

In The Name Of Allah

Accounting Dictionary

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| <i>Term</i> | <i>Definition</i> |
|---|---|
| <i>ABC/activity based costing</i> | Alternative costing method for strategic management; divides production into activities, defines costs for activities, and allocates costs to objects based on activity consumption |
| <i>absorption costing</i> | Also known as full costing -- a costing method where inventory absorbs direct costs and variable and fixed factory overhead |
| <i>accelerated depreciation methods</i> | Several alternative depreciation approaches that result in relatively more depreciation in early years of use, and smaller amounts during later years |
| <i>account</i> | A record that is kept for each asset, liability, equity, revenue, expense, and dividend component of an entity |
| <i>accounting</i> | A set of concepts and techniques that are used to measure and report financial information about an economic unit. |
| <i>accounting changes</i> | Changes from one acceptable method of accounting to another acceptable method; like straight-line depreciation to a declining balance approach |
| <i>accounting cycle</i> | The procedures needed to process transactions through an accounting system; including journalization, posting, adjusting, and preparing financial statements |
| <i>accounting equation</i> | A financial relationship at the heart of the accounting model: $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$ |
| <i>Accounting Principles Board</i> | The private sector group charged with developing accounting standards from 1959 to 1973; primary authoritative pronouncements were known as |

"opinions"

accounting rate of return

A project evaluation tool that focuses on accounting income rather than cash flows; average annual increase in income by the amount of initial investment.

accounts payable

Amounts due to suppliers relating to the purchase of goods and services on credit

accounts receivable

Amounts due from customers from credits sales of products or services; "trade receivables"

accrual

Expenses and revenues that gradually accumulate throughout an accounting period

accrual basis

The accounting process whereby revenues are measured and recorded as earned, while expenses are recorded as incurred

accrued expenses

Unpaid expenses that have already been incurred

accrued revenues

Revenues that have been earned and recorded, but are not as yet collected

achievable standards

A standard that takes into account normal spoilage and inefficiency; intended to allow workers to reach the established benchmarks

activity

An event that gives rise to the consumption of resources

activity cost pool

The costs assigned to a particular activity

activity driver

Event that causes consumption of an activity

activity-based costing

(ABC) A costing system for situations where overhead is high and/or a variety of products are produced; costs are traced to activities and then activities are allocated to production

adjusted trial balance

A trial balance prepared after adjusting entries have been prepared and posted to the ledger

adjusting process

To analyze account balances and update them at the end of an accounting period to reflect the correct measure of revenues and expenses

aging of accounts receivable

Analysis used to estimate the uncollectible accounts; involves stratification of receivables based upon age

AICPA

American Institute of CPAs; an organization whose members are CPAs interested in advancing the accounting profession

all inclusive approach

A concept of income by which virtually all nonequity-based transactions and events are captured and reported in the income statement; the preferred approach for income theory

allowance method for uncollectibles

A method that estimates uncollectibles as a portion of total receivables and establishes an offsetting contra allowance account

amortization

The process used to allocate the cost of an intangible asset to the accounting periods benefited

amortized cost method

The approach mandated for held-to-maturity securities; investments are reported at their cost with any premium or discount amortized over the life of the investment

annuities

Streams of level (i.e., the same amount each period) payments occurring on regular intervals

annuity

Level streams of payments; with each payment being the same, and occurring at a regular interval

annuity due

Also known as an annuity in advance; involves a level stream of payments, with the payments being made at the beginning of each time period

assets

The economic resources owned by an entity; entailing probable future benefits to the entity

auditing

The examination of transactions and systems that underlie an organization's financial statements with the goal or reporting thereon

available for sale securities

Investments that are neither "held-to-maturity" or "trading;" a default category that is accounted for at fair value with changes in value recognized in other comprehensive income

B2B

(Business to Business) A system that enables data interchange between companies; sometimes sufficiently robust to permit automatic inventory replenishment, etc.

balance sheet

A financial statement that presents a firm's assets, liabilities, and owners' equity at a particular point in time

balanced scorecard

A set of performance measures that are congruent with assessing improvement in financial, customer, and business process outcomes

bank reconciliation

A control procedure to establish and verify the correct cash balance via identification of errors, irregularities, and adjustments

bank statement

The document received from a bank which summarizes deposits and other credits, and checks and other debits to a bank account

basic EPS

The simplest earnings per share number; earnings available to common shares divided by weighted average shares, without factoring in potential dilution

batch-level activity

Activities that relate to each batch of production; independent of the number of units within that batch

betterment

Expenditures that improve or increase the service potential of an asset even beyond its original new condition; such costs may be capitalized by increasing the asset's cost

bonds payable

An obligation divided into transferable units requiring the issuer to make periodic interest payments and an eventual repayment of the face amount

book value

Cost minus accumulated depreciation; the net amount at which an asset is reported on the balance sheet

book value per share

Common stockholders' equity divided by common shares outstanding, to indicate stockholders' equity per share

boot

Term used to describe additional monetary consideration that may accompany an exchange transaction

bottom-up participative budget

An budget approach driven by the direct participation of lower-level employees

break-even point

The level of activity where revenues equal total expenses, producing a zero net income; also the point where the contribution margin is said to cover fixed costs

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| <i>budget</i> | <i>A planning tool that outlines the financial plans for an organization; there are various types of budgets -- operating, capital, and financial</i> |
| <i>budget committee</i> | <i>A group of senior managers from each business unit charged with leading the budget preparation and review process</i> |
| <i>budget slack</i> | <i>The influence of behavior to "pad" a budget via misstating expected revenues and/or expenses; to create more favorable budget vs. actual performance appraisals</i> |
| <i>business component</i> | <i>Part of a business with clearly distinguishable operations; a business segment, unit, subsidiary, or group of assets</i> |
| <i>callable bond</i> | <i>A bond that provides the issuer an option to reacquire the bonds before scheduled maturity at a preset price</i> |
| <i>callable preferred</i> | <i>Preferred stock that can be repurchased by issuer for a preset price</i> |
| <i>capacity utilization</i> | <i>The degree to which an organization's output capabilities are being deployed or utilized</i> |
| <i>capital expenditure decision</i> | <i>Also known as capital budgeting; planning and decision making related to longer term projects and expenditures</i> |
| <i>capital expenditures</i> | <i>Ordinary and necessary costs incurred to place an item of property, plant, or equipment in its condition for intended use; such amounts are included in the asset account</i> |
| <i>capital lease</i> | <i>A lease that effectively transfers the risks and rewards of ownership to the lessee</i> |
| <i>capital stock</i> | <i>A non-specific reference to the ownership interests of shareholders in a corporation</i> |

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| <i>cash</i> | <i>Items acceptable to a bank for deposit and free from restrictions to satisfying current debts; includes coins, currency, bank deposits, etc.</i> |
| <i>cash basis</i> | <i>An accounting approach where revenue is recorded when cash is received (no matter when "earned"), and expenses are recognized when paid (no matter when "incurred")</i> |
| <i>cash budget</i> | <i>A major component of a cash planning system that depicts cash inflows and outflows for a stated period of time</i> |
| <i>cash budget</i> | <i>An essential budget component detailing planned cash receipts, disbursements, and financing actions</i> |
| <i>cash discount</i> | <i>A reduction in invoice price offered to customers to encourage prompt payment of invoices</i> |
| <i>cash equivalents</i> | <i>Short-term interest-earning financial instruments that are deemed to be highly secure and will convert back into cash within 90 days</i> |
| <i>centralized decision making</i> | <i>A business style where top leaders make and direct most important decisions</i> |
| <i>certified public accountant (CPA)</i> | <i>An individual who is licensed by a state to practice public accounting</i> |
| <i>CFM</i> | <i>Certified Financial Manager; a professional designation of competency in the field of financial management that is issued by the Institute of Management Accountants</i> |
| <i>change in accounting estimate</i> | <i>A revision of assumptions used in a related accounting calculation (e.g., change in estimated useful life of an asset); handled prospectively by revising current and future periods</i> |

chart of accounts

A listing of the accounts of an entity, along with any identification coding

closing process

The process by which temporary accounts are "zeroed" out and the effects transferred to retained earnings

CMA

Certified Management Accountant; a professional designation of competency in the field of management accounting that is issued by the Institute of Management Accountants

commercial substance

The quality of an exchange transaction such that it changes the future cash flow potential of the entity

commitments

Promises to engage in some future action; not necessarily creating a recordable accounting liability but potentially necessitating enhanced disclosure

committed fixed cost

Costs that arise from an organization's commitment to engage in operations; unavoidable elements like depreciation, rent, insurance, property taxes

common fixed costs

Fixed costs that are incurred to support more than one business unit

common stock

The residual equity interest in a corporation; last in liquidation but usually receiving the full benefits of any corporate growth

comparability

A quality of accounting such that different companies may use different accounting methods, but there is still sufficient basis for valid comparison

compensated absences

Term to describe paid time off; vacations, sick leave, etc.

compensating balance

An amount that must be left on deposit and cannot be withdrawn

complex capital structure

companies with options, warrants, or convertible bonds and stocks that may result in the issuance of additional shares

compound interest

Interest calculations that provide for periodic inclusion of accumulated interest into the base on which interest is calculated; "interest on the interest"

comprehensive income

Net income plus items of other comprehensive income (e.g., market value adjustments of available for sale securities)

conservatism

A general principle of accounting measurement; when in doubt understate assets and income and overstate liabilities

consignment

To place inventory in the custody of another party without requiring them to purchase it, as a sales agent

consistency

A quality of accounting holding that deviations in measured outcomes from period to period should be the result of deviations in underlying performance (not accounting quirks)

consolidation

To prepare financial reports for a parent and subsidiary company as a single economic unit

contingent liabilities

Events that may or may not give rise to an actual liability because the outcome is uncertain; examples include lawsuits, environmental damage issues, and so forth

continuous budget

A budget that is constantly updated; as one month/quarter is completed another is added to the set the projections

contra asset

An account that is subtracted from a related account -- contra accounts have opposite debit/credit rules

contribution income statement

An internal report that identifies each segment's controllable elements; the contribution margin, controllable fixed costs, uncontrollable fixed costs, and segment margin

contribution margin

Revenues minus all variable expenses, whether related to production or selling and administration (do not to be confuse with gross profit)

control account

The total of all subcomponent account records for an account; e.g., the sum of all individual accounts receivable

controller

The primary person responsible for the cost and managerial accounting functions

conversion cost

Cost components need to change raw materials to finished goods, specifically direct labor and manufacturing overhead

convertible bond

A bond that may be converted by the holder into stock of the issuing company

convertible preferred

Preferred stock that can be exchanged for common stock at some preagreed ratio

corporation

A form of business organization where ownership is represented by divisible units called shares of stock

cost accounting

The process by which an organization's cost is collected, assigned, and interpreted

cost center

An area of responsibility under the control of a manager who is responsible for costs incurred within the unit; the unit generally has little revenue function

cost driver

The factor that is viewed as causing costs to be incurred within an organization

cost flow assumption

An assumption about how costs are assigned to inventory in the accounting records

cost object

The output for which costing information is to be determined under ABC; can be product or service related, or customer, market, etc.

cost of goods manufactured

The amount of cost attributable to goods reaching the end of production; beginning work in process (wip) + (direct materials, direct labor, manufacturing overhead) - ending wip

cost of goods sold

The total cost attributed to units of inventory actually sold during a period

cost of production report

A report used in a process costing environment to tabulate the costs incurred within a particular stage/department

cost-volume-profit analysis

(CVP) Analysis focusing on the interplay of pricing, volume, variable and fixed costs, and product mix

coupon bond

A bond that has detachable coupons that are exchanged for interest payments; historically popular but falling into disuse

credit

The nature of an action to an account to indicate an increase (liabilities, equity, and revenue) or decrease (assets, expenses, and dividends); usually right-justified in an entry

credit memorandum

A seller-prepared document evidencing an approved return of merchandise for credit against an account

cumulative preferred

Preferred stock that is entitled to a periodic dividend, and those dividends must be paid (eventually) before any monies can be distributed to common stockholders

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| <i>current assets</i> | <i>Assets that will be converted into cash or consumed within one year or the operating cycle, whichever is longer</i> |
| <i>current liabilities</i> | <i>Obligations that will be liquidated within one year or the operating cycle, whichever is longer</i> |
| <i>current operating approach</i> | <i>A concept of income where income is limited to transactions related to central ongoing operations; not an acceptable approach for income theory</i> |
| <i>current ratio</i> | <i>A measure of liquidity, calculated by dividing current assets by current liabilities</i> |
| <i>customer-level activity</i> | <i>Activities that relate to each customer; independent of the volume of goods and services provided to the specific customer</i> |
| <i>dashboard</i> | <i>Customized business software that delivers key real time business data in an easily monitored layout</i> |
| <i>database</i> | <i>An information storehouse, usually electronic, that can be queried to extract data meeting certain parameters. Enables singular data entry and multiple data output.</i> |
| <i>debenture bond</i> | <i>A bond that lacks specific collateral; payment is only assured by the general faith and creditworthiness of the issuer</i> |
| <i>debit</i> | <i>The nature of an action to an account to indicate an increase (assets, expenses, and dividends) or decrease (liabilities, equity, and revenue); usually left-justified in an entry</i> |
| <i>debit memorandum</i> | <i>A purchaser-prepared document evidencing a return of merchandise to a seller</i> |
| <i>decentralized decision making</i> | <i>A business style where top leaders concentrates on strategy, and leaves day-to-day operation and decision-</i> |

making tasks to lower-level personnel

declining balance depreciation method

An accelerated depreciation method by which a constant rate (that is a multiple of the straight-line rate) is multiplied by each period's beginning (constantly declining) book value

defined benefit plan

A type of pension plan where the benefits are a function of years of service, pay, and age; the ultimate employer cost is not known in advance

defined contribution plan

A type of pension plan where the benefits are based on amounts in trust for the benefit of the employee; employer contributions are usually a fixed percentage of pay

depletion

The process used to allocate the cost of a natural resource asset to the accounting periods benefited

deposit in transit

Receipts entered on company records but not yet posted by the bank

depreciable base

Cost minus salvage value; the amount of cost that will be allocated to the service life

depreciation

The process used to allocate the cost of a long-lived property to the accounting periods benefited

derivatives

Investments accounted for a fair value that generally derive their value from some other item; examples include commodity futures, options, and so forth

diluted EPS

An earnings per share number; adjusted to reflect the potential effect of dilutive securities

dilutive securities

Options, warrants, convertible bonds, convertible stocks, and other items that have the potential to increase the

number of shares outstanding

direct approach

The preferred method for preparing the statement of cash flows; operating cash flows are presented according to their direct source (e.g., cash received from customers)

direct costs

A cost easily traced to a specific job; generally direct material and direct labor

direct labor

Gross wages paid to those who physically and directly work on the goods being produced

direct labor budget

A budget that details expected direct labor needs, along with the related costs of labor

direct labor efficiency variance

*A variance comparing standard hours of direct labor to the actual hours worked; measured at the standard rate per hour
[(standard hours - actual hours) X standard rate]*

direct labor rate variance

*A variance that reveals the difference between the standard rate and actual rate for the actual labor hours worked
[(standard rate - actual rate) X actual hours]*

direct material

The costs of all materials that are an integral part of a finished product and that have a physical presence that is readily traced to that finished product

direct material purchases budget

A budget that details expected direct material purchases, along with the related cash payments

direct method/allocating service cost

An allocation process whereby service department costs are assigned directly to productive departments (compare to step method)

direct write-off method

A simple, non-GAAP, method that expenses uncollectible accounts only as they are determined to be uncollectible and are written off

discontinued operations

The special income statement reporting of the impact of disposing or abandoning of a component of a business

discount on bonds

The difference between face value and issue price of a bond, where the issue price is less; causes the effective yield to be higher than that stated

discretionary fixed cost

Fixed cost resulting from yearly spending decisions; proper planning can result in avoidance of these costs as necessary (e.g., advertising and training)

dishonoring a note

To fail to pay a note at maturity

dividend payout ratio

Dividend per share divided by earnings per share

dividend rate

Dividend per share divided by stock price; also called dividend yield

dividends

Amounts paid from profits of a corporation to shareholders as a return on their investment in the stock of the entity

dividends in arrears

An omitted dividend on cumulative preferred stock that must eventually be paid before any monies can be distributed to common stockholders

double-declining balance depreciation

An accelerated depreciation method by which a constant rate (that is 200% of the straight-line rate) is multiplied by each period's beginning (constantly declining) book value

earnings

A concept that relates to income from continuing operations plus/minus discontinued operations and

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| | <i>extraordinary items</i> |
| <i>Earnings per share</i> | <i>EPS; generally understood as the amount of income for each share of stock, but is actually better refined as basic and diluted EPS (see those definitions)</i> |
| <i>EBIT</i> | <i>An analysts calculation to reflect "earnings before interest and taxes"</i> |
| <i>EBITDA</i> | <i>An analysts calculation to reflect "earnings before interest, taxes, depreciation, and amortization"</i> |
| <i>economies of scale</i> | <i>Efficiencies associated with increases in volume</i> |
| <i>effective-interest amortization</i> | <i>A theoretically preferable method for amortizing premiums and discounts on bonds; interest expense is a constant percentage of the bonds ever-changing carrying value</i> |
| <i>employee</i> | <i>A person who works for a specific business and whose activities are directed by that business</i> |
| <i>encumbrance</i> | <i>A budgetary restriction occurring in advance of a related expenditure</i> |
| <i>entity assumption</i> | <i>Accounting information should be presented for circumscribed distinct economic units</i> |
| <i>entity-sustaining activity</i> | <i>Activities that relate to an entity's ability to operate; independent of business volume</i> |
| <i>equity method</i> | <i>Method to account for stock investment when significant influence is present; changes in equity of the investee are recognized by the investor on a pro rata basis</i> |

equivalent units

A measure of physical units expressed in terms of finished units

ERP

*(Enterprise Resource Package)
Comprehensive database software that tracks an almost endless array of business and accounting data*

exchange transaction

Trading one asset for another; to be booked at fair value if the transaction has commercial substance

ex-dividend

The event (date) when a transfer of stock ownership between shareholders will occur without the right for the purchaser to receive any previously declared dividends

expenses

The costs incurred in producing revenues

extraordinary item

The gain or loss resulting from a transaction or event that is both unusual in nature and infrequent in occurrence; reported below income from continuing operations

F.O.B. destination

Free on Board destination; meaning the transfer of ownership of inventory will occur when the goods reach their destination and the seller will incur the freight charges

F.O.B. shipping point

Free on Board shipping point; meaning the transfer of ownership of inventory will occur when the goods are shipped and the purchaser will incur the freight charges

factory overhead budget

A budget that details the anticipated factory overhead, including calculations related to the allocation of such amounts

fair value accounting

Sometimes called "mark-to-market;" to record an investment at its fair value and recognize changes in value as it occurs

FICA

Federal Insurance Contributions Act (also known as social security and Medicare); establishes a tax that employers must withhold and match for government-based retiree benefit

FIFO process costing

A process costing technique where the beginning inventory is presumed to be the first units completed in the subsequent period's processing

financial accounting

An area of accounting that deals with external reporting to parties outside the firm; usually based on standardized rules and procedures

Financial Accounting Standards Board

An organization charged with producing standards for financial reporting in the USA (FASB)

financial statements

Core financial reports that are prepared to represent the financial position and results of operations of a company

financing activities

A cash flow category; including receipts from stock issues, bonds, notes and loans, -- and payments for loan repayment, acquisitions of treasury stock, and dividend distributions

finished goods

Finished goods represent the cost of completed products awaiting sale to a customer

first-in, first-out

FIFO; An inventory cost flow assumption based on the notion that the earliest costs are to be assigned to units sold

fiscal year

A one-year accounting period that does not correspond to a calendar year

fixed cost

A total cost that is the same regardless of volume; total cost is constant and per unit cost decreases with volume increases

fixed overhead spending variance

A fixed overhead variance that compares actual fixed overhead to the budgeted fixed overhead

fixed overhead volume variance

A fixed overhead variance that compares the budgeted fixed overhead to the fixed overhead that is applied to production based on standard fixed overhead per unit of output

flexible budget

A budget that covers a range of potential outcomes by relating expense levels to the potential revenues

Form 1099

A form required to be issued to an independent contractor reporting amounts paid; to assist with tax compliance issues (this form used to report other payments like interest, etc.)

full disclosure principle

All relevant facts that would influence investors' and creditors' judgments about the company are disclosed in the financial statements or related notes

FUTA

Federal Unemployment Tax levied on employer to provide funds for unemployed workers; rate is dependent on existence of SUTA and employer history of layoffs, etc.

future value

The amount to which an interest-earning amount is expected to grow over a stipulated time period at a given interest rate

future value

Or "compound interest;" amount that a current payment (or stream of payments) will grow in time; includes interest on previous interest based on frequency of compounding

GAAP

Generally accepted accounting principles -- encompass the rules, practices, and procedures that define the proper execution of accounting

general ledger

A record of the accounts comprising financial statements, and their respective balances

going concern assumption

In the absence of evidence to the contrary, accountants assume that a business will continue to operate well into the future

goods available for sale

A calculated amount corresponding to the beginning inventory plus net purchases; represents the total pool of inventory available during a period from which sales can occur

goods in transit

Goods in the process of being transported to the buyer; ownership is based on freight terms

goodwill

The excess of the purchase price of an acquired company over the fair value of the identifiable net assets acquired

gross method

A method of recording purchases of inventory at invoice price

gross pay

Also known as gross earnings; this is the total amount earned by an employee before any deductions

gross profit

A calculated amount corresponding to net sales minus cost of goods sold

gross profit method

An technique that purports to estimate inventory and cost of goods sold by applying historic percentage relationships to observable sales information

held to maturity investments

Investments purchased with intent to hold to maturity; usually investment in debt; accounted for by amortized cost method

high-low method

A simple means for separating costs into fixed and variable components, based upon the difference between costs at the

highest and lowest observed levels of activity

historical cost principle

The concept that many transactions and events are to be measured and reported at acquisition cost

IASB

International Accounting Standards Board; organization undertaking to develop cohesive accounting rules with global acceptance

ideal standards

A standard that could only be achieved under perfect operating conditions; such standards are rarely expected to be achieved

IMA

Institute of Management Accountants; a professional association for management accountants that sponsors the CMA and CFM designations

impairment

When the carrying amount of an asset is not recoverable from its future cash flow

income statement

A financial statement that summarizes the revenues, expenses, and results of operations for a specified period of time

income summary

A non-financial statement account used only to facilitate the closing process by summarizing and zeroing-out the revenue and expense accounts

income taxes

Taxes that are based on the amount income; for employees such amounts must be withheld by employers and remitted to the government

incremental budgeting

A budgeting approach where the prior year experience sets a base line for a new budget; changes are made based on new information but the base need not be rejustified in detail

independent contractor

One who performs a designated task or service for a company, and the company has the right to control or direct only the result of the work done

indirect approach

An alternative method for preparing the statement of cash flows; operating cash flows are presented as a reconciliation of income to cash from operating activities

indirect costs

A cost not easily traced to a specific job; generally categorized as factory or manufacturing overhead

initial public offering

The first time stock in a corporation is offered to the investing public; registration and other requirements must be met; proceeds may flow to the corporation or private shareholders

intangible asset

Lack physical existence, and include items like purchased patents and copyrights

intangible asset

Long-term asset that lacks physical existence; contract rights, copyrights, patents, trademarks, etc.

interest

The charge imposed on the borrower of funds for the use of money

internal auditor

A person within an organization who reviews and monitors the controls, procedures, and information of the organization

internal rate of return

Also known as time-adjusted rate of return or IRR; discount rate causing present value of cash inflows to equal present value of the cash outflows

intrapersonal tax allocation

Separately reported item like discontinued operations, extraordinary items, etc., are to reported net of their specifically related tax effects

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| <i>inventoriable cost</i> | <i>product costs that attach to inventory</i> |
| <i>inventory</i> | <i>Goods held for resale to others</i> |
| <i>investee</i> | <i>The company in which another has an investment</i> |
| <i>investing activities</i> | <i>A cash flow category; including receipts from disposal of investments and long-term assets -- and payments to acquire long-term assets and investments</i> |
| <i>investment center</i> | <i>A evaluative unit where managers are accountable for cost and profit outcomes, including consideration of the amount of capital that is deployed to achieve those outcomes</i> |
| <i>invoice price</i> | <i>List price less any trade discounts</i> |
| <i>issue price</i> | <i>The amount a company receives in exchange for the initial issue of debt or other financial instrument</i> |
| <i>job cost sheet</i> | <i>A document representing a compilation of cost data for a specific job</i> |
| <i>job costing method</i> | <i>A costing approach whereby actual labor and material is tracked for each job or product</i> |
| <i>journal</i> | <i>A chronological listing of the transactions and events of an organization, in debit/credit format</i> |
| <i>journalizing</i> | <i>The process of recording transactions and events into the journal</i> |
| <i>junk bond</i> | <i>A bond that is issued by a company of low credit worthiness, and entails substantial risk of nonpayment; generally offers a high interest rate to compensate for the high risk</i> |

just in time inventory

Raw materials are received from supplies just as they are needed in the production process

Kaizen

Japanese term used to describe a blitz like approach to study processes and install efficiency within an organization

Kanban

Japanese term which means some form of signal that a particular inventory is ready for replenishment

land improvements

Includes the cost of parking lots, sidewalks, landscaping, irrigation systems, and similar expenditures that are incurred to better land

last-in, first-out method

LIFO; An inventory cost flow assumption based on the notion that the most recent costs are to be assigned to units sold

lean manufacturing

Indicative of an environment where waste has been trimmed; entails a focus on standardization, speed, and quality, without compromising responsiveness to customer demand

lease/lessee and lessor

Periodic payment from the user (lessee) of an asset to an owner (lessor) of the asset

legal capital

Usually the par value of the stock of a corporation

liabilities

Amounts owed by an entity to others

liquidity

The ability of a firm to meet its near-term obligations as they come due

list price

An establish price determined by reference to a catalog or general price list; before any discounts

long-term investments

Investments made for long-term holding purposes; including land for speculation, securities of other companies, etc.

long-term liabilities

Any obligation that is not current, and include bank loans, mortgage notes, and the like

lower-of-cost-or-market

To report inventory at the lower of its cost or market value; market is generally defined as replacement cost

lump-sum purchase

A single price paid for a package of assets; the purchase price must be allocated to each of the components

M2M

(Machine to Machine) enables connected devices to communicate with each other

maker

The party creating the a note and agreeing to make payment

management by exception

A management focus of attention on areas where corrective measures appear necessary

managerial accounting

An area of accounting concerned with reporting results to managers and others who are internal to an organization

manufacturing overhead

all costs of manufacturing other than direct materials and direct labor (also called factory overhead)

market-level activity

Activities that relate to the number of markets in which an entity operates; independent of the number of products, customers, etc.

master budget

Also known as the comprehensive budget; an integrated set of articulated budgets relating to numerous operational subcomponents (labor, material, overhead, SG&A, etc.)

matching principle

To associate expenses with revenues, and record them in simultaneous accounting periods

materiality

A matter of accounting judgment; when amounts involved are slight, expediency may dictate waiving the technically

correct alternative in lieu of a simpler approach

materials price variance

A variance that reveals the difference between standard price for materials purchased and amounts actually paid for those materials [(standard price - actual price) X actual quantity].

materials quantity variance

A variance comparing standard quantity to actual quantity of materials; variation is measured at the standard price per unit [(standard quantity - actual quantity) X standard price]

materials requisition form

Form showing what material has been removed from the raw materials stock and put into production

maturity date

The date on which a note and related interest are due to be paid

maturity value

The amount due at maturity of a note; includes principal and interest

method of least squares

A complex means for separating costs into fixed and variable components, based upon minimizing the variances between all observations and the resulting assumed cost function

mixed costs

A cost that has both fixed and variable components

Modified Accelerated Cost Recovery

A "depreciation" approach common to the tax code; generally permits more rapid "recovery" of asset cost than GAAP approaches; MACRS - pronounced "makers"

modified cash basis

Like the cash basis, except that certain large expenditures for durable assets may be recorded as assets initially

moving-average method

Under the perpetual inventory system; to recompute running average cost with

each purchase transaction

multiple-step income statement

A complex income statement with sections that segregate cost of goods sold calculations and other components of income and expense; enables enhanced evaluations of data

natural business year

Applicable to certain businesses that have a seasonal business pattern, and an attempt is made to establish an accounting fiscal year to match

natural resources

Oil and gas reserves, mineral deposits, thermal energy sources, and standing timber are just a few examples of such assets that a firm may own

net income

The excess of revenues over expenses for a designated period of time

net income

Income from continuing operations plus/minus other special items like discontinued operations, etc., but before items of "other comprehensive income"

net loss

The excess of expenses over revenues for a designated period of time

net method

A method of recording purchases of inventory at invoice price less available cash discounts

net pay

Also known as net earnings; this is the gross pay less all applicable deductions ("take home pay")

net present value

Or NPV, a method of evaluating capital projects that uses a predetermined interest rate to determine the present value of an investment's cash net cash inflows and outflows

net realizable value

The amount of cash expected to be collected on outstanding accounts receivable; accounts receivable minus the

allowance for uncollectibles

nominal accounts

Accounts that will be reset to a zero balance with each new accounting period; revenue, expense, and dividend accounts (also called "temporary" accounts)

nonredeemable bond

A bond that cannot be paid off before scheduled maturity

nonrefundable bond

A bond that cannot be paid off with the proceeds of a new debt issue

nontrade receivables

Amounts due from transactions and events not directly related to sales of products or services

notes payable

Formal short-term borrowings usually evidenced by a specific written promise to pay

notes receivable

A written promise from a client or customer to pay a definite amount of money on a specific future date

NSF check

Nonsufficient funds check; a customer check returned for lack of funds (a "hot check")

operating activities

A cash flow category; generally related to transactions that enter into the determination of income -- items that are not investing or financing

operating cycle

The period of time it takes to convert cash back into cash (i.e., purchase inventory, sell the inventory on account, and collect the receivable)

operating expenses

General expense category for selling and administrative costs

operating lease

A lease where the lessee makes periodic payments for periodic use of an asset, but does not assume the ultimate risks

and rewards of owning the asset

opportunity cost

The cost of a foregone alternative; may include lost revenue

ordinary annuity

Also known as an annuity in arrears; involves a level stream of payments, with the payments being made at the end of each time period

other assets

The category of a classified balance sheet for reporting assets that are not logically attached to one of the other specific sections

other comprehensive income

An account for changes in value of available for sale securities; not part of income from continuing operations and generally positioned as a special category within equity

outsourcing

Utilization of independent parties to manufacture products (sometimes known as make-or-buy) or manage data processing, tech support, payroll services, etc.

outstanding checks

Checks entered on company records but not yet cleared by the bank

overapplied overhead

Applied overhead exceeds the actual amount; usually viewed as a favorable outcome, because less has spent than anticipated for the level of achieved production

overhead application rate

A rate used to apply manufacturing overhead to output; estimated factory overhead for a period divided by the estimated application base

owner investments

Resources provided to an organization by a person in exchange for a position of ownership in the organization

owners' equity

The residual of assets minus liabilities, representing the collective interest or position of the entity's owners

paid-in capital in excess of par

The amount by which a stock's issue price exceeds its par value; also referred to as "additional paid-in capital"

par value on bonds

The face or contract amount of a bond; the amount to be repaid at maturity along with any interest

partnership

A non-corporation representing an association of two or more persons organized to carry out a business plan for a profit motive

payback

Easy method for evaluating capital projects; calculated by dividing the initial investment by the annual cash inflow

payee

The party to whom a note is made payable

PCAOB

Public Accounting Oversight Board -- a private-sector, non-profit corporation, charged with overseeing the auditors of public companies

pension plan

A general term to describe some form of arrangement for continuing payments to retirees

period cost

A cost not attributable to the acquisition or manufacture of inventory; expensed as incurred

periodic inventory system

An inventory system that utilizes a Purchases account and does not update inventory with each sale; inventory is updated by physical count at the end of accounting periods

periodicity assumption

An accounting assumption that purports to divide a continuous business process into measurement intervals, such as months, quarters, and years

perpetual inventory system

A "real-time" inventory system that updates inventory records with each purchase and sale

petty cash

A fund established for making small payments that are impractical to pay by check; also known as imprest cash fund

physical inventory

The process of counting inventory actually on hand

post-closing trial balance

Reveals the balance of accounts after the closing process, and consists of balance sheet accounts only

posting

The process of transferring journal entry effects into the respective general ledger accounts

preemptive right

A right that may or may not be provided to shareholders enabling them with a first right of refusal to buy any additional shares offered by a corporation

preferred stock

A class of stock that generally benefits from a stipulated periodic dividend and priority in liquidation; but, usually lacking in upside participation in corporate growth

premium on bonds

The difference between face value and issue price of a bond, where the issue price is more; causes the effective yield to be lower than that stated

prepaid expenses

Goods or services purchased in advance of their consumption

present value

The calculated value today of an amount to be received in the future, based upon an assumed interest rate (the reciprocal of future value)

present value

Also known as discounting; determines the current worth of cash to be received in the future

price earnings ratio

The per share market value of a stock divided by its earnings per share

prime cost

Product costs that are direct in nature; direct materials and direct labor

principal

The basic stated amount of a note on which interest is usually calculated; generally relating to the amount borrowed

principles-based

The idea that accounting standards should articulate broad-based principles rather than specific and detailed rules

prior period adjustment

To correct errors from prior years; prior financial statements are retroactively changed to make them correct

pro forma financial statements

"As if" budgeted financial statements

process costing

Process costing is a method to allocate the total costs of production to homogenous units produced via a continuous process that usually involves multiple steps or departments

process costing methods

A product costing method particularly well suited to situations where production occurs in a continuous process; costs are pooled and assigned to aggregate output

product cost

Costs that attach to a product; the summation of direct materials, direct labor, and factory overhead

production budget

A budget that details planned levels of production; takes into account sales and inventory build/decline

product-level activity

Activities that relate to the number of products produced; independent of the number or units produced

profit center

Business unit that has control over both costs and revenues and is therefore evaluated on the profit outcomes

proof of cash

A detailed bank reconciliation that verifies not only beginning and end balances, but also validates deposits and withdrawals during the month

property, plant, & equipment

Assets with long lives that will be used in an entity's production processes; land, buildings, and equipment

prospectus

The documentation describing financial and business aspects of an initial public offering

public accounting

Accounting activities provided by a person to the general public, typically relating to audit, tax and similar services

purchases discounts

A cash discount available on purchases of merchandise on account; encourages prompt payment

quick ratio

An extreme measure of liquidity, calculated by dividing quick assets (cash, short-term investments, and accounts receivable) by current liabilities

raw materials

the components that will be used in manufacturing units that are not yet started -- also known as direct materials

real accounts

Asset, liability, and equity accounts; balances are carried forward from the end of one period into the beginning of the next period

registered bond

A bond for which ownership records are maintained, and interest is paid to the registered owner

relevance

A quality of accounting such that it is timely and bears on the decision-making process by possessing feedback and/or predictive value

| | |
|------------------------------|---|
| <i>relevant cost</i> | <i>Items where future costs and revenues are expected to differ for the alternative decisions under consideration</i> |
| <i>relevant range</i> | <i>The level of activity for which assumptions underlying CVP are expected to hold true</i> |
| <i>reliability</i> | <i>A quality of accounting information such that it is faithful in representation; free from bias, neutral, and verifiable</i> |
| <i>remeasurement</i> | <i>One of two approaches for converting the financial statements of a foreign affiliate to the reporting currency</i> |
| <i>replacement</i> | <i>A restoration of an asset, at least partially, to its original condition; such costs may be capitalized by reducing accumulated depreciation</i> |
| <i>residual income</i> | <i>An internal assessment technique that adjusts income for a presumed cost of capital (or other threshold rate of return); operating income - (operating assets X cost of capital)</i> |
| <i>residual value</i> | <i>Amount expected be realized at the end of an asset's service life; "salvage value"</i> |
| <i>resource</i> | <i>The elements consumed by activities and cost objects</i> |
| <i>resource driver</i> | <i>The concept that activities create the need for resources which will be consumed in the production process</i> |
| <i>responsibility center</i> | <i>The part of an organization under the control of a manager</i> |
| <i>restatement</i> | <i>The process of revising previously issued financial statements to reflect the correction of an error in those financial statements</i> |

retail inventory method

A inventory costing technique used by retailers that extrapolates inventory values by applying cost-to-retail percentages to known sales and purchase transactions

retained earnings

The excess of a corporation's income over its dividends

retrospective adjustment

The application of a different accounting principle to previously issued financial statements as though the newly adopted method had always been in use

return on assets ratio

A ratio comparing income (net income plus interest) to the average total assets

return on equity ratio

A ratio comparing income (net income minus preferred dividends) to the average total equity

return on investment

ROI: A model consisting of a margin component (Operating Income/Sales) and turnover component (Sales/Average Assets); reduces to Operating Income/Average Assets

revenue

Inflows and other benefits received in exchange for the providing of goods and services

revenue expenditure

Not a capital expenditure; to be expensed as incurred

revenue recognition

The point at which revenue is recognized in the accounting records; ordinarily the point of sale

reversing entry

Optional accounting procedure which may prove useful in simplifying record keeping; a journal entry to "undo" an adjusting entry

RFID

(radio frequency identification) Micro processes embedded in inventory that emit radio frequency signals that enable a computer to automatically track

inventory

rules-based

The idea that accounting standards must be very specific to provide adequate guidance and drive consistency in reporting

sales budget

A budget that details anticipated sales levels

sales discounts

A cash discount offered to customers to encourage prompt payment of invoices

Sarbanes-Oxley

"SOX" -- Legislation that imposes stringent controls over reporting and auditing; created the Public Accounting Oversight Board

scattergraph

A simplistic mapping of observed data points, where a line is "visually" drawn to represent the estimated cost function

scorecards (balanced)

A system for evaluating elements that are important to the organization and under the control of an employee holding that position

secured bond

A bond that provides specific assets as collateral to help assure the payment stream

Securities and Exchange Commission

"SEC" -- regulatory body with which public companies must file and report

segment

A business unit for which separate financial information is evaluated by an operating decision maker who allocates resources and judges performance of the unit

serial bond

A bond issue that has multiple repayment dates, rather than the entire issue maturing at one fixed maturity date

service life

The period of time that a depreciable asset will be in use by an entity; the time interval over which the asset will be depreciated

SFAC

Statements of Financial Accounting Concepts -- a series of conceptual documents to guide the FASB in establishing new rules

SFAS

Statements of Financial Accounting Standards -- primary authoritative pronouncements issued by the FASB

SG&A

Selling, general, and administrative costs; the period costs of the business

SG&A budget

A budget that details anticipated selling, general, and administrative costs

significant influence

The ability to sway management and decision making of another entity, but generally not enough to assert absolute control

simple interest

Interest calculations that do not provide for periodic inclusion of accumulated interest into the base on which interest is calculated

single-step income statement

A simple income statement with a section for all revenues and another for all expenses; there is no direct association between specific revenue and expense components

sinking fund bond

A bond issue that requires periodic setting aside of monies into a separate fund to provide for eventual repayment of the debt at maturity

Six Sigma

A trademarked quality management system developed by Motorola; driven by pursuit of statistical results that reflect near perfection in production and processing

| | |
|--|---|
| <i>sole proprietorship</i> | <i>A non-corporation business owned by a sole individual</i> |
| <i>source document</i> | <i>A document evidencing a transaction or event and potentially providing for the initiation of a journal entry</i> |
| <i>special order</i> | <i>A customer order that is outside of the normal pricing and terms</i> |
| <i>specific identification method</i> | <i>Inventory costing method where the actual cost of each unit of merchandise is tracked and used for accounting purposes</i> |
| <i>stable currency assumption</i> | <i>An accounting assumption that presumes the currency is not impacted over time by inflation</i> |
| <i>standard cost</i> | <i>A measure of what costs should be incurred to achieve the observed output</i> |
| <i>standards</i> | <i>Benchmarks against which actual productive activity is compared</i> |
| <i>statement of cash flows</i> | <i>A financial statement that summarizes the cash flows relating to operating, investing, financing, and noncash investing/financing activities of an entity</i> |
| <i>statement of retained earnings</i> | <i>A financial statement that discloses changes in retained earnings during a designated period of time; those changes usually attributable to income and dividends</i> |
| <i>statement of stockholders' equity</i> | <i>A financial statement that is often presented in lieu of a statement of retained earnings and other disclosures about equity accounts</i> |
| <i>static budget</i> | <i>A budget that does not anticipate alternative outcomes; estimated sales and expenses are fixed and establish the relevant benchmarks</i> |

step cost

A cost function that is fixed over a range, and then increases by a measured step to a new level at the next higher increment of activity

step method/allocating service cost

An allocation process whereby some service department costs may be assigned to other service departments as part of a sequential methodology

stock

Transferable units of ownership in a corporation

stock dividend

A noncash corporate activity to provide shareholders with additional shares in proportion to existing ownership; makes for more shares outstanding, but does not change total equity

stock split

A corporate action to increase the number of shares and reduce the par per share by a stipulated ratio (e.g., 2 for 1)

straight-line amortization

A method for amortizing premiums and discounts on bonds; the premium or discount is spread uniformly over the life of the bond as an adjustment of interest

straight-line depreciation

A simple depreciation method by which the depreciable base is spread uniformly over the service life

subsidiary account

A subcomponent account record providing individual balance details; e.g., the record for one customer out of a group of customers comprising all accounts receivable

sum-of-the-years'-digits method

Accelerated depreciation method where the depreciable base is spread over the asset life, with each year's portion being a unique but declining fraction tied to the overall asset life

sunk cost

Historical amount expended on a project or object; not relevant to current decisions or future actions

SUTA

State Unemployment Tax levied on employer to provide funds for unemployed workers; rate is adjusted for employer history of layoffs, etc.

T-account

An abstract representation of an account, with the left side of the "T" representing debits and the right side credits

target income

A level of income that is to be obtained; CVP projects activity levels necessary to achieve this benchmark

temporary accounts

Accounts that will be reset to a zero balance with each new accounting period; revenue, expense, and dividend accounts (also called "nominal" accounts)

theory of constraints

(TOC) Efficiency is improved by seeking out and eliminating constraints within the organization

time value of money

Conceptual notion holding that money to be received sooner is worth more than money to be received later

top-down mandated budget

A budget approach where upper level management establishes parameters under which the budget is to be prepared

total paid-in capital

The sum of legal capital plus paid-in capital in excess of par

total quality management

(TQM) A process for continuous improvement by focusing on customer service and systematic problem solving via teams made up of front-line employees

traceable fixed costs

Fixed costs that would not exist if the unit under evaluation ceased to exist

trade discount

A reduction from list price that is not entered in the accounting records; customarily offered in "setting" the

| | |
|-------------------------------------|---|
| | <i>invoice amount</i> |
| <i>trade receivables</i> | <i>Amounts due from customers from credits sales of products or services</i> |
| <i>trading securities</i> | <i>Investments acquired with the intent of generating profits by reselling the investment in the very near future; classified as current assets</i> |
| <i>transfer pricing</i> | <i>The system of setting prices at which goods are exchanged between affiliated units; usually involving cross-border transactions</i> |
| <i>translation</i> | <i>One of two approaches for converting the financial statements of a foreign affiliate to the reporting currency</i> |
| <i>treasury stock</i> | <i>Shares of a company's own stock that it has reacquired</i> |
| <i>trial balance</i> | <i>A listing of account balances from the ledger, used to test the equality of debits and credits</i> |
| <i>underapplied overhead</i> | <i>Applied overhead is less than the actual amount; usually viewed as a unfavorable outcome, because more has spent than anticipated for the level of achieved production</i> |
| <i>unearned revenue</i> | <i>Revenue that has been collected in advance of providing goods and services to "earn it;" reported as a liability until earned</i> |
| <i>unit-level activity</i> | <i>Activities that relate to the number of units of output; each additional unit of production requires another activity</i> |
| <i>units of output depreciation</i> | <i>A depreciation approach where the depreciable base is allocated to the expected total units of output; mileage, hours, etc.</i> |

variable cost

A per unit cost that is the same regardless of volume; total variable cost increases with volume increases

variable costing

A costing method where inventory absorbs direct costs and variable factory overhead; the income statement identifies the contribution margin

variable overhead efficiency variance

A variance that reflects the level of efficiency associated with the application of variable overhead to production

variable overhead spending variance

A variance that reflects the difference between actual variable overhead and standard variable overhead associated with the actual units of the application base

variances

Deviations from the norm that may provide warning signs of situations requiring corrective action by managers

W-2

An annual statement provided to employees stating the amount of earnings and withholdings; assists employee in preparing their own tax returns

W-4

A form filled out by an employee stating the amount of exemptions to which they are entitled for tax purposes; such exemptions bear on the amount of income tax withholdings

warranty liability

A liability that is recorded for the future costs of claims that are anticipated because of product warranty agreements

weighted-average inventory method

Under the periodic inventory system; inventory cost is based on the average cost of units purchased giving consideration to the quantities purchased at different prices

weighted-average process costing

A process costing technique where all units of production are assigned the same cost; determined by blending of

current period costs with beginning inventory cost

work in process

Goods that are in production but not yet complete; an accumulation of monies spent on direct material, direct labor, and applied manufacturing overhead

workers compensation insurance

Insurance paid by the employer to cover work related injuries sustained by employees

working capital

The difference between current assets and current liabilities

zero-based budgeting

A budget approach where each expenditure item must be justified for each new budget period