

Accounting Terms - Profit & Loss and Other Terms

Different fields of study make use of certain terms that are not easily understood by others. If you're an accounting student or a professional accountant, you know the different terms used in accounting. One very popular term is profit & loss.

So, do you know what the term means? To start with, you have to determine what profit means. Profit can be referred to as net earnings or net income. Businesses can either sell services or even products. Profit will come from the sales of these services and products. If the costs of running a business are controlled, it can add up to the profits.

Profits are also called ROI or return on investment. However, this term is often limited to securities like bonds or stocks. But still, some companies use ROI to mean short or long term business outcomes. Taxable income is another term for profit.

The profit & loss of a certain company is determined by finance professionals through accounting. They can determine what created the profits as well as the losses. Accountants form some sort of business equation so justify the profits & losses of a business. By doing so, they can easily tell a company's net worth.

It seems that by simply starting to define one accounting term, it eventually leads to defining other terms as well. Net worth is another term that is quite difficult to understand. It refers to the resulting amount after deducting the liabilities of a company from the assets. Private companies refer to net worth as owner's equity.

Why owner's equity? Well, after deducting all the liabilities, what's left basically belongs to the owner. In the case of public companies, the profit of the business is returned as dividends to shareholders. As you can see, before owner or shareholders of a company can take hold of the profits, all liabilities must be deducted first.

Every business aims to get a good and positive figure because that would mean profit to them; if not, the business is at a loss. Societies and economies are built on profit. However, there are times when a certain business incurs losses. Consumer behaviors and economic trends change. Because of this fact, it is not possible to foresee the company's future performance at all times.

How can you tell if a business is at a loss? That is understandable and even those who have no background in accounting know what it means. All liabilities

will be deducted from the assets and if results to a negative amount, then the business is at a loss. The accounting staff of the company can still pursue effective measures to revive the business. If the business has efficient and effective accounting staffs, the business can improve in the near future.

It cannot be argued that an accounting staff is needed to ensure the company's success. Without them, the success of the business is not guaranteed. So the owner of the business should choose the best accounting staff. That way, all the financial transactions and decisions are noted and studied. Only then can the company gain profits.

Profit & loss is just a simple accounting term. Aside from the term, you also learned about net earnings, net income, net worth, dividends, etc.