

Glossary

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. 400)

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. 53)

Account balance Difference between total debits and total credits (including the beginning balance) for an account. (p. 57)

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. 148)

Accounting equation Equality involving a company's assets, liabilities, and equity; $\text{Assets} = \text{Liabilities} + \text{Equity}$; also called *balance sheet equation*. (p. 13)

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. 272)

Accounting period Length of time covered by financial statements; also called *reporting period*. (p. 96)

Accounts payable ledger Subsidiary ledger listing individual creditor (supplier) accounts. (p. 277)

Accounts receivable Amounts due from customers for credit sales; backed by the customer's general credit standing. (p. 360)

Accounts receivable ledger Subsidiary ledger listing individual customer accounts. (p. 277)

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. 374)

Accrual basis accounting Accounting system that recognizes revenues when earned and expenses when incurred; the basis for GAAP. (p. 97)

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. 103)

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. (p. 105)

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. 196)

Adjusted trial balance List of accounts and balances prepared after period-end adjustments are recorded and posted. (p. 108)

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. 98)

Agging of accounts receivable Process of classifying accounts receivable by how long they are past due for purposes of estimating uncollectible accounts. (p. 368)

Allowance for Doubtful Accounts Contra asset account with a balance approximating uncollectible accounts receivable; also called *Allowance for Uncollectible Accounts*. (p. 365)

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. 365)

Amortization Process of allocating the cost of an intangible asset to expense over its estimated useful life. (p. 410)

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. 96)

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. 554)

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)

Authorized shares Total amount of shares that a corporation's charter authorizes it to issue. (p. 494)

Available-for-sale (AFS) securities Investments in debt and equity securities that are not classified as trading securities or held-to-maturity securities. (p. 572)

Average cost (See *weighted average*).

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. 364)

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. 60)

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*.)

Bank reconciliation Report that explains the difference between the book (company) balance of cash and the cash balance reported on the bank statement. (p. 331)

Bank statement Bank report on the depositor's beginning and ending cash balances, and a listing of its changes, for a period. (p. 330)

Basic earnings per share Net income less any preferred dividends and then divided by weighted-average common shares outstanding. (p. 509)

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. 286)

Bearer bonds Bonds made payable to whoever holds them (the *bearer*); also called *unregistered bonds*. (p. 549)

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. 536)

Bond certificate Document containing bond specifics such as issuer's name, bond par value, contract interest rate, and maturity date. (p. 538)

Bond indenture Contract between the bond issuer and the bondholders; identifies the parties' rights and obligations. (p. 538)

Book value per ordinary share Recorded amount of equity applicable to ordinary shares divided by the number of ordinary shares outstanding. (p. 510)

Bookkeeping (See *recordkeeping*.)

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

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. 466)

Call price Amount that must be paid to call and retire a callable preferred stock or a callable bond. (p. 503)

Callable bonds Bonds that give the issuer the option to retire them at a stated amount prior to maturity. (p. 549)

Callable preference shares Preference shares that the issuing corporation, at its option, may retire by paying the call price plus any dividends in arrears. (p. 503)

Canceled checks Checks that the bank has paid and deducted from the depositor's account. (p. 331)

Capital expenditures Additional costs of plant assets that provide material benefits extending beyond the current period; also called *balance sheet expenditures*. (p. 405)

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

Carrying amount Asset's acquisition costs less its accumulated depreciation (or depletion, or amortization); also called *book value*. (p. 102)

Carrying amount (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*. (pp. 102, 540)

Cash Includes currency, coins, and amounts on deposit in bank checking or savings accounts. (p. 321)

Cash basis accounting Accounting system that recognizes revenues when cash is received and records expenses when cash is paid. (p. 97)

Cash disbursements journal Special journal normally used to record all payments of cash; also called *cash payments journal*. (p. 284)

Cash discount Reduction in the price of merchandise granted by a seller to a buyer when payment is made within the discount period. (p. 185)

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. 321)

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. 622)

Cash Over and Short Income statement account used to record cash overages and cash shortages arising from errors in cash receipts or payments. (p. 323)

Cash receipts journal Special journal normally used to record all receipts of cash. (p. 281)

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. 403 & 508)

Chart of accounts List of accounts used by a company; includes an identification number for each account. (p. 56)

Check Document signed by a depositor instructing the bank to pay a specified amount to a designated recipient. (p. 328)

Check register Another name for a cash disbursements journal when the journal has a column for check numbers. (pp. 284 & 340)

Classified balance sheet Balance sheet that presents assets and liabilities in relevant subgroups, including current and noncurrent classifications. (p. 149)

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. 145)

Closing process Necessary end-of-period steps to prepare the accounts for recording the transactions of the next period. (p. 144)

Columnar journal Journal with more than one column. (p. 278)

Committee of 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). (p. 317)

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

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. 661)

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. 656)

Compatibility principle Information system principle that prescribes an accounting system to conform with a company's activities, personnel, and structure. (p. 273)

Complex capital structure Capital structure that includes outstanding rights or options to purchase common stock, or securities that are convertible into common stock. (p. 509)

Components of accounting systems Five basic components of accounting systems are source documents, input devices, information processors, information storage, and output devices. (p. 273)

Compound journal entry Journal entry that affects at least three accounts. (p. 63)

Comprehensive income Net change in equity for a period, excluding owner investments and distributions. (p. 577)

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. 286)

Computer software Programs that direct operations of computer hardware.

Conceptual framework for financing reporting A written framework to guide the development, preparation, and interpretation of financial accounting information. (p. 27)

Consignee Receiver of goods owned by another who holds them for purposes of selling them for the owner. (p. 228)

Consignor Owner of goods who ships them to another party who will sell them for the owner. (p. 228)

Consistency concept Principle that prescribes use of the same accounting method(s) over time so that financial statements are comparable across periods. (p. 237)

Consolidated financial statements Financial statements that show all (combined) activities under the parent's control, including those of any subsidiaries. (p. 576)

Contingent liability Obligation to make a future payment if, and only if, an uncertain future event occurs. (p. 444)

Contra account Account linked with another account and having an opposite normal balance; reported as a subtraction from the other account's balance. (p. 101)

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. 539)

Contributed capital Total amount of cash and other assets received from stockholders in exchange for stock; also called *paid-in capital*. (p. 495)

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 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.

Control Process of monitoring planning decisions and evaluating the organization's activities and employees. (p. 699)

Control principle Information system principle that prescribes an accounting system to aid managers in controlling and monitoring business activities. (p. 272)

Controllable variance Combination of both overhead spending variances (variable and fixed) and the variable overhead efficiency variance. (p. 696)

Controlling account General ledger account, the balance of which (after posting) equals the sum of the balances in its related subsidiary ledger. (p. 277)

Convertible bonds Bonds that bondholders can exchange for a set number of the issuer's shares. (p. 549)

Convertible preference shares Preference shares with an option to exchange it for ordinary shares at a specified rate. (p. 502)

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. 411)

Corporation Business that is a separate legal entity under state or federal laws with owners called *shareholders* or *stockholders*. (pp. 12 & 492)

Cost All normal and reasonable expenditures necessary to get an asset in place and ready for its intended use. (p. 395)

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. 273)

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

Cost of goods sold Cost of inventory sold to customers during a period; also called *cost of sales*. (p. 182)

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

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. 549)

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. 57)

Credit memorandum Notification that the sender has credited the recipient's account in the sender's records. (p. 191)

Credit period Time period that can pass before a customer's payment is due. (p. 185)

Credit terms Description of the amounts and timing of payments that a buyer (debtor) agrees to make in the future. (p. 185)

Creditors Individuals or organizations entitled to receive payments. (p. 54)

Cumulative preference shares Preference shares on which undeclared dividends accumulate until paid; ordinary shareholders cannot receive dividends until cumulative dividends are paid. (p. 501)

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. 150)

Current liabilities Obligations due to be paid or settled within one year or the company's operating cycle, whichever is longer. (p. 151 & 437)

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. 442)

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. 152)

Date of declaration Date the directors vote to pay a dividend. (p. 498)

Date of payment Date the corporation makes the dividend payment. (p. 498)

Date of record Date directors specify for identifying stockholders to receive dividends. (p. 498)

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. 241)

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. 335)

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. 57)

Debit memorandum Notification that the sender has debited the recipient's account in the sender's records. (p. 186)

Debt ratio Ratio of total liabilities to total assets; used to reflect risk associated with a company's debts. (p. 71)

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. 550)

Debtors Individuals or organizations that owe money. (p. 53)

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. 401)

Depletion Process of allocating the cost of natural resources to periods when they are consumed and sold. (p. 408)

Deposit ticket Lists items such as currency, coins, and checks deposited and their corresponding dollar amounts. (p. 328)

Deposits in transit Deposits recorded by the company but not yet recorded by its bank. (p. 331)

Depreciable cost Cost of an item of property, plant and equipment 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. 101 & 397)

Diluted earnings per share Earnings per share calculation that requires dilutive securities be added to the denominator of the basic EPS calculation. (p. 509)

Dilutive securities Securities having the potential to increase common shares outstanding; examples are options, rights, convertible bonds, and convertible preferred stock. (p. 509)

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. 610)

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. 364)

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. 540)

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 period Time period in which a cash discount is available and the buyer can make a reduced payment. (p. 185)

Discount rate Expected rate of return on investments; also called *cost of capital*, *hurdle rate*, or *required rate of return*. (p. B-3)

Discounts lost Expenses resulting from not taking advantage of cash discounts on purchases. (p. 341)

Dividend in arrears Unpaid dividend on cumulative preference shares; must be paid before any regular dividends on preference shares and before any dividends on ordinary shares. (p. 501)

Dividends Corporation's distributions of assets to its owners.

Dividend yield Ratio of the annual amount of cash dividends distributed to ordinary shareholders relative to the ordinary share's market value (price). (p. 510)

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. 57)

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. 509)

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. 540)

Efficiency Company's productivity in using its assets; usually measured relative to how much revenue a certain level of assets generates. (p. 655)

Electronic funds transfer (EFT) Use of electronic communication to transfer cash from one party to another. (p. 329)

Enterprise resource planning (ERP) software Programs that manage a company's vital operations, which range from order taking to production to accounting. (p. 287)

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. 185)

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. 574)

Equity ratio Portion of total assets provided by equity, computed as total equity divided by total assets. (p. 670)

Equity with control 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. 575)

Equity 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. 574)

Estimated liability Obligation of an uncertain amount that can be reasonably estimated. (p. 443)

Events Happenings that both affect an organization's financial position and can be reliably measured. (p. 14)

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. 10 & 98)

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. 14)

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

FIFO method (See *first-in, first-out*.) (p. 233)

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. 8)

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. 503)

Financial reporting Process of communicating information relevant to investors, creditors, and others in making investment, credit, and business decisions. (p. 655)

Financial statement analysis Application of analytical tools to general-purpose financial statements and related data for making business decisions. (p. 654)

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. 606)

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. 233)

Fiscal year Consecutive 12-month (or 52-week) period chosen as the organization's annual accounting period. (p. 97)

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. 273)

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. 187)

Foreign exchange rate Price of one currency stated in terms of another currency. (p. 582)

Franchises Privileges granted by a company or government to sell a product or service under specified conditions. (p. 411)

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 journal All-purpose journal for recording the debits and credits of transactions and events. (p. 58)

General ledger (See *ledger*.) (p. 53)

General partner Partner who assumes unlimited liability for the debts of the partnership; responsible for partnership management. (p. 465)

General partnership Partnership in which all partners have mutual agency and unlimited liability for partnership debts. (p. 465)

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. 655)

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

Goods and services tax (GST) A consumption tax charged at the point of purchase for certain goods and services; the tax amount is usually calculated by applying a percentage rate to the taxable price of a sale. (p. 438)

Goodwill Amount by which a company's (or a segment's) value exceeds the value of its individual assets less its liabilities. (p. 411)

Gross margin (See *gross profit*.)

Gross margin ratio Gross margin (net sales minus cost of goods sold) divided by net sales; also called *gross profit ratio*. (p. 196)

Gross method Method of recording purchases at the full invoice price without deducting any cash discounts. (p. 341)

Gross pay Total compensation earned by an employee. (p. 442)

Gross profit Net sales minus cost of goods sold; also called *gross margin*. (p. 182)

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. 252)

Held-for-trading-securities Securities that are acquired principally for the purpose of selling or repurchasing them in the near term. (p. 571)

Held-to-maturity (HTM) debt Debt securities that a company has the intent and ability to hold until they mature. (p. 573)

Horizontal analysis Comparison of a company's financial condition and performance across time. (p. 656)

Impairment Amount by which the carrying amount of an asset exceeds its recoverable amount. (p. 404)

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. 397)

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. 145)

Indefinite life Asset life that is not limited by legal, regulatory, contractual, competitive, economic, or other factors. (p. 410)

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. 610)

Information processor Component of an accounting system that interprets, transforms, and summarizes information for use in analysis and reporting. (p. 274)

Information storage Component of an accounting system that keeps data in a form accessible to information processors. (p. 274)

Input device Means of capturing information from source documents that enables its transfer to information processors. (p. 274)

Installment note Liability requiring a series of periodic payments to the lender. (p. 546)

Intangible assets Long-term assets (resources) used to produce or sell products or services; usually lack physical form and have uncertain benefits. (pp. 149 & 410)

Interest Charge for using money (or other assets) loaned from one entity to another. (p. 370)

Interim statements Financial statements covering periods of less than one year; usually based on one-, three-, or six-month periods. (pp. 96 & 251)

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. 272 & 316)

Internal transactions Activities within an organization that can affect the accounting equation. (p. 14)

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. 183)

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. 241)

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. 605)

Invoice Itemized record of goods prepared by the vendor that lists the customer's name, items sold, sales prices, and terms of sale. (p. 339)

Invoice approval Document containing a checklist of steps necessary for approving the recording and payment of an invoice; also called *check authorization*. (p. 339)

Journal Record in which transactions are entered before they are posted to ledger accounts; also called *book of original entry*. (p. 58)

Journalizing Process of recording transactions in a journal. (p. 58)

Known liabilities Obligations of a company with little uncertainty; set by agreements, contracts, or laws; also called *definitely determinable liabilities*. (p. 438)

Land improvements Assets that increase the benefits of land, have a limited useful life, and are depreciated. (p. 396)

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. 233)

Ledger Record containing all accounts (with amounts) for a business; also called *general ledger*. (p. 53)

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. 411)

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. 466)

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. 465)

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. 465)

Limited partnership Partnership that has two classes of partners, limited partners and general partners. (p. 465)

Liquid assets Resources such as cash that are easily converted into other assets or used to pay for goods, services, or liabilities. (p. 321)

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. 321 & 655)

List price Catalog (full) price of an item before any trade discount is deducted. (p. 184)

Long-term investments Long-term assets not used in operating activities such as notes receivable and investments in shares and bonds. (p. 570)

Long-term liabilities Obligations not due to be paid within one year or the operating cycle, whichever is longer. (p. 437)

Lower of cost and net realizable value (NRV) Required method to report inventory at market replacement cost when that market cost is lower than recorded cost. (p. 237)

Maker of the note Entity who signs a note and promises to pay it at maturity. (p. 370)

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

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

Market prospects Expectations (both good and bad) about a company's future performance as assessed by users and other interested parties. (p. 655)

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. 539)

Market value per share Price at which stock is bought or sold. (p. 495)

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. 10 & 364)

Materiality constraint Prescribes that accounting for items that significantly impact financial statement and any inferences from them adhere strictly to GAAP. (pp. 12 & 364)

Maturity date of a note Date when a note's principal and interest are due. (p. 370)

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. 182)

Merchandise inventory Goods that a company owns and expects to sell to customers; also called *merchandise* or *inventory*. (p. 183)

Merchandiser Entity that earns net income by buying and selling merchandise. (p. 182)

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. 548)

Multinational Company that operates in several countries. (p. 582)

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. 464)

Natural business year Twelve-month period that ends when a company's sales activities are at their lowest point. (p. 97)

Natural resources Assets physically consumed when used; examples are timber, mineral deposits, and oil and gas fields; also called *wasting assets*. (p. 408)

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. 341)

Net pay Gross pay less all deductions; also called *take-home pay*. (p. 442)

Net realizable value Estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. (p. 228)

Noncumulative preference shares Preference shares on which the right to receive dividends is lost for any period when dividends are not declared. (p. 501)

Noncurrent assets Assets not used up within one year or the operating cycle, whichever is longer. (p. 151)

Noncurrent liabilities Obligations not due within one year or the operating cycle, whichever is longer. (p. 151)

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

Nonparticipating preference shares Preference shares on which dividends are limited to a maximum amount each year. (p. 502)

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

No-par value shares Share class that has not been assigned a par (or stated) value by the corporate charter. (p. 495)

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).

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. 397)

Online processing Approach to inputting data from source documents as soon as the information is available. (p. 286)

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. 605)

Operating cycle Normal time between paying cash for merchandise or employee services and receiving cash from customers. (p. 149)

Operating segment Component of an entity (a) that engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. (p. 288)

Ordinary shares Corporation's basic ownership shares, also generally called *capital stock*. (pp. 12 & 494)

Organization expenses (costs) Costs such as legal fees and promoter fees to bring an entity into existence. (pp. 493 & 497)

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. 577)

Output devices Means by which information is taken out of the accounting system and made available for use. (p. 275)

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. 331)

Outstanding shares Corporation's shares held by its shareholders.

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. 495)

Par value Value assigned to a share by the corporate charter when the shares are authorized. (p. 495)

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. 536)

Par value share Class of share assigned a par value by the corporate charter. (p. 495)

Parent Company that owns a controlling interest in a corporation (requires more than 50% of voting stock). (p. 576)

Participating preference shares Preference shares that share with ordinary shareholders any dividends paid in excess of the percent stated on preference shares. (p. 502)

Partner return on equity Partner net income divided by average partner equity for the period. (p. 476)

Partnership Unincorporated association of two or more persons to pursue a business for profit as co-owners. (pp. 11 & 464)

Partnership contract Agreement among partners that sets terms under which the affairs of the partnership are conducted; also called *articles of partnership*. (p. 464)

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. 473)

Patent Exclusive right granted to its owner to produce and sell an item or to use a process for 20 years. (p. 410)

Payee of the note Entity to whom a note is made payable. (p. 370)

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. 184)

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. 144)

Perpetual inventory system Method that maintains continuous records of the cost of inventory available and the cost of goods sold. (p. 184)

Petty cash Small amount of cash in a fund to pay minor expenses; accounted for using an imprest system. (p. 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. 148)

Posting Process of transferring journal entry information to the ledger; computerized systems automate this process. (p. 58)

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. 60)

Preemptive right Shareholders' right to maintain their proportionate interest in a corporation with any additional shares issued. (p. 494)

Preference shares Shares with a priority status over ordinary shareholders in one or more ways, such as paying dividends or distributing assets. (p. 501)

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. 542)

Premium on shares Difference between the par value of a share and its issue price when issued at a price below par value. (p. 496)

Prepaid expenses Items paid for in advance of receiving their benefits; classified as assets. (p. 99)

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. 509)

Principal of a note Amount that the signer of a note agrees to pay back when it matures, not including interest. (p. 370)

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. 317)

Pro forma financial statements Statements that show the effects of proposed transactions and events as if they had occurred. (p. 144)

Profit (See *net income*.)

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*. (p. 110)

Profitability Company's ability to generate an adequate return on invested capital. (p. 655)

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. 370)

Property, plant and equipment Tangible long-lived assets used to produce or sell products and services; also called *plant assets* or *fixed assets*. (pp. 101 & 394)

Property, plant and equipment age Estimate of the age of a company's property, plant and equipment, computed by dividing accumulated depreciation by depreciation expense. (p. 412)

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

Proxy Legal document giving a stockholder's agent the power to exercise the stockholder's voting rights. (p. 493)

Purchase discount Term used by a purchaser to describe a cash discount granted to the purchaser for paying within the discount period. (p. 185)

Purchase order Document used by the purchasing department to place an order with a seller (vendor). (p. 338)

Purchase requisition Document listing merchandise needed by a department and requesting it be purchased. (p. 338)

Purchases journal Journal normally used to record all purchases on credit. (p. 283)

Ratio analysis Determination of key relations between financial statement items as reflected in numerical measures. (p. 656)

Realizable value Expected proceeds from converting an asset into cash. (p. 365)

Receiving report Form used to report that ordered goods are received and to describe their quantity and condition. (p. 339)

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. 549)

Relevance principle Information system principle prescribing that its reports be useful, understandable, timely, and pertinent for decision making. (p. 272)

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

Reportable segment Operating segment or aggregations of operating segments that meet specified criteria and quantitative thresholds. (p. 288)

Residual value Estimate of amount to be recovered at the end of an asset's useful life; also called *salvage value* or *scrap value*. (p. 397)

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. 251)

Retailer Intermediary that buys products from manufacturers or wholesalers and sells them to consumers. (p. 182)

Retained earnings Cumulative income less cumulative losses and dividends. (p. 495)

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. 577)

Revenue expenditures Expenditures reported on the current income statement as an expense because they do not provide benefits in future periods. (p. 405)

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)

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. 156)

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

S corporation Corporation that meets special tax qualifications so as to be treated like a partnership for income tax purposes. (p. 466)

Sales (See *revenues*.)

Sales discount Term used by a seller to describe a cash discount granted to buyers who pay within the discount period. (p. 185)

Sales journal Journal normally used to record sales of goods on credit. (p. 278)

Schedule of accounts payable List of the balances of all accounts in the accounts payable ledger and their totals. (p. 284)

Schedule of accounts receivable List of the balances of all accounts in the accounts receivable ledger and their totals. (p. 279)

Secured bonds Bonds that have specific assets of the issuer pledged as collateral. (p. 549)

Securities and Exchange Commission (SEC) Federal agency Congress has charged to set reporting rules for organizations that sell ownership shares to the public. (p. 8)

Segment return on assets ratio Segment operating income divided by segment average (identifiable) assets for the period. (p. 288)

Serial bonds Bonds consisting of separate amounts that mature at different dates. (p. 549)

Service company Organization that provides services instead of tangible products.

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

Shareholders' equity A corporation's equity; also called *shareholders' equity* or *corporate capital*. (p. 495)

Share capital General term referring to a corporation's shares used in obtaining capital (owner financing). (p. 494)

Share dividend Corporation's distribution of its own shares to its shareholders without the receipt of any payment. (p. 499)

Share premium Amount received from issuance of shares that is in excess of the share's par value. (p. 496)

Share split Occurs when a corporation calls in its shares 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. 500)

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

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. 570)

Short-term note payable Current obligation in the form of a written promissory note. (p. 439)

Shrinkage Inventory losses that occur as a result of theft or deterioration. (p. 192)

Signature card Includes the signatures of each person authorized to sign checks on the bank account. (p. 328)

Simple capital structure Capital structure that consists of only common stock and nonconvertible preferred stock; consists of no dilutive securities. (p. 509)

Sinking fund bonds Bonds that require the issuer to make deposits to a separate account; bondholders are repaid at maturity from that account. (p. 549)

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. 655)

Source documents Source of information for accounting entries that can be in either paper or electronic form; also called *business papers*. (p. 52)

Special journal Any journal used for recording and posting transactions of a similar type. (p. 276)

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. 231)

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

Stated value share No-par share assigned a stated value per share; this amount is recorded in the share account when the share is issued. (p. 495)

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 & 604)

Statement of changes in 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. 469)

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

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

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. 101 & 398)

Subsidiary Entity controlled by another entity (parent) in which the parent owns more than 50% of the subsidiary's voting shares. (p. 576)

Subsidiary ledger List of individual subaccounts and amounts with a common characteristic; linked to a controlling account in the general ledger. (p. 276)

Supplementary records Information outside the usual accounting records; also called *supplemental records*. (p. 188)

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. 57)

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. 144)

Term bonds Bonds scheduled for payment (maturity) at a single specified date. (p. 549)

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 & 96)

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. 446)

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. 412)

Trade discount Reduction from a list or catalog price that can vary for wholesalers, retailers, and consumers. (p. 184)

Trademark or **trade (brand) name** Symbol, name, phrase, or jingle identified with a company, product, or service. (p. 411)

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

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

Treasury shares Corporation's own shares that it reacquired and still holds. (p. 504)

Trial balance List of accounts and their balances at a point in time; total debit balances equal total credit balances. (p. 67)

Unadjusted trial balance List of accounts and balances prepared before accounting adjustments are recorded and posted. (p. 108)

Unclassified balance sheet Balance sheet that broadly groups assets, liabilities, and equity accounts. (p. 149)

Unearned revenue Liability created when customers pay in advance for products or services; earned when the products or services are later delivered. (pp. 54 & 102)

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

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. 400)

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. 465)

Unsecured bonds Bonds backed only by the issuer's credit standing; almost always riskier than secured bonds; also called *debentures*. (p. 549)

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. 397)

Vendee Buyer of goods or services. (p. 339)

Vendor Seller of goods or services. (p. 338)

Vertical analysis Evaluation of each financial statement item or group of items in terms of a specific base amount. (p. 656)

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. 325)

Voucher register Journal (referred to as *book of original entry*) in which all vouchers are recorded after they have been approved. (p. 340)

Voucher system Procedures and approvals designed to control cash disbursements and acceptance of obligations. (p. 324)

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. 443)

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. (p. 234)

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. 182)

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. 140)

Working capital Current assets minus current liabilities at a point in time. (p. 665)

Working papers Analyses and other informal reports prepared by accountants and managers when organizing information for formal reports and financial statements. (p. 140)