

# Glossary

**Absorption costing** A costing method that includes all manufacturing costs—direct materials, direct labor, and both variable and fixed manufacturing overhead—in unit product costs. Absorption costing is also referred to as the full cost method; also called *full costing*. (p. 794)

**Accelerated depreciation method** Method that produces larger depreciation charges in the early years of an asset's life and smaller charges in its later years. (p. 332)

**Account** Record within an accounting system in which increases and decreases are entered and stored in a specific asset, liability, equity, revenue, or expense. (p. 51)

**Account balance** Difference between total debits and total credits (including the beginning balance) for an account. (p. 55)

**Account form balance sheet** Balance sheet that lists assets on the left side and liabilities and equity on the right. (p. 18)

**Account payable** Liability created by buying goods or services on credit; backed by the buyer's general credit standing. (p. 50)

**Accounting** Information and measurement system that identifies, records, and communicates relevant information about a company's business activities. (p. 4)

**Accounting cycle** Recurring steps performed each accounting period, starting with analyzing transactions and continuing through the post-closing trial balance (or reversing entries). (p. 112)

**Accounting equation** Equality involving a company's assets, liabilities, and equity;  $\text{Assets} = \text{Liabilities} + \text{Equity}$ ; also called *balance sheet equation*. (p. 14)

**Accounting information system** People, records, and methods that collect and process data from transactions and events, organize them in useful forms, and communicate results to decision makers. (p. E-2)

**Accounting period** Length of time covered by financial statements; also called *reporting period*. (p. 94)

**Accounting rate of return** Rate used to evaluate the acceptability of an investment; equals the after-tax periodic income from a project divided by the average investment in the asset; also called *rate of return on average investment*. (p. 1001)

**Accounts payable ledger** Subsidiary ledger listing individual creditor (supplier) accounts. (p. E-7)

**Accounts receivable** Amounts due from customers for credit sales; backed by the customer's general credit standing. (p. 292)

**Accounts receivable ledger** Subsidiary ledger listing individual customer accounts. (p. E-7)

**Accounts receivable turnover** Measure of both the quality and liquidity of accounts receivable; indicates how often receivables are received

and collected during the period; computed by dividing net sales by average accounts receivable. (p. 307)

**Accrual basis accounting** Accounting system that recognizes revenues when earned and expenses when incurred; the basis for GAAP. (p. 95)

**Accrued expenses** Costs incurred in a period that are both unpaid and unrecorded; adjusting entries for recording accrued expenses involve increasing expenses and increasing liabilities. (p. 101)

**Accrued revenues** Revenues earned in a period that are both unrecorded and not yet received in cash (or other assets); adjusting entries for recording accrued revenues involve increasing assets and increasing revenues. (pp. 103 & 960)

**Accumulated depreciation** Cumulative sum of all depreciation expense recorded for an asset. (p. 97)

**Acid-test ratio** Ratio used to assess a company's ability to settle its current debts with its most liquid assets; defined as quick assets (cash, short-term investments, and current receivables) divided by current liabilities. (p. 172)

**Activity** An event that causes the consumption of overhead resources in an entity. (p. 723)

**Activity-based budgeting (ABB)** Budget system based on expected activities. (p. 850)

**Activity-based costing (ABC)** Cost allocation method that focuses on activities performed; traces costs to activities and then assigns them to cost objects. (p. 731)

**Activity-based management** A management approach that focuses on managing activities as a way of eliminating waste and reducing delays and defects. (p. 730)

**Activity cost driver** Variable that causes an activity's cost to go up or down; a causal factor. (p. 861)

**Activity cost pool** Temporary account that accumulates costs a company incurs to support an activity. (p. 861)

**Activity overhead (pool) rate** A predetermined overhead rate in activity-based costing; each activity cost pool has its own activity rate that is used to apply overhead to products and services. (p. 731)

**Adjusted trial balance** List of accounts and balances prepared after period-end adjustments are recorded and posted. (p. 106)

**Adjusting entry** Journal entry at the end of an accounting period to bring an asset or liability account to its proper amount and update the related expense or revenue account. (p. 96)

**Aging of accounts receivable** Process of classifying accounts receivable by how long they are past due for purposes of estimating uncollectible accounts. (p. 300)

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**Allowance for Doubtful Accounts** Contra asset account with a balance approximating uncollectible accounts receivable; also called *Allowance for Uncollectible Accounts*. (p. 297)

**Allowance method** Procedure that (a) estimates and matches bad debts expense with its sales for the period and/or (b) reports accounts receivable at estimated realizable value. (p. 296)

**Amortization** Process of allocating the cost of an intangible asset to expense over its estimated useful life. (p. 341)

**Annual financial statements** Financial statements covering a one-year period; often based on a calendar year, but any consecutive 12-month (or 52-week) period is acceptable. (p. 94)

**Annual report** Summary of a company's financial results for the year with its current financial condition and future plans; directed to external users of financial information. (p. A-1)

**Annuity** Series of equal payments at equal intervals. (p. 431)

**Appropriated retained earnings** Retained earnings separately reported to inform stockholders of funding needs. (p. 473)

**Asset book value** (See *book value*.)

**Assets** Resources a business owns or controls that are expected to provide current and future benefits to the business. (p. 14)

**Audit** Analysis and report of an organization's accounting system, its records, and its reports using various tests. (p. 12)

**Auditors** Individuals hired to review financial reports and information systems. *Internal auditors* of a company are employed to assess and evaluate its system of internal controls, including the resulting reports. *External auditors* are independent of a company and are hired to assess and evaluate the "fairness" of financial statements (or to perform other contracted financial services) (p. 13).

**Authorized stock** Total amount of stock that a corporation's charter authorizes it to issue. (p. 459)

**Available-for-sale (AFS) securities** Investments in debt and equity securities that are not classified as trading securities or held-to-maturity securities. (p. C-6)

**Average cost** See *weighted average*. (pp. 210 & 225)

**Avoidable expense** Expense (or cost) that is relevant for decision making; expense that is not incurred if a department, product, or service is eliminated. (p. 975)

**Bad debts** Accounts of customers who do not pay what they have promised to pay; an expense of selling on credit; also called *uncollectible accounts*. (p. 295)

**Balance column account** Account with debit and credit columns for recording entries and another column for showing the balance of the account after each entry. (p. 58)

**Balance sheet** Financial statement that lists types and dollar amounts of assets, liabilities, and equity at a specific date. (p. 19)

**Balance sheet equation** (See *accounting equation*.)

**Balanced scorecard** A system of performance measurement that collects information on several key performance indicators within each of

four perspectives: customer, internal processes, innovation and learning, and financial. (p. 936)

**Bank reconciliation** Report that explains the difference between the book (company) balance of cash and the cash balance reported on the bank statement. (p. 263)

**Bank statement** Bank report on the depositor's beginning and ending cash balances, and a listing of its changes, for a period. (p. 262)

**Basic earnings per share** Net income less any preferred dividends and then divided by weighted-average common shares outstanding. (p. 475)

**Batch level activities** Activities that are performed each time a batch of goods is handled or processed, regardless of how many units are in a batch; the amount of resources used depends on the number of batches run rather than on the number of units in the batch. (p. 738)

**Batch processing** Accumulating source documents for a period of time and then processing them all at once such as once a day, week, or month. (p. E-16)

**Bearer bonds** Bonds made payable to whoever holds them (the *bearer*); also called *unregistered bonds*. (p. 426)

**Benchmarking** Practice of comparing and analyzing company financial performance or position with other companies or standards. (p. 1002)

**Betterments** Expenditures to make a plant asset more efficient or productive; also called *improvements*. (p. 337)

**Bond** Written promise to pay the bond's par (or face) value and interest at a stated contract rate; often issued in denominations of \$1,000. (p. 412)

**Bond certificate** Document containing bond specifics such as issuer's name, bond par value, contract interest rate, and maturity date. (p. 414)

**Bond indenture** Contract between the bond issuer and the bondholders; identifies the parties' rights and obligations. (p. 414)

**Book value** Asset's acquisition costs less its accumulated depreciation (or depletion, or amortization); also sometimes used synonymously as the *carrying value* of an account. (p. 100)

**Book value per common share** Recorded amount of equity applicable to common shares divided by the number of common shares outstanding. (p. 476)

**Book value per preferred share** Equity applicable to preferred shares (equals its call price [or par value if it is not callable] plus any cumulative dividends in arrears) divided by the number of preferred shares outstanding. (p. 476)

**Bookkeeping** (See *recordkeeping*.) (p. 4)

**Break-even point** Output level at which sales equals fixed plus variable costs; where income equals zero. (p. 773)

**Break-even time (BET)** Time-based measurement used to evaluate the acceptability of an investment; equals the time expected to pass before the present value of the net cash flows from an investment equals its initial cost. (p. 1008)

**Budget** Formal statement of future plans, usually expressed in monetary terms. (p. 836)

**Budget report** Report comparing actual results to planned objectives; sometimes used as a progress report. (p. 880)

**Budgetary control** Management use of budgets to monitor and control company operations. (p. 880)

**Budgeted balance sheet** Accounting report that presents predicted amounts of the company's assets, liabilities, and equity balances as of the end of the budget period. (p. 848)

**Budgeted income statement** Accounting report that presents predicted amounts of the company's revenues and expenses for the budget period. (p. 848)

**Budgeting** Process of planning future business actions and expressing them as formal plans. (p. 836)

**Business** An organization of one or more individuals selling products and/or services for profit. (p. 10)

**Business entity assumption** Principle that requires a business to be accounted for separately from its owner(s) and from any other entity. (p. 11)

**Business segment** Part of a company that can be separately identified by the products or services that it provides or by the geographic markets that it serves; also called *segment*. (p. 578)

**C corporation** Corporation that does not qualify for nor elect to be treated as a proprietorship or partnership for income tax purposes and therefore is subject to income taxes; also called *C corp.* (p. D-4)

**Call price** Amount that must be paid to call and retire a callable preferred stock or a callable bond. (p. 469)

**Callable bonds** Bonds that give the issuer the option to retire them at a stated amount prior to maturity. (p. 426)

**Callable preferred stock** Preferred stock that the issuing corporation, at its option, may retire by paying the call price plus any dividends in arrears. (p. 469)

**Canceled checks** Checks that the bank has paid and deducted from the depositor's account. (p. 263)

**Capital budgeting** Process of analyzing alternative investments and deciding which assets to acquire or sell. (p. 998)

**Capital expenditures** Additional costs of plant assets that provide material benefits extending beyond the current period; also called *balance sheet expenditures*. (p. 336)

**Capital expenditures budget** Plan that lists dollar amounts to be both received from disposal of plant assets and spent to purchase plant assets. (p. 846)

**Capital leases** Long-term leases in which the lessor transfers substantially all risk and rewards of ownership to the lessee. (p. 437)

**Capital stock** General term referring to a corporation's stock used in obtaining capital (owner financing). (p. 459)

**Capitalize** Record the cost as part of a permanent account and allocate it over later periods.

**Carrying (book) value of bonds** Net amount at which bonds are reported on the balance sheet; equals the par value of the bonds less any unamortized discount or plus any unamortized premium; also called *carrying amount or book value*. (p. 416)

**Cash** Includes currency, coins, and amounts on deposit in bank checking or savings accounts. (p. 253)

**Cash basis accounting** Accounting system that recognizes revenues when cash is received and records expenses when cash is paid. (p. 95)

**Cash budget** Plan that shows expected cash inflows and outflows during the budget period, including receipts from loans needed to maintain a minimum cash balance and repayments of such loans. (p. 846)

**Cash disbursements journal** Special journal normally used to record all payments of cash; also called *cash payments journal*. (p. E-14)

**Cash discount** Reduction in the price of merchandise granted by a seller to a buyer when payment is made within the discount period. (p. 159)

**Cash equivalents** Short-term, investment assets that are readily convertible to a known cash amount or sufficiently close to their maturity date (usually within 90 days) so that market value is not sensitive to interest rate changes. (p. 253)

**Cash flow on total assets** Ratio of operating cash flows to average total assets; not sensitive to income recognition and measurement; partly reflects earnings quality. (p. 518)

**Cash Over and Short** Income statement account used to record cash overages and cash shortages arising from errors in cash receipts or payments. (p. 255)

**Cash receipts journal** Special journal normally used to record all receipts of cash. (p. E-11)

**Change in an accounting estimate** Change in an accounting estimate that results from new information, subsequent developments, or improved judgment that impacts current and future periods. (pp. 335 & 473)

**Chart of accounts** List of accounts used by a company; includes an identification number for each account. (p. 54)

**Check** Document signed by a depositor instructing the bank to pay a specified amount to a designated recipient. (p. 260)

**Check register** Another name for a cash disbursements journal when the journal has a column for check numbers. (pp. 272 & E-14)

**Classified balance sheet** Balance sheet that presents assets and liabilities in relevant subgroups, including current and noncurrent classifications. (p. 113)

**Clock card** Source document used to record the number of hours an employee works and to determine the total labor cost for each pay period. (p. 782)

**Closing entries** Entries recorded at the end of each accounting period to transfer end-of-period balances in revenue, gain, expense, loss, and withdrawal (dividend for a corporation) accounts to the capital account (to retained earnings for a corporation). (p. 108)

**Closing process** Necessary end-of-period steps to prepare the accounts for recording the transactions of the next period. (p. 108)

**Columnar journal** Journal with more than one column. (p. E-8)

**Committee on Sponsoring Organizations (COSO)** Committee devoted to improving the quality of financial reporting through effective internal controls, consisting of five interrelated components, along with other mechanisms ([www.COSO.org](http://www.COSO.org)). (p. 249)

**Common stock** Corporation's basic ownership share; also generically called *capital stock*. (pp. 12 & 458)

**Common-size financial statement** Statement that expresses each amount as a percent of a base amount. In the balance sheet, total assets is usually the base and is expressed as 100%. In the income statement, net sales is usually the base. (p. 561)

**Comparative financial statement** Statement with data for two or more successive periods placed in side-by-side columns, often with changes shown in dollar amounts and percents. (p. 556)

**Compatibility principle** Information system principle that prescribes an accounting system to conform with a company's activities, personnel, and structure. (p. E-3)

**Complex capital structure** Capital structure that includes outstanding rights or options to purchase common stock, or securities that are convertible into common stock. (p. 475)

**Components of accounting systems** Five basic components of accounting systems are source documents, input devices, information processors, information storage, and output devices. (p. E-3)

**Composite unit** Generic unit consisting of a specific number of units of each product; unit comprised in proportion to the expected sales mix of its products. (p. 780)

**Compound journal entry** Journal entry that affects at least three accounts. (p. 61)

**Comprehensive income** Net change in equity for a period, excluding owner investments and distributions. (p. C-10)

**Computer hardware** Physical equipment in a computerized accounting information system.

**Computer network** Linkage giving different users and different computers access to common databases and programs. (p. E-16)

**Computer software** Programs that direct operations of computer hardware.

**Conceptual framework** A written framework to guide the development, preparation, and interpretation of financial accounting information. (p. 9)

**Conservatism constraint** Principle that prescribes the less optimistic estimate when two estimates are about equally likely. (p. 214)

**Consignee** Receiver of goods owned by another who holds them for purposes of selling them for the owner. (p. 204)

**Consignor** Owner of goods who ships them to another party who will sell them for the owner. (p. 204)

**Consistency concept** Principle that prescribes use of the same accounting method(s) over time so that financial statements are comparable across periods. (p. 213)

**Consolidated financial statements** Financial statements that show all (combined) activities under the parent's control, including those of any subsidiaries. (p. C-9)

**Contingent liability** Obligation to make a future payment if, and only if, an uncertain future event occurs. (p. 380)

**Continuous budgeting** Practice of preparing budgets for a selected number of future periods and revising those budgets as each period is completed. (p. 839)

**Continuous improvement** Concept requiring every manager and employee continually to look to improve operations. (p. 616)

**Contra account** Account linked with another account and having an opposite normal balance; reported as a subtraction from the other account's balance. (p. 99)

**Contract rate** Interest rate specified in a bond indenture (or note); multiplied by the par value to determine the interest paid each period; also called *coupon rate*, *stated rate*, or *nominal rate*. (p. 415)

**Contributed capital** Total amount of cash and other assets received from stockholders in exchange for stock; also called *paid-in capital*. (p. 14)

**Contributed capital in excess of par value** Difference between the par value of stock and its issue price when issued at a price above par.

**Contribution format** An income statement format that is geared to cost behavior in that costs are separated into variable and fixed categories rather than being separated according to the functions of production, sales, and administration. (p. 804)

**Contribution margin** Sales revenue less total variable costs.

**Contribution margin income statement** Income statement that separates variable and fixed costs; highlights the contribution margin, which is sales less variable expenses. (p. 806)

**Contribution margin per unit** Amount that the sale of one unit contributes toward recovering fixed costs and earning profit; defined as sales price per unit minus variable expense per unit. (p. 772)

**Contribution margin ratio** Product's contribution margin divided by its sale price. (p. 772)

**Contribution margin report** A performance report that lists sales less the variable costs, ending with the contribution margin; fixed costs are excluded. (p. 807)

**Control** Process of monitoring planning decisions and evaluating the organization's activities and employees. (p. 601)

**Control principle** Information system principle that prescribes an accounting system to aid managers in controlling and monitoring business activities. (p. E-2)

**Controllable costs** Costs that a manager has the power to control or at least strongly influence. (pp. 605, 814 & 937)

**Controllable variance** Combination of both overhead spending variances (variable and fixed) and the variable overhead efficiency variance. (p. 893)

**Controlling account** General ledger account, the balance of which (after posting) equals the sum of the balances in its related subsidiary ledger. (p. E-7)

**Conversion costs** Expenditures incurred in converting raw materials to finished goods; includes direct labor costs and overhead costs. (p. 611)

**Conversion costs per equivalent unit** The combined costs of direct labor and factory overhead per equivalent unit. (p. 697)

**Convertible bonds** Bonds that bondholders can exchange for a set number of the issuer's shares. (p. 426)

**Convertible preferred stock** Preferred stock with an option to exchange it for common stock at a specified rate. (p. 468)

**Copyright** Right giving the owner the exclusive privilege to publish and sell musical, literary, or artistic work during the creator's life plus 70 years. (p. 342)

**Corporation** Business that is a separate legal entity under state or federal laws with owners called *shareholders* or *stockholders*. (pp. 12 & 456)

**Cost** All normal and reasonable expenditures necessary to get an asset in place and ready for its intended use. (p. 327 & 329)

**Cost accounting system** Accounting system for manufacturing activities based on the perpetual inventory system. (p. 776)

**Cost-based transfer pricing** A form of pricing transfers between divisions of the same company based on costs to the transferring division; typically used when the transferring division has excess capacity. (p. 945)

**Cost-benefit constraint** Notion that only information with benefits of disclosure greater than the costs of disclosure need be disclosed. (p. 12)

**Cost-benefit principle** Information system principle that prescribes the benefits from an activity in an accounting system to outweigh the costs of that activity. (*p. E-3*)

**Cost center** Department that incurs costs but generates no revenues; common example is the accounting or legal department. (*p. 927*)

**Cost object** Product, process, department, or customer to which costs are assigned. (*p. 605*)

**Cost of capital** Rate the company must pay to its long-term creditors and shareholders; also called *hurdle rate*. (*p. 1003*)

**Cost of goods available for sale** Consists of beginning inventory plus net purchases of a period.

**Cost of goods manufactured** Total manufacturing costs (direct materials, direct labor, and factory overhead) for the period plus beginning goods in process less ending goods in process; also called *net cost of goods manufactured* and *cost of goods completed*. (*p. 695*)

**Cost of goods sold** Cost of inventory sold to customers during a period; also called *cost of sales*. (*p. 156*)

**Cost principle** Accounting principle that prescribes financial statement information to be based on actual costs incurred in business transactions. (*p. 10*)

**Cost variance** Difference between the actual incurred cost and the standard cost. (*p. 887*)

**Cost-volume-profit (CVP) analysis** Planning method that includes predicting the volume of activity, the costs incurred, sales earned, and profits received. (*p. 766*)

**Cost-volume-profit (CVP) chart** Graphic representation of cost-volume-profit relations. (*p. 774*)

**Coupon bonds** Bonds with interest coupons attached to their certificates; bondholders detach coupons when they mature and present them to a bank or broker for collection. (*p. 426*)

**Credit** Recorded on the right side; an entry that decreases asset and expense accounts, and increases liability, revenue, and most equity accounts; abbreviated Cr. (*p. 55*)

**Credit memorandum** Notification that the sender has credited the recipient's account in the sender's records. (*p. 165*)

**Credit period** Time period that can pass before a customer's payment is due. (*p. 159*)

**Credit terms** Description of the amounts and timing of payments that a buyer (debtor) agrees to make in the future. (*p. 159*)

**Creditors** Individuals or organizations entitled to receive payments. (*p. 52*)

**Cumulative preferred stock** Preferred stock on which undeclared dividends accumulate until paid; common stockholders cannot receive dividends until cumulative dividends are paid. (*p. 467*)

**Current assets** Cash and other assets expected to be sold, collected, or used within one year or the company's operating cycle, whichever is longer. (*p. 114*)

**Current liabilities** Obligations due to be paid or settled within one year or the company's operating cycle, whichever is longer. (*p. 115 & 369*)

**Current portion of long-term debt** Portion of long-term debt due within one year or the operating cycle, whichever is longer; reported under current liabilities. (*p. 377*)

**Current ratio** Ratio used to evaluate a company's ability to pay its short-term obligations, calculated by dividing current assets by current liabilities. (*p. 117*)

**Curvilinear cost** Cost that changes with volume but not at a constant rate. (*p. 768*)

**Customer orientation** Company position that its managers and employees be in tune with the changing wants and needs of consumers. (*p. 615*)

**Cycle efficiency (CE)** A measure of production efficiency, which is defined as value-added (process) time divided by total cycle time. (*p. 618*)

**Cycle time (CT)** A measure of the time to produce a product or service, which is the sum of process time, inspection time, move time, and wait time; also called *throughput time*. (*p. 617*)

**Date of declaration** Date the directors vote to pay a dividend. (*p. 463*)

**Date of payment** Date the corporation makes the dividend payment. (*p. 463*)

**Date of record** Date directors specify for identifying stockholders to receive dividends. (*p. 463*)

**Days' sales in inventory** Estimate of number of days needed to convert inventory into receivables or cash; equals ending inventory divided by cost of goods sold and then multiplied by 365; also called days' *stock on hand*. (*p. 217*)

**Days' sales uncollected** Measure of the liquidity of receivables computed by dividing the current balance of receivables by the annual credit (or net) sales and then multiplying by 365; also called *days' sales in receivables*. (*p. 267*)

**Debit** Recorded on the left side; an entry that increases asset and expense accounts, and decreases liability, revenue, and most equity accounts; abbreviated Dr. (*p. 55*)

**Debit memorandum** Notification that the sender has debited the recipient's account in the sender's records. (*p. 160*)

**Debtors** Individuals or organizations that owe money. (*p. 51*)

**Debt ratio** Ratio of total liabilities to total assets; used to reflect risk associated with a company's debts. (*p. 69*)

**Debt-to-equity ratio** Defined as total liabilities divided by total equity; shows the proportion of a company financed by non-owners (creditors) in comparison with that financed by owners. (*p. 427*)

**Declining-balance method** Method that determines depreciation charge for the period by multiplying a depreciation rate (often twice the straight-line rate) by the asset's beginning-period book value. (*p. 332*)

**Deferred income tax liability** Corporation income taxes that are deferred until future years because of temporary differences between GAAP and tax rules. (*p. 392*)

**Degree of operating leverage (DOL)** Ratio of contribution margin divided by pretax income; used to assess the effect on income of changes in sales. (*p. 782*)

**Departmental accounting system** Accounting system that provides information useful in evaluating the profitability or cost effectiveness of a department. (*p. 926*)

**Departmental contribution to overhead** Amount by which a department's revenues exceed its direct expenses. (*p. 933*)

**Depletion** Process of allocating the cost of natural resources to periods when they are consumed and sold. (*p. 340*)

**Deposit ticket** Lists items such as currency, coins, and checks deposited and their corresponding dollar amounts. (p. 260)

**Deposits in transit** Deposits recorded by the company but not yet recorded by its bank. (p. 263)

**Depreciable cost** Cost of a plant asset less its salvage value.

**Depreciation** Expense created by allocating the cost of plant and equipment to periods in which they are used; represents the expense of using the asset. (pp. 99 & 329)

**Diluted earnings per share** Earnings per share calculation that requires dilutive securities be added to the denominator of the basic EPS calculation. (p. 475)

**Dilutive securities** Securities having the potential to increase common shares outstanding; examples are options, rights, convertible bonds, and convertible preferred stock. (p. 475)

**Direct costs** Costs incurred for the benefit of one specific cost object. (p. 605)

**Direct expenses** Expenses traced to a specific department (object) that are incurred for the sole benefit of that department. (p. 927)

**Direct labor** Efforts of employees who physically convert materials to finished product. (p. 610)

**Direct labor costs** Wages and salaries for direct labor that are separately and readily traced through the production process to finished goods. (p. 610)

**Direct material** Raw material that physically becomes part of the product and is clearly identified with specific products or batches of product. (p. 610)

**Direct material costs** Expenditures for direct material that are separately and readily traced through the production process to finished goods. (p. 610)

**Direct method** Presentation of net cash from operating activities for the statement of cash flows that lists major operating cash receipts less major operating cash payments. (p. 506)

**Direct write-off method** Method that records the loss from an uncollectible account receivable at the time it is determined to be uncollectible; no attempt is made to estimate bad debts. (p. 295)

**Discount on bonds payable** Difference between a bond's par value and its lower issue price or carrying value; occurs when the contract rate is less than the market rate. (p. 415)

**Discount on note payable** Difference between the face value of a note payable and the (lesser) amount borrowed; reflects the added interest to be paid on the note over its life.

**Discount on stock** Difference between the par value of stock and its issue price when issued at a price below par value. (p. 461)

**Discount period** Time period in which a cash discount is available and the buyer can make a reduced payment. (p. 159)

**Discount rate** Expected rate of return on investments; also called *cost of capital*, *hurdle rate*, or *required rate of return*. (p. B-2)

**Discounts lost** Expenses resulting from not taking advantage of cash discounts on purchases. (p. 273)

**Dividend in arrears** Unpaid dividend on cumulative preferred stock; must be paid before any regular dividends on preferred stock and before any dividends on common stock. (p. 467)

**Dividends** Corporation's distributions of assets to its owners. (p. 14)

**Dividend yield** Ratio of the annual amount of cash dividends distributed to common shareholders relative to the common stock's market value (price). (p. 476)

**Double-declining-balance (DDB) depreciation** Depreciation equals beginning book value multiplied by 2 times the straight-line rate.

**Double taxation** Corporate income is taxed and then its later distribution through dividends is normally taxed again for shareholders.

**Double-entry accounting** Accounting system in which each transaction affects at least two accounts and has at least one debit and one credit. (p. 55)

**Earnings** (See *net income*.)

**Earnings per share (EPS)** Amount of income earned by each share of a company's outstanding common stock; also called *net income per share*. (p. 475)

**Effective interest method** Allocates interest expense over the bond life to yield a constant rate of interest; interest expense for a period is found by multiplying the balance of the liability at the beginning of the period by the bond market rate at issuance; also called *interest method*. (p. 433)

**Efficiency** Company's productivity in using its assets; usually measured relative to how much revenue a certain level of assets generates. (p. 555)

**Efficiency variance** Difference between the actual quantity of an input and the standard quantity of that input. (p. 900)

**Electronic funds transfer (EFT)** Use of electronic communication to transfer cash from one party to another. (p. 361)

**Employee benefits** Additional compensation paid to or on behalf of employees, such as premiums for medical, dental, life, and disability insurance, and contributions to pension plans. (p. 377)

**Employee earnings report** Record of an employee's net pay, gross pay, deductions, and year-to-date payroll information. (p. 388)

**Enterprise resource planning (ERP) software** Programs that manage a company's vital operations, which range from order taking to production to accounting. (p. E-17)

**Entity** Organization that, for accounting purposes, is separate from other organizations and individuals.

**EOM** Abbreviation for *end of month*; used to describe credit terms for credit transactions. (p. 159)

**Equity** Owner's claim on the assets of a business; equals the residual interest in an entity's assets after deducting liabilities; also called *net assets*. (p. 14)

**Equity method** Accounting method used for long-term investments when the investor has "significant influence" over the investee. (p. C-8)

**Equity ratio** Portion of total assets provided by equity, computed as total equity divided by total assets. (p. 569)

**Equity securities with controlling influence** Long-term investment when the investor is able to exert controlling influence over the investee; investors owning 50% or more of voting stock are presumed to exert controlling influence. (p. C-9)

**Equity securities with significant influence** Long-term investment when the investor is able to exert significant influence over the investee;

investors owning 20 percent or more (but less than 50 percent) of voting stock are presumed to exert significant influence. (p. C-8)

**Equivalent units of production (EUP)** Number of units that would be completed if all effort during a period had been applied to units that were started and finished. (p. 689)

**Estimated liability** Obligation of an uncertain amount that can be reasonably estimated. (p. 377)

**Estimated line of cost behavior** Line drawn on a graph to visually fit the relation between cost and sales. (p. 770)

**Ethics** Codes of conduct by which actions are judged as right or wrong, fair or unfair, honest or dishonest. (pp. 8 & 604)

**Events** Happenings that both affect an organization's financial position and can be reliably measured. (p. 15)

**Expanded accounting equation** Assets = Liabilities + Equity; Equity equals [Owner capital – Owner withdrawals + Revenues – Expenses] for a noncorporation; Equity equals [Contributed capital + Retained earnings + Revenues – Expenses] for a corporation where dividends are subtracted from retained earnings. (p. 14)

**Expense recognition (or matching) principle** (See *matching principle*.) (pp. 11 & 96)

**Expenses** Outflows or using up of assets as part of operations of a business to generate sales. (p. 14)

**External transactions** Exchanges of economic value between one entity and another entity. (p. 15)

**External users** Persons using accounting information who are not directly involved in running the organization. (p. 5)

**Extraordinary gains and losses** Gains or losses reported separately from continuing operations because they are both unusual and infrequent. (p. 578)

**Extraordinary repairs** Major repairs that extend the useful life of a plant asset beyond prior expectations; treated as a capital expenditure. (p. 337)

**Facility level activities** Activities that relate to overall production and cannot be traced to specific products; costs associated with these activities pertain to a plant's general manufacturing process. (p. 725)

**Factory overhead** Factory activities supporting the production process that are not direct material or direct labor; also called *overhead and manufacturing overhead*. (p. 610)

**Factory overhead costs** Expenditures for factory overhead that cannot be separately or readily traced to finished goods; also called *overhead costs*. (p. 610)

**Fair value option** Reporting option that permits a company to use fair value in reporting certain assets and liabilities, which is presently based on a 3-level system to determine fair value. (p. 425)

**Favorable variance** Difference in actual revenues or expenses from the budgeted amount that contributes to a higher income. (p. 881)

**Federal depository bank** Bank authorized to accept deposits of amounts payable to the federal government. (p. 385)

**Federal Insurance Contributions Act (FICA) taxes** Taxes assessed on both employers and employees; for Social Security and Medicare programs. (p. 374)

**Federal Unemployment Taxes (FUTA)** Payroll taxes on employers assessed by the federal government to support its unemployment insurance program. (p. 376)

**FIFO method** (See *first-in, first-out*.) (pp. 209 & 701)

**Financial accounting** Area of accounting aimed mainly at serving external users. (p. 5)

**Financial Accounting Standards Board (FASB)** Independent group of full-time members responsible for setting accounting rules. (p. 9)

**Financial leverage** Earning a higher return on equity by paying dividends on preferred stock or interest on debt at a rate lower than the return earned with the assets from issuing preferred stock or debt; also called *trading on the equity*. (p. 469)

**Financial reporting** Process of communicating information relevant to investors, creditors, and others in making investment, credit, and business decisions. (p. 555)

**Financial statement analysis** Application of analytical tools to general-purpose financial statements and related data for making business decisions. (p. 554)

**Financial statements** Includes the balance sheet, income statement, statement of owner's (or stockholders') equity, and statement of cash flows.

**Financing activities** Transactions with owners and creditors that include obtaining cash from issuing debt, repaying amounts borrowed, and obtaining cash from or distributing cash to owners. (p. 502)

**Finished goods inventory** Account that controls the finished goods files, which acts as a subsidiary ledger (of the Inventory account) in which the costs of finished goods that are ready for sale are recorded. (pp. 609 & 779)

**First-in, first-out (FIFO)** Method to assign cost to inventory that assumes items are sold in the order acquired; earliest items purchased are the first sold. (p. 209)

**Fiscal year** Consecutive 12-month (or 52-week) period chosen as the organization's annual accounting period. (p. 95)

**Fixed budget** Planning budget based on a single predicted amount of volume; unsuitable for evaluations if the actual volume differs from predicted volume. (p. 881)

**Fixed budget performance report** Report that compares actual revenues and costs with fixed budgeted amounts and identifies the differences as favorable or unfavorable variances. (p. 881)

**Fixed cost** Cost that does not change with changes in the volume of activity. (p. 604)

**Fixed overhead cost deferred in inventory** The portion of the fixed manufacturing overhead cost of a period that goes into inventory under the absorption costing method as a result of production exceeding sales. (p. 801)

**Fixed overhead cost recognized from inventory** The portion of the fixed manufacturing overhead cost of a prior period that becomes an expense of the current period under the absorption costing method as a result of sales exceeding production. (p. 801)

**Flexibility principle** Information system principle that prescribes an accounting system be able to adapt to changes in the company, its operations, and needs of decision makers. (p. E-3)

**Flexible budget** Budget prepared (using actual volume) once a period is complete that helps managers evaluate past performance; uses fixed and variable costs in determining total costs. (p. 882)

**Flexible budget performance report** Report that compares actual revenues and costs with their variable budgeted amounts based on actual sales volume (or other level of activity) and identifies the differences as variances. (p. 884)

**FOB** Abbreviation for *free on board*; the point when ownership of goods passes to the buyer; *FOB shipping point* (or *factory*) means the buyer pays shipping costs and accepts ownership of goods when the seller transfers goods to carrier; *FOB destination* means the seller pays shipping costs and buyer accepts ownership of goods at the buyer's place of business. (p. 161)

**Foreign exchange rate** Price of one currency stated in terms of another currency. (p. C-16)

**Form 940** IRS form used to report an employer's federal unemployment taxes (FUTA) on an annual filing basis. (p. 385)

**Form 941** IRS form filed to report FICA taxes owed and remitted. (p. 385)

**Form 10-K (or 10-KSB)** Annual report form filed with SEC by businesses (small businesses) with publicly traded securities. (p. A-1)

**Form W-2** Annual report by an employer to each employee showing the employee's wages subject to FICA and federal income taxes along with amounts withheld. (p. 387)

**Form W-4** Withholding allowance certificate, filed with the employer, identifying the number of withholding allowances claimed. (p. 390)

**Franchises** Privileges granted by a company or government to sell a product or service under specified conditions. (p. 342)

**Full disclosure principle** Principle that prescribes financial statements (including notes) to report all relevant information about an entity's operations and financial condition. (p. 11)

**GAAP** (See *generally accepted accounting principles*.)

**General accounting system** Accounting system for manufacturing activities based on the *periodic* inventory system. (p. 776)

**General and administrative expenses** Expenses that support the operating activities of a business. (p. 169)

**General and administrative expense budget** Plan that shows predicted operating expenses not included in the selling expenses budget. (p. 845)

**General journal** All-purpose journal for recording the debits and credits of transactions and events. (pp. E-6)

**General ledger** (See *ledger*.) (p. 51)

**General partner** Partner who assumes unlimited liability for the debts of the partnership; responsible for partnership management. (p. D-3)

**General partnership** Partnership in which all partners have mutual agency and unlimited liability for partnership debts. (p. D-3)

**Generally accepted accounting principles (GAAP)** Rules that specify acceptable accounting practices. (p. 8)

**Generally accepted auditing standards (GAAS)** Rules that specify auditing practices.

**General-purpose financial statements** Statements published periodically for use by a variety of interested parties; includes the income statement,

balance sheet, statement of owner's equity (or statement of retained earnings for a corporation), statement of cash flows, and notes to these statements. (p. 555)

**Going-concern assumption** Principle that prescribes financial statements to reflect the assumption that the business will continue operating. (p. 11)

**Goods in process inventory** Account in which costs are accumulated for products that are in the process of being produced but are not yet complete; also called *work in process inventory*. (pp. 609 & 778)

**Goodwill** Amount by which a company's (or a segment's) value exceeds the value of its individual assets less its liabilities. (p. 343)

**Gross margin** (See *gross profit*.) (p. 157)

**Gross margin ratio** Gross margin (net sales minus cost of goods sold) divided by net sales; also called *gross profit ratio*. (p. 172)

**Gross method** Method of recording purchases at the full invoice price without deducting any cash discounts. (p. 273)

**Gross pay** Total compensation earned by an employee. (p. 374)

**Gross profit** Net sales minus cost of goods sold; also called *gross margin*. (p. 156)

**Gross profit method** Procedure to estimate inventory when the past gross profit rate is used to estimate cost of goods sold, which is then subtracted from the cost of goods available for sale. (p. 228)

**Held-to-maturity (HTM) securities** Debt securities that a company has the intent and ability to hold until they mature. (p. C-6)

**High-low method** Procedure that yields an estimated line of cost behavior by graphically connecting costs associated with the highest and lowest sales volume. (p. 770)

**Horizontal analysis** Comparison of a company's financial condition and performance across time. (p. 556)

**Hurdle rate** Minimum acceptable rate of return (set by management) for an investment. (pp. 935 & 1007)

**Impairment** Diminishment of an asset value. (pp. 336 & 342)

**Imprest system** Method to account for petty cash; maintains a constant balance in the fund, which equals cash plus petty cash receipts.

**Inadequacy** Condition in which the capacity of plant assets is too small to meet the company's production demands. (p. 329)

**Income** (See *net income*.)

**Income statement** Financial statement that subtracts expenses from revenues to yield a net income or loss over a specified period of time; also includes any gains or losses. (p. 19)

**Income Summary** Temporary account used only in the closing process to which the balances of revenue and expense accounts (including any gains or losses) are transferred; its balance is transferred to the capital account (or retained earnings for a corporation). (p. 809)

**Incremental cost** Additional cost incurred only if a company pursues a specific course of action. (p. 970)

**Indefinite life** Asset life that is not limited by legal, regulatory, contractual, competitive, economic, or other factors. (p. 341)

**Indirect costs** Costs incurred for the benefit of more than one cost object. (p. 605)



**Indirect expenses** Expenses incurred for the joint benefit of more than one department (or cost object). (p. 927)

**Indirect labor** Efforts of production employees who do not work specifically on converting direct materials into finished products and who are not clearly identified with specific units or batches of product. (p. 610)

**Indirect labor costs** Labor costs that cannot be physically traced to production of a product or service; included as part of overhead. (p. 610)

**Indirect material** Material used to support the production process but not clearly identified with products or batches of product. (p. 608)

**Indirect method** Presentation that reports net income and then adjusts it by adding and subtracting items to yield net cash from operating activities on the statement of cash flows. (p. 506)

**Information processor** Component of an accounting system that interprets, transforms, and summarizes information for use in analysis and reporting. (p. E-4)

**Information storage** Component of an accounting system that keeps data in a form accessible to information processors. (p. E-4)

**Infrequent gain or loss** Gain or loss not expected to recur given the operating environment of the business. (p. 578)

**Input device** Means of capturing information from source documents that enables its transfer to information processors. (p. E-4)

**Installment note** Liability requiring a series of periodic payments to the lender. (p. 422)

**Institute of Management Accountants (IMA)** A professional association of management accountants. (p. 604)

**Intangible assets** Long-term assets (resources) used to produce or sell products or services; usually lack physical form and have uncertain benefits. (pp. 115 & 341)

**Interest** Charge for using money (or other assets) loaned from one entity to another. (p. 302)

**Interim financial statements** Financial statements covering periods of less than one year; usually based on one-, three-, or six-month periods. (pp. 94 & 227)

**Internal controls** or **Internal control system** All policies and procedures used to protect assets, ensure reliable accounting, promote efficient operations, and urge adherence to company policies. (pp. 248, 604 & E-2)

**Internal rate of return (IRR)** Rate used to evaluate the acceptability of an investment; equals the rate that yields a net present value of zero for an investment. (p. 1005)

**Internal transactions** Activities within an organization that can affect the accounting equation. (p. 15)

**Internal users** Persons using accounting information who are directly involved in managing the organization. (p. 6)

**International Accounting Standards Board (IASB)** Group that identifies preferred accounting practices and encourages global acceptance; issues International Financial Reporting Standards (IFRS). (p. 9)

**International Financial Reporting Standards (IFRS)** International Financial Reporting Standards (IFRS) are required or allowed by over 100 countries; IFRS is set by the International Accounting Standards Board (IASB), which aims to develop a single set of global standards, to promote those standards, and to converge national and international standards globally. (p. 9)

**Inventory** Goods a company owns and expects to sell in its normal operations. (p. 157)

**Inventory turnover** Number of times a company's average inventory is sold during a period; computed by dividing cost of goods sold by average inventory; also called *merchandise turnover*. (p. 217)

**Investing activities** Transactions that involve purchasing and selling of long-term assets, includes making and collecting notes receivable and investments in other than cash equivalents. (p. 502)

**Investment center** Center of which a manager is responsible for revenues, costs, and asset investments. (p. 927)

**Investment center residual income** The net income an investment center earns above a target return on average invested assets. (p. 935)

**Investment center return on total assets** Center net income divided by average total assets for the center. (p. 935)

**Investment turnover** The efficiency with which a company generates sales from its available assets; computed as sales divided by average invested assets. (p. 940)

**Invoice** Itemized record of goods prepared by the vendor that lists the customer's name, items sold, sales prices, and terms of sale. (p. 271)

**Invoice approval** Document containing a checklist of steps necessary for approving the recording and payment of an invoice; also called *check authorization*. (p. 271)

**Job** Production of a customized product or service. (p. 776)

**Job cost sheet** Separate record maintained for each job. (p. 778)

**Job lot** Production of more than one unit of a customized product or service. (p. 777)

**Job order cost accounting system** Cost accounting system to determine the cost of producing each job or job lot. (pp. 685 & 817)

**Job order production** Production of special-order products; also called *customized production*. (p. 776)

**Joint cost** Cost incurred to produce or purchase two or more products at the same time. (p. 945)

**Journal** Record in which transactions are entered before they are posted to ledger accounts; also called *book of original entry*. (p. 56)

**Journalizing** Process of recording transactions in a journal. (p. 56)

**Just-in-time (JIT) manufacturing** Process of acquiring or producing inventory only when needed. (p. 616)

**Known liabilities** Obligations of a company with little uncertainty; set by agreements, contracts, or laws; also called *definitely determinable liabilities*. (p. 370)

**Land improvements** Assets that increase the benefits of land, have a limited useful life, and are depreciated. (p. 328)

**Large stock dividend** Stock dividend that is more than 25% of the previously outstanding shares. (p. 464)

**Last-in, first-out (LIFO)** Method to assign cost to inventory that assumes costs for the most recent items purchased are sold first and charged to cost of goods sold. (p. 209)

**Lean accounting** System designed to eliminate waste in the accounting process and better reflect the benefits of lean manufacturing techniques.

**Lean business model** Practice of eliminating waste while meeting customer needs and yielding positive company returns. (p. 615)

**Lease** Contract specifying the rental of property. (pp. 343 & 436)

**Leasehold** Rights the lessor grants to the lessee under the terms of a lease. (p. 343)

**Leasehold improvements** Alterations or improvements to leased property such as partitions and storefronts. (p. 343)

**Least-squares regression** Statistical method for deriving an estimated line of cost behavior that is more precise than the high-low method and the scatter diagram. (p. 776)

**Ledger** Record containing all accounts (with amounts) for a business; also called *general ledger*. (p. 51)

**Lessee** Party to a lease who secures the right to possess and use the property from another party (the lessor). (p. 343)

**Lessor** Party to a lease who grants another party (the lessee) the right to possess and use its property. (p. 343)

**Liabilities** Creditors' claims on an organization's assets; involves a probable future payment of assets, products, or services that a company is obligated to make due to past transactions or events. (p. 14)

**Licenses** (See *franchises*.) (p. 342)

**Limited liability** Owner can lose no more than the amount invested. (p. 11)

**Limited liability company** Organization form that combines select features of a corporation and a limited partnership; provides limited liability to its members (owners), is free of business tax, and allows members to actively participate in management. (p. D-4)

**Limited liability partnership** Partnership in which a partner is not personally liable for malpractice or negligence unless that partner is responsible for providing the service that resulted in the claim. (p. D-3)

**Limited life** (See *useful life*.)

**Limited partners** Partners who have no personal liability for partnership debts beyond the amounts they invested in the partnership. (p. D-3)

**Limited partnership** Partnership that has two classes of partners, limited partners and general partners. (p. D-3)

**Liquid assets** Resources such as cash that are easily converted into other assets or used to pay for goods, services, or liabilities. (p. 253)

**Liquidating cash dividend** Distribution of assets that returns part of the original investment to stockholders; deducted from contributed capital accounts. (p. 464)

**Liquidation** Process of going out of business; involves selling assets, paying liabilities, and distributing remainder to owners.

**Liquidity** Availability of resources to meet short-term cash requirements. (pp. 253 & 555)

**List price** Catalog (full) price of an item before any trade discount is deducted. (p. 158)

**Long-term investments** Long-term assets not used in operating activities such as notes receivable and investments in stocks and bonds. (pp. 115 & C-2)

**Long-term liabilities** Obligations not due to be paid within one year or the operating cycle, whichever is longer. (pp. 115 & 369)

**Lower of cost or market (LCM)** Required method to report inventory at market replacement cost when that market cost is lower than recorded cost. (p. 213)

**Maker of the note** Entity who signs a note and promises to pay it at maturity. (p. 302)

**Management by exception** Management process to focus on significant variances and give less attention to areas where performance is close to the standard. (p. 885)

**Managerial accounting** Area of accounting aimed mainly at serving the decision-making needs of internal users; also called *management accounting*. (pp. 6 & 600)

**Manufacturer** Company that uses labor and operating assets to convert raw materials to finished goods.

**Manufacturing budget** Plan that shows the predicted costs for direct materials, direct labor, and overhead to be incurred in manufacturing units in the production budget. (p. 856)

**Manufacturing statement** Report that summarizes the types and amounts of costs incurred in a company's production process for a period; also called *cost of goods manufacturing statement*. (p. 613)

**Margin of safety** Excess of expected sales over the level of break-even sales. (p. 778)

**Market-based transfer price** The market price of a good or service being transferred between divisions within a company; typically used when the transferring division does not have excess capacity. (p. 945)

**Market prospects** Expectations (both good and bad) about a company's future performance as assessed by users and other interested parties. (p. 555)

**Market rate** Interest rate that borrowers are willing to pay and lenders are willing to accept for a specific lending agreement given the borrowers' risk level. (p. 415)

**Market value per share** Price at which stock is bought or sold. (p. 459)

**Master budget** Comprehensive business plan that includes specific plans for expected sales, product units to be produced, merchandise (or materials) to be purchased, expenses to be incurred, plant assets to be purchased, and amounts of cash to be borrowed or loans to be repaid, as well as a budgeted income statement and balance sheet. (p. 840)

**Matching (or expense recognition) principle** Prescribes expenses to be reported in the same period as the revenues that were earned as a result of the expenses. (pp. 11 & 296)

**Materiality constraint** Prescribes that accounting for items that significantly impact financial statement and any inferences from them adhere strictly to GAAP. (pp. 12 & 296)

**Materials consumption report** Document that summarizes the materials a department uses during a reporting period; replaces materials requisitions. (p. 686)

**Materials ledger card** Perpetual record updated each time units are purchased or issued for production use. (p. 780)

**Materials requisition** Source document production managers use to request materials for production; used to assign materials costs to specific jobs or overhead. (p. 781)

**Maturity date of a note** Date when a note's principal and interest are due. (p. 302)

**Measurement principle** Accounting information is based on cost with potential subsequent adjustments to fair value; see also *cost principle*. (p. 10)

**Merchandise** (See *merchandise inventory*.) (p. 156)

**Merchandise inventory** Goods that a company owns and expects to sell to customers; also called *merchandise* or *inventory*. (p. 157)

**Merchandise purchases budget** Plan that shows the units or costs of merchandise to be purchased by a merchandising company during the budget period. (p. 843)

**Merchandiser** Entity that earns net income by buying and selling merchandise. (p. 156)

**Merit rating** Rating assigned to an employer by a state based on the employer's record of employment. (p. 376)

**Minimum legal capital** Amount of assets defined by law that stockholders must (potentially) invest in a corporation; usually defined as par value of the stock; intended to protect creditors. (p. 459)

**Mixed cost** Cost that behaves like a combination of fixed and variable costs. (p. 767)

**Modified Accelerated Cost Recovery System (MACRS)** Depreciation system required by federal income tax law. (p. 334)

**Monetary unit assumption** Principle that assumes transactions and events can be expressed in money units. (p. 11)

**Mortgage** Legal loan agreement that protects a lender by giving the lender the right to be paid from the cash proceeds from the sale of a borrower's assets identified in the mortgage. (p. 424)

**Multinational** Company that operates in several countries. (p. C-16)

**Multiple-step income statement** Income statement format that shows subtotals between sales and net income, categorizes expenses, and often reports the details of net sales and expenses. (p. 169)

**Mutual agency** Legal relationship among partners whereby each partner is an agent of the partnership and is able to bind the partnership to contracts within the scope of the partnership's business. (p. D-2)

**Natural business year** Twelve-month period that ends when a company's sales activities are at their lowest point. (p. 95)

**Natural resources** Assets physically consumed when used; examples are timber, mineral deposits, and oil and gas fields; also called *wasting assets*. (p. 340)

**Negotiated transfer price** A price, determined by negotiation between division managers, to record transfers between divisions; typically lies between the variable cost and the market price of the item transferred. (p. 945)

**Net assets** (See *equity*.)

**Net income** Amount earned after subtracting all expenses necessary for and matched with sales for a period; also called *income*, *profit*, or *earnings*. (p. 14)

**Net loss** Excess of expenses over revenues for a period. (p. 14)

**Net method** Method of recording purchases at the full invoice price less any cash discounts. (p. 273)

**Net pay** Gross pay less all deductions; also called *take-home pay*. (p. 374)

**Net present value (NPV)** Dollar estimate of an asset's value that is used to evaluate the acceptability of an investment; computed by discounting future cash flows from the investment at a satisfactory rate and then subtracting the initial cost of the investment. (p. 1003)

**Net realizable value** Expected selling price (value) of an item minus the cost of making the sale. (p. 204)

**Noncumulative preferred stock** Preferred stock on which the right to receive dividends is lost for any period when dividends are not declared. (p. 467)

**Noninterest-bearing note** Note with no stated (contract) rate of interest; interest is implicitly included in the note's face value.

**Nonparticipating preferred stock** Preferred stock on which dividends are limited to a maximum amount each year. (p. 468)

**Non-sufficient funds (NSF) check** Maker's bank account has insufficient money to pay the check; also called *hot check*.

**Non-value-added time** The portion of cycle time that is not directed at producing a product or service; equals the sum of inspection time, move time, and wait time. (p. 618)

**No-par value stock** Stock class that has not been assigned a par (or stated) value by the corporate charter. (p. 459)

**Not controllable costs** Costs that a manager does not have the power to control or strongly influence. (p. 605)

**Note** (See *promissory note*.)

**Note payable** Liability expressed by a written promise to pay a definite sum of money on demand or on a specific future date(s).

**Note receivable** Asset consisting of a written promise to receive a definite sum of money on demand or on a specific future date(s).

**Objectivity principle** Principle that prescribes independent, unbiased evidence to support financial statement information. (p. 9)

**Obsolescence** Condition in which, because of new inventions and improvements, a plant asset can no longer be used to produce goods or services with a competitive advantage. (p. 329)

**Off-balance-sheet financing** Acquisition of assets by agreeing to liabilities not reported on the balance sheet. (p. 437)

**Online processing** Approach to inputting data from source documents as soon as the information is available. (p. E-16)

**Operating activities** Activities that involve the production or purchase of merchandise and the sale of goods or services to customers, including expenditures related to administering the business. (p. 501)

**Operating cycle** Normal time between paying cash for merchandise or employee services and receiving cash from customers. (p. 113)

**Operating leases** Short-term (or cancelable) leases in which the lessor retains risks and rewards of ownership. (p. 436)

**Operating leverage** Extent, or relative size, of fixed costs in the total cost structure. (p. 782)

**Opportunity cost** Potential benefit lost by choosing a specific action from two or more alternatives. (p. 606)

**Ordinary repairs** Repairs to keep a plant asset in normal, good operating condition; treated as a revenue expenditure and immediately expensed. (p. 336)

**Organization expenses (costs)** Costs such as legal fees and promoter fees to bring an entity into existence. (pp. 457 & 462)

**Other comprehensive income** Equals net income less comprehensive income; includes unrealized gains and losses on available-for-sale securities, foreign currency adjustments, and pension adjustments. (p. C-10)

**Out-of-pocket cost** Cost incurred or avoided as a result of management's decisions. (p. 606)

**Output devices** Means by which information is taken out of the accounting system and made available for use. (p. E-5)

**Outsourcing** Manager decision to buy a product or service from another part of a *make-or-buy* decision; also called *make or buy*.

**Outstanding checks** Checks written and recorded by the depositor but not yet paid by the bank at the bank statement date. (p. 263)

**Outstanding stock** Corporation's stock held by its shareholders.

**Overapplied overhead** Amount by which the overhead applied to production in a period using the predetermined overhead rate exceeds the actual overhead incurred in a period. (p. 787)

**Overhead cost variance** Difference between the total overhead cost applied to products and the total overhead cost actually incurred. (p. 892)

**Owner, Capital** Account showing the owner's claim on company assets; equals owner investments plus net income (or less net losses) minus owner withdrawals since the company's inception; also referred to as *equity*. (p. 14)

**Owner investment** Assets put into the business by the owner. (p. 14)

**Owner's equity** (See *equity*.)

**Owner, withdrawals** Account used to record asset distributions to the owner. (See also *withdrawals*.) (p. 14)

**Paid-in capital** (See *contributed capital*.) (p. 460)

**Paid-in capital in excess of par value** Amount received from issuance of stock that is in excess of the stock's par value. (p. 461)

**Par value** Value assigned a share of stock by the corporate charter when the stock is authorized. (p. 459)

**Par value of a bond** Amount the bond issuer agrees to pay at maturity and the amount on which cash interest payments are based; also called *face amount* or *face value* of a bond. (p. 412)

**Par value stock** Class of stock assigned a par value by the corporate charter. (p. 459)

**Parent** Company that owns a controlling interest in a corporation (requires more than 50% of voting stock). (p. C-9)

**Participating preferred stock** Preferred stock that shares with common stockholders any dividends paid in excess of the percent stated on preferred stock. (p. 468)

**Partner return on equity** Partner net income divided by average partner equity for the period. (p. D-14)

**Partnership** Unincorporated association of two or more persons to pursue a business for profit as co-owners. (pp. 11 & D-2)

**Partnership contract** Agreement among partners that sets terms under which the affairs of the partnership are conducted; also called *articles of partnership*. (p. D-2)

**Partnership liquidation** Dissolution of a partnership by (1) selling noncash assets and allocating any gain or loss according to partners' income-and-loss ratio, (2) paying liabilities, and (3) distributing any remaining cash according to partners' capital balances. (p. D-11)

**Patent** Exclusive right granted to its owner to produce and sell an item or to use a process for 20 years. (p. 342)

**Payback period (PBP)** Time-based measurement used to evaluate the acceptability of an investment; equals the time expected to pass before an investment's net cash flows equal its initial cost. (p. 999)

**Payee of the note** Entity to whom a note is made payable. (p. 302)

**Payroll bank account** Bank account used solely for paying employees; each pay period an amount equal to the total employees' net pay is deposited in it and the payroll checks are drawn on it. (p. 390)

**Payroll deductions** Amounts withheld from an employee's gross pay; also called *withholdings*. (p. 374)

**Payroll register** Record for a pay period that shows the pay period dates, regular and overtime hours worked, gross pay, net pay, and deductions. (p. 387)

**Pension plan** Contractual agreement between an employer and its employees for the employer to provide benefits to employees after they retire; expensed when incurred. (p. 438)

**Period costs** Expenditures identified more with a time period than with finished products costs; includes selling and general administrative expenses. (p. 606)

**Periodic inventory system** Method that records the cost of inventory purchased but does not continuously track the quantity available or sold to customers; records are updated at the end of each period to reflect the physical count and costs of goods available. (p. 158)

**Permanent accounts** Accounts that reflect activities related to one or more future periods; balance sheet accounts whose balances are not closed; also called *real accounts*. (p. 108)

**Perpetual inventory system** Method that maintains continuous records of the cost of inventory available and the cost of goods sold. (p. 158)

**Petty cash** Small amount of cash in a fund to pay minor expenses; accounted for using an imprest system. (p. 258)

**Planning** Process of setting goals and preparing to achieve them. (p. 600)

**Plant asset age** Estimate of the age of a company's plant assets, computed by dividing accumulated depreciation by depreciation expense. (p. 345)

**Plant assets** Tangible long-lived assets used to produce or sell products and services; also called *property, plant and equipment (PP&E)* or *fixed assets*. (pp. 99 & 326)

**Pledged assets to secured liabilities** Ratio of the book value of a company's pledged assets to the book value of its secured liabilities.

**Post-closing trial balance** List of permanent accounts and their balances from the ledger after all closing entries are journalized and posted. (p. 110)

**Posting** Process of transferring journal entry information to the ledger; computerized systems automate this process. (p. 56)

**Posting reference (PR) column** A column in journals in which individual ledger account numbers are entered when entries are posted to those ledger accounts. (p. 58)

**Predetermined overhead rate** Rate established prior to the beginning of a period that relates estimated overhead to another variable, such as estimated direct labor, and is used to assign overhead cost to production. (p. 784)

**Preemptive right** Stockholders' right to maintain their proportionate interest in a corporation with any additional shares issued. (p. 458)

**Preferred stock** Stock with a priority status over common stockholders in one or more ways, such as paying dividends or distributing assets. (p. 466)

**Premium on bonds** Difference between a bond's par value and its higher carrying value; occurs when the contract rate is higher than the market rate; also called *bond premium*. (p. 418)

**Premium on stock** (See *contributed capital in excess of par value*.) (p. 461)

**Prepaid expenses** Items paid for in advance of receiving their benefits; classified as assets. (p. 97)

**Price-earnings (PE) ratio** Ratio of a company's current market value per share to its earnings per share; also called *price-to-earnings*. (p. 475)

**Price variance** Difference between actual and budgeted revenue or cost caused by the difference between the actual price per unit and the budgeted price per unit. (p. 885)

**Prime costs** Expenditures directly identified with the production of finished goods; include direct materials costs and direct labor costs. (p. 611)

**Principal of a note** Amount that the signer of a note agrees to pay back when it matures, not including interest. (p. 302)

**Principles of internal control** Principles prescribing management to establish responsibility, maintain records, insure assets, separate record-keeping from custody of assets, divide responsibility for related transactions, apply technological controls, and perform reviews. (p. 249)

**Prior period adjustment** Correction of an error in a prior year that is reported in the statement of retained earnings (or statement of stockholders' equity) net of any income tax effects. (p. 473)

**Pro forma financial statements** Statements that show the effects of proposed transactions and events as if they had occurred. (p. 124)

**Process cost accounting system** System of assigning direct materials, direct labor, and overhead to specific processes; total costs associated with each process are then divided by the number of units passing through that process to determine the cost per equivalent unit. (p. 685)

**Process cost summary** Report of costs charged to a department, its equivalent units of production achieved, and the costs assigned to its output. (p. 694)

**Process operations** Processing of products in a continuous (sequential) flow of steps; also called *process manufacturing* or *process production*. (p. 682)

**Product costs** Costs that are capitalized as inventory because they produce benefits expected to have future value; include direct materials, direct labor, and overhead. (p. 606)

**Product level activities** Activities that relate to specific products that must be carried out regardless of how many units are produced and sold or batches run. (p. 725)

**Production budget** Plan that shows the units to be produced each period. (p. 856)

**Profit** (See *net income*.)

**Profit center** Business unit that incurs costs and generates revenues. (p. 927)

**Profit margin** Ratio of a company's net income to its net sales; the percent of income in each dollar of revenue; also called *net profit margin*. (pp. 117 & 940)

**Profitability** Company's ability to generate an adequate return on invested capital. (p. 555)

**Profitability index** A measure of the relation between the expected benefits of a project and its investment, computed as the present value of expected future cash flows from the investment divided by the cost of the investment; a higher value indicates a more desirable investment, and a value below 1 indicates an unacceptable project. (p. 1005)

**Promissory note (or note)** Written promise to pay a specified amount either on demand or at a definite future date; is a *note receivable* for the lender but a *note payable* for the lendee. (p. 302)

**Proprietorship** (See *sole proprietorship*.) (p. 11)

**Proxy** Legal document giving a stockholder's agent the power to exercise the stockholder's voting rights. (p. 457)

**Purchase discount** Term used by a purchaser to describe a cash discount granted to the purchaser for paying within the discount period. (p. 159)

**Purchase order** Document used by the purchasing department to place an order with a seller (vendor). (p. 270)

**Purchase requisition** Document listing merchandise needed by a department and requesting it be purchased. (p. 270)

**Purchases journal** Journal normally used to record all purchases on credit. (p. E-13)

**Quantity variance** Difference between actual and budgeted revenue or cost caused by the difference between the actual number of units and the budgeted number of units. (p. 885)

**Ratio analysis** Determination of key relations between financial statement items as reflected in numerical measures. (p. 556)

**Raw materials inventory** Goods a company acquires to use in making products. (p. 608)

**Realizable value** Expected proceeds from converting an asset into cash. (p. 297)

**Receiving report** Form used to report that ordered goods are received and to describe their quantity and condition. (p. 271)

**Recordkeeping** Part of accounting that involves recording transactions and events, either manually or electronically; also called *bookkeeping*. (p. 4)

**Registered bonds** Bonds owned by investors whose names and addresses are recorded by the issuer; interest payments are made to the registered owners. (p. 426)

**Relevance principle** Information system principle prescribing that its reports be useful, understandable, timely, and pertinent for decision making. (p. E-2)

**Relevant benefits** Additional or incremental revenue generated by selecting a particular course of action over another. (p. 969)

**Relevant range of operations** Company's normal operating range; excludes extremely high and low volumes not likely to occur. (p. 775)

**Report form balance sheet** Balance sheet that lists accounts vertically in the order of assets, liabilities, and equity.

**Responsibility accounting budget** Report of expected costs and expenses under a manager's control. (p. 938)

**Responsibility accounting performance report** Responsibility report that compares actual costs and expenses for a department with budgeted amounts. (p. 938)

**Responsibility accounting system** System that provides information that management can use to evaluate the performance of a department's manager. (p. 926)

**Restricted retained earnings** Retained earnings not available for dividends because of legal or contractual limitations. (p. 472)

**Retail inventory method** Method to estimate ending inventory based on the ratio of the amount of goods for sale at cost to the amount of goods for sale at retail. (p. 227)

**Retailer** Intermediary that buys products from manufacturers or wholesalers and sells them to consumers. (p. 156)

**Retained earnings** Cumulative income less cumulative losses and dividends. (pp. 14 & 460)

**Retained earnings deficit** Debit (abnormal) balance in Retained Earnings; occurs when cumulative losses and dividends exceed cumulative income; also called *accumulated deficit*. (p. 463)

**Return** Monies received from an investment; often in percent form. (p. 26)

**Return on assets** (See *return on total assets*) (p. 22)

**Return on equity** Ratio of net income to average equity for the period.

**Return on total assets** Ratio reflecting operating efficiency; defined as net income divided by average total assets for the period; also called *return on assets* or *return on investment*. (p. C-11)

**Revenue expenditures** Expenditures reported on the current income statement as an expense because they do not provide benefits in future periods. (p. 336)

**Revenue recognition principle** The principle prescribing that revenue is recognized when earned. (p. 10)

**Revenues** Gross increase in equity from a company's business activities that earn income; also called *sales*. (p. 14)

**Reverse stock split** Occurs when a corporation calls in its stock and replaces each share with less than one new share; increases both market value per share and any par or stated value per share. (p. 466)

**Reversing entries** Optional entries recorded at the beginning of a period that prepare the accounts for the usual journal entries as if adjusting entries had not occurred in the prior period. (p. 125)

**Risk** Uncertainty about an expected return. (p. 26)

**Rolling budget** New set of budgets a firm adds for the next period (with revisions) to replace the ones that have lapsed. (p. 839)

**S corporation** Corporation that meets special tax qualifications so as to be treated like a partnership for income tax purposes. (p. D-4)

**Safety stock** Quantity of inventory or materials over the minimum needed to satisfy budgeted demand. (p. 843)

**Sales** (See *revenues*.)

**Sales budget** Plan showing the units of goods to be sold or services to be provided; the starting point in the budgeting process for most departments. (p. 842)

**Sales discount** Term used by a seller to describe a cash discount granted to buyers who pay within the discount period. (p. 159)

**Sales journal** Journal normally used to record sales of goods on credit. (p. E-8)

**Sales mix** Ratio of sales volumes for the various products sold by a company. (p. 779)

**Salvage value** Estimate of amount to be recovered at the end of an asset's useful life; also called *residual value* or *scrap value*. (p. 329)

**Sarbanes-Oxley Act (SOX)** Created the *Public Company Accounting Oversight Board*, regulates analyst conflicts, imposes corporate governance requirements, enhances accounting and control disclosures, impacts insider transactions and executive loans, establishes new types of criminal conduct, and expands penalties for violations of federal securities laws. (pp. 12 & 248)

**Scatter diagram** Graph used to display data about past cost behavior and sales as points on a diagram. (p. 769)

**Schedule of accounts payable** List of the balances of all accounts in the accounts payable ledger and their totals. (p. E-14)

**Schedule of accounts receivable** List of the balances of all accounts in the accounts receivable ledger and their totals. (p. E-9)

**Section 404 (of SOX)** Section 404 of SOX requires that company management document and assess the effectiveness of all internal control processes that can affect financial reporting; company auditors express an opinion on whether management's assessment of the effectiveness of internal controls is fairly stated. (p. 249)

**Secured bonds** Bonds that have specific assets of the issuer pledged as collateral. (p. 426)

**Securities and Exchange Commission (SEC)** Federal agency Congress has charged to set reporting rules for organizations that sell ownership shares to the public. (p. 9)

**Segment return on assets** Segment operating income divided by segment average (identifiable) assets for the period. (p. E-18)

**Selling expense budget** Plan that lists the types and amounts of selling expenses expected in the budget period. (p. 844)

**Selling expenses** Expenses of promoting sales, such as displaying and advertising merchandise, making sales, and delivering goods to customers. (p. 169)

**Serial bonds** Bonds consisting of separate amounts that mature at different dates. (p. 426)

**Service company** Organization that provides services instead of tangible products.

**Shareholders** Owners of a corporation; also called *stockholders*. (p. 12)

**Shares** Equity of a corporation divided into ownership units; also called *stock*. (p. 12)

**Short-term investments** Debt and equity securities that management expects to convert to cash within the next 3 to 12 months (or the operating cycle if longer); also called *temporary investments* or *marketable securities*. (p. C-2)

**Short-term note payable** Current obligation in the form of a written promissory note. (p. 371)

**Shrinkage** Inventory losses that occur as a result of theft or deterioration. (p. 166)

**Signature card** Includes the signatures of each person authorized to sign checks on the bank account. (p. 260)

**Simple capital structure** Capital structure that consists of only common stock and nonconvertible preferred stock; consists of no dilutive securities. (p. 475)

**Single-step income statement** Income statement format that includes cost of goods sold as an expense and shows only one subtotal for total expenses. (p. 170)

**Sinking fund bonds** Bonds that require the issuer to make deposits to a separate account; bondholders are repaid at maturity from that account. (p. 426)

**Small stock dividend** Stock dividend that is 25% or less of a corporation's previously outstanding shares. (p. 464)

**Social responsibility** Being accountable for the impact that one's actions might have on society. (p. 8)

**Sole proprietorship** Business owned by one person that is not organized as a corporation; also called *proprietorship*. (p. 11)

**Solvency** Company's long-run financial viability and its ability to cover long-term obligations. (p. 555)

**Source documents** Source of information for accounting entries that can be in either paper or electronic form; also called *business papers*. (p. 50)

**Special journal** Any journal used for recording and posting transactions of a similar type. (p. E-6)

**Specific identification** Method to assign cost to inventory when the purchase cost of each item in inventory is identified and used to compute cost of inventory. (p. 207)

**Spending variance** Difference between the actual price of an item and its standard price. (p. 900)

**Spreadsheet** Computer program that organizes data by means of formulas and format; also called *electronic work sheet*.

**Standard costs** Costs that should be incurred under normal conditions to produce a product or component or to perform a service. (p. 885)

**State Unemployment Taxes (SUTA)** State payroll taxes on employers to support its unemployment programs. (p. 376)

**Stated value stock** No-par stock assigned a stated value per share; this amount is recorded in the stock account when the stock is issued. (p. 460)

**Statement of cash flows** A financial statement that lists cash inflows (receipts) and cash outflows (payments) during a period; arranged by operating, investing, and financing. (pp. 19 & 500)

**Statement of owner's equity** Report of changes in equity over a period; adjusted for increases (owner investment and net income) and for decreases (withdrawals and net loss). (p. 19)

**Statement of partners' equity** Financial statement that shows total capital balances at the beginning of the period, any additional investment by partners, the income or loss of the period, the partners' withdrawals, and the partners' ending capital balances; also called *statement of partners' capital*. (p. D-7)

**Statement of retained earnings** Report of changes in retained earnings over a period; adjusted for increases (net income), for decreases (dividends and net loss), and for any prior period adjustment. (p. 19)

**Statement of stockholders' equity** Financial statement that lists the beginning and ending balances of each major equity account and describes all changes in those accounts. (p. 473)

**Statements of Financial Accounting Standards (SFAS)** FASB publications that establish U.S. GAAP.

**Step-wise cost** Cost that remains fixed over limited ranges of volumes but changes by a lump sum when volume changes occur outside these limited ranges. (p. 768).

**Stock** (See *shares*.) (p. 12)

**Stock dividend** Corporation's distribution of its own stock to its stockholders without the receipt of any payment. (p. 464)

**Stock options** Rights to purchase common stock at a fixed price over a specified period of time. (p. 473)

**Stock split** Occurs when a corporation calls in its stock and replaces each share with more than one new share; decreases both the market value per share and any par or stated value per share. (p. 466)

**Stock subscription** Investor's contractual commitment to purchase unissued shares at future dates and prices.

**Stockholders** (See *shareholders*.) (p. 12)

**Stockholders' equity** A corporation's equity; also called *shareholders' equity* or *corporate capital*. (p. 460)

**Straight-line depreciation** Method that allocates an equal portion of the depreciable cost of plant asset (cost minus salvage) to each accounting period in its useful life. (pp. 99 & 330)

**Straight-line bond amortization** Method allocating an equal amount of bond interest expense to each period of the bond life. (p. 416)

**Subsidiary** Entity controlled by another entity (parent) in which the parent owns more than 50% of the subsidiary's voting stock. (p. C-9)

**Subsidiary ledger** List of individual subaccounts and amounts with a common characteristic; linked to a controlling account in the general ledger. (p. E-6)

**Sunk cost** Cost already incurred and cannot be avoided or changed. (p. 606)

**Supplementary records** Information outside the usual accounting records; also called *supplemental records*. (p. 162)

**Supply chain** Linkages of services or goods extending from suppliers, to the company itself, and on to customers.

**T-account** Tool used to show the effects of transactions and events on individual accounts. (p. 55)

**Target cost** Maximum allowable cost for a product or service; defined as expected selling price less the desired profit. (p. 777)

**Temporary accounts** Accounts used to record revenues, expenses, and withdrawals (dividends for a corporation); they are closed at the end of each period; also called *nominal accounts*. (p. 108)

**Term bonds** Bonds scheduled for payment (maturity) at a single specified date. (p. 426)

**Throughput time** (See *cycle time*.)

**Time period assumption** Assumption that an organization's activities can be divided into specific time periods such as months, quarters, or years. (pp. 11 & 94)

**Time ticket** Source document used to report the time an employee spent working on a job or on overhead activities and then to determine the amount of direct labor to charge to the job or the amount of indirect labor to charge to overhead. (p. 782)

**Times interest earned** Ratio of income before interest expense (and any income taxes) divided by interest expense; reflects risk of covering interest commitments when income varies. (p. 382)

**Total asset turnover** Measure of a company's ability to use its assets to generate sales; computed by dividing net sales by average total assets. (p. 345)

**Total quality management (TQM)** Concept calling for all managers and employees at all stages of operations to strive toward higher standards and reduce number of defects. (p. 616)

**Trade discount** Reduction from a list or catalog price that can vary for wholesalers, retailers, and consumers. (p. 158)

**Trademark or trade (brand) name** Symbol, name, phrase, or jingle identified with a company, product, or service. (p. 343)

**Trading on the equity** (See *financial leverage*.)

**Trading securities** Investments in debt and equity securities that the company intends to actively trade for profit. (p. C-5)

**Transfer price** The price used to record transfers of goods or services between divisions in the same company. (p. 444)

**Transaction** Exchange of economic consideration affecting an entity's financial position that can be reliably measured.

**Treasury stock** Corporation's own stock that it reacquired and still holds. (p. 470)

**Trial balance** List of accounts and their balances at a point in time; total debit balances equal total credit balances. (p. 65)

**Unadjusted trial balance** List of accounts and balances prepared before accounting adjustments are recorded and posted. (p. 106)

**Unavoidable expense** Expense (or cost) that is not relevant for business decisions; an expense that would continue even if a department, product, or service is eliminated. (p. 975)

**Unclassified balance sheet** Balance sheet that broadly groups assets, liabilities, and equity accounts. (p. 113)

**Uncontrollable costs** Costs that a manager does not have the power to determine or strongly influence. (pp. 814 & 937)

**Underapplied overhead** Amount by which overhead incurred in a period exceeds the overhead applied to that period's production using the predetermined overhead rate. (p. 787)

**Unearned revenue** Liability created when customers pay in advance for products or services; earned when the products or services are later delivered. (pp. 52 & 100)

**Unfavorable variance** Difference in revenues or costs, when the actual amount is compared to the budgeted amount, that contributes to a lower income. (881)

**Unit contribution margin** Amount a product's unit selling price exceeds its total unit variable cost.

**Unit level activities** Activities that arise as a result of the total volume of goods and services that are produced, and that are performed each time a unit is produced. (p. 738)

**Units-of-production depreciation** Method that charges a varying amount to depreciation expense for each period of an asset's useful life depending on its usage. (p. 331)

**Unlimited liability** Legal relationship among general partners that makes each of them responsible for partnership debts if the other partners are unable to pay their shares. (p. D-3)

**Unrealized gain (loss)** Gain (loss) not yet realized by an actual transaction or event such as a sale. (p. C-5)

**Unsecured bonds** Bonds backed only by the issuer's credit standing; almost always riskier than secured bonds; also called *debentures*. (p. 426)

**Unusual gain or loss** Gain or loss that is abnormal or unrelated to the company's ordinary activities and environment. (p. 578)

**Useful life** Length of time an asset will be productively used in the operations of a business; also called *service life* or *limited life*. (p. 329)

**Value-added activities** Activities that add to the value of a product or service.

**Value-added time** The portion of cycle time that is directed at producing a product or service; equals process time. (p. 618)

**Value chain** Sequential activities that add value to an entity's products or services; includes design, production, marketing, distribution, and service. (p. 616)

**Variable cost** Cost that changes in proportion to changes in the activity output volume. (p. 604)

**Variable costing** A costing method that includes only variable manufacturing costs—direct materials, direct labor, and variable manufacturing overhead—in unit product costs; also called *direct or marginal costing*. (p. 794)

**Variable costing income statement** An income statement which reports variable costs and fixed costs separately; also called a *contribution margin income statement*. (p. 773)

**Variance analysis** Process of examining differences between actual and budgeted revenues or costs and describing them in terms of price and quantity differences. (p. 885)

**Vendee** Buyer of goods or services. (p. 271)

**Vendor** Seller of goods or services. (p. 270)

**Vertical analysis** Evaluation of each financial statement item or group of items in terms of a specific base amount. (p. 556)

**Volume variance** Difference between two dollar amounts of fixed overhead cost; one amount is the total budgeted overhead cost, and the other is the overhead cost allocated to products using the predetermined fixed overhead rate. (p. 893)

**Voucher** Internal file used to store documents and information to control cash disbursements and to ensure that a transaction is properly authorized and recorded. (p. 257)

**Voucher register** Journal (referred to as *book of original entry*) in which all vouchers are recorded after they have been approved. (p. 272)

**Voucher system** Procedures and approvals designed to control cash disbursements and acceptance of obligations. (p. 256)

**Wage bracket withholding table** Table of the amounts of income tax withheld from employees' wages. (p. 390)

**Warranty** Agreement that obligates the seller to correct or replace a product or service when it fails to perform properly within a specified period. (p. 378)



**Weighted average** Method to assign inventory cost to sales; the cost of available-for-sale units is divided by the number of units available to determine per unit cost prior to each sale that is then multiplied by the units sold to yield the cost of that sale. (pp. 210–225 & 692)

**Weighted-average contribution margin** Contribution margin for a multiproduct company; computed based on each products' percentage of the company's sales mix. (p. 780)

**Weighted-average method** (See *weighted average*.)

**Wholesaler** Intermediary that buys products from manufacturers or other wholesalers and sells them to retailers or other wholesalers. (p. 156)

**Withdrawals** Payment of cash or other assets from a proprietorship or partnership to its owner or owners. (p. 14)

**Work sheet** Spreadsheet used to draft an unadjusted trial balance, adjusting entries, adjusted trial balance, and financial statements. (p. 123)

**Working capital** Current assets minus current liabilities at a point in time. (p. 565)

**Working papers** Analyses and other informal reports prepared by accountants and managers when organizing information for formal reports and financial statements. (p. 123)