Current assets:						
Cash	167,971	181,210	183,715	211,069	239,550	
Accounts Receivable	5,100	5,904	6,567	7,117	7,539	
Prepaid expenses	4,806	5,513	5,170	5,998	5,682	
Inventory	7,805	9,601	9,825	10,531	11,342	
Total current assets	185,682	202,228	205,277	234,715	264,112	
Property & Equipment	45,500	42,350	40,145	38,602	37,521	
Goodwill	3,580	3,460	3,910	3,870	3,850	
Total Assets	234,762	248,038	249,332	277,187	305,483	

Liabilities



Cash Flow

Depreciation



READING COMPREHENSION

In accounting, maintaining accurate financial records is essential for business success. The ledger is the central book where all transactions are recorded, ensuring that every financial activity is tracked. Companies regularly prepare balance sheets to provide a snapshot of their financial position, showing assets, liabilities, and equity. Understanding cash flow is crucial, as it reflects the movement of money in and out of the business and impacts its liquidity. As assets are used, they undergo depreciation, a reduction in value that must be accounted for over time. Amortization plays a similar role in debt management, allowing businesses to spread the cost of an asset or loan over its useful life. Liabilities, such as loans and accounts payable, represent the debts that a company owes, while revenue is generated from the sale of goods or services. The difference between revenue and the cost of goods sold is known as gross profit, while net income reflects the total profit after all expenses and taxes have been deducted. To ensure that all financial statements are accurate, an audit may be conducted, providing an independent review of the company's accounts. Businesses also track fixed assets, which are long-term resources used in operations, such as buildings and machinery.

Questions:

1. What is the purpose of a ledger in accounting?
2. How does a balance sheet provide a snapshot of a company's financial position?
3. Explain the significance of cash flow in business operations.
4. What is depreciation, and why is it important to account for it?
5. What is the difference between gross profit and net income?