

100 Important Accounting Terms for Interview – With Examples (Accounts Glossary)

Understanding fundamental accounting terms can make a significant difference in job interviews and real-world practice. Here's a comprehensive glossary organized in tabular format with examples.

◆ A. Accounting Basics

Term	Definition	Example
Accounting	Systematic process of recording financial transactions.	Preparing financial statements for a business.
Bookkeeping	Recording day-to-day business transactions.	Entering sales and purchases in the books.
System of Accounting	Refers to Cash or Accrual accounting systems.	In Cash system, revenue is recorded when received.
Double Entry System	Each transaction has a debit and credit.	Buying furniture: Debit Furniture, Credit Cash.
Single Entry System	Only one side of transaction is recorded.	Only recording cash received, not expense.
Accounting Cycle	Sequence from journalizing to preparing financials.	Starts with voucher, ends with balance sheet.
Accounting Equation	$A = L + E$	₹10,000 = ₹4,000 (Liabilities) + ₹6,000 (Equity)
Business Entity Concept	Business is treated separately from its owner.	Owner's car is not shown in business books.
Going Concern Concept	Business is assumed to continue in future.	Assets are not sold at liquidation value.
Money Measurement Concept	Only monetary transactions are recorded.	Quality of staff not recorded as it has no monetary value.

◆ B. Accounting Principles & Assumptions

Term	Definition	Example
GAAP	Rules followed in preparing financials in India/US.	Revenue must be recorded using revenue recognition principle.
IFRS	International standards for financial reporting.	Asset revaluation allowed under IFRS.
Consistency Principle	Same accounting methods must be used consistently.	Using straight-line depreciation every year.
Conservatism Principle	Record expected losses, not gains.	Provision for doubtful debts.
Matching Principle	Match expenses to related revenues.	Salaries for Jan 2025 shown in Jan P&L.
Revenue Recognition	Recognize revenue when earned, not received.	Sale billed in March, even if money comes in April.
Historical Cost	Assets recorded at original cost.	Machinery bought for ₹1,00,000 shown at cost.
Accrual Concept	Income and expenses are recognized when incurred.	Rent outstanding must be booked even if unpaid.
Materiality	Minor items may be treated flexibly.	Pen cost of ₹30 treated as expense immediately.
Full Disclosure	All relevant info must be disclosed.	Contingent liability note in balance sheet.

◆ C. Source Documents & Vouchers

Term	Definition	Example
Invoice	Document for sale or purchase of goods/services.	Invoice issued for sale of ₹5,000.
Debit Note	Sent to supplier for returning goods.	Buyer returns defective items.
Credit Note	Sent to customer when goods returned.	Seller gives credit for returned product.

Receipt	Proof of payment received.	Customer paid ₹10,000, receipt issued.
Payment Voucher	Records outgoing payment.	Cash voucher for office rent.
Journal Voucher	Entry not involving cash/bank.	Depreciation adjustment of ₹2,000.
Supporting Document	Evidence behind a transaction.	Utility bill attached with voucher.
Purchase Order	Formal request to supplier for goods.	PO sent to vendor for 100 chairs.

◆ D. Journal & Ledger Terms

Term	Definition	Example
Journal	Book of original entry.	Entry: Dr Salary ₹10,000, Cr Cash ₹10,000.
Journal Entry	Record of one complete transaction.	Purchase of goods on credit.
Narration	Short description below journal entry.	"Being rent paid for June"
Posting	Transfer of journal entry to ledger.	Rent A/c debited in ledger.
Ledger	Book of secondary entry classified by accounts.	Rent Ledger, Sales Ledger.
Ledger Folio	Page number for cross-reference.	Journal entry on Page 3, Ledger Folio 10.
Subsidiary Book	Specific book for repetitive transactions.	Purchase Book for regular purchases.
Cash Book	Records all cash and bank transactions.	Cash received from customer.
Petty Cash Book	Small day-to-day expenses.	₹100 for stationery.
Contra Entry	Both sides affect cash or bank.	Cash withdrawn from bank: Dr Cash, Cr Bank.

◆ E. Income & Expense Terms

Term	Definition	Example
Revenue	Income earned from primary business activities.	A bakery's revenue comes from selling cakes.
Other Income	Earnings not from core operations.	Interest on fixed deposits, rental income.
Expense	Cost incurred in the process of earning revenue.	Electricity bills, rent, salaries.
Direct Expense	Costs directly linked to production or purchase.	Freight inward, wages in a factory.
Indirect Expense	Not directly tied to goods production.	Office rent, marketing expenses.
Operating Expense	Day-to-day running expenses of the business.	Selling and distribution expenses.
Non-Operating Expense	Not related to core operations.	Loss on sale of investments.
Capital Expenditure (CapEx)	Expenses for acquiring or improving fixed assets.	Buying a new delivery van.
Revenue Expenditure (RevEx)	Recurring costs for running the business.	Payment of salaries and utility bills.
Deferred Revenue Expenditure	Large expense whose benefit spreads over years.	Heavy advertising cost spread over 3 years.

◆ F. Asset, Liability & Capital Terms

Term	Definition	Example
Asset	Resource owned by a business providing future economic benefit.	Cash, machinery, inventory.
Fixed Asset	Long-term tangible assets used in operations.	Buildings, vehicles, equipment.
Current Asset	Expected to be used or converted to cash within 1 year.	Cash, accounts receivable, inventory.

Tangible Asset	Physical assets that can be seen and touched.	Furniture, plant, computer.
Intangible Asset	Non-physical assets that hold value.	Patents, trademarks, goodwill.
Liability	Financial obligation or debt owed to outsiders.	Bank loan, creditors, taxes payable.
Current Liability	Payable within 12 months.	Outstanding wages, accounts payable.
Long-term Liability	Obligations due after one year.	Mortgage, term loan from bank.
Contingent Liability	Possible obligation depending on future events.	Lawsuit that may result in loss.
Capital	Owner's equity in the business.	₹5,00,000 invested by proprietor.
Drawings	Money or goods withdrawn by owner for personal use.	Proprietor takes ₹10,000 for household use.
Reserves	Profits retained and set aside for specific or general purposes.	General reserve created from net profit.
Provision for Doubtful Debts	Estimated uncollectible receivables.	5% provision on outstanding debtors of ₹1,00,000 = ₹5,000.

◆ G. Inventory & Costing Terms

Term	Definition	Example
Inventory	Goods held for resale or production.	Raw materials, work-in-progress, and finished goods.
Opening Stock	Inventory value at the start of the accounting period.	₹2,00,000 of inventory on April 1.
Closing Stock	Inventory on hand at the end of the accounting period.	₹1,80,000 of stock left on March 31.
COGS (Cost of Goods Sold)	Total cost of goods sold during the period.	COGS = Opening Stock + Purchases – Closing Stock.

FIFO (First In, First Out)	Inventory costing method: oldest inventory sold first.	First batch purchased at ₹100/unit is sold first.
LIFO (Last In, First Out)	Inventory method where latest inventory is sold first.	Newest batch at ₹120/unit is sold before older ones.
Weighted Average	Average cost of inventory used to value stock.	Total cost ₹10,000 for 100 units = ₹100/unit average.
Overhead	Indirect production cost not directly traceable to a product.	Factory supervisor's salary.
Marginal Costing	Additional cost for producing one more unit.	If producing 100 units costs ₹10,000, marginal cost of 101st = ₹100.
Standard Costing	Pre-set cost to compare with actuals for variance analysis.	Standard wage rate set at ₹500/day for planning.

◆ H. Inventory & Costing

Term	Definition	Example
Inventory	Stock of raw materials, WIP, and finished goods held for sale or production.	A grocery store holds inventory of rice, pulses, etc.
Opening Stock	Inventory at the beginning of the accounting period.	₹10,000 worth of goods on 1st April.
Closing Stock	Inventory at the end of the accounting period.	Unsold goods worth ₹12,000 on 31st March.
COGS (Cost of Goods Sold)	Direct costs attributable to goods sold.	COGS = Opening Stock + Purchases - Closing Stock.
FIFO	First In First Out method: oldest inventory is sold first.	Milk stock is sold on FIFO basis (earliest expiry goes first).
LIFO	Last In First Out: most recent purchases sold first.	In inflation, LIFO shows lower profit due to higher costs.
Weighted Average	Average cost per unit used for valuation.	Total cost ₹1,000 for 10 units → ₹100/unit.

Overhead	Indirect costs of production or operations.	Factory rent, supervisor salary, electricity.
Marginal Costing	Cost of producing one extra unit.	Cost to produce one additional pen = ₹15.
Standard Costing	Pre-determined cost set for budgeting/control.	Standard labor rate: ₹100/hour for budgeting variance.

◆ I. Financial Statements

Term	Definition	Example
Balance Sheet	Statement showing assets, liabilities, and equity at a point in time.	Shows what the business owns and owes as of 31st March.
Profit & Loss A/c (Income Statement)	Statement of income, expenses, and net profit/loss for a period.	Shows sales ₹1,00,000 and profit ₹10,000.
Cash Flow Statement	Reports inflows and outflows of cash under 3 heads: Operating, Investing, Financing.	Operating inflow ₹80,000; investment outflow ₹20,000.
Fund Flow Statement	Reports sources and uses of funds between two balance sheet dates.	Fund used to buy fixed assets.
Notes to Accounts	Explanatory notes for items in financials.	Depreciation method or contingent liabilities disclosure.
Schedules	Detailed annexures to main statements.	Schedule of fixed assets with cost & depreciation details.

◆ J. Depreciation & Amortization

Term	Definition	Example
Depreciation	Reduction in value of tangible fixed assets over time due to usage/wear.	₹10,000 per year on machinery worth ₹1,00,000.

Amortization	Allocation of cost of intangible assets over useful life.	Amortizing software license over 3 years.
SLM (Straight Line Method)	Equal depreciation every year.	₹5,000 depreciation per year for 5 years.
WDV (Written Down Value)	Depreciation calculated on book value each year.	15% of reducing balance each year.
Salvage Value	Estimated residual value at end of useful life.	Car bought for ₹5,00,000, expected resale ₹50,000.
Useful Life	Estimated time an asset will be productive.	A laptop used for 3 years in business.

◆ K. Taxation & Compliance

Term	Definition	Example
TDS (Tax Deducted at Source)	Tax deducted at the time of payment of certain expenses.	10% TDS on ₹50,000 professional fees.
GST (Goods & Services Tax)	Indirect tax on supply of goods/services.	18% GST on mobile phones.
Income Tax	Tax charged on income/profits of individuals & entities.	A company pays 25% corporate tax on profits.
Advance Tax	Tax paid before end of financial year in installments.	15% in June, 45% in Sept, 75% in Dec, 100% by March.
Financial Year (FY)	Period in which income is earned (India: April to March).	FY 2025–26 = 1 April 2025 to 31 March 2026.
Assessment Year (AY)	Year in which income of FY is assessed.	Income of FY 2025–26 assessed in AY 2026–27.

◆ L. Miscellaneous Terms

Term	Definition	Example
Audit	Independent review of financial records and statements.	Chartered Accountant audits company books annually.

Reconciliation	Matching two records for accuracy.	Bank reconciliation with passbook and cashbook.
Working Capital	Current Assets – Current Liabilities.	CA ₹5,00,000 – CL ₹2,00,000 = ₹3,00,000.
Cost Centre	Unit within a business where costs are tracked.	Marketing department treated as a cost centre.
Financial Ratio	Relationship between two financial values.	Debt/Equity ratio = 1.5:1
ERP (Enterprise Resource Planning)	Integrated software for managing business functions.	Tally, SAP, Oracle used for accounting and operations.