Glossary

A

absorption costing (p. 388) A product costing process in which both variable and fixed manufacturing costs are included in product costs.

accelerated depreciation method (p. 169) A depreciation calculation method that results in greater depreciation expense in the early periods of an asset's life than in the later periods of its life.

account (p. 29) A record in which transactions affecting individual assets, liabilities, owners' equity, revenues and expenses are recorded.

account balance (p. 537) The arithmetic sum of the additions and subtractions to an account through to a given date.

account payable (pp. 33, 193) A liability representing an amount payable to another entity, usually because of the purchase of merchandise or a service on credit.

account receivable (p. 33) An asset representing a claim against another entity, usually arising from selling goods or services on credit.

accounting (p. 4) The process of identifying, measuring and communicating economic information about an organisation for the purpose of making decisions and informed judgments.

accounting change (p. 287) A change in the application of an accounting principle.

accounting entity (p. 44) Any legal, administrative or organisational structure which has the capacity to use resources to achieve objectives for financial information is prepared.

accounting equation (p. 31) Assets = Liabilities + Owners' equity (A = L + OE). The fundamental relationship represented by the balance sheet, and the foundation of the bookkeeping process.

accounting period (p. 45) The period of time selected for reporting results of operations and changes in financial position.

accounting rate of return method (p. 482) A capital budgeting analytical technique that calculates the rate of return on the investment based on the impact of the investment on the financial statements.

accrual (p. 106) The process of recognising revenue that has been earned but not collected, or an expense that has been incurred but not paid.

accrual accounting (p. 45) Accounting that recognises revenues and expenses as they occur, even though the cash receipt from the revenue or the cash payment related to the expense may occur before or after the event that causes revenue or expense recognition.

accrued (p. 106) Revenue that has been earned and a related asset that will be collected, or an expense that has been incurred and a related liability that will be paid.

accrued liabilities (p. 33) Amounts that are owed by an entity on the balance sheet date.

accumulated deficit (p. 212) Retained earnings with a negative (debit) balance.

accumulated depreciation (p. 33) The sum of the depreciation expense that has been recognised over time. Accumulated depreciation is a contra asset that is subtracted from the cost of the related asset on the balance sheet.

activity-based costing (p. 391) The process of accumulating manufacturing overhead costs by production support activity (for example, machine set-up) and then applying manufacturing overhead to production based on the activity required for each job or product.

activity-based management (p. 395) Use of activity-based costing information by managers to support the decision-making process.

adjustment (pp. 106, 541) An entry usually made during the process of 'closing the books' that results in more accurate financial statements. Adjustments involve accruals and reclassifications.

administrative controls (p. 130) Features of the internal control system that emphasise adherence to management's policies and operating efficiency.

allocated cost (p. 463) A cost that has been assigned to a product or activity, using some sort of arithmetic process.

allowance for doubtful debts (p. 135) The valuation allowance that results in accounts receivable being reduced by the amount not expected to be collected.

amortisation (p. 175) The process of spreading the cost of an intangible asset over its useful life.

annual report (pp. 8, 51) A document distributed to shareholders and other interested parties that contains the financial statements, explanatory notes, and management's discussion and analysis for the financial year of the reporting firm, together with the report of the external auditor's examination of the financial statements.

asset turnover (p. 73) The numerator of sales divided by average assets for the year or other financial period.

assets (p. 52) Probable future economic benefits obtained or controlled by an entity as a result of past transactions or events.

auditing (p. 8) The process of reviewing the financial statements of an entity by an independent third party with the objective of expressing an opinion about the true and fair presentation of the entity's financial position and financial performance. The practice of auditing is less precisely referred to as *public accounting*.

Australian Accounting Research Foundation (AARF) (p. 11) The professional body responsible for issuing the Statements of Accounting Concepts (SACs) and Auditing Standards.

Australian Accounting Standards Board (AASB) (p. 11) The regulatory body responsible for issuing accounting standards in Australia.

Australian Securities and Investments Commission (ASIC) (p. 11) The federal body responsible for administering the *Corporations Act 2001*—including surveillance of companies for compliance with regulations.

B

bad debts expense (p. 135) An estimated expense, recognised in the financial period of the sale, representing accounts receivable that are not expected to be collected.

balance sheet (p. 31) The financial statement that is a listing of the entity's assets, liabilities, and owners' equity at a point in time. This statement is also called the *statement of financial position*.

balance sheet equation (p. 31) Another term for the *accounting equation*.

balanced scorecard (p. 442) A set of integrated financial and operating performance measures that communicate an organisation's priorities associated with achieving strategic goals.

bank reconciliation (p. 131) The process of bringing into agreement the balance in the cash account in the entity's books and the balance reported by the bank on the bank statement.

bank service charge (or bank fee) (p. 131) The fee charged by a bank for maintaining the entity's cheque account.

basic earnings per share (p. 248) Net profit available to ordinary shareholders, divided by the weighted average number of shares of ordinary share outstanding during the period.

bond (p. 202) A non-current liability with a stated interest rate and maturity date, usually issued in denominations of $1 000.

book value per ordinary share of common size statement (p. 313) The quotient of total ordinary shareholders' equity divided by the number of shares of ordinary shares outstanding. Sometimes called *net asset value per share of ordinary shares*. Not a very useful measure most of the time.

bookkeeping (p. 7) The technical procedures that are used to keep track of financial transactions and accumulate the results of an entity's financial activities.

borrowing costs (p. 246) Interest and other costs incurred by an entity in connection with the borrowing of funds.

break-even point (p. 348) The amount of revenue required to have neither operating profit nor operating loss.

budget (p. 414) A financial plan.

budget slack (p. 427) Allowances for contingencies built into a budget. Sometimes called *padding* or *cushion*.

budget variance (p. 437) The difference between budgeted amount and actual amount.

business activity statement (BAS) (p. 199) A report filed at regular intervals (monthly, quarterly or annually) by a business with the Australian Taxation Office (ATO). It details the amount of GST collected by a business on taxable supplies, the amount of GST paid on purchases and the amount owing to or due from the ATO.

business combination (p. 288) A merger between two or more firms, or the purchase of one firm by another.

business segment (p. 288) A group of the firm's similar business activities; most large firms have several segments.

C

capital budgeting (p. 462) The process of analysing proposed investments in plant and equipment and other long-lived assets.

capital shares (p. 207) The generic term for shares issued by a company.

capitalise (p. 161) To record an expenditure as an asset, as opposed to expensing the cost immediately.

capitalising retained earnings (p. 215) The transfer of retained earnings to contributed capital that occurs when a shares dividend is declared.

carrying value (pp. 135, 166) The difference between the cost of an asset and the accumulated depreciation related to the asset. Sometimes called the *net book value*.

cash (p. 33) An asset on the balance sheet that represents the amount of cash on hand and balances in bank accounts maintained by the entity. A company's most liquid asset; includes money in change funds, petty cash, undeposited receipts such as currency, cheques, bank drafts and money orders, and funds immediately available in bank accounts.

cash discount (p. 137) A discount offered for prompt payment.

cash equivalents (p. 129) Short-term, highly liquid investments that can be readily converted into cash at the investor's option, with a minimal risk of price change due to interest rate movements; examples include government bonds, bank cash deposits, money market funds and commercial paper.

cash flow (p. 7) Cash receipts or payments of an entity. When applied to capital budgeting, it refers to the cash receipts and disbursements associated with a capital expenditure over its life.

cash on delivery (COD) (pp. 79, 129) A requirement that an item be paid for when it is delivered.

Certified Management Accountant and/or **Certified in Financial Management** (p. 8) Companion professional designations.

Certified Practising Accountant (CPA) (p. 7) A professional designation earned by passing a comprehensive postgraduate study program and a specified period of work experience and membership of CPA Australia.

Chartered Accountant (CA) (p. 7) A professional designation earned by passing a comprehensive postgraduate study program and a specified period of work experience, and membership of the Institute of Chartered Accountants in Australia.

chart of accounts (p. 537) An index or complete listing of the entity's accounts .

Chief Financial Officer (CFO) (p. 7) The job title of the person who is the chief accounting officer of an organisation. The position is usually responsible for both the financial and management accounting functions.

CIF (p. 240) Carriage, insurance and freight cost are borne by the supplier. A delivery term where the purchaser should recognise the asset when it arrives at the dock after shipment.

closing the books (p. 542) The process of posting transactions, adjustments and closing entries prior to the preparation of the financial statements.

COD (pp. 79, 129) **Cash on delivery** (see separate entry) or *collect on delivery*.

commercial paper (p. 129) A short-term security usually issued by a large, creditworthy corporation.

commitment (p. 288) A transaction that has been contractually agreed to, but that has not yet occurred and is not reflected in the financial statements.

committed cost (p. 416) A cost that is incurred because of a long-range policy decision.

common size statement (p. 313) A financial statement in which amounts are expressed in percentage terms. In a *vertical* common size balance sheet, total assets are 100 per cent, and all other amounts are expressed as a percentage of total assets each year; for an income statement, sales are 100 per cent each year. *Horizontal* common size financial statements are side-by-side comparisons of two or more years' data in relation to the selected base year data.

common stock (p. 207) Another name for *ordinary shares*. The class of share that represents residual ownership of the company.

company (p. 30) A form of organisation in which ownership is evidenced by shares owned by shareholders; its features, for example, limited liability, make this the principal form of organisation for most business activity.

comparability (p. 47) The provision of financial information over a period of time in a consistent manner, or the recasting of the information to present comparative information.

concise annual report (p. 51) An abridged version of the annual report prepared for an accounting entity for the financial year or annual reporting period.

consistency (p. 50) The user's expectation that financial information will be presented in a similar manner over time. The Australian term is *comparability*.

consolidated financial statement (pp. 54, 216) Defined in the *Corporations Act*, the combined financial information of a holding company and its subsidiaries.

contingency (p. 288) An event that has an uncertain but potentially significant effect on the financial statements.

contingent liability (p. 206) A potential claim on a company's resources (that is, a loss) which depends on future events; must be *probable* and *reasonably estimable* to be recorded as a liability on the balance sheet.

continuous budget (p. 418) A budget that is prepared for several periods in the future,

then **revised** several times prior to the budget period. Sometimes called a *rolling budget*.

contra asset (p. 135) An account that normally has a credit balance that is subtracted from a related asset on the balance sheet.

contributed capital (p. 36) The money invested by ordinary shareholders in the company. The class of share that represents the residual ownership of the company.

contribution margin (p. 345) The difference between revenues and variable costs.

contribution margin format (p. 345) An income statement format in which variable costs are subtracted from revenues to show contribution margin, from which fixed costs are subtracted to determine operating income.

contribution margin ratio (p. 346) The ratio of contribution margin to revenues.

convertible preference shares (p. 210) Preference shares that can be converted to ordinary shares of the company at the option of the shareholder.

copyright (p. 176) An amortisable intangible asset represented by the legally granted protection against unauthorised copying of a creative work.

corporate governance (p. 276) The strategies, behaviours and virtues of the executives and management of the company to steer the company to managing external risks and sustain performance.

cost accounting (pp. 8, 391) A subset of management accounting that relates to the determination and accumulation of product, process or service costs.

cost accumulation (p. 375) The process of collecting and recording transaction data through the accounting system.

cost assignment (p. 375) The process of allocating an amount of cost to a cost object.

cost behaviour pattern (p.) Identification of whether a cost is fixed or variable.

cost centre (p. 439) A responsibility centre for which performance is evaluated by comparing budgeted cost with actual cost.

cost distortion (p. 393) A shift in the amount of manufacturing overhead costs applied to the mix of products produced; occurs with a single cost driver application rate, compared to using activity-based costing rates.

cost driver (p. 392) An activity that causes the incurrence of a cost.

cost-flow assumption (p. 138) An assumption made for accounting purposes that identifies how costs flow from the Inventory account to the Cost of Goods Sold account. Alternatives include specific identification; weighted average; and first-in, first-out.

cost formula (p. 340) An algebraic expression that reflects the fixed and variable elements of a cost.

cost management (p. 373) The process of using cost information to manage the activities of the organisation.

cost object (p. 375) Any reference point for which management wants to measure cost.

cost of capital (p. 474) The ROA that must be earned to permit the firm to meet its interest obligations and provide the owners their expected return; the discount rate used in the present value calculations of capital budgeting.

cost of goods sold (pp. 35, 242) Cost of merchandise sold during the period; an expense deducted from net sales to arrive at gross profit. A frequently used synonym is cost of sales.

cost of goods sold model (pp. 142, 243) The formula for calculating cost of goods sold by adding beginning inventory and purchases and subtracting ending inventory. The model is:

	Beginning inventory
+	Purchases
	Cost of goods available for sale
–	Ending inventory
=	Cost of goods sold

cost pool (p. 375) Costs that have been accumulated and categorised which are to be assigned to a cost object.

cost principle (p. 44) An approach where assets and liabilities are shown at purchase price.

cost–volume–profit (CVP) analysis (p. 334) Analysis of the impact on profit of volume and cost changes using knowledge about the behaviour pattern of the costs involved.

credit (pp.103, 537) The right side of an account. A decrease in asset and expense accounts; an increase in liability, owners' equity and revenue accounts.

credit risk (p. 78) The risk that an entity to which credit has been extended will not pay the amount due on the date set for payment.

credit terms (p. 136) A seller's policy with respect to when payment of an invoice is due and what cash discount (if any) is allowed.

creditor (p. 5) An organisation or individual who lends to the entity. Examples include suppliers who deliver merchandise to the entity prior to receiving payment for their goods and banks that lend cash to the entity.

cumulative dividend (p. 210) A feature of preference shares that requires any missed dividends to be paid before dividends are paid on ordinary shares.

current assets (pp. 34, 126) Assets that are expected to be realised in, or held for sale or consumption in, the normal course of the entity's operating cycle or, held primarily for trading purposes or are cash or cash equivalent.

current liabilities (p. 34) Those liabilities due to be paid within one year of the balance sheet date.

current maturities of long-term borrowings (p. 196) Principal payments on long-term borrowings that are scheduled to be paid within one year of the balance sheet date.

current ratio (p. 77) The ratio of current assets to current liabilities. A primary measure of a firm's liquidity.

D

debenture bonds or debentures (p. 202) Bonds secured by the general credit of the issuer.

debit (p. 103) The left side of an account. An increase in asset and expense accounts; a decrease in liability, owners' equity and revenue accounts.

debt ratio (p. 311) The ratio of total liabilities to the sum of total liabilities and total owners' equity. Sometimes long-term debt is the only liability used in the calculation.

debt/equity ratio (p. 311) The ratio of total liabilities to total owners' equity. Sometimes only long-term debt is used for the numerator of the ratio.

declaration date (p. 213) The date a dividend is declared by the board of directors.

deferred credit (p. 196) An account with a credit balance that will be recognised as a revenue (or as an expense reduction) in a future period. See *unearned revenue.*

deferred tax liability (p. 202) A long-term liability that arises because of temporary differences between when an item (principally depreciation expense) is recognised for book and tax purposes.

delivery terms (p. 240) The description of the point at which title passes from seller to buyer.

depletion (p. 179) The accounting process recognising that the cost of a natural resource asset is used up as the natural resource is consumed.

deposit in transit (p. 131) A bank deposit that has been recorded in the entity's cash account but that does not appear on the bank statement because the bank received the deposit after the date of the statement.

depreciation (p. 33) The accounting process of recognising that the cost of an asset is used up over its useful life to the entity.

depreciation expense (p. 49) The expense recognised in a financial period for the depreciation of an asset.

differential cost (p. 462) A cost that will differ based on the selection of an alternative activity.

diluted earnings per share (p. 248) An amount less than basic earnings per share that assumes that potential ordinary shares have been issued pursuant to convertible borrowings, convertible preference share, and/or share option plans.

dilution (p. 249) The reduction in 'earnings per share' that may occur if convertible securities are actually converted to ordinary shares and/or if additional shares are issued pursuant to a share option plan.

direct cost (p. 377) A cost directly related to a product or activity under consideration; the cost would not be incurred if the product or activity were discontinued.

direct costing (p. 387) A product costing process in which only variable manufacturing costs are included in product cost. Sometimes called *variable costing.*

direct fixed expense (p. 438) An expense assigned to an organisation segment in a segmented income statement that would not be incurred if the segment were eliminated.

direct labour (p. 379) Effort provided by workers who are directly involved in the manufacture of a product.

discount loan (p. 194) A loan on which interest is paid at the beginning of the loan period.

discretionary cost (p. 416) A cost that can be raised or lowered in the short run.

dividend (pp. 36, 210) A distribution of earnings to the owners of a company.

dividend payout ratio (p. 308) The ratio of the annual dividend per ordinary share to the earnings per share.

dividend yield (p. 307) The ratio of the annual dividend per ordinary share to the market price per share.

DuPont model (p. 73) An expansion of the return on investment calculation to margin X turnover.

E

earned (p. 238) A revenue recognition criterion that relates to completion of the revenue-generating activity.

earnings multiple (p. 305) Another term for the *price/earnings ratio*; an indicator of the relative expensiveness of a firm's ordinary shares.

effect of the inventory cost-flow assumption on working capital (p. 298) When the cost of items being purchased for inventory is changing, the inventory cost-flow assumption used (for example, FIFO or Weighted Average) influences the inventory account balance, total current assets and working capital.

entity (p. 4) An organisation or individual, or a group of organisations or individuals, for which accounting is done.

entry (p. 541) A journal entry or a posting to an account.

equipment (p. 33) Represents the cost of the display cases, racks, machinery, shelving, motor vehicles etc. necessary to operate the business.

equity (p. 32) The ownership right associated with an asset. See *owners' equity*.

equivalent units of production (p. 388) In a process costing system, the number of units that would have been produced if all production efforts during the period had resulted in completed products.

ex-dividend date (p. 213) The date on and after which the buyer of a publicly traded shares will not receive a dividend that has been declared.

executive director (p. 207) A member of the firm's board of directors who is also an officer or employee of the firm. Sometimes referred to as an inside director.

expense (p. 161) To record a cost as an expense, as opposed to capitalising the expenditure.

expenses (pp. 34, 241) Outflows or consumption of assets or incurring liabilities during a period from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's major operations.

expenses from ordinary activities (p. 246) Expenses incurred in the day-to-day activities of the entity.

explanatory notes to the financial statements (p. 276) An integral part of the financial statements that contains explanations of accounting policies and descriptions of financial statement details.

extra dividend (p. 308) A dividend that is not likely to be incorporated as part of the regular dividend in the future.

extraordinary item (p. 253) A gain or loss from a transaction that is both exceptional in nature and occurs infrequently; it is reported separately in the income statement net of tax.

F

favourable variance (p. 434) The excess of actual revenue over budgeted revenue, or budgeted cost over actual cost.

finance lease (p. 172) A lease, usually long-term, that has the effect of financing the acquisition of an asset.

financial accounting (p. 7) Accounting that focuses on reporting an entity's financial position at a point in time and/or results of operations for a period of time.

financial controls (p. 130) Features of the internal control system that emphasise accuracy of bookkeeping and financial statements and protection of assets.

financial leverage (p. 201) The use of borrowings (with a fixed interest rate) that causes a difference between return on assets and return on equity.

financial leverage measures (p. 309) The debt ratio and debt/equity ratio that indicate the extent to which financial leverage is being used.

financial year (p. 31) The annual period used for reporting to owners, in Australia this is usually 1 July to 30 June of the subsequent year.

finished goods inventory (pp. 143, 381) The term used primarily by manufacturing firms to describe inventory ready for sale to customers.

first-in, first-out (FIFO) (p. 139) The inventory cost-flow assumption that the first costs in to inventory are the first costs out to cost of goods sold.

five-year (or longer) summary (p. 289) A summary of key financial data included in an organisation's annual report; it is not a financial statement included in the scope of the independent auditor's report.

fixed cost (pp. 337, 415) A cost that does not change in total as the level of activity changes within the relevant range.

flexible budget (p. 436) A budget adjusted to reflect a budget allowance based on the actual level of activity, rather than the planned level of activity, used to establish the original budget.

FOB (Free On Board) (p. 240) The shipping term that means that title passes from seller to buyer when the merchandise arrives at its point of despatch.

full capacity (p. 467) The operating condition when all available production resources are being utilised.

G

gearing (p. 309) Another term for *financial leverage*. See separate definition.

generally accepted accounting principles (p. 8) Pronouncements of the accounting regulatory bodies and its predecessors that constitute appropriate accounting for various transactions used for reporting financial position and results of operations to investors and creditors.

generally accepted auditing standards (p. 8) Standards for auditing that are established by the Auditing Standards Board of the Australian Accounting Research Foundation.

going concern concept (p. 44) A presumption that the entity will continue in existence for the indefinite future.

goods and services tax (GST) (p. 199) A broad-based indirect tax levied on most supplies of goods and services. In Australia the rate applied is 10 per cent and in New Zealand the rate applied is 12.5 per cent

goodwill (p. 175) An intangible asset arising from the purchase of a business for more than the fair market value of the net assets acquired. Goodwill is the present value of the expected earnings of the acquired business in excess of the earnings that would represent an average return on investment, discounted at the investor's required rate of return for the expected duration of the excess earnings.

gross margin (p. 244) Another term for *gross profit*.

gross margin ratio (p. 244) Another term for *gross profit ratio*.

gross pay (p. 197) The total earnings of an employee for a payroll period.

gross profit (pp. 35, 244) The difference between net sales and cost of goods sold. Sometimes called *gross margin*.

gross profit ratio (p. 244) The ratio of gross profit to net sales. Sometimes called *gross margin ratio*.

H

horizontal model (p. 104) A representation of the balance sheet and income statement relationship that is useful for understanding the effects of transactions and adjustments on the financial statements. The model is:

Balance sheet	Income statement
Assets = Liabilities + Owners' equity	← Net profit = Revenues – Expenses

I

idle capacity (p. 469) The operating condition when some available production resources are not being utilised.

impairment loss (p. 175) Similar to amortisation; however, requires an annual review of the reduction in the value of goodwill over its useful life.

imprest account (p. 129) An asset account that has a constant balance in the ledger; cash on hand and vouchers (as receipts for payments) add up to the account balance. Used especially for petty cash funds.

income before income tax (p. 248) An income statement subtotal on which income tax expense is based.

income from ordinary activities (p. 247) An income statement subtotal that is presented before income or loss from extraordinary items and represents the difference between operating revenue and operating expenses.

income statement (p. 34) The financial statement that summarises the entity's revenues, expenses, gains and losses for a period of time and thereby reports the entity's results of operations for that period of time.

income taxes (p. 35) the amount to be paid to the Australian Taxation Office. Taxable profit may differ from accounting profit due to the rules determined by the *Income Tax Assessment Act*.

independence (p. 16) The personal characteristic of an accountant, especially an auditor, that refers to both appearing and, in fact, being objective and impartial.

independent (external) auditor's report (p. 8) The report accompanying audited financial statements that explains briefly the auditor's responsibility and the extent of work performed. The report includes an opinion about whether the information contained in the financial statements is presented fairly, in accordance with generally accepted accounting principles.

indifference point (p. 352) The activity level that produces the same total cost for two different cost formulas or cost structures.

indirect cost (p. 377) A cost that is indirectly related to the product or activity under consideration; the cost would continue to be incurred if the product or activity were discontinued.

inside director (pp. 175, 207) Sometimes referred to as an *executive director*.

intangible asset (p. 175) A long-lived asset represented by a contractual right, or an asset that is not physically identifiable.

integrity (p. 16) The personal characteristic of honesty, including being forthright in dealings and communications with others.

interest (p. 70) The income or expense from investing or borrowing money.

interest calculation—discount basis (p. 195) Interest calculation in which the interest (called *discount*) is subtracted from the principal to determine the amount of money (the *proceeds*) made available to the borrower. Only the principal is repaid at the maturity date because the interest is, in effect, prepaid.

interest calculation—straight basis (p. 194) Interest calculation in which the principal is the amount of money made available to the borrower. Principal and interest are repaid by the borrower at the maturity date.

interest expense (p. 35) Represents the cost of using borrowed funds.

interest rate (p. 70) The percentage amount used, together with principal and time, to calculate interest.

internal auditing (p. 10) The practice of auditing within a company by employees of the company.

internal control system (p. 129) Policies and procedures designed to provide reasonable assurance that objectives are achieved with respect to:

1. The effectiveness and efficiency of the operations of the organisation.
2. The reliability of the organisation's financial reporting.
3. The organisation's compliance with applicable laws and regulations.

internal rate of return (IRR) method (p. 477) A capital budgeting analytical technique that solves for the time-adjusted rate of return on an investment over its life.

interpolating (pp. 195, 477) A mathematical term that describes the process of interpreting and relating two factors from a (present value) table to approximate a third factor not shown in the table.

inventory (pp. 33, 126) Items held by an entity for sale to customers in the normal course of business.

inventory accounting system (p. 141) The method used to account for the movement of items in to inventory and out to cost of goods sold. The alternatives are the periodic system and the perpetual system.

inventory cost-flow assumption (p. 242) The application of FIFO, weighted-average or specific identification procedures to determine the cost of goods sold.

inventory shrinkage (p. 242) Inventory losses resulting from theft, deterioration and record-keeping errors.

investment centre (p. 439) A responsibility centre for which performance is evaluated by comparing budgeted return on assets with actual return on assets.

investor (p. 5) An organisation or individual who has an ownership interest in the firm. For corporations, referred to as *shareholders*.

issued shares (p. 208) The number of shares of a class of shares that has been issued (usually sold) to shareholders.

J

job order costing system (p. 387) A product costing system used when discrete products, or 'jobs', are manufactured.

journal (p. 537) A chronological record of transactions.

journal entry (p. 538) A description of a transaction in a format that shows the debit account(s) and amount(s) and credit account(s) and amount(s).

L

last-in, first-out (LIFO) (p. 138) The inventory cost-flow assumption that the last costs in to inventory are the first costs out to cost of goods sold, not recognised in Australia.

leasehold improvement (p. 175) An amortisable intangible asset represented by the cost of improvements made to a leasehold by the lessee.

ledger (p. 537) A book or file of accounts.

liabilities (p. 32) Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

liquidating value (p. 210) The stated claim of preference shares in the event the company is liquidated. Sometimes called *redemption value*.

liquidity (p. 76) Refers to a firm's ability to meet its current financial obligations.

long-term borrowings (pp. 33, 201) A liability that will be paid more than one year from the balance sheet date.

long-term debt (p. 287) Debt that is due for repayment after the end of the next financial year.

losses (p. 30) Decreases in net assets from incidental transactions that are not expenses or distributions to owners.

lower of cost or market (p. 145) A valuation process that may result in an asset being reported at an amount less than cost.

M

management accounting (pp. 8, 334) Accounting that uses economic and financial information to plan and control many of the activities of the entity and to support the management decision-making process.

management by exception (p. 434) A management concept that involves thorough planning and then corrective effort only in those areas that do not show results consistent with the plan.

management process (p. 334) Planning, organising and controlling the activities of an organisation so it can accomplish its purpose.

management's discussion and analysis (p. 282) A narrative description of the firm's activities for the year, including comments about its financial condition and results of operations.

manufacturing overhead (p. 379) All manufacturing costs except those classified as raw materials or direct labour.

margin (p. 73) The percentage of operating income to net sales. Sometimes margin is calculated using operating income or other intermediate subtotals of the income statement. The term also can refer to the *amount* of gross profit, operating income or net profit, as in gross profit margin, operating profit margin, net margin.

master budget (p. 419) An operating plan comprising the sales forecast (or revenue budget), the purchases and production budget, the operating expense budget, the income statement budget, the cash budget and the budgeted balance sheet. Sometimes this is called the *operating budget*.

matching principle or matching concept (pp. 45, 241) The concept that expenses incurred in generating revenues should be 'matched' against revenues earned during some period of time, usually one year, in determining net profit or loss for the period.

materiality (p. 48) In relation to financial information means that by its omission or misstatement there would be potential to mislead those using the information.

maturity date (p. 193) The date when a loan is scheduled to be repaid.

mixed cost (p. 415) A cost that has both fixed and variable elements.

mortgage bond (p. 202) A bond secured by a lien on real estate.

multiple-step format (p. 250) An income statement format that includes sub-totals for *gross profit*, and *income before taxes*.

N

net assets (p. 32) The difference between assets and liabilities; also referred to as *owners' equity*.

net pay (p. 197) Gross pay less payroll deductions; the amount the employer is obligated to pay to the employee.

net present value (NPV) method (p. 475) A capital budgeting analytical technique that uses a given cost of capital to relate the present value of the returns from an investment to the present value of the investment.

net profit (pp. 40, 236) The excess of revenues and gains over expenses and losses for a financial period.

net profit per share of ordinary shares outstanding (p. 36) Net profit available to the ordinary shareholders divided by the average number of shares of ordinary shares outstanding during the period. Usually referred to as *earnings per share* or *EPS*.

net realisable value (p. 136) The amount of funds expected to be received upon sale or liquidation of an asset. For accounts receivable, the amount expected to be collected from customers after allowing for bad debts and estimated cash discounts. For inventory, it is the estimated proceeds of sale less any further costs to completion and all costs associated with marketing, selling and distribution to customers.

net sales (pp. 34, 235) Gross sales, less sales discounts and sales returns and allowances.

net worth (p. 32) Another term for *net assets* or *owners' equity*, but not as appropriate, because the term *worth* may be misleading.

non-executive director (p. 207) A member of the firm's board of directors who is not an officer or employee of the firm; an independent director. Sometimes called an *outside director*.

NSF (not sufficient funds) (p. 131) A cheque returned by the maker's bank because there were not enough funds in the account to cover the cheque.

number of days' sales in accounts receivable (p. 302) An indicator of the efficiency with which accounts receivable are collected.

number of days' sales in inventory (p. 302) An indicator of the efficiency with which inventories are managed.

O

objectivity (pp. 16, 45) The characteristic of impartiality, including freedom from conflict of interest or bias.

on account (p. 100) Used to describe a purchase or sale transaction for which cash will be paid or received at a later date. A 'credit' or "non-cash" transaction.

operating budget (p. 419) An operating plan comprising the sales forecast (or revenue budget), the purchases and production budget, the operating expense budget, the income statement budget, the cash budget, and the budgeted balance sheet. Sometimes this is called the *master budget*.

operating cycle (p. 126) The average time it takes a firm to convert an amount invested in inventory back to cash. For most firms, the operating cycle is measured as the average number of days between the acquisition of materials and the sale of inventory, plus the average number of days to collect accounts receivable.

operating lease (p. 172) A lease (usually short-term) that does not involve any attributes of ownership.

operating leverage (p. 350) The concept that operating income changes proportionately more than revenues for any given change in the level of activity. Firms with relatively higher fixed costs (and relatively lower variable costs per unit) have greater operating leverage than firms with relatively lower fixed costs (and relatively higher variable costs per unit) and will experience a relatively larger impact on operating income for a given change in activity.

opportunity cost (pp. 50, 463) An economic concept relating to income forgone because an opportunity to earn income was not pursued.

ordinary shares (pp. 36, 207) Ordinary ownership interests in a company imposing rights and obligations on the owner and the company.

outside director (p. 207) The same as a non executive director.

outside equity interest (p. 253) The equity in the economic entity other than that which can be attributed to the ownership group of the parent entity.

outside equity interest in subsidiaries (p. 216) An account that arises in the preparation of consolidated financial statements when some subsidiaries are less than 100 per cent owned by the parent company.

outsourcing (p. 469) The acquisition of resources or services from outside the organisation, as opposed to producing those resources or services internally.

outstanding cheque (p. 131) A cheque that has been recorded as a cash disbursement by the entity but that has not yet been processed by the bank.

over applied overhead (p. 384) A credit balance in the Manufacturing Overhead account that results from applied overhead in excess of actual overhead costs.

overdraft (p. 193) A facility that operates like a loan. An entity contracts to use the financial institution's money to pay its debts.

overhead (p. 379) Another term for *manufacturing overhead*.

overhead application rate (p. 383) The rate used to allocate overhead to specific production runs. See *predetermined overhead application rate*.

owners' equity (p. 32) The equity of the entity's owners in the assets of the entity. Sometimes called *net assets*; the difference between assets and liabilities.

P

participating dividend (p. 210) A feature of preference shares that provides a right to preference shareholders to receive additional dividends at a specified ratio after a base amount of dividends has been paid to ordinary shareholders.

participative budgeting (p. 418) A budgeting process that involves the input and negotiation of several layers of management.

partnership (p. 30) A form of organisation indicating ownership by two or more individuals or companies, without the limited liability and other features of a company.

patent (p. 176) An amortisable intangible asset represented by a government-sanctioned monopoly over the use of a product or process.

payback method (p. 480) A capital budgeting analytical technique that calculates the length of time for the cash flows from an investment to equal the investment.

payment date (p. 213) The date dividends are paid to shareholders.

percentage-of-completion method (p. 240) A method of recognising revenue based on the completion percentage of a long-term construction project.

performance report (p. 414) A report comparing planned and actual activity or costs.

period cost (p. 379) Costs not associated with inventory, *including selling, general, and administrative expenses,* that relate to an accounting period.

periodic inventory system (p. 142) A system of accounting for the movement of items in to inventory and out to cost of goods sold that involves periodically making a physical count of the inventory on hand.

perpetual inventory system (p. 141) A system of accounting for the movement of items in to inventory and out to cost of goods sold that involves keeping a continuous record of items received, items sold, inventory on hand and cost of goods sold.

petty cash (p. 129) A fund used for small payments for which writing a cheque is inconvenient.

physical inventory (p. 142) The process of counting the inventory on hand and determining its cost based on the inventory cost-flow assumption being used.

planning (p. 414) The management process of identifying and quantifying the goals of the organisation.

post (p. 537) The bookkeeping process of recording a transaction in the ledger using a journal as the source of the information recorded.

post-audit (p. 478) The process of comparing the assumptions used in a capital project analysis with the actual results of the investment.

predetermined overhead application rate (p. 382) The rate per unit of activity (for example, direct labour hour) used to apply manufacturing overhead to work in process.

pre-emptive right (p. 208) A right of a shareholder to purchase shares from any additional share issues in proportion to the shareholder's present percentage of ownership.

preference dividend coverage ratio (p. 308) The ratio of net profit to the annual preference share dividend requirement.

preference shares (p. 209) A class of shares that has a priority with respect to dividends and/or repayment of capital in the event of the company being wound up.

prepaid expenses (p. 146) Expenses that have been paid in the current financial period but that will not be subtracted from revenues until a subsequent financial period when the benefits are received. Usually a current asset.

present value (p. 173) The value now of an amount to be received or paid at some future date, recognising an interest (or discount) rate for the period from the present to the future date.

present value ratio (p. 475) The ratio of the present value of the cash flows from an investment to the investment. See *profitability index*.

price/earnings ratio (p. 305) An indicator of the relative expensiveness of a firm's ordinary shares.

prime rate (p. 194) The interest rate charged by banks on loans to large and most creditworthy customers; a benchmark interest rate.

principal (p. 70) The amount of money invested or borrowed.

process costing system (p. 388) A costing system used to accumulate costs for a production process that is more or less continuous, frequently involving several departments.

product cost (p. 377) Inventoriable costs including raw materials, direct labour and manufacturing overhead.

production standard (p. 336) Expected or allowed times and costs to make a product or perform an activity.

profit (p. 34) The excess of revenues and gains over expenses and losses for a financial period; another term for *net profit*.

profit and loss statement (p. 34) Another term for the *income statement, or statement of financial performance*.

profit centre (p. 439) A responsibility centre for which performance is evaluated by comparing budgeted profit with actual profit.

profit from operations (p. 35) The difference between gross profit and operating expenses. Also referred to as *operating income*.

profitability index (p. 475) The ratio of the present value of the cash flows from an investment to the investment; used for ranking proposed capital expenditures by profitability.

public accounting (p. 8) The segment of the accounting profession that provides auditing, income tax accounting, and management consulting services to clients.

purchases returns and allowances (p. 243) Reductions in purchases from products returned to the supplier or adjustments in the purchase cost.

Q

quick ratio (p. 77) The ratio of the sum of cash (including temporary cash investments) and accounts receivable to current liabilities. A primary measure of a firm's liquidity. This is also called the *acid test*.

R

rate of return (p. 70) A percentage calculated by dividing the amount of return on an investment for a period of time by the average amount invested for the period. A primary measure of profitability.

raw material (p. 379) The ingredients of a product.

raw materials inventory (pp. 143, 381) Inventory of materials ready for the production process.

realisation (p. 238) A revenue recognition criterion that relates to the receipt of cash or a claim to cash in exchange for the product or service.

record date (p. 213) The date used to determine the shareholders who will receive a dividend.

redemption value (p. 210) The stated claim of preference shares In the event the company is liquidated.

reducing-balance depreciation method (p. 168) An accelerated depreciation method in which the reducing carrying value of the asset is multiplied by a constant rate.

regular dividend (p. 308) A dividend that is likely to be declared on a repetitive, periodic (that is, quarterly, semi-annually or annually) basis.

relevance (p. 49) Information which will assist in making decisions about the entity.

relevant cost (p. 464) A cost classification used in analysing costs of decision alternatives; costs are relevant when they represent future differences between the alternatives.

relevant range (p. 339) The range of activity over which the fixed or variable cost behaviour pattern exists.

residual income (p. 441) The amount of income an investment centre generates above a minimum required return on assets.

responsibility centre (p. 439) An element of the organisation over which a manager has been assigned responsibility and authority.

responsibility reporting (p. 434) A system of performance reporting that involves successive degrees of summarisation as the number of management responsibility levels being reported about increases.

retained earnings (p. 212) Cumulative net profit that has not been distributed to the owners of a company by way of dividend.

return on assets (p. 71) The rate of return on an investment in assets; frequently referred to as *ROA*. Sometimes referred to as *return on investment*. A primary measure of a firm's profitability.

return on equity (p. 75) The percentage of net profit divided by average owners' equity for the financial period in which the net profit was earned; frequently referred to as *ROE*. A primary measure of a firm's profitability.

revenues (pp. 34, 239) Inflows of cash or increases in other assets, or settlement of liabilities, during a period from delivering or producing goods, rendering services or performing other activities that constitute the entity's major operations.

revolving line of credit (p. 193) A loan on which regular payments are to be made, but which can be quickly increased to a predetermined limit as additional funds must be borrowed.

risk (p. 71) A concept that describes the range of possible outcomes from an action. The greater the range of possible outcomes, the greater the risk.

rolling budget (p. 418) A budget that is prepared for several periods in the future, then revised several times prior to the budget period. Sometimes called a *continuous budget*.

S

sales (p. 239) Revenues resulting from the sale of product.

sales forecast (p. 420) Expected sales for future periods; a key to the budgeting process.

sales mix (pp. 244, 350) The proportion of total sales represented by various products or categories of products.

sales returns and allowances (p. 239) Reductions in sales from product returns or adjustments in selling price.

segment (p. 437) A unit of the organisation, such as a product line, sales territory or group of related activities.

segment margin (p. 438) The contribution of a segment of an organisation to the common fixed expenses and operating income of the organisation.

selling, general and administrative expenses (p. 35) Represent the operating expenses of the entity.

semi-logarithmic graph (p. 82) A graph format in which the vertical axis is a logarithmic scale.

semi-variable cost (p. 339) A cost that has both fixed and variable elements.

share dividend (p. 213) A distribution of additional shares to existing shareholders in proportion to their existing holding.

share option plan (p. 287) A plan for compensating key employees by providing an option to purchase a company's stock at a future date, at the market price of the stock when the option is issued (granted).

shareholders (p. 30) The owners of a company's shares.
shares (p. 30) The evidence of ownership of a company.
share split (p. 215) A distribution of additional shares to existing shareholders in proportion to their existing holdings at no cost to the shareholder.
short-term borrowings (p. 33) represents amounts borrowed that will be repaid within one year of the balance sheet date.
short-term marketable securities (p. 133) Investments made with cash not needed for current operations.
significant accounting policies (p. 286) A brief summary or description of the specific accounting practices followed by the entity.
single-period budget (p. 418) A budget that has been prepared only once prior to the budget period. This contrasts with a 'continuous budget'.
single-step format (p. 250) An income statement format that excludes subtotals such as gross profit and operating income.
sole trader (p. 30) A form of organisation indicating individual ownership without the limited liability and other features of a company.
source document (p.541) Evidence of a transaction that supports the journal entry recording the transaction.
specific identification (p. 138) The inventory cost-flow assumption that matches cost flow with physical flow.
standard cost (p. 414) A unit budget allowance for a cost component of a product or activity.
statement of cash flows (pp. 38, 254) The financial statement that explains why cash changed during a financial period. Cash flows from operating, investing and financing activities are shown in the statement.
statement of changes in owners' equity (p. 36) The financial statement that summarises the changes during a financial period in share capital retained earnings and other elements of owners' equity.
statement of changes in retained earnings (p. 36) The financial statement that summarises the changes during a financial period in retained earnings. This information may be included in the statement of changes in owners' equity.
statement of changes in share capital (p. 29) The financial statement that summarises changes during a financial period in share capital This information may be included in the statement of changes in owners' equity.
statement of cost of goods manufactured (p. 386) A supplementary financial statement that supports cost of goods sold, which is an element of the income statement. This statement summarises raw material, direct labour, and manufacturing overhead costs during the period.
statement of earnings (p. 34) Another term for the income statement; it shows the revenues, expenses, gains, and losses for a period of time and thereby the entity's results of operations for that period of time.
statement of financial performance (p. 34) Another term for the income statement or profit and loss statement.
statement of financial position (p. 31) Another term for the balance sheet; a listing of the entity's assets, liabilities and owners' equity at a point in time.
statement of operations (p. 34) Another term for the income statement.
stewardship (p. 276) Similar to corporate governance, with specific focus on the moral and mandated obligations to stakeholders (specifically shareholders and creditors). Also referred to as *accountability*.
straight-line depreciation method (p. 167) Calculation of periodic depreciation expense by dividing the amount to be depreciated by the number of periods over which the asset is to be depreciated.
sub-optimisation (p. 441) The result of an investment centre manager rejecting an opportunity to invest in a project that would increase the ROA of the company as a whole but would lower the investment centre manager's ROA.
subsidiary (p. 51) A company whose shares are controlled by another company.
sunk cost (p. 463) A cost that has been incurred and that cannot be 'unincurred', or reversed, by some future action.
superannuation (p. 197) A sum paid periodically as a contribution to a superannuation fund during the period of employment, which fund provides benefits during illness or retirement.

T

T-account (p. 537) A ledger account format with a debit (left) side and a credit (right) side.
target costing (p. 466) A cost management technique in which the firm determines the required cost for a product or service to earn a desired profit when the selling price is determined by the marketplace.

times interest earned ratio (p. 311) The ratio of earnings before interest and tax to interest expense. An indicator of the risk associated with financial leverage.

top-down budgeting (p. 418) A budgeting approach that implies little or no input from lower levels of management.

trademark (p. 176) An amortisable intangible asset represented by a right to the exclusive use of an identifying mark.

transaction analysis methodology (p. 108) The process of answering five questions to ensure that a transaction is understood:

transactions (pp. 28, 100) Economic interchanges between entities that are accounted for and reflected in financial statements.

transfer price (p. 439) A price established for the 'sale' of goods or services from one segment of the organisation to another segment of the organisation.

trend analysis (p. 69) Evaluation of the trend of data over time.

turnover (p. 73) The quotient of sales divided by the average assets for the year or some other financial period. A descriptor, such as total asset, inventory or plant and equipment, usually precedes the turnover term. A measure of the efficiency with which assets are used to generate sales.

U

underapplied overhead (p. 384) A debit balance in the Manufacturing Overhead account that results from actual overhead costs in excess of applied overhead.

unearned revenue (p. 196) A liability arising from receipt of cash before the related revenue has been earned..

unfavourable variance (p. 434) The excess of budgeted revenue over actual revenue, or actual cost over budgeted cost.

unit of measurement (p. 44) The Australian dollar is used for recording and disclosing all transactions.

units-of-production depreciation method (p. 168) A depreciation method based on periodic use and life expressed in terms of asset utilisation.

V

value chain (p. 373) The sequence of functions (R & D, design, production, marketing, distribution and customer service) and related activities that, over the life of a product or service, adds value for the customer.

variable cost (pp. 337, 415) A cost that changes in total as the volume of activity changes.

variable costing (p. 389) A product costing process in which only variable manufacturing costs are included in product cost. Sometimes called *direct costing*.

variance (p. 434) The difference between budget and actual; variances are labelled as 'favourable' or 'unfavourable', usually on the basis of the arithmetic difference between budget and actual.

W

weighted average (p. 138) The inventory cost-flow assumption that is based on an average of the cost of beginning inventory plus the cost of purchases during the year, weighted by the quantity of items at each cost.

weighted average number of shares (p. 248) The number of ordinary shares outstanding (in issue) multiplied by the number of days in the accounting period that the funds related to those shares have been available for use in the business as a proportion of the total number of days in the accounting period.

work in process inventory (pp. 143, 381) Inventory account for the costs (raw material, direct labour and manufacturing overhead) of items that are in the process of being manufactured.

working capital (p. 76) The difference between current assets and current liabilities. A measure of a firm's liquidity.

working capital loan (p. 193) A short-term loan that is expected to be repaid from collections of accounts receivable.