Accounting terms

COMMERCEFACTORYBLOG.WORDPRESS.COM

MAIL.COMMERCEFACTORY@GMAIL.COM

1. Accounts Receivable – **AR**
Definition: The amount of money owed by your customers after goods or services have been delivered and/or used. See how it works here.

2. Accounting – **ACCG**
Definition: A systematic way of recording and reporting financial transactions.

3. Accounts Payable – **AP**
Definition: The amount of money you owe creditors (suppliers, etc.) in return for good and/or services they have delivered. See how it works here.

4. Assets (Fixed and Current) – **FA** and **CA**
Definition: Current assets are those that will be used within one year. Typically this could be cash, inventory or accounts receivable. Fixed assets (non current) are more long-term and will likely provide benefits to a company for more than one year, such as a building, land or machinery.

5. Balance Sheet – **BS**
Definition: A financial report that summarizes a company's assets (what it owns), liabilities (what it owes) and owner's equity at a given time.

6. Capital – **CAP**
Definition: A financial asset and its value, such as cash or goods. Working capital is calculated by taking your current assets subtracted from current liabilities.

7. Cash Flow – **CF**
Definition: The revenue or expense expected to be generated through business activities (sales, manufacturing, etc.) over a period of time. Having a positive cash flow is essential in order for businesses to survive in the long run.

8. Certified Public Accountant – **CPA**
Definition: A designation given to someone who has passed a standardized CPA exam and met government-mandated work experience and educational requirements to become a CPA.

9. Cost of Goods Sold – **COGS**
Definition: The direct expense related to producing the goods sold by a company. This may include the cost of the raw materials (parts) and amount of employee labor used in production.

10. Credit – **CR**
Definition: An accounting entry that may either decrease assets or increase liabilities and equity on the company's balance sheet, depending on the transaction. When using the double-entry accounting methodthere will be two recorded entries for every transaction: a credit and a debit.

11. Debit – **DR**
Definition: An accounting entry where there is either an increase in assets or a decrease in liabilities on a company's balance sheet.

12. Expenses (Fixed, Variable, Accrued, Operation) – **FE**, **VE**, **AE**, **OE**
Definition: The fixed, variable, accrued or day-to-day costs that a business may incur through its operations. Examples of expenses include payments to banks, suppliers, employees or equipment.

13. Generally Accepted Accounting Principles – **GAAP**
Definition: A set of rules and guidelines developed by the accounting industry for companies to follow when reporting financial data. Following these rules is especially critical for all publicly traded companies.

14. General Ledger – **GL**
Definition: A complete record of the financial transactions over the life of a company.

15. Liabilities (Current and Long-Term) – **CL** and **LTL**
Definition: A company's debts or financial obligations it incurred during business operations. Current liabilities are those debts that are payable within a year, such as a debt to suppliers. Long-term liabilities are typically payable over a period of time greater than one year. An example of a long-term liability would be a bank loan.

16. Net Income – **NI**
Definition: A company's total earnings, also called net profit or the "bottom line." Net income is calculated by subtracting totally expenses from total revenues.

17. Owner's Equity – **OE**
Definition: An owner's equity is typically explained in terms of the percentage amount of stock a person has ownership interest in the company. The owners of the stock are commonly referred to as the shareholders.

18. Present Value – **PV**
Definition: The value of how much a future sum of money is worth today. Present value helps us understand how receiving $100 now is worth more than receiving $100 a year from now. See an example of the time value of money here.

19. Profit and Loss Statement – **P&L**
Definition: A financial statement that is used to summarize a company's performance and financial position by reviewing revenues, costs and expenses during a specific period of time; such a quarterly or annually.

20. Return on Investment – **ROI**
Definition: A measure used to evaluate the financial performance relative to the amount of money that was invested. The ROI is calculated by dividing the net profit by the cost of the investment. The result is often expressed as a percentage. See an example here.

Accounting - Accounting keeps track of the financial records of a business. In addition to recording financial transactions, it involves reporting, analyzing and summarizing information.

Accounts Payable - Accounts Payable are liabilities of a business and represent money owed to others.

Accounts Receivable - Assets of a business and represent money owed to a business by others.

Accrual Accounting - Records financial transactions when they occur rather than when cash changes hands. For example, when goods are received without payment, an Accounts Payable is recorded.

Accruals - Accruals acknowledge revenue when it is earned and expenses when they are incurred even though a cash transaction may not be involved.

Amortization - Reduces debts through equal payments that include interest.

Asset - Items of value that are owned.

Audit Trail - Allow financial transactions to be traced to their source.

Auditors - Examine financial accounts and records to evaluate their accuracy and the financial condition of the entity.

Balance Sheet - Provides a snapshot of a business' assets, liabilities, and equity on a given date.

Bookkeeping - Recording of financial transactions in an accounting system.

Budgeting - Budgeting involves maintaining a financial plan to control cash flow.

Capital Stock - Total amount of common and preferred stock issued by a company.

Capital Surplus - The amount in excess of par value for shares of common stock.

Capitalized Expense - Accumulated expenses that are expensed over time.

Cash Flow - The difference in money flowing in and out. A negative flow indicates more money going out than coming in. A positive flow shows more money coming in than going out.

Cash-Basis Accounting - Records when cash is received through revenues and disbursed for expenses.

Chart of Accounts - An organization's list of accounts used to record financial transactions.

Closing the Books/Year End Closing - Closing the Books occurs at the end of the annual period and allows for a start with a clean book at the beginning of the next year.

Cost Accounting - Used internally to determine the cost of operations and to establish a budget to increase profitability.

Credit - Entered in the right column of accounts. Liability, equity and revenue increase on the credit side.

Debit - Entered in the left column of accounts. Assets and expenses increase on the debit side.

Departmental Accounting - Shows individual departments' income, expenses and net profit.

Depreciation - The decrease in an asset's value over time.

Dividends - Profits returned to the shareholders of a corporation.

Double-Entry Bookkeeping - Requires entries of debits and credits for each financial transaction.

Equity - Represents the value of company ownership.

Financial Accounting - The accounting branch that prepares financial reporting primarily for external users.

Financial Statement - Financial Statements detail the financial activities of a business.

Fixed Asset - Used for a long period of time, e.g. - equipment or buildings.

General Ledger - Where debit and credit transactions are recorded.

Goodwill - Intangible asset a business enjoys like its reputation or brand popularity.

Income Statement - A Financial Statement documents the difference in revenue and expenses resulting in income.

Inventory Valuation - A valuation method modified for use in real estate and business appraisals.

Inventory - Inventory consists of raw materials, work in progress, and finished goods.

Invoice - An Invoice shows the amount of money owed for goods or services received.

In The Black - Makes reference to a profit on the books; opposite of “in the red.” Black Friday sales are known for the profit retailers are adding to their books.

In The Red - Makes reference to a loss on the books; opposite of “in the black.” In the days of handwritten accounting, ledger entries written in black meant there was a profit, but those in red meant there was a loss.

Job Costing - Job Costing tracks costs of a particular job against its revenues.

Journal - The first place financial transactions are entered. They are entered chronologically.

Liability - Liabilities are the obligations of an entity, usually financial in nature.

Liquid Asset - Consist of cash and other assets that can be easily converted to cash.

Loan - A monetary advance from a lender to a borrower.

Master Account - A Master Account has subsidiary accounts. Accounts Receivable could be a master account for various individual receivable accounts.

Net Income - Net Income equals revenue minus expenses, taxes, depreciation and interest.

Non-Cash Expense - Does not require cash outlay, e.g. - depreciation.

Non-operating Income - Income not generated from the business. An example might be the sale of unused equipment.

Note - A Note is a document promising to repay a debt.

Operating Income - Determined by subtracting operating expenses from operating revenue. Interest and income tax expenses are not included.

Other Income - Non-recurring income, e.g. - interest.

Payroll - An account listing employees and any wages and salaries due them.

Posting - Refers to the recording of ledger entries.

Profit - Profit is revenue minus expenses. Reductions for taxes, interest, and depreciation are included.

Profit/Loss Statement - A financial report issued by a company on a regular basis that discloses earnings, expenses and net profit for a given time period.

Reconciliation - The act of proving an account balances; debits and credits equal. An example of reconciling an account is to verify that the bank statement matches the checkbook balance, making allowances for outstanding checks and deposits.

Retained Earnings - Money left after all the bills have been paid and all the shareholder dividends have been distributed; often reinvested in the business.

Revenue - The actual amount of money a company brings in during a particular time period; gross income.

Shareholder Equity - A company's total assets less its total liabilities; owner's equity; net worth. Shareholder equity comes from the start-up capital of the business plus retained earnings amassed over time.

Single-Entry Bookkeeping - An accounting process that uses on one entry, instead of debit and credit entries. Small businesses using cash accounting system benefit from the ease of this system, which is much like keeping a checkbook.

Statement of Account - A written document that shows all charges and payments; accounts receivable statement; accounts payable statement. Generally, a monthly accounts receivable statement is sent to a charge customer; and reconciled by an accounts payable clerk for payment.

Subsidiary Accounts - Accounts that are under a control account; they must equal the main account balance. Examples of subsidiary accounts may be "Office Supplies," or "Cleaning Supplies," under the control account called "Supplies."

Supplies - Consumable materials used in business and replenished as needed. Supplies are not inventory for sale; rather they are used to carry out business activities.

Treasury Stock - Shares a company retains or buys back once offered to the public for purchase.

Write-down/Write-off - An accounting transaction that reduces the value of an asset.

Assets

Assets are the wealth that has been accumulated by the business and is owned outright without lien or loan. It may be items that depreciate over time, or goods that are sold to customers. This may include cash and investments, buildings and property, accounts receivable, warehouse inventory, equipment and supplies.

Balance sheet

The balance sheet is an important aspect of business. It records the basic accounting formula of assets = liabilities + stockholder equity / capital at a certain point in time, either monthly, quarterly or yearly. From the balance sheet the financial health of the business can be ascertained.

General ledger

The general ledger is the side of the bookkeeping ledger that contains the balance sheet and the income statement accounts. Here all business transactions are recorded, including sales, credit purchases, office expenses and income losses.

Gross margin

Gross margin or profit is the total number of sales that have been made, subtracted by the associated costs, such as manufacturing costs, wholesales costs, material, and supplies.

Loss

When a service or product sells for less than what it cost to supply or manufacture it, or when expenses have exceeded revenues of a particular asset, it's called a loss.

On credit/On account

On credit or on account means that products or services have been sold with the use of credit. Payment has not immediately been provided for these items, and there may be terms on account that may result in interest charges.

Receipts

Receipts is the total amount of cash collected in business transactions over the course of one day. It does not include other revenue collected.

Revenue

Income and revenue are interchangeable, compromising the total amount of all income collected at one point in time. It may include cash sales, credit purchases, subscription fees and interest income. It differs from receipts, as it can include monies that are not collected at the delivery time.

Trade discount

A trade discount is a percentage discounted from the purchase price, and is based on the volume of goods ordered at one point in time. Higher discounts may be applicable to larger orders, with smaller discounts for lesser orders.

Trial balance

The trial balance is recorded in the general ledger, and includes both debits and credits for one particular account. The sheet must balance, with debits equaling credits.

Accounting - The systematic recording, reporting, and analysis of financial transactions of a business. Accounting allows a company to analyze the financial performance of the business, and look at statistics such as net profit.

Balance Sheet

Balance Sheet - A quantitative summary of a company's financial condition at a specific point in time, including assets, liabilities and net worth.

The first part of a balance sheet shows all the productive assets a company owns, and the second part shows all the financing methods (such as liabilities and shareholders' equity).

Asset - Any item of economic value owned by an individual or corporation, especially that which could be converted to cash. Examples are cash, securities, accounts receivable, inventory, office equipment, real estate, a car, and other property.

On a balance sheet, assets are equal to the sum of liabilities, common stock, preferred stock, and retained earnings.

From an accounting perspective, assets are divided into the following categories:
current assets (cash and other liquid items),
long-term assets (real estate, plant, equipment),
prepaid and deferred assets (expenditures for future costs such as insurance, rent, interest), and
intangible assets (trademarks, patents, copyrights, goodwill).

Liability - An obligation that legally binds a company to settle a debt. When one is liable for a debt, they are responsible for paying the debt. A liability is recorded on the balance sheet and can include accounts payable, taxes, wages, accrued expenses, and deferred revenues. Current liabilities are debts payable within one year, while long-term liabilities are debts payable over a longer period.

Shareholders' Equity - An ownership interest in a corporation in the form of common stock or preferred stock. It is calculated by taking the total assets minus total liabilities; here also called shareholder's equity or net worth or book value.

Income Statement

Income Statement - An accounting of sales, expenses, and net profit for a given period. an income statement

depicts what happened over a month, quarter, or year. It is based on a fundamental accounting equation (Income = Revenue - Expenses) and shows the rate at which the owners equity is changing for better or worse.

Revenue - The total amount of money received by the company for goods sold or services provided during a certain time period. It also includes all net sales, exchange of assets; interest and any other increase in owner's equity and is calculated before any expenses are subtracted.

Expense - Any cost of doing business resulting from revenue-generating activities.

Cash Flow Statement

Cash Flow Statement - A summary of the actual or anticipated incomings and outgoings of cash in a firm over an accounting period (month, quarter, year).

It answers the questions:
Where the money came (will come) from?
Where it went (will go)?
Cash flow statements assess the amount, timing, and predictability of cash-inflows and cash-outflows, and are used as the basis for budgeting and business-planning.

The accounting data is presented usually in three main sections:
Operating-activities
(sales of goods or services),
Investing-activities (sale or purchase of an asset, for example), and
Financing-activities (borrowings, or sale of common stock, for example).

Together, these sections show the overall (net) change in the firm's cash-flow for the period the statement is prepared.

Accounting Methods

Accounting Method - A process used by a business to report income and expenses. Companies must choose between two methods acceptable to the IRS, cash accounting or accrual accounting.

Cash Basis Accounting - An accepted form of accounting that records all revenues and expenditures at the time when payments are actually received or sent. This straightforward method of accounting is appropriate for small or newer businesses that conduct business on a cash basis or that don't carry inventories.

Accrual Basis Accounting - An accepted form of accounting that reports income when earned and expenses when incurred. Under the accrual method, companies do have some discretion as to when income and expenses are recognized, but there are rules governing the recognition. In addition, companies are required to make prudent estimates against revenues that are recorded but may not be received, called a bad debt expense.

Other Accounting Concepts

Accounts Payable - Money which a company owes to vendors for products and services purchased on credit. This item appears on the company's balance sheet as a current liability, since the expectation is that the liability will be fulfilled in less than a year. When accounts payable are paid off, it represents a negative cash flow for the company.

Accounts Receivable - Money which is owed to a company by a customer for products and services provided on credit. This is often treated as a current asset on a balance sheet. A specific sale

is generally only treated as an account receivable after the customer is sent an invoice.

Account

A written or electronic record maintained for each of a company's assets, liabilities and categories of owner's equity, including revenues,expenses and dividends. Accounts are used to summarize the affects of a company's transactions on each of its assets, liabilities and categories of owners' equity. A company's transactions are originally recorded through journal entries and then posted to the specific accounts affected. For example, a transaction affecting a company's cash will be recorded and then posted to the cash account to reflect the increase or decrease in cash and update its running balance. All of a company's accounts taken as a whole constitute a file referred to as the company's general ledger.

See also Nominal accounts and Real accounts

Prior to introduction of computerized accounting systems, manually-maintained accounts appeared in a "T" format with increasing or decreasing entries recorded on the left-hand side (always referred to as "debit entries") or right-hand side (always referred to as "credit entries") of the T-account. Under the rules of double-entry accounting, debit entries always record increases in asset, expense and dividend accounts while credit entries always record increases in liability, owners' equity and revenue accounts. Double-entry accounting also requires that equal debit and credit totals be recorded with each and every company transaction.

Accounting

The means whereby a company's financial transactions are identified, recorded, summarized and reported for the benefit of those who have an interest in the business. Users of business financial information might include owners, managers, creditors, government regulatory bodies and others. Accounting is sometimes referred to as the language of business because its ultimate purpose is to communicate business information.

Accounting cycle

The periodic process of identifying, recording and summarizing a company's transactions for the purpose of producing financial statementsin accordance with GAAP. The traditional accounting cycle typically requires a company to (1) identify its transactions, (2) record transactions in a journal, (3) post journal entries to accounts in the general ledger, (4) prepare a trial balance, (5) make and post adjusting entries, (6) prepare financial statements, and (7) make and post closing entries before the start of the next accounting period. Today, most accounting systems are computerized, and the steps of the accounting cycle are handled electronically. Manual accounting systems, which rely on paper and pencil, are pretty much relics of the past.

Accounting period

A period of time, usually a month, quarter or year, in which financial statements are prepared to reflect a company's cash flows and results of operations for the period as well as its financial position at the end of that period.

Accounting system

The manual or computerized process whereby a company's financial transactions are identified, recorded, summarized and reported to provide information useful to those who have an interest in the business. The accounting systems used by most companies today follow the steps in the traditional accounting cycle through computer systems which automate the process.

Accounts Payable

Obligations resulting from the purchase of inventory or supplies in which the cost is not paid at the time of purchase but is expected to be paid in the near future, usually within 30 days. In some cases, the term accounts payable is used to describe almost any obligation arising from a company's operating costs that are payable in the short-term.

Accounts Payable Turnover

A ratio used in financial statement analysis that measures management's short-term liquidity in paying their suppliers for inventory. It is calculated by inventory purchases divided by the average accounts payable balance for the year. Remember the amount for inventory purchases cannot be found on the financial statements but rather must be solved for through a T-account analysis of the inventory account. Ending inventory balance – beginning inventory balance + Cost of Goods Sold Balance = Inventory Purchases for the period.

Also review Days Purchases in Accounts Payable

Accounts receivable

Amounts due from customers as a result of credit sales where the payment for goods or services sold is not received at the time of sale, but is to be collected in the near future, usually within 30 days.

Accounts receivable turnover

A ratio often used in financial statement analysis to measure a company's performance in the management of its customer credit

policies and collections of accounts receivable. Accounts receivable turnover refers specifically to the average number of times during the year that the average balance of accounts receivable is created through credit sales and then collected. The ratio is determined by dividing net credit sales revenues for the year by the average outstanding balance of accounts receivable during the year. The average balance of accounts receivable is typically calculated by adding the beginning and ending balances and dividing the sum by two. The management of acompany's credit policies and collections of accounts receivable can have a significant impact on a company's profits. Lax credit policies can improve sales volume, but may cause an increase in the costs associated with collecting accounts receivable and the ultimate cost ofuncollectible accounts. Tight credit policies, on the other hand, may negatively affect the volume of a company's sales and resulting profits. The calculation and comparison of a company's accounts receivable turnover with that of other comparable companies in the same industry can be helpful in evaluating a company's quality of management.

Accrual basis accounting

The method of accounting that must be used to account for the timing of revenues and expenses under GAAP.

Accrual basis accounting is comprised of the revenue recognition principle and the matching principle. The revenue recognition principle governs the timing of revenues and provides for revenues to be recorded in the period in which those revenues are earned, not necessarily when cash is collected from customers. The earning of revenues takes place when goods have been delivered or services have been substantially completed. Thematching principle governs the timing of expenses and provides for the costs of operating a business to be recorded as expenses in the period in which those costs provide benefits to the company, not necessarily when those costs are actually paid in cash. Cash basis accounting, as opposed to accrual basis accounting, calls for the recording of revenues and expenses only at the time of receipt or payment of cash and is not allowed under GAAP. However, cash basis accounting may be used in certain limited circumstances for federal and state income tax purposes in the United States.

Accrued expenses

Costs that benefit a company's current operations and are recorded as expenses of the period even though no actual expenditure has yet been made. Accrued expenses are payable in the future and are recorded through adjusting entries, with a debit to an expense account and a credit to a liability (payable) account. The recording of employee salaries for the month of December as a December expense, even though the salaries will not be paid until January, is an example of an accrued expense.

Accrued liabilities

A term used to describe payables recorded in conjunction with the recording of accrued expenses.

Accrued revenues

Revenues earned and recorded in the current period even though no cash or other proceeds have been received from customers for the goods or services provided. Accrued revenues are recorded through adjusting entries with a debit to an asset (receivable) account and acredit to a revenue account. The recording of sales made in December as December revenues, even though the sales price will not be collected from the customer until January, is an example of an accrued revenue.

Accumulated amortization

A contra-asset account used to accumulate the total amount of amortized costs of a company's intangible asset (s) recorded over its useful life. This account is reflected on a company's balance sheet as an offset against the associated capitalized cost of the intangible asset to report its book value.

Accumulated depletion

A contra-asset account used to accumulate the total amount of depleted costs of a company's natural resource (s) recorded over its useful life. This account is reflected on a company's balance sheet as an offset against the associated capitalized cost of the natural resource to report its book value.

Accumulated depreciation

A contra-asset account used to accumulate the total amount of depreciated costs of a company's property, plant and/or equipment recorded over its useful life. This account is reflected on a company's balance sheet as an offset against the associated capitalized cost of the property, plant and/or equipment to report the book value of the asset.

Acid-test ratio

Sometimes referred to as the "quick ratio." The acid-test ratio is used in financial statement analysis as a more stringent measure of acompany's liquidity than the current ratio. The ratio is calculated by adding amounts of

selected current assets which are most liquid, and dividing that total by the amount of total current liabilities. There is no standardization in the assets to be used in the numerator for this ratio. Financial analysts may select the assets they wish based on how stringent they wish this liquidity measure to be. In most cases, cash and investments in marketable securities (stocks or bonds of other companies) and accounts receivable are included in the selected current assets.

Activity-based costing

A method of allocating costs to products and services. The costs are separated into different overhead cost activities (unit level, batch level, product line and facility support) and then allocated to the products and services by the corresponding overhead cost driver. Multiple cost drivers are used. This method provides additional more accurate data to help management make decisions; however, this system is typically much more expensive than a traditional product costing system.

Adjusting entries

Journal entries typically made at the end of an accounting period in order to comply with the requirements of accrual basis accounting in the proper timing of revenues and expenses. Adjusting entries might also refer to any journal entries made to modify or correct an accountbalance. Most adjusting entries involve accrued expenses, accrued revenues, prepaid expenses and unearned revenues.

See also Accounting cycle

Administrative costs

Any cost incurred in managing the overall operations of a business. These costs exclude a company's product and selling costs. For example, the salary of a company's CEO is an administrative cost while the salaries of the V.P. of Manufacturing and the V.P. of Sales and Marketing would be classified as product and selling costs, respectively. Administrative costs typically include the costs of a company's accounting, information systems and personnel departments including any costs of salaries, wages, supplies, depreciation of equipment, allocations of utilities, rent and other costs of operating those departments.

See also Period costs, Selling and administrative costs and Administrative expenses

Administrative expenses

Administrative costs that benefit current period operations are accounted for as expenses of the period. Administrative expenses are included as part of "operating expenses" in a multi-step formatted income statement.

See also Matching principle and Selling and administrative expenses

After-tax Cash Flow

The net cash flow resulting from a transaction after all tax liabilities have been paid. It is calculated by multiplying the before-tax cash flow by 1 minus the tax rate.

Aging of accounts receivable

A listing of accounts receivable based on how long the receivables have been outstanding, or, in other words, the length of time since the date of the sale giving rise to the receivable. An aging of accounts receivable is usually performed by management at the end of anaccounting period to assist in estimating uncollectible accounts receivable under the allowance method of accounting for uncollectibles.

AICPA

American Institute of Certified Public Accountants. The AICPA is a private professional organization for CPAs (Certified Public Accountants). The organization establishes standards of conduct for its members including GAAS (generally accepted auditing standards). In addition, the AICPA lobbies on behalf of the profession, provides continuing professional education and performs a variety of other services for its members.

Allowance for uncollectible accounts receivable

Sometimes referred to as the "allowance for bad debts," "allowance for doubtful accounts" or "reserve for uncollectible accounts receivable." The allowance for uncollectible accounts receivable is a contra-asset account used in the allowance method of accounting for uncollectible accounts receivable. It is used to reflect management's estimate of the balance of accounts receivable that will prove to be uncollectible. The allowance for uncollectible accounts receivable appears on the balance sheet as an offset against the total of accounts receivable and the resulting net amount is referred to as the net realizable value of accounts receivable.

Allowance method of accounting for uncollectible accounts receivable

The method required under GAAP to account for uncollectible accounts receivable. This approach relies on an estimation of a company'suncollectible accounts receivable at the end of an accounting period to record bad debt expense. Under the allowance method, a contra-asset account referred to as the "allowance for uncollectible accounts receivable" is maintained and adjusted at the

end of each period to produce a balance equal to the total amount of estimated uncollectible accounts. As a result, accounts receivable is reported on a company'sbalance sheet at its net realizable or book value in an amount equal to the amount of accounts receivable for which future collection is anticipated.

See also Direct write-off method of accounting for uncollectible accounts receivable

Amortization

In the case of intangible assets, amortization refers to the allocation of an intangible asset's capitalized cost to expense over its estimateduseful life using the straight-line method. In the case of a mortgage note, amortization refers to any periodic partial payment of principalduring the term of the note.

See also Accumulated amortization, Matching principle and Fully amortizing mortgage

Analyst

Individuals who are independent of the Company who follow, analyze and report on companies' performance results and provide investors with investment advice

Annual report

A public report prepared by a company's management at the end of each year describing the company's results of operations and financial position through audited general purpose financial statements. In addition, the report usually includes a section where management gives their take on the company's current operations and prospects for the future.

See also Auditor's report and Management's report on financial information

Annuity

A continuing payment that has a fixed annual amount. Annuity payments are used in Time Value of Money calculations when the cash flow remains the same amount each ear.

Appreciation

The amount of any asset's increased fair market value over time. Asset appreciation is not recorded under GAAP until an actual sale of the asset takes place, at which time a gain on sale of the asset would be recorded. In many cases, assets actually decrease in value subsequent to their acquisition. The amount of any such decrease is referred to as "depreciation," and is usually calculated on a systematic basis and recorded as an expense over the asset's useful life. The fact that gains due to appreciation are not recorded and costs due to depreciation are recorded under GAAP is an example of conservatism in accounting.

Arms-length transaction

A transaction between two unrelated entities, both negotiating and acting to make the best deal they can for themselves. Unless there is evidence to the contrary, GAAP assumes all of a company's transactions are made on an arm's-length basis. As a result, the price paid for anasset, or its historical cost, is also the asset's fair market value at the time of acquisition. If an asset is not purchased in an arm's-length transaction, GAAP may require an exception to the asset's valuation at historical cost.

Assets

Resources (property or rights) that are owned or controlled by an entity and provide probable future economic benefit to the entity. The assets of a company might also be referred to as the company's capital.

See also Financing, Debt financing, Equity financing, Owners' equity, Capital contributions, Retained earnings/deficits, Balance sheet, Basic accounting equation, Accounts receivable, Inventory, Prepaid expenses, Supplies, Property, plant and equipment, Intangible assets, Natural resources, Current assets, Working capital, Long-term assets, Capital assets, Book value of an asset, Book value of a company, Capitalized cost, Cost, Expenditure, Revenue, Dividend, Real account, Debit entry, Credit entry, Contra-asset account, Fair market value of an asset, Fair market value of a company, Leverage, Liquidity, Equity in an asset, Equity in a company, Collateral, Foreclosure, Goodwill, I nsolvent, Historical cost, Arm's-length transaction and Monetary measurement principle

Audit

A certified financial statement audit refers to a CPA's examination of a company's financial statements for the purpose of expressing an opinion as to the fairness of the financial statements prepared in accordance with GAAP. An IRS audit refers to an examination conducted by IRS agents of a taxpayer's tax return to determine compliance with the law. An internal audit refers to an audit conducted by a company's own personnel which might be undertaken to improve operations, evaluate internal controls or investigate alleged fraud, among other things.

See also GAAS

Auditor's report

A letter issued by a CPA firm subsequent to their audit of a company's financial statements.

The letter is included in the company's annual report and declares the auditor's opinion as to the fairness of the company's financial statements in properly disclosing the company'sfinancial position, results of operations and cash flows for the periods reflected in accordance with GAAP.
See also GAAS

Available-for-Sale Securities

Includes all shares of stocks and bonds held with the intent to sell if future cash needs arise. NO effort is made to take advantage of temporary price fluctuations. The strategy here is to buy and hold for a more extended period of time. (This classification specifically excludes any shares that may provide a company with significant influence or control over another company).
See also Trading Securities, Held-to-Maturity Securities.

Bad debt expense

Also referred to as "uncollectible accounts expense." Bad debt expense refers to the amount of uncollectible accounts receivable recorded during an accounting period. Under the allowance method of accounting for uncollectible accounts receivable, the amount of bad debt expense recorded in any period is equal to the amount of estimated uncollectible accounts receivable at the end of the period, plus or minus any under- or over-estimations made in the previous period's recorded expense.
See also Selling expense

Balance sheet

Also referred to as a "statement of financial position." The balance sheet is a general purpose financial statement which lists, as of the end of an accounting period, all of an entity's assets, liabilities and owners' equity. Simply stated, the balance sheet reports a company's assets and the amount of those assets financed by creditors (debt financing) and the amount financed by owners (equity financing) through capital contributions and retained earnings/deficits. The balance sheet mirrors the basic accounting equation which
is: Assets = Liabilities + Owners' equity.
See also Real accounts, Financial statement analysis and Pro-forma financial statements

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is: Assets = Liabilities + Owners' equity. *See also Real accounts, Financial statement analysis and Pro-forma financial statements*

Bank Reconciliation

The process of reconciling what the company reports as cash on their general ledger and what is reported in the bank's records—a bank statement.

Bank Statement

Prepared by the bank from the bank's perspective and is a reflection of the amount the bank owes the depositor if the account is closed.

Bankruptcy

A legal status resulting from a company's inability to pay its debts. Bankruptcy may be voluntarily declared by an insolvent company or it may be imposed by creditors due to defaults on loans or other debts. The resolution of bankruptcy may require liquidation of
certain assets,dissolution of the company or the restructuring of debt and/or equity interests in the company.
See also Liquidity

Basic accounting equation

The amount of a company's total assets is always equal to the amount of its total liabilities plus the amount of its total owners' equity. This is always true because companies have only two possible sources for the financing of assets: debt and equity financing. The basic accounting equation remains in balance with each and every transaction of a business. A company's balance sheet mirrors its basic accounting equation at the end of any accounting period.
See also Double-entry accounting

Basket Purchase of Assets

It is not uncommon for companies to acquire more than one asset in a single purchase. The purchase price must then be allocated among the various assets. This is typically done based on the relative current values of the assets involved based on recent appraisals.

Batch level

Overhead Cost Activities that are incurred for each batch that company is going to produce (ie set-up costs)
See also Activity Based Costing, Unit Level, Product Line, Facility Support, Overhead Cost Activity

Before-tax Cash Flow

The cash flow resulting from a transaction prior to any taxes being paid.

See After-tax Cash Flow.

Board of directors

A group of individuals elected by the stockholders of a corporation to represent their best interests in providing overall direction to the company and in the making of major strategic decisions. The board is also responsible for the hiring and overseeing of senior managementpersonnel and the declaration of dividends to stockholders in the event the company has available retained earnings. Board members need not be stockholders in the corporation and usually receive fees from the company for their efforts. The company may also employ board members such that it is possible for a person to serve on the board of directors and be hired as the company's CEO.

Bond Discount

When a bond is trading below its par or stated value. This occurs when the stated bond rate is lower than the current market rate. To make the effective rate of the bond the same as the current market rate, it must be issued at a discount.

See also Bond Premium.

Bond exchange

A secondary market like the NYSE where lender / investors in previously issued bonds may sell their bonds to other investors. The buying and selling of bonds in a bond exchange has no direct financial effect on the company that issued the bonds. The issuing company continues to have an obligation under the bond and the only difference is the identity of the bondholder. No journal entry is required on the books of the company in such an exchange. Bonds sold between investors in a secondary market may be sold at a higher or lower price than was originally invested as a result of changing market interest rates and other factors. Any such gain or loss accrues to the sole benefit of the selling bondholder.

Bond indenture

A written contract that spells out the legal terms and conditions of a bond, including the specific obligations of the company issuing the bonds and the rights of the bondholders.

Bond Premium

When a bond is trading above its par or stated value. This occurs when the stated bond rate is higher than the current market rate. To make the effective rate of the bond the same as the current market rate, it must be issued at a premium.

See also Bond Discount.

Bonds

Notes payable or obligations arising from the borrowing of cash from the public or other creditors. If Coca-Cola, Inc. borrows $100 million from the public through the issuance of $100 million of bonds, the company incurs an obligation to repay that $100 million plus interest at a specified future date(s) according to the terms of a bond indenture.

See also Secured bonds, Debentures, Senior bonds, Subordinated bonds, Callable bonds, Convertible bonds, Serial bonds, Term bonds, Bonds issued at a premium or discount, Securities, Secondary market and Bond exchange

Bonds issued at a premium or discount

Bonds for which the actual amount of dollars received at the time of issuance is more than (premium) or less than (discount) the principalamount of the bonds. Bonds are typically issued at a premium or discount when actual market interest rates have decreased or increased, respectively, since the establishment of the stated interest rate in the bond indenture.

See also Bonds issued at face value

Bonds issued at face value

Bonds for which the amount of dollars received at the time of issuance is equal to the principal amount of the bonds stated in the bond indenture. The face value of a bond, sometimes referred to as the "par value," is the principal amount of the bond.

See also Bonds issued at a premium or discount

Book value of a company

Sometimes referred to as the "net book value of a company." A company's book value is equal to the difference in the company's balance sheet amount for total assets less the amount of its total liabilities. This amount is also equal to the balance sheet amount of total owners' equity. In most cases, the fair market value of a company exceeds its book value. This is due to the fact that book values are generally based on historical costs, and in many cases, assets actually increase in value over time. In addition, assets are worth more when they are organized and managed in a way that generates a profit. It is rare to find a profitable company for sale at a price less than its book value.

See also Book value per share and Price/earnings ratio

Book value of an asset

Sometimes referred to as "net book value of an asset. " An asset's book value is the amount

that appears in the balance sheet of thecompany that owns it. For assets which have an accompanying contra-asset account, the book value is the amount recorded for the asset less the amount of its related contra-asset account. In the case of accounts receivable, the book value is the amount of total accounts receivable less any allowance for uncollectible accounts receivable and is often referred to as the net realizable value of accounts receivable. For property, plant and equipment, the book value is equal to the capitalized cost of the asset less any accumulated depreciation. Forintangible assets, the book value is the amount of any capitalized cost of the intangibles less any accumulated amortization. An asset's fair market value often exceeds its book value because book values are based on historical costs and some assets actually increase in value over time. Under GAAP, the recording of any appreciation in the value of an asset is disallowed due to conservatism.

See also Natural resources

Book value per share

An amount determined by dividing the book value of a company by the number of outstanding shares of the company's stock. (This calculation is complicated if preferred stock has been issued in addition to common stock.) Sometimes a company's book value per share is assumed to reflect the value of a share of stock in the event of a company's liquidation. That is true if the assets could be sold in liquidation at a price equal to their book value. The current fair market value of a share of stock is usually much higher than the stock's book value per share. This is due to company assets which may actually be worth more than their book value and the fact that investors are usually willing to pay more than book value for the stock of a company that is operating and has profitable prospects for the future.

See also Fair market value of a company and Price/earnings ratio (P/E ratio)

Books

The accounting records used to record, summarize and report a company's financial transactions through fin ancial statements. A company's books generally refer to its journals, ledgers and financial statements.

See also Accounting cycle

Borrower

The recipient of a loan, meaning the recipient of cash or other assets from a lender which must be repaid in the future, usually with interest. A borrower might also be referred to as a "debtor."

See also Debt financing

Break-even point

A company's volume, measured in either unit sales or the dollar amount of sales revenues, which must be achieved in order to generate noprofit and suffer no loss from operations. The break-even point is simply the volume of sales at which the amount of sales revenues equals the amount of total expenses for a period of time.

See also CVP analysis

Budgets

Financial projections that help a person, family, business or other organization plan for the future. A personal or family budget is usually a simple projection of anticipated future inflows and outflows of cash. Businesses may have a variety of budgets. Capital budgets plan for the acquisition and financing of long-term assets such as property, plant and equipment. Operational budgets plan for prospective sales,production, expenses, cash flows and financial statement results. Budgets benefit families and companies by encouraging communication and the setting of goals. They also help in the early identification and resolution of problems and the coordination of work. Budgets are a crucial tool in the effective operation of any organization.

See also Sales budget, Purchases budget, Production budget, Direct materials budget, Direct labor budget, Manufacturing overhead budget, Selling and administrative expense budget, Cash flow budget and Pro-forma financial statements

Business

An organization created for the purpose of providing goods or services to customers. The three basic business functions are: (1)manufacturing, (2) merchandising, and (3) service. All businesses perform at least one of these functions and many do two or all three. Most businesses are operated to produce a profit for their owners. Some businesses may be operated on a non-profit basis but they still provide some kind(s) of goods or services to customers. A business is often referred to as a company.

See also Proprietorship, Partnership, Corporation, S corporation, LLC and LLP

Calendar year

A company operates on a calendar year when the accounting period for the preparation of their annual financial statements is the 12-month period beginning on January 1st and ending on December 31st of each year.

See also Fiscal year

Callable bonds

Bonds which can be paid off prior to maturity at the option of the company issuing the bonds.

The right to pay off an obligation prior to maturity can be advantageous to an issuer of bonds and disadvantageous to bondholders if market interest rates have fallen below the stated interest rate of the bonds. In this case, the issuer could pay off the bonds by issuing new bonds at a lower interest rate, and the old bondholders would suddenly have cash in a lower interest rate market. As a result of this disadvantage to bondholders, companies issuing callable bonds will typically be forced to pay higher rates of interest than would otherwise be required without such a provision.

Capital

Money or other assets owned by a company. Most businesses require capital to operate. In other words, it usually takes money to make money. Companies access capital from creditors through the borrowing of assets (debt financing) or from owners' through capital contributions and/or retained earnings (equity financing). The cost of capital to a company and its owners are the interest costs on debt and the value of ownership rights given to those providing equity. The true cost of equity financing is difficult to determine because the valuation of ownership rights can be very subjective.

See also Capitalize

Capital assets

A term that typically refers to long-term assets such as property, plant and equipment.

See also Assets

Capital budgeting

The establishment of plans for the acquisition and financing of long-term assets such as property, plant, and equipment.

See also Budgets

Capital contributions

Also referred to as "contributed capital" or "capital stock." Capital contributions are the amount of a company's assets provided by ownersin exchange for their ownership rights in the company. Ownership rights include the right to vote or have a say in certain business decisions and the right to share in any company profits or proceeds distributed to owners in the event of company dissolution. In the case of a corporation, capital contributions include all of the proceeds received by the company from the issuance of common stock and preferred stock, if any. This includes amounts contributed at par values and any paid in capital in excess of par.

See also Owners' equity and Equity financing

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See also Owners' equity and Equity financing

Capital Lease

Current accounting standards provide that if a lease is non-cancelable and meets any one of four criteria that are indicators of an effective purchase, then the leased property must be capitalized and accounted for as if it had actually been purchased with long-term debt. Otherwise it is accounted for as an operating lease. The four criteria are

1. The lease provides the lessee with full ownership of the property at the end of the lease.
2. The lease provides the lessee with an option to buy the property at a bargain price at the end of the lease such that a transfer of ownership is virtually assured.
3. The lease term is equal to or greater than 75% of the estimated economic useful life of the property.
4. The present value of all amounts due under the lease is equal to or greater than 90% of the current fair market value of the property.

When a lease is accounted for as a capital lease, the lessee must record an asset and a corresponding liability on their books equal to the present value of the lease payments

Capital Rationing

The process of selecting acceptable capital budgeting projects when restrictions have been placed on the amount of funding available for new investments or projects.

Capital stock

Capital contributions made by owners of a corporation in exchange for shares of common stock and preferred stock, including amounts contributed at par value and any paid in capital in excess of par.

See also Securities, Outstanding stock, Treasury stock, Convertible bonds, Stock split and Stock options

Capitalize

To capitalize a business means to acquire capital (assets) for the business through either debt or equity financing. The

term capitalize is also used in the context of a "capitalized cost."

Capitalized cost

The amount reflected on a company's balance sheet for any purchased assets. Under GAAP, this amount typically reflects the historical costincurred in the asset's acquisition, plus any costs incurred to get the asset ready for its original intended use and any subsequent costs of asset improvements. Costs of asset improvements include any costs that substantially extend the asset's original expected useful life or substantially improve the asset's productivity or performance. Any costs incurred in normal repairs and maintenance of an asset are not included as part of the asset's capitalized cost but are accounted for as an operating expense of the business in the period incurred.

See also Capitalized expenditure, Property, plant and equipment, Intangible assets, Natural resources, Patent, Copyrights, Trademarks, F ranchise rights, Goodwill and Research and development costs

Capitalized expenditure

A payment or expenditure that is accounted for as part of the capitalized cost of an asset. Capitalized expenditures include expenditures made in the acquisition of an asset, plus any costs incurred to get the asset ready for its original intended use and any costs ofimprovements. Expenditures made in the purchase of inventory, supplies, property, plant and equipment and the prepayment of expensesare all examples of capitalized expenditures because they are payments made in the acquisistion of assets.

Capitalized Interest

Interest on construction loans or interest that could have been saved if the company's own money used on construction had been applied to the payoff of other outstanding debts.

See also Self-constructed Assets.

Carrying Value of a Bond

The face value of the bond less the balance of any bond discount or the addition of any balance of any bond premium. The carrying value can also be determined by adding the amount of any unpaid interest expense to the amount originally borrowed under the bonds. In other words, the carrying value is also equal to the amount of discount or premium amortization to date plus the amount of cash received upon original issuance.

Cash

Coins, paper currency, immediately depositable instruments such as checks, money orders, cashiers checks and traveler's checks on-hand, plus the balances of any demand deposits, which include checking, savings and money market accounts.

Cash basis accounting

A method of accounting for the timing of revenues and expenses. This method generally accounts for revenues when cash is received fromsales to customers and not necessarily when goods or services are actually provided. Likewise, expenses are generally recorded when paid in cash without regard to when the costs actually benefit the company's operations. Cash basis accounting is allowed in certain cases for income tax reporting, but it is unacceptable under GAAP because it facilitates management manipulation of income and may not reflect a company's true results of operations for a period of time. The method of accounting for the timing of revenues and expenses that is required under GAAP is accrual basis accounting, which records revenues in the period earned and expenses in the period in which operations are benefited regardless of the timing of cash receipts or payments.

Cash customer

A customer that pays in cash (currency or check) at the time a sale is made. A customer that uses a third-party credit card (VISA, MasterCard, etc.) at the point of sale is also considered a cash customer.

See also Credit customer and Cash discounts

Cash discount

A reduction in a product or service's sale price to cash-paying customers provided as part of a management strategy to increase sales, avoid the risks and costs of receivable collection and/or improve a company's immediate liquidity. Cash discounts also refer to price reductions forcredit customers making payments within a specified discount period. For example, a discount offer noted by "2/10, n/30" means a credit customer may take a 2% discount on any cash payment made on the account within 10 days of the date of sale. However, if any portion of the price is not paid within that 10-day discount period, then that portion must be paid within 30 days with no discount. Cash discounts provided to a company's customers might alternatively be referred to as "sales discounts" and are accounted for on a company's booksthrough the use of a contra-revenue account (sales discounts). From the customer's perspective, a cash discount may be referred to as a "purchase discount." Under a perpetual inventory accounting system any such discount is

accounted for as a direct reduction in the cost of the inventory purchased.

Cash Equivalents

Short-term, highly liquid investments that can be easily converted to cash with no real risk of changing values. These include such tings as certificates of deposit, savings certificates, U.S. Treasury bills and commercial paper with a less than three-month maturity.

Cash flow budget

An operational budget prepared by a company to project the amounts of all cash inflows, outflows and resulting balances of cash for specified future periods. This budget requires the previous preparation of a sales budget, purchases budget and selling and administrative expense budget for a merchandising business. Manufacturing companies must also prepare a production budget, direct materials budget,direct labor budget and manufacturing overhead budget in lieu of a purchases budget in order to determine future cash outflows. Because of the importance of cash in maintaining a company's liquidity and operations, the cash flow budget is often seen as the most important element of the operational budgeting process. Any projected deficiencies in cash must be anticipated so that adequate financing can be put into place in advance. Subsequent to preparation of a cash flow budget, pro-forma financial statements may be prepared.

See also Budgets

Cash sales

Sales of goods or services to customers for which the sales price is paid in cash (currency or check) at the time of sale. Cash sales includecredit card sales when the credit card used is a third-party credit card such as VISA or MasterCard and not a card issued by the companymaking the sale.

See also Cash customer, Credit sales and Sales revenues

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See also Cash customer, Credit sales and Sales revenues

Ceiling Cost

The price inventory could be sold for today in its current condition, less any selling costs.

Also known as Net Realizable Value (NRV)

CEO

Chief Executive Officer. The CEO is a company employee responsible for the overall management of the business. In some cases, the CEO might also be referred to as the "president" of the company. In a corporation, the CEO is hired by the board of directors and may actually be a member of the board.

CFO

Chief Financial Officer. The CFO is a company employee typically responsible for the overall financial affairs of the business. The CFO's scope of responsibility may include the management of a company's accounting information systems, cash balances, financing, financial reporting,investor relations, budgets, investment analysis, cost analysis and control, strategic planning and tax compliance and planning.

Closing entries

Journal entries made at the end of an accounting period to transfer the account balances of all nominal accounts (revenues, expenses anddividends) to the retained earnings/deficits account. Following closing entries, all nominal accounts will have zero balances from which the next accounting period's accumulations may begin and the retained earnings account will be updated to reflect the company's total retained earnings/deficits from the inception of the business through the end of the current period.

See also Accounting cycle and Real accounts.)

Collateral

Assets pledged as security for a loan such that in the event of default the lender may legally foreclose or force the sale of the specified assets to generate cash for immediate full or partial payoff of the loan. The collateral for a mortgage loan is real estate documented through a trust deed. Some lenders refuse to make loans without collateral making it difficult for start-up businesses to access debt financing. Generally speaking, collateralized loans charge lower interest rates than unsecured loans because of the lower risk of loss to the lender.

See also Secured bonds and Mortgage-backed bonds

Common stock

The basic form of ownership for all corporations. Common stockholders have the right to vote in certain corporate matters and the right to participate equally per share in any dividends and distributions in the event of dissolution, subject to preferences that may exist forpreferred stockholders.

See also Equity financing, Owners' equity, Capital stock, Issued stock, Outstanding stock, Treasury stock, Par value, Paid in capital in excess of par, Securities, Convertible bonds, Stock split and Stock options

Company

A business is often referred to as a company regardless of its legal form of ownership. A business operating as a proprietorship, partnershipor corporation ma y be referred to as a company.

See also LLC and LLP

Compounding

The amount of interest earned during each compounding period is based on both the amount of the original investment and any previously earned but unpaid interest to date. It effect, if means that interest is earned on interest.

Comprehensive Income

The change in equity during the period except those resulting from investments by owners and distributions to owners. It includes, net income, foreign currency translation adjustment and unrealized gains and losses on Available-for-Sale securities.

Conservatism

An attitude in accounting which prefers understatement to possible overstatement in the financial statement presentation of a company'sfinancial position and results of operations. GAAP is formulated and typically applied with an attitude of conservatism because overstatement of financial information can mislead and may result in financial losses to investors and creditors whereas understated information will only result in lost opportunities. Losses due to reliance on overstated financial information that have been certified in aCPA's audit report will usually result in legal action and monetary claims against the CPA firm performing the audit. An example of conservatism is the GAAP requirement that historical costs rather than appreciated fair market values serve as the general basis for assetvaluations in a company's financial statements.

Consolidation of financial statements

Required when a controlling interest is achieved. All of the assets, liabilities, revenues and expenses of the subsidiary are combined on the financial statements of the parent company.

Contingent assets and gains

Potential assets and gains of the company that can NOT be recorded until they are fully realized, meaning that no future uncertainty remains and cash or some other property or enforceable right has been removed.

See also Contingent liabilities and losses.

Contingents liabilities and losses

Potential liabilities and losses of the company that may be recognized before the final resolution depending on the perceived probability of the outcome Probable, reasonable possible or unlikely.

See also Contingent Assets and gains.

Contra-asset account

A real account used to offset the amount of certain assets in order to report their value in a company's balance sheet in accordance withGAAP. An example of a contra-asset account is accumulated depreciation. This account appears on the balance sheet as an offseting amount to the capitalized cost of property, plant and equipment in order to properly present the asset's book value. Other common contra-assets include an allowance for uncollectible accounts receivable which offsets the balance of accounts receivable for the amount of any estimateduncollectible accounts, accumulated amortization which offsets the capitalized cost of intangible assets, and accumulated depletion which offsets the capitalized costs of natural resources.

Contra-revenue account

A nominal account appearing as a reduction of gross sales revenues in a company's income statement. Gross sales revenues, less any contra-revenues such as sales discounts and sales returns and allowances, equals net sales revenues.

See also Multi-step formatted income statement

Contribution margin

The amount resulting from a company's total net sales revenues less total variable costs, regardless of whether they are product or period costs. This amount represents the amount of a company's profits before any fixed costs and is said to "contribute" to the coverage of fixed costs. A company's contribution margin less total fixed costs reflects a company's net income. Contribution margin is a term that is often used in the context of CVP analysis.

Contribution margin per unit

The amount of a company's profit on every unit sold before consideration of any fixed costs. Contribution margin per unit is calculated by dividing a company's total contribution margin by the number of units sold (sales volume). This amount can also be determined by taking a company's average net sales price per unit sold less its average variable costs per unit. Contribution margin per unit is often used in

CVP analysis in determining the number of units that must be sold in order to break-even or generate a targeted net income amount.

Contribution margin ratio

The amount of contribution margin as a percentage of total net sales revenues.

Controlling Interest

Generally assumed when 51% of the outstanding common stock of another company is owned, although effective control can sometimes be achieved with a lower percentage. Consolidation of financial statements is required when a controlling interest is achieved.

Conversions Costs

The combination of direct labor plus manufacturing overhead costs. It is the costs necessary to convert raw material into products.

Convertible bonds

Bonds that may be exchanged for other securities, such as common stock, at the option of the bondholder under terms specified in the bond indenture. Such convertibility enhances the value of bonds to potential bondholders and usually allows for the bonds to be offered by acompany at a lower interest rate than would otherwise be required.

Copyrights

An exclusive right that protects the works of authors and other creative persons or businesses against any unauthorized copying or use. Among other things, copyrights can protect literary, musical and dramatic works, art, motion pictures, sound recordings and computer programs. Under GAAP, a company's costs incurred in developing creative works are not capitalized as assets because there is typically no way to determine at the time the costs are incurred whether those works will actually produce any future benefits to the company. Costs incurred in the development of creative works are recorded as expenses in the period incurred. As a result, valuable copyrights developed by a company will not appear as an asset in its balance sheet. Copyrights are, however, recorded as intangible assets under GAAP when purchased from another entity, thereby establishing the copyrights' value through an objective historical cost. Any such capitalized costs are to be amortized to expense over the copyright's useful life. The amount of accumulated amortization is recorded in a contra-asset accountappearing on the balance sheet as an offset against the copyright's original capitalized cost. The resulting net balance sheet amount is referred to as the copyright's "book value."

See also Fair market value of a company and Long-term assets

Corporation

A business entity authorized by a state government to exist and function subject to the laws of the state. Corporations have separate legal status allowing owners of a corporation to benefit from its business activities without exposing their personal assets to claims that may arise against the business. Ownership in a corporation is evidenced through shares of stock providing stockholder's with the right to vote in certain corporate matters, participate in any distributions of profits (dividends) and share in any distributions in the event of dissolution. Corporations are a popular form of business ownership not only because they offer limited liability to owners, but also because they facilitate access to capital through the issuance of stock to potentially large numbers of investors. In addition, the corporate form facilitates changes in ownership through the trading of stock in secondary markets. A disadvantage of the corporate form is the federal and, in some cases, state taxation of corporate profits. Those same profits are taxed a second time if and when they are distributed to stockholders as a dividend. There are ways to avoid this "double" taxation, but it requires planning and compliance with specific provisions of the tax law. LLCs and S corporations are two such options. An alternative form of business ownership is a proprietorship or partnership.

See also Company, Publicly held company, Board of directors, Capital stock, Common stock and Preferred stock

Correlation Coefficient

quantifies the correlation between two variables (i.e. number of units produced and the company's total manufacturing overhead costs.) Also known as R2. A 1.0 coefficient implies a perfect 100% correlation where every data point on the graph is on the regression line. A zero R2 means the regression line is a poor fit, or in other words, there is no correlation between the company's two variables. The higher the coefficient, the better, in terms of accurately breaking down the fixed and variable costs components and predicting future costs.

Cost

The amount of an any expenditure and/or future expenditures representing the price paid for an asset or the amount of an expense. For example, a company's land cost is the price paid in acquiring the land and is recorded as an asset even though a portion of that price is paid

today and a portion may be payable in the future. Under the matching principle, costs of operating a business are accounted for as expenses in the period in which those costs benefit business operations, regardless of when those costs are actually paid.

See also Historical cost, Capitalized cost, Cost of goods sold, Cost of services provided, Product costs, Period costs, Selling costs, Administrative costs, CVP analysis, Direct material costs, Direct labor costs, Manufacturing overhead costs, Variable costs, Fixed costs, Mixed costs, Stepped costs, Relevant revenues and costs, Differential revenues and costs, Direct revenues and costs, Sunk cost and Opportunity cost

Cost Center

A department or organizational unit in which the assigned manager has control over and is accountable for the costs incurred in the operation of that department or unit.

See also Profit Center, Investment Center

Cost of Goods Manufactured

Reflects the cost of producing products for a manufacturing business during a specific time period. It is calculated as follows
Beginning Work in Process inventory
+ Direct Material (for the period)
+ Direct Labor (for the period)
+ Manufacturing Overhead Applied (for the period)
- Ending Work in Process Inventory
= Total Cost of Goods Manufactured.

See also Cost of Goods Sold

Cost of goods sold

An expense account sometimes referred to simply as "cost of sales." Cost of goods sold reflects the cost of any products sold to customers. A company's product costs are first accounted for as assets (inventory) until the products are actually sold and become an expense of the business (cost of goods sold). In a merchandising business, a product's cost is its purchase price and any freight or other costs associated with actually obtaining the product from a supplier or vendor. In a manufacturing business, a product's cost includes any direct material, direct labor and manufacturing overhead costs incurred in making the product.

See also Inventory cost flows, Process costing, Job order costing, Gross margin, Multi-step formatted income statement and Matching principle

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Cost of sales

Another name commonly used for "cost of goods sold" in a manufacturing or merchandising business or "cost of services provided" in a service business.

Cost of services provided

An expense account reflecting the costs incurred by a service business in the

providing of those services to customers. For example, a law firm's cost of services provided includes the salaries and wages of lawyers, paralegals and support staff, plus any supplies, telephone, copying and other costs incurred in servicing a client.

See also Matching principle

Coupon or "Bearer" Bonds

Bonds that do not require registration and payments are simply made to those who have physical possession of the bonds.

CPA

Certified Public Accountant. CPAs are individuals who have been licensed by a state and are authorized to provide certain services tocustomers, including the certified audit of a company's general purpose financial statements. CPAs do much more than perform certified audits. They often provide tax advice, prepare tax returns, advise businesses and individuals in their financial affairs, consult and assist businesses in improvements of their accounting information systems, and provide consulting services in a wide variety of business areas.

See also Auditor's report, AICPA and SEC

CPE

Continuing Professional Education requirements that an individual must complete subsequent to initial certification to maintain the right to practice in a state.

Credit

A term which has a number of important meanings depending upon the context. Credit is a term that is often used in conjunction with the providing and incurring of debt financing. A person or organization is said to "have credit" if they can qualify for a loan or purchase on account, also referred to as a "credit purchase." An "extension of credit" implies the making of a loan or a credit sale. The term "credit" is also used in the context of credit entries which refer to journal entries made to the right side of an account. In the case of merchandise returns, the providing of "credit on account" means that the account receivable from a credit customer returning the merchandise is reduced by the sales price of the returned goods through a credit entry.

See also Credit card sales, Creditor and Credit policies

Credit card sales

Sales of goods or services to customers choosing to pay with a credit card such as VISA or MasterCard. Companies accepting and electronically processing a customer credit card receive an immediate cash deposit to their bank account in an amount equal to the sales price, less a processing fee. The fee typically runs from 3-5% of the processed amount and is an expense of the business. This explains why some businesses refuse to accept credit cards, even though they may lose customers as a result. Most businesses accept credit cards but simply hike-up prices to cover the processing costs. Some of these companies alternatively provide sales discounts to cash-paying customers to pass along all or a portion of the resulting fee savings to the customer.

Credit card sales are in substance cash sales, less the processing fee. Acceptance of a customer VISA card on a sale does not make it a credit sale. Credit sales involve sales to customers on account that result in accounts receivable. (The term "credit card," in the context of a VISA card, actually comes from the fact that a third-party bank or other institution issuing the card extends "credit" to the cardholder by agreeing to immediately pay for purchases made with the card and then recover those payments from the cardholder over time.) Some companies do choose to make credit sales to pre-approved customers through the issuance of their own credit cards. These cards are for exclusive use in the company's own stores and result in accounts receivable like any other credit sale. The credit terms on such sales typically allow customers to make minimum monthly payments and charge interest on any unpaid balances from month to month.

Credit customer

A customer who is allowed to purchase a company's goods or services based on an agreement that they will pay for those goods or services within some designated period following the point of sale, usually 30 days.

See also Credit sales, Accounts receivable, Credit card sales, Cash discounts and Credit policies

Credit entries

Journal entries recorded on the right-hand side of an account using a T-account format. The rules of double-entry accounting require that credit entries be used to record increases in liability, capital contribution, retained earnings and revenue accounts, and decreases in asset,expense and dividend accounts. As a result, "crediting" an account may refer to the increasing or decreasing of an account depending on the kind of account that is "credited." Most introductory accounting students inaccurately assume that the term "credit" always refers to some increase or benefit. This is clearly not the case. As noted above, a credit entry to an asset like cash actually records a decrease in the amount of a company's cash balance. This may seem

inconsistent with a student's prior banking experience given that receipts of cash deposited in a bank account are typically "credited" by the bank to the depositor's account. This actually refers to a credit entry the bank makes to a liability account maintained in the bank's books reflecting the amount the bank owes the depositor as a result of the deposit. The bank's credit of a depositor account does not refer to the recording of an increase in the cash account maintained in the depositor's books, it means an increase in the liability on the bank's books. A company's receipt and deposit of cash is recorded in the company's books with adebit entry to cash, regardless of the bank's use of the term "credit."

Credit policies

The criteria a company uses to determine the credit worthiness of customers wishing to buy a company's goods or services on account. Credit policies may include a minimum credit rating from a recognized rating service and/or verification of income before extensions of credit are made to new customers.

See also Credit sales and Accounts receivable turnover

Credit purchase

See Purchases on account.

Credit sales

Sales of goods or services for which payment is not received from customers at the time of sale but is to be received within a short period of time thereafter, usually within 30 days. Credit sales are also referred to as "sales made on account" because they give rise to accounts receivable. Credit customers must typically be approved under a company's established credit policies before they will be allowed to buy a company's products or services on account.

See also Credit card sales and Sales revenues

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See also Credit card sales and Sales revenues

Creditor

Any entity to whom a company has an obligation is a creditor of the company. Creditors are providers of a company's debt financing.

See also Financial accounting

Cumulative preferred stock

Preferred stock providing carryover rights on any unpaid dividend preferences. This means that preferred stockholders have priority claims when and if dividends are declared in an amount equal to any unpaid current year dividend preference plus any previous years' unpaid preferences. Previous unpaid dividend preferences are referred to as "dividends in arrears." Because companies are never obligated to declare dividends, dividends in arrears are not reported as liabilities on a company's financial statements until a declaration is actually made.GAAP does, however, require disclosure of any dividends in arrears in a company's notes to financial statements because their existence and amount affects the claims of preferred and common stockholders on any future dividend declarations and may affect their market valuation.

See also Non-cumulative preferred stock

Currency

Actual money, meaning dollars and cents if in the United States.

Current assets

All assets reported on a company's balance sheet are classified as either current or long-term assets. Current assets include cash and any other asset expected to be used up or converted to cash within the next year. Current assets typically include any short-term investments insecurities, accounts receivable, inventory, supplies and prepaid expenses. Even assets like property, plant and equipment may on occasion be included as current assets if management intends to sell the assets for cash in the next year and there is evidence that such a sale will actually take place. The classification of a company's assets as either current or long-term helps financial analysts evaluate a company'sliquidity. Cash and other assets that will be converted to cash in the short term represent assets that can be used for the payment of current obligations if necessary. The ratio of total current assets divided by total current liabilities is called the "current ratio" and is used to evaluate a company's liquidity.

See also Acid-test ratio and Working capital

Current liabilities

All liabilities reported on a company's balance sheet are classified as either current or long-term liabilities. Current liabilities include all of a company's obligations due within the next year. Common current liabilities include accounts payable, wages payable and any other accrued liabilities, unearned revenues, and

any notes, loans or bonds payable to the extent of any principal amounts scheduled to mature within the next year. The comparison of a company's amount of current assets and current liabilities helps financial analysts determine a company'sliquidity, which is crucial to a company's successful ongoing operations. The current and acid-test ratios are two commonly used comparisons involving current assets and current liabilities designed to evaluate a company's liquidity.
See also Working capital

Current ratio

A ratio used in financial statement analysis to evaluate a company's liquidity. The ratio is calculated by dividing the amount of a company's total current assets by its amount of total current liabilities. A current ratio of less than 1 to 1 ($1 of current assets for every $1 of current liabilities) may present a cause for concern, but this is not true in all cases. Companies that are able to quickly convert inventory into larger amounts of cash through profitable sales may operate effectively at ratios of less than 1 to 1. For a stricter measure of liquidity, analysts often use an acid-test ratio in addition to the current ratio.

Customer

The buyer of a company's goods or services offered for sale. Cash customers pay for purchased goods or services in cash at the point of purchase, whereas credit customers agree to pay within some designated period following the point of sale, usually within 30 days. Some customers choose to pay through the use of credit cards. In some industries, customers are known by other names. For example, customers of real estate companies that provide property for rent are called "tenants" and the revenues earned from tenants are typically referred to as "rental income" or "rent revenues." Customers of lending institutions are referred to as "borrowers" and the revenue earned is "interest income" or "interest revenues."

CVP analysis

Cost-volume-profit analysis, sometimes referred to as "break-even analysis." CVP analysis is an approach used to analyze the effects of changing sales prices, costs and sales volume on a company's profits. The approach is frequently used to determined the number of units or dollar amount of sales that must be achieved by a business in order to reach its break-even point or a certain targeted net income. To perform CVP analysis, all company costs be must distinguished as either fixed or variable in their behavior. The basic CVP formula is:
Sales revenues - Variable costs - Fixed costs = Net income.
This formula can be expanded to:
(Sales price/unit x # units) - (Variable costs x # units) - Fixed costs = Net income
Because a company's contribution margin is equal to the amount of sales revenues less variable costs, this equation can also be restated as:
Contribution margin - Fixed costs = Net income.
This can likewise be expanded to:
(Contribution margin/unit x # units) - Fixed costs = Net income.
CVP analysis may also be performed graphically through the plotting of total sales revenues and total costs (fixed and variable) at different levels of volume.

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Days Purchases in Accounts Payable

A ratio used in financial statement analysis that measures management's short-term liquidity in paying their suppliers for inventory. This ratio identifies how many days it takes for management to pay for the inventory they purchase from their suppliers. It is calculated by 365 divided by accounts payable turnover.

Days sales in accounts receivable

Otherwise known as the "average collection period for accounts receivable". Days sales in accounts receivable is a ratio used in financial statement analysis to measure the average number of days it takes a company to collect its accounts receivable. This ratio is calculated by dividing 365 days by the company's accounts receivable turnover. Comparisons of this ratio among similar companies in the same industry can be helpful in evaluating a company's management of credit policies and collections of accounts receivable. Generally speaking, the lower the ratio or fewer the days it takes to collect accounts receivable the better, although that may not be true in all cases. If a company loses potential sales revenues and profits due to implementation of strict credit policies, then the average collection period may improve at the expense of better overall profits. Management's challenge is to balance credit policies and collection efforts in a way that maximizes company profits.

Days sales in inventory

A ratio used in financial statement analysis to measure the average number of days a company's inventory is on hand before its sale. This ratio is sometimes referred to as the "average inventory holding period" and is calculated by dividing 365 days by the company's inventory turnover. Comparisons of this ratio among similar companies in the same industry may help in evaluating a company's performance in inventory management. Excessive inventories produce higher days sales in inventory and negatively impact a company's profits through higher financing, storage and handling costs. Good managers seek to reduce inventory levels as much as possible without compromisingcustomer sales. If inventories are reduced to the point that customers become dissatisfied with product selection and availability, the lost profits on lower sales volume may more than offset any savings achieved from lower levels of inventory.

Debentures

Unsecured bonds which provide no collateral for bondholders in the event of default. Debentures typically carry a higher interest rate than if the same bonds were issued with security.

See also Subordinated bonds

Debit entries

Journal entries recorded on the left-hand side of an account using a T-account format. The rules of double-entry accounting require that debit entries be used to record increases in asset, expense and dividend accounts, and decreases in liability, capital contibution, retained earnings and revenue accounts. As a result, "debiting" an account may refer to an increase or decrease depending on the kind of account that is "debited." Most introductory accounting students inaccurately assume that debit always refers to some decrease. This is clearly not the case in double-entry accounting. For an explanation of why many students are confused in their use of the terms "debit" and "credit," see the explanation under credit entries.

Debt financing

The acquiring of business assets through borrowing or the incurring of liabilities. The only alternative to debt in the financing of a business isequity financing, which refers to the amount of owners' capital contributions plus retained earnings. Debt financing is also referred to as "temporary financing" due to the fact that any borrowed assets must be repaid in the future. Only equity financing is permanent.

See also Leverage, Debt ratio, and Debt to equity ratio

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See also Leverage, Debt ratio and Debt to equity ratio

Debt ratio

A ratio used in financial statement analysis to measure a company's leverage or the extent of debt financing used in acquiring a company'sassets. Because the debt ratio is calculated by dividing the amount of total liabilities by the amount of total assets, it is sometimes referred to as the "debt to asset ratio." The use of debt financing has its pros and cons. Lower levels of debt reduce interest costs and the pressure associated with future required payments; however, debt may actually produce improved returns on owners' invested capital if borrowed assets yield higher returns on investment than the interest costs associated with the debt.

See also Debt to equity ratio

Debt to equity ratio

A ratio used in financial statement analysis to measure a company's leverage by comparing the extent of the company's debt financingrelative to its equity financing. The

ratio is calculated by dividing the amount of a company's total liabilities by its amount of total owners' equity. A higher level of debt financing relative to equity financing means higher leverage. This ratio accomplishes the same purpose as thedebt ratio.

Debtor

An entity with an obligation to others. The term debtor is synonymous with borrower.
See also Debt financing

Debts

Obligations or liabilities to others.
See also Debt financing

Decentralization

The delegation or spreading out of management decision making to lower levels of a company's management personnel.

Declining-balance method

An accelerated method of depreciating an asset. This method applies a fixed fraction or rate of depreciation to an asset's declining book value to get its accelerated effect. The fixed rate of depreciation used can vary depending upon the desired acceleration relative to each asset's straight-line rate of depreciation. The highest rate of depreciation used is 200% or double the straight-line rate of depreciation.

Default

Any act of non-compliance with the terms of a note payable or any other obligation or legal contract.
See also Foreclosure and Bankruptcy

Deferred Income Taxes

The difference between the amount of income tax expense reported in the company's income statement and the amount actually payable to the government. Companies are required to report deferred income taxes so that they are not in violation of the matching principle.

Deficits

The amount of any negative (debit) balance in the retained earnings/deficits account resulting from a company's losses and dividends in excess of earnings since the inception of the company. Deficits are sometimes referred to as "retained deficits," "accumulated deficits" or "accumulated losses."

Defined Benefit Pension Plans

An organizations obligation to provide certain specified benefits to employees in retirement. The determination and recording of that obligation requires complicated actuarial calculations that take into effect no only the benefits promised, but also estimates of employee turnover, future salary increases, employee life spans, and other factors. The company contributes money into an independently managed fund.
See also Pensions, Defined Contribution Pensions Plans.

Defined Contribution Pension Plans

Under a defined contribution plan, a company contributes a designated amount to a fund separately owned and operated on behalf of employees. The company does not guarantee returns on the invested funds and therefore does not guarantee the amount that will ultimately be available from the fund to its retiring employees.
See also Pensions, Defined Benefit Pension Plans.

Depletion

An expense resulting from the allocation of a natural resource's capitalized cost over it's useful life using the units-of-production method.
See also Accumulated depletion and Matching principle

Depreciation

The allocation of capitalized costs of property, plant and/or equipment to expense over the asset's useful life using the straight-line, units-of-production or some other method of depreciation. Depreciation incurred in a merchandising business is reflected as a selling and administrative expense of the company. Depreciation of property, plant and equipment used in support of a manufacturing company's production processes are accounted for as manufacturing overhead costs and recorded as an expense through cost of goods sold.
See also Accumulated depreciation, Matching principle, Product costs, Period costs and Selling costs and Admistrative costs

Depreciation Tax Shied

A tax write-off (tax deduction) that is a result of a depreciating asset. The dollar amount of the tax shield is the depreciation deduction multiplied by the tax rate.

Differential revenues and costs

Revenues and costs that vary among decision options in the making of non-routine business decisions. Differential revenues and costs are always relevant in such decisions.

Direct labor

Refers to the hours and/or costs of salaries and wages of employees involved in the hands-on construction or assembling of a manufacturedproduct.
See also Direct labor costs and Indirect labor

Direct labor budget

An operational budget prepared by a manufacturing business to project the direct labor hours, costs and resulting cash outflows needed to meet a company's budgeted volume of production. Information generated through this budget is subsequently used in preparation of a company's cash flow budget and pro-forma financial statements.

See also Budgets

Direct labor costs

Costs incurred in either salaries or wages to employees who are involved in hands-on labor in the making or assembling of a manufacturedproduct. These costs are included in work in process inventory (WIP) until the product's manufacturing process is completed, at which time the costs are transferred to finished goods inventory and then to cost of goods sold upon subsequent product sale.

See also Inventory, Product costs, Job order cost system, Job cost record or sheet, Time sheets and Direct labor budget

Direct material costs

Costs incurred in the acquisition of any raw materials or component parts to be directly incorporated into a manufactured product, including any freight or other costs incurred in actually obtaining the materials or component parts from vendors. Direct material costs are included in a manufacturing company's raw materials inventory until the materials are requisitioned and placed into a product's manufacturing process, at which time the costs are transferred to work in process inventory (WIP). Upon product completion and subsequent sale, the associated direct material costs are transferred to finished goods inventory and then to cost of goods sold.

See also Inventory, Product costs, Job order cost system, Job cost record or sheet, and Direct materials budget

Direct materials

Raw materials and other component parts actually incorporated into a manufactured product.

See also Direct material costs and Indirect materials

Direct materials budget

An operational budget prepared by a manufacturing company to project the quantities of direct materials which must be purchased to meet projected materials usage in production and maintain adequate levels of inventory. The direct materials budget also projects the costs of budgeted material purchases and the resulting cash outflows anticipated for future periods. Information generated through this budget is subsequently used in preparation of a company's cash flow budget and pro-forma financial statements.

See also Budgets

Direct Method of Cash Flows

A way of reporting cash flows from operating activities on the statement of cash flows. This approach directly identifies the sources and use of cash from operations. Individuals unfamiliar with accrual accounting easily understand this method. If a company chooses to report their cash flows from operations with this method, they are still required to reconcile net income to the operating cash flow number. This is part of the reason most public companies choose to report using the indirect method of reporting their operations from cash flows.

Direct revenues or costs of a decision option

In analyzing a non-routine business decision, direct revenues or costs are those revenues and costs that are uniquely associated with one of the decision options. For example, a direct cost of a decision to terminate rather than continue a product line might be the severance pay to employees that would be incurred in a decision to terminate. Direct revenues and costs of decision options are always relevant because they are unique to an option and therefore differentiate an option from the other decision alternatives.

Direct write-off method of accounting for uncollectible accounts receivable

A method which defers the recording of bad debt expense until the final and conclusive determination of an account receivable's uncollectibility. Such an approach is unacceptable under GAAP because it violates the matching principle that requires the recording ofexpenses in the period in which they benefit a company's operations. The costs of bad debts benefit operations in the period in whichrevenues are originally recognized on the sale giving rise to the ultimately uncollectible account. In order to recognize bad debt expense in the proper period under the matching principle, a method of estimating future uncollectibility must be used in the period that accounts receivable originate. The allowance method of accounting for uncollectible accounts receivable uses such an approach and is required under GAAP in accounting for bad debt expense.

Discounting Notes Receivable

A transaction a company enters into to sell its notes receivable to a third party at a discounted price for cash. The third party will purchase the notes receivable for a discounted

amount (ie 70%) of the receivable balance. This allows the company to receive immediate cash for the value of the receivable. This transaction results in a loss on the company's books for the discounting of the N/R. The buyer takes responsibility for the collection of the notes receivable.

See also Factoring Accounts Receivable.

Dissolution

The process of closing a company's operations, liquidating its assets, paying off its debts, distributing any residual assets to owners and legally terminating the company.

See also Distributions in the event of dissolution and Bankruptcy

Distributions in the event of dissolution

Amounts paid to a company's owners upon dissolution of the company. The amount paid to owners will be the amount of any assets left after liquidation of a company's assets and payoff of all company debts.

See also Preferred stock

Dividend declaration

A board resolution directing a corporate payment of dividends to its stockholders as of a specified "date of record." The amount of dividends declared becomes a liability of the company at the date of the approved resolution ("date of declaration"). That liability is then paid at the board-designated "date of payment" through the issuance of dividend checks to stockholders of record. The amount of dividends paid to each stockholder depends on the total amount of the dividends declared, the company's capital structure (the number of shares ofoutstanding, common, and preferred stock) , the amount of any dividend preferences and the number of shares held by each stockholder.

Dividend Payout Ratio

A ratio that provides the percentage of earnings paid to shareholders through dividends. Shareholders use this ratio in part to determine their return on their stock investment. It is calculated by dividends divided by net income.

Dividend preference

The amount of dividends that preferred stockholders have a priority right to each year before any dividend distributions to commonstockholders. The amount of this annual preferential right to dividends is calculated per share by multiplying the preferred stock's stated preference rate times the stock's par value. For example, 6% preferred stock with a par value of $20 per share has an annual dividend preference of $1.20 per share. Dividend preferences are payable only upon dividend declaration by a corporation's board of directors. Undercumulative preferred stock, the amount of any deficiency in the amount of declared dividends in meeting the annual preference is carried over to future years and referred to as dividends in arrears.

See also Non-cumulative preferred stock

Dividend Yield

A ratio that determines the amount of dividends paid to shareholders relative to the share price of the stock. Shareholders use this ratio in part to determine their return on their stock investment. It is calculated by dividends per share divided by price paid per share.

Dividends

A company's distribution of current or previous profits to its owners. Because profits are defined as increasing net assets of a company from successful operations, dividends are simply distributions of some or all of those assets and are typically paid to owners in the form of cash. Payments of dividends to owners decrease a company's assets and the amount of its retained earnings. In fact, dividends can only be paid to the extent of the balance in retained earnings prior to the dividend. Corporation's pay dividends to stockholders only upon dividend declaration by a corporation's board of directors. Many corporate boards choose not to declare dividends even when there are available retained earnings. There is no legal obligation to declare and pay dividends and increasing retained earnings can be used to finance a company's future growth. Stockholders in companies that do not generally pay dividends hope to earn a return on their investment through the subsequent sale of their stock at higher prices.

See also Dividends per share, Closing entries, Statement of retained earnings, Preferred stock, Cumulative preferred stock and Dividends in arrears

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See also Dividends per share, Closing entries, Statement of retained earnings, Preferred stock, Cumulative preferred stock and Dividends in arrears

Dividends in arrears

The amount of any unpaid preferential rights to dividends that carry over to future years under provisions of cumulative preferred stock. No liability is recorded for a company's dividends in arrears. Future dividends are payable only when declared and companies are never obligated to declare and pay dividends. The amount of dividends in arrears does, however, affect the claims on any dividends that may be declared in the future for both common and preferred stock, and may affect stock values. As a result, the disclosure of any amount of dividends in arrears must be provided in the notes to financial statements prepared in accordance with GAAP.

Dividends per share

The amount of a company's dividends declared during the year for each share of stock outstanding. Dividends per share may be calculated for a company's preferred stock as well as common stock by dividing the respective amount of dividends by the appropriate number of shares outstanding. The amount of dividends per share usually differs from a company's earnings per share (EPS). Companies usually declare dividends in amounts less than current earnings to help finance future growth, pay off debts or repurchase some of its own stock astreasury stock.

Double-entry accounting

A method of accounting for a company's transactions through journal entries having equal totals of debit and credit entries while maintaining the basic accounting equation.

DuPont Framework

A ratio that measures the return on equity through an analysis of a company's profit margin, sales on assets and use of borrowed assets. It measures profitability, efficiency and leverage. It is calculated as follows ROE = Profitability (Net Income/ Sales Revenue) X Efficency (Sales Revenue/ Total Assets) X Leverage (Total Assets/Total Equity)

Earnings

See Net income

Earnings per share

Also referred to as "EPS," earnings per share is the amount of a company's net income earned during the year for each share of its common stock outstanding. Disclosure of a company's EPS on its income statement is required under GAAP. The amount is calculated by dividing a company's net income by the number of its shares of common stock outstanding. This calculation can become substantially more complicated with the existence of preferred stock, stock options and other factors covered in more advanced accounting courses. A company's earnings per share is usually different from the amount of its dividends per share due to the fact that companies can and often do choose to retain all or a portion of their earnings for use in the business. A company's EPS is a critical in financial statement analysis and stock valuation. In fact, a company's EPS and financial analysts' projections of future EPS are probably the most significant factors impacting a stock's current fair market value.

See also Price earnings ratio

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See also Price earnings ratio

EBITDA

Analysts will often times measure the operating performance not by net income but rather by

EBITDA. EBITDA is an acronym for Earnings Before interest, taxes, depreciation and amortization. This measure is used because of the estimates that management make that impact net income such as depreciation expense which is based on managements estimate of useful life, salvage value and method used to depreciate assets.

Effective interest amortization

The preferable method used for amortizing premiums and discounts on bonds; Interest expense is calculated as a constant percentage of the carrying value of the bonds over the life of the bonds. This method is superior because it takes into account the time value of money.

See also Straight-line amortization.

Employee payroll withholdings

An employee's share of FICA taxes plus any other amounts withheld by an employer from an employee's paycheck with government or employee authorization. In addition to employee FICA taxes, these withholdings typically include an estimation of the employee's federal and state income taxes and amounts an employee wishes their employer to pay directly on his or her behalf, such as union dues, insurance premiums and contributions to savings plans. Amounts withheld by an employer must subsequently be paid to the proper government agency and other entities as required by law or as directed by the employee. An employee's net take-home pay is equal to the amount of their gross salary or wage less all employee payroll withholdings

See also Salaries expense and Wage expense

Employee Unions

An organization of individuals that negotiates on behalf of their members to maintain or improve working conditions.

Employer payroll taxes

Taxes incurred and paid by an employer. These taxes include the employer's share of FICA taxes, federal unemployment insurance (FUI) and any state unemployment insurance (SUI). These payroll taxes are employer taxes, not employee taxes withheld by the employer. In essence, employer payroll taxes are taxes incurred and paid by an employer for the privilege of having employees.

See also Payroll tax expense

Entity

A person, group or organization. GAAP requires that financial statements prepared for a company include only the assets and liabilities of the company as an entity separate from its owners. That means that any personal assets or liabilities of owners should not be included in the company's financial statements.

Entreprenuer

An individual who takes the initiative, and in most cases the risk, associated with starting or growing a business.

Equity

See Owners' equity.

Equity financing

The acquiring of assets or resources for a business through either owners' capital contributions or retained earnings. Because all businessfinancing comes through either debt or equity financing, the amount of a company's equity financing is equal to the amount of its total assets less total liabilities which is also equal to the amount of its total owners' equity. Equity financing is also referred to as permanent financing because there is no obligation for a company to repay the assets provided through owners' capital contributions and retained earnings, except in the event of business dissolution.

See also Debt to equity ratio, Leverage, Common stock and Preferred stock

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See also Debt to equity ratio, Leverage, Common stock and Preferred stock

Equity in a business

The amount an owner(s) would receive if their ownership interests in a business (stock in a corporation) were sold. Alternatively, the fair market value of all company assets less the amount of its total liabilities may also be referred to as the equity in a business. Equity in a business is different from owners' equity as reported in a company's financial statements. Owners' equity for accounting and financial reporting purposes is equal to the book value of total assets less total liabilities and does not deal with any current fair market values.

Equity in an asset

Equity in an asset typically refers to the residual amount an asset would generate if sold and all associated debts were paid off. In other words, equity in an asset is the amount of its current fair market value less any related liabilities

Equity Method of Accounting

The required accounting approach when a company acquires significant influence over the affairs of another company. Under this method, an investment in the securities of another company is initially recorded at its cost. The cost is then subsequently adjusted up for the investor's percentage interest in the company's reported profits and down for its share of reported losses. Any dividend receipts are accounted for as reductions in the investment's adjusted cost. No year-end adjustment is made for changing stock values unless a permanent decline occurs. Upon sale of shares, the difference between net proceeds received and the stocks' book value (adjusted cost) is recorded as a realized gain or loss.

Equity Method Securities

Securities that provide a company with significant influence over another company's operations.

Equivalent Units

Measured units that are not complete at the end of an accounting period, but given the amount of materials and conversion costs, the number that could have been completed. For example if 100 units are 30% complete then 30 (100 X 30%) whole units could have been completed. It is calculated to determine the cost per unit during the period.

Expenditure

Any payment of cash or other assets to another entity. Expenditures may be made in the purchase of other assets and are referred to as "capitalized expenditures." Expenditures made to pay costs of operating a business in the current period are accounted for as expenses of the period. Any expenditure made in payment of previously recorded obligations reduces a company's liabilities.

See also Matching principle

Expenses

The amount of any expenditures, or the amount of any obligations requiring future expenditures as a result of costs incurred in operating a business. Under GAAP, the matching principle governs the timing of expenses and requires that costs incurred in operating a business be recorded as expenses in the period in which those costs provide operating benefits, regardless of the time of payment. For example, a company's December utilities cost should be recorded as a December expense even if the utility bill will not be paid until the following month. This is referred to as an "accrued expense" and is recorded in December with an accompanying liability for utilities payable. The subsequent payment of the utility bill will then be recorded as a payment of the liability. Expenditures are sometimes made in advance of the period of benefit. An example would be insurance premiums paid in advance. Such expenditures should be recorded as assets rather than expenses because they result in rights having future benefits. These assets are commonly referred to as "prepaid expenses" which can be confusing because they are not expenses at all; at least not yet. As time passes, an adjusting entry must be made to reduce the asset (prepaid insurance expense) and record the cost of insurance as an expense in the period of actual coverage. The amount of a company's total revenues less total expenses during a period of time equals net income or loss for the period and measures a company's results of operations.

See also Retained earnings/deficits, Cost of goods sold, Cost of sales, Cost of services provided, Selling expenses, Administrative expenses, Interest expense, Selling and administrative expenses, Operating expenses, Bad debt expense, Depreciation, Depletion, Amortization , Salaries expense, Wage expense, Payroll tax expense, Research and development costs, Repairs and maintenance expense, Shrinkage, Other revenues and expenses, Interest expense, Loss on sale, Income tax expense, Journal entries, Closing entries, Debit entries, Credit entries, Multi-step formatted income statement, Vertical analysis, Period costs and Budgets

Extraordinary Items

Transactions that are infrequent and unusual in nature. These transactions are reported "below the line" and are reported net of tax. "the line" being income from continuing operations. When determining whether an event is extraordinary or not, the place and circumstances in which a company operates must be taken into account. Examples could include Casualties due to fire, flood, earthquake or other natural disasters, expropriations of assets by a government or specific prohibitions under newly enacted laws or regulations.

Facility Support

Overhead manufacturing costs that do not directly relate to a particular product line.

See also Activity Based Costing, Unit Level, Batch Level, Product Line, Overhead Cost Activity

Factoring Accounts Receivable

A transaction a company enters into to sell its accounts receivable to a third party at a discounted price for cash. The third party will purchase the accounts receivable for a factored amount (ie 70%) of the receivable balance. This allows the company to receive immediate cash for the value of the receivable. This transaction results in a loss on the company's books for the factoring of A/R. The buyer takes responsibility for the collection of the accounts receivable.

See also Discounting Notes Receivable.

Factory

A building or facility used for product manufacturing.

FAF

Financial Accounting Foundation. A private organization established to support and direct the activities of the FASB.

Fair market value of a company

The price a company would bring if sold at arm's-length in its entirety, meaning the company's purchaser would take ownership of all of the company's assets, assume all of the company's liabilities and benefit from all of the company's future operations and profits. In the case of a corporation, such a purchase could be accomplished through the purchase of all of a company's outstanding stock rather than through the purchase of the company's assets and assumption of its liabilities. As a result, one way to determine the current fair market value of a company is to simply multiply the total number of shares of outstanding stock by the current fair market value of the stock. The fair market value of a company is usually greater than than its book value. This is due to the possibility that a company's recorded assets may be worth much more than their book values and the fact that internally developed assets such as patents, copyrights and trademarks may not be recorded on the books at all. In addition, assets that are organized and managed in a way that produces profits are generally worth a lot more than assets that are individually purchased.

See also Goodwill

Fair market value of a share of stock

The price a share of stock is trading at in a secondary market.

See also Fair market value of a company and Price earnings ratio (P/E ratio)

Fair market value of an asset

The price an asset would bring if it were sold in an arm's-length transaction. Given this definition, the current fair market value of mostcompany assets cannot be established with any assurance. The price an asset would bring upon sale cannot be determined unless it is actually offered for sale and then sold. Asset appraisals may may be made, but they are at best a subjective guess of an asset's fair market value. Based on a desire for objective information, GAAP requires that most assets be reported at their historical cost or the price paid upon asset acquisition rather than some current estimated or appraised fair market value. Historical costs can be objectively determined but they lack the relevance that current value information could provide to investors and creditors. This conflict in objectivity and relevance is one of the most significant challenges facing the accounting profession today as it seeks to provide information that is both useful and verifiable.

Although GAAP generally disallows the recording of an asset's value above its historical cost, assets with current fair market values that can be reasonably appraised and are significantly below book values are usually written down as an expense or loss of the period. This contradiction in application when lower values exist is the result of conservatism in accounting.

See also Goodwill

FASB

Financial Accounting Standards Board. A private organization funded by the FAF and currently responsible for the establishment of GAAP in the United States. The FASB is recognized by the SEC, however, it is the SEC that has the ultimate legal authority to determine what information must be provided by publicly held companies in the United States. As a result, the SEC exercises considerable influence in any decisions made by the FASB.

See also Financial accounting

FICA taxes

The Federal Insurance Compensation Act imposes a tax on employers and employees in equal amounts to provide funding to the federal government in support of the Social Security and Medicare programs in the United States. Self-employed individuals must pay the entire tax themselves.

See also Salaries expense, Payroll tax expense, Wage expense and Employee payroll withholdings

FIFO (first-in, first-out)

An inventory cost flow method which may be used to determine cost of goods sold associated with inventory that is similar in nature and cost. For example, the FIFO method may be used in accounting for inventory and cost of goods sold of jelly beans in a candy store but

would not be used for used-car inventories of an automobile dealership. FIFO provides for costs of first units purchased and available for sale to be used as the cost of the first units sold in determining the amount of cost of goods sold. Comparison of the effects of FIFO versus other cost flow methods (LIFO and moving weighted-average) on cost of goods sold, net income and ending inventory depends on whether inventory costs are rising or falling (inflation vs. deflation) during the period. In periods of inflation, FIFO yields lower cost of goods sold, higher net income and higher ending inventory amounts. The opposite effect occurs in periods of deflation. If inventory costs are stable, all cost flow methods produce the same results.

See also Specific identification

Financial

Having to do with money.

Financial accounting

The system of accounting designed to provide a company's financial information to users who are external to the company's management. Primary external users are current or prospective investors and creditors (providers of capital) and government regulatory agencies such as the SEC, IRS and FTC. Financial accounting information is provided through the general purpose financial statements which include anincome statement, balance sheet, statement of cash flows and supplemental notes to the financial statements to be prepared in accordance with GAAP.

See also Managerial accounting, FASB, Financial statement analysis and Accounting cycle

Financial analysis

The examination of a company's previous and current financial position and results of operations along with a number of other factors in an effort to understand and value a company based on its prospects for the future. Most financial analysis is done by current or prospectiveinvestors and creditors and companies that provide investment advice. Financial analysis typically includes much more than a review and analysis of a company's audited financial statements and the calculation of various ratios. In-depth analysis may also involve the questioning of management personnel, industry comparisons, review of general and industry specific economic forecasts, analysis of a company's competitors and ultimately the making of profit forecasts in an effort to determine the value of a company or its ability to pay its debts.

See also Current ratio, Acid-test ratio, Liquidity, Accounts receivable turnover, Days sales in accounts receivable, Inventory turnover, Days sales in inventory, Debt ratio, Debt to equity ratio, Leverage, Earnings per share, Dividends per share, Price earnings ratio (P/E ratio), Return on investment, Vertical analysis and Horizontal analysis

Financial analyst

A person involved in the performance of financial analysis. Most financial analysts work for investment banking companies, stock brokerage firms, banks and other financial institutions involved in providing debt or equity financing to businesses or advice to investors.

Financial position

Refers to a company's assets, l liabilities, and owners' equity as of a point in time.

See also Balance sheet

Financial statement analysis

The review of a company's general purpose financial statements conducted in conjunction with the financial analysis of the company. This review includes the use of ratios, vertical analysis and horizontal analysis in evaluating a company's liquidity, leverage and management performance in an attempt to project the company's prospects for the future.

See also Current ratio, Acid-test ratio, Accounts receivable turnover, Days sales in accounts receivable, Inventory turnover, Days sales in inventory, Debt ratio, Debt to equity ratio, Earnings per share, Dividends per share, Price earnings ratio and Return on investment

Financial statements

Also referred to as "general purpose financial statements." Financial statements required under GAAP include a company's balance sheet, income statement, and statement of cash flows. An optional statement that is not required under GAAP but is often provided is a statement of owners' equity or statement detailing the activity of the retained earnings/deficits portion of owners' equity. GAAP also requires certainnotes to the financial statements that provide supplemental information.

See also Financial accounting, Audit, Auditor's report, Accounting period, Financial statement analysis and Pro-forma financial statements

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Financing

The way a company gets the capital or assets necessary to operate. Companies obtain assets through either debt or equity financing. Debt financing refers to the borrowing of assets and equity financing comes from owners' capital contributions and retained earnings. A company's balance sheet reports its total assets and the amount of those assets financed through debt (liabilities) and equity (owners' equity).

See also Leverage, Debt ratio and Debt to equity ratio

Financing Activities

The raising of capital through either borrowing, or debt financing, or through the contributions of owners, which is referred to as equity financing. Transactions involving payoffs of loans, or return of capital to owners, or the payment of dividends to shareholders is also a part of a company's financing activities. The financing activities for the period are reported on the companies Statement of Cash Flows.

Finished goods inventory

A category of inventory for a manufacturing business that includes all product costs (direct materials, direct labor and manufacturing overhead costs) for manufactured goods that have been completed and are available for sale to customers. Upon sale, the costs of the finished goods sold are transferred to an expense (cost of goods sold).

Fiscal year

Any 12-month period used for financial reporting of a company's annual operations ending on a date other than December 31st. For example, a company operating on a fiscal year ending August 31st will reflect financial statements that cover the 12-month period beginning September 1st and ending August 31st of the following year. A calendar year is the 12-month period ending December 31st. Companies may elect to operate and provide their annual financial statements on either a calendar or fiscal year basis.

See also Accounting period

FIT Withholding

Federal Income Tax Withholding. Employers are required to withhold and submit a designated amount of the employees wages each pay period to cover the employees Federal personal income tax liability. This is an expense of the employee not the employer. It is a payable for the employer because they submit the money to the governing agency.

Fixed cost per unit

An amount determined by dividing fixed costs for a period of time by the volume of units produced or sold during that period. Even though fixed costs do not change in total with changes in volume, the calculated fixed costs per unit increase and decrease with lower and higher volume, respectively. This explains why businesses with substantial fixed costs of operations may experience significant fluctuations inprofits with changes in volume.

Fixed costs

Any cost that remains unchanged in amount over a period of time regardless of the volume of production or sales. For example, equipment leases that cost $2,000 per month regardless of the number of units a company produces or sells would be considered fixed costs. In reality, no cost is ever truly fixed under conditions of unlimited volume. If a company triples production, additional equipment will probably be required, and increased lease costs incurred. As a result, costs are considered fixed when they do not vary within a company's "relevant range" of volume. Relevant range refers to a company's reasonably anticipated range of production or sales volume for a period.

See also Fixed cost per unit, Stepped costs, Mixed costs and CVP analysis

Fixed Manufacturing Overhead Budget Variance

The difference between the standard or budgeted fixed overhead and actual amount spent. Fixed Overhead costs are the indirect manufacturing costs that are not expected to change with the volume of activity. Examples include depreciation, insurance, property taxes.

See also Fixed Manufacturing Overhead Volume Variance

Fixed Manufacturing Overhead Variance

The difference between the standard or budgeted fixed overhead costs and the actual costs. This can be broken down into Fixed Manufacturing Overhead Budget Variance and Fixed Manufacturing Overhead Volume Variance

Fixed Manufacturing Overhead Volume Variance

The difference between the standard or budgeted fixed overhead and the Fixed manufacturing overhead costs that were

included in the company's total application of overhead to Work in Process during the period.
See also Fixed Manufacturing Overhead Budget Variance.

Floor Cost

The ceiling cost less a normal profit margin.

FOB destination free on board delivery

When merchandise is shipped to a customer, whether revenues are recognized at the time of shipment or at the time of subsequent customer receipt, will depend on the term of the contract. FOB destination is when ownership doesn't transfer and revenues are deferred until the goods are actually received by the customer.
See also FOB shipping point.

FOB shipping point

When merchandise is shipped to a customer, whether revenues are recognized at the time of shipment or at the time of subsequent customer receipt, will depend on the term of the contract. Ownership transfers and revenues are recognized when goods are loaded for shipment from the company's dock.
See also FOB destination free on board delivery.

Foreclosure

The forced sale of an asset (s) intended to generate cash in full or partial payoff of a loan. Foreclosure typically takes place when a borroweris in default on a loan secured with collateral.
See also Liquidation

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Foreign currency translation adjustment

An adjusting journal entry made as a result of changes in currency exchange rates affecting the valuation of a company's investment in foreign subsidiaries.

Franchise rights

An exclusive right to produce and/or sell a certain product or service within a designated geographic area. Franchise rights are typically purchased and accounted for as intangible assets on the books of the franchisee (the buyer of the franchise) at the price paid for the rights. This capitalized cost is amortized to expense over the legal term of the franchise rights on a straight-line basis. The amount of accumulated amortization is maintained in a contra-asset account appearing on the balance sheet as an offset against the franchise right's original capitalized cost. The resulting net balance sheet amount is referred to as the franchise's "book value."
See also Long-term assets

FTC

Federal Trade Commission. A federal regulatory body that is responsibility for enforcement of federal antitrust and consumer protection laws.

FUI

Federal unemployment insurance, which must be paid to the federal government by companies with employees in the United States.

Fully amortizing mortgage

A mortgage loan requiring equal monthly payments in an amount sufficient to pay the entire amount of principal and interest due over theterm of the loan (usually 30 years). Fully amortizing mortgages provide for monthly payments to be applied first to any interest due with the excess applied to principal. The resulting decline in outstanding principal reduces the the monthly interest charge and increases the portion of each payment applied to principal over time. As a result, early payments are recorded almost entirely as interest expense ; however, by the end of the mortgage monthly payments are devoted almost completely to payment of principal. If any payments are made in excess of the required monthly amount, that excess is applied to principal and allows for the mortgage note to be paid off sooner than was originally anticipated.
See also Mortgage amortization

Fundamental Analysts

Analysts who make accurate forecasts of a company's future EPS as the basis for evaluating a company's current stock price and its prospects for the future. Some of the techniques used involve
1. Hand on evaluation s of a company's products and services. Market research can be an important tool.
2. Research on general and industry economic trends.
3. Meet and communicate with key management personnel.
4. Review and analyze financial statements – ratios and other calculations and comparisons of numbers that are found in the financial statements.

Future Value

The value of a cash flow payment at a specified time in the future.

GAAP

Stands for generally accepted accounting principles, which are the standards or rules of

accounting used in the United States in preparation of general purpose financial statements. The SEC has the legislated authority to establish GAAP for publicly held companies in the U.S.; however, the SEC has delegated that role to the FASB which is a private organization devoted entirely to the establishment of GAAP.

GAAS

Stands for generally accepted auditing standards, which detail the audit procedures and guidelines prescribed by the AICPA for the performance of a CPAs certified audit of a company's financial statements.

Gain on sale

Revenue resulting from the sale of non- inventory assets at a price above their book value. Property, plant and equipment, and other long-term assets are non-inventory assets that are sometimes sold due to discontinued use or changes in management plans. The amount of gain recorded on the sale of such assets is the excess of sales price over the book value of the asset and is classified with "other revenues and expenses" in a multi-step formatted income statement.

General journal

A company's written or electronic record of all journal entries not otherwise recorded in a special journal. Special journals are often used to record a company's recurring transactions, and as a result, the general journal is often used exclusively for adjusting and closing entries.

General ledger

A written or electronic file comprised of all company accounts. The effects of a company's transactions are summarized in its general ledger through the posting of journal entries. Posting refers to the transfer of originally recorded debit and credit entries to the proper general ledger account where an updated running balance is maintained for the specific asset, liability, or owners' equity account affected.

General purpose financial statements

The financial statements, including balance sheet, income statement, and statement of cash flows, required under GAAP. An additional statement that may be optionally included is a statement of owners' equity or statement detailing the activity of the retained earnings/deficits portion of owners' equity. GAAP also requires certain notes to the financial statements that provide supplemental financial statement information.

See also Financial accounting, Audit, Auditor's report, Accounting period, Financial statement analysis and Pro-forma financial statements

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Goodwill

Generally speaking, goodwill refers to favorable relations with customers. In an accounting context, goodwill refers to the excess of acompany's fair market value over the fair market value of its assets less its total liabilities. This excess value may be attributable to favorable customer relations or other factors that allow the company to generate above-average profits on its assets. Under GAAP, this excess value or goodwill is only recorded as an asset when one company actually purchases another. The amount of purchased goodwill is accounted for as an intangible asset and equals the price paid in excess of the fair market value of the assets of the company purchased less any liabilitiesassumed. In the past, GAAP required goodwill to be amortized to expense over an estimated useful life not to exceed 40 years. Current accounting standards now require a comparison of recorded goodwill to its current fair market value. The fair market value refers to the excess price above the current value of the assets less liabilities that would be paid atoday if the business segment was available for purchase. If the amount of goodwill has increased from one year to the next, no gain is reported. If, on the other hand, the amount of goodwill has decreased, a loss is recorded in the income statement and the reduction reflected in the goodwill amount on the balance sheet.

Government Agencies

An administrative governmental unit set up for a specific purpose such as financial oversight or management of resources.

Gross margin

Also referred to as "gross profit" or a company's overall "markup" or "margin." Gross margin is equal to the amount of a company's net sales revenues less cost of goods sold for a period of time. A company's gross margin does not equal

its net income because other operating expenses, other revenues and expenses and income taxes must also be taken into account in the determination of net income.
See also Multi-step formatted income statement

Gross margin percentage

The amount of a company's gross margin divided by its net sales revenues. This amount is also referred to as a company's "gross profit percentage," "gross profit on sales," "margin on sales" or "margins." A gross margin percentage of .40 (40%) means that a company is making 40 cents on every dollar of net sales revenues. In financial analysis, comparison of a company's margins over a number of years provides evidence of a company's competition in the marketplace. Declining gross margins over time offer evidence that markets have become more competitive for a company's products. Declining margins often result from increasing product costs that cannot be passed on to customers through higher sales prices or decreasing sales prices implemented in an effort to maintain or increase sales volume.
See also Vertical analysis

Gross sales revenues

Refers to the amount of a company's total sales revenues before any contra-revenue amounts (sales discounts, sales returns and allowances) are deducted.

Held to Maturity Securities

Includes bonds held with the intent to hold them until the final principal payment is received.
See also Trading Securities, Available-for-Sale Securities

High-low method

An approach used to segregate the fixed and variable components of a mixed cost which is necessary prior to performance of CVP analysis. The high-low method utilizes two points of reference in the determination of fixed and variable cost components; costs for the period of highest volume and costs for the period of lowest volume. This approach is objective but generally inferior to the scattergraph method, which includes analysis of mixed cost behavior for more than just two periods in determining fixed and variable components.

Historical cost

The original cost of acquiring an asset. In an arm's-length transaction, an asset's cost is also its fair market value at the date of acquisition. Under GAAP, the book value of an asset is based on its historical cost even if the asset has appreciated in value subsequent to its acquisition. On the other hand, decreasing asset values below book values may require asset write-downs. This inconsistency in application is due to the attitude of conservatism that prevails in accounting rules and standards.
See also Capitalized cost

Horizontal analysis

The determination of the percentage change in financial statement amounts from one period to the next. This percentage is calculated by dividing the amount of change (increase or decrease) by the amount of the base period (first of the two periods compared). For example, the percentage increase in a company's total assets growing from $40,000 to $50,000 over a period of time would be 25% ($10,000/$40,000). Although this approach provides a simple expression of the magnitude of any increase or decrease from one period to the next, it can be highly deceptive on a comparative basis if the percentages are not predicated upon similar base amounts. For example, an increase in Company A's annual sales revenues from $100 to $200 would represent a 100% increase, but is not nearly as significant in real dollars as Company B's 20% increase in sales from $100 million to $120 million. As a result, horizontal analysis may actually confuse comparisons and must be carefully used.
See also Financial statement analysis

Hurdle Rate

The minimum required rate of return on a project, set by management.

IASB

The International Accounting Standards Board is a private organization headquartered in London and is committed to developing a single set of high quality global accounting standards. In addition, the Board cooperates with national accounting standard setters in an attempt to achieve convergence in accounting standards around the world.

Impairment

When the value of the asset has declined below the recorded book value. When an asset is impaired, the company must immediately write down the value of the asset and record an impairment loss. Accounting for impairment of a long-term asset is a two-step process

Improvements

Costs incurred to significantly extend the useful life or enhance the productivity of an asset, usually property, plant and equipment. Improvement costs are accounted for as part of the capitalized cost of the improved asset and depreciated over the asset's adjusted useful life when using the straight-line method of depreciation, or adjusted productivity when using the units-of-production method.

See also Repairs and maintenance expense

Income

A loosely used term which may refer to revenues less expenses as in the case of net income. Income is also commonly used to refer to different kinds of revenues as in the case of interest income which refers to interest revenue.

Income before income taxes

An amount appearing on a company's multi-step formatted income statement which represents the total of all its revenues less all itsexpenses except income tax expense for a period of time. This amount emphasizes a company's results from operations before income taxes and highlights the impact of income taxes on a company's net income. Only corporations incur income taxes reflected on the company's income statement. Companies operating as proprietorships or partnerships do not pay income tax; however, their profits are subject to taxes to be paid for personally by the company's owners. Corporate owners (stockholders) are also taxed personally on company profits to the extent those profits are distributed as dividends. As a result, corporate profits paid as dividends face "double taxation."

See also LLC

Income statement

Sometimes referred to as a "statement of operations," "statement of profit and loss," "P & L statement" or "statement of earnings." An income statement is a general purpose financial statement which lists a company's revenues less expenses and the resulting net income ornet loss for a period of time. A company's earnings per share must also be disclosed in the income statement.

See also Multi-step formatted income statement, Nominal account, Pro-forma financial statements, Financial statement analysis and Vertical analysis

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Income tax expense

The cost of both federal and state income taxes paid and/or payable in the future as a result of a corporation's earnings in the currentperiod. In a multi-step formatted income statement or any other format that may be used, income tax expense is typically broken out as a separate category of expense to highlight a company's income before income taxes and the amount of income taxes incurred by the company. Only corporations incur income taxes that would be reflected on a company's income statement. Companies operating asproprietorships or partnerships do not pay income tax; however, their profits are subject to taxes to be paid for personally by the owners. Corporate owners (stockholders) are also taxed personally on company profits to the extent those profits are distributed as dividends. As a result, corporate profits paid as dividends face "double taxation."

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See also LLC

Incurred costs

Costs paid or payable in the future.

See also Expenditure, Expenses and Capitalized cost

Indirect labor

Refers to the hours and/or costs of salaries and wages of employees of a manufacturing company involved in supervision, quality control, factoring maintenance and any other activity in support of the manufactoring process.

See also Indirect labor costs

Indirect labor costs

Costs incurred for salaries and wages of employees of

a manufacturing company involved in supervision, quality control, factorymaintenance and any other activity in support of the manufacturing process. Indirect labor costs exclude costs of direct labor, which represent salaries and wages of employees involved in the hands-on labor of making or assembling a manufactured product. Indirect labor costs are accounted for as part of manufacturing overhead and applied to WIP Inventory in a job order cost system through apredetermined overhead rate.

Indirect material costs

Costs incurred in the acquisition of raw materials or other supplies which are not incorporated directly into a manufactured product but are used to support or maintain the manufacturing process. These costs include any freight or other costs incurred in actually obtaining the materials or supplies from vendors. Indirect material costs are included in a manufacturing company's raw materials inventory until the materials are requisitioned and used in support of the manufacturing process. Upon requisition and use, these costs are transferred to themanufacturing overhead account and then applied to WIP inventory in a job order cost system through a predetermined overhead rate. In a job order cost system, some direct materials are accounted for as indirect materials when they are insignificant in amount and are difficult to account for directly on a job-by-job basis.

Indirect materials

Raw materials or supplies which are not incorporated directly into a manufactured product but are used to support or maintain the manufacturing process in some way.

See also Indirect material costs

Indirect Method of Cash Flows

A way of reporting cash flows from operating activities on the statement of cash flows. Most companies choose to report their cash flows from operations using this method. This method takes the net income reported on the income statement and makes adjustments for changes in the company's balance sheet accounts to reconcile net income to net cash flow from operations.

See also Direct Method of Cash Flows

Insolvent

The condition of a company when it is unable to pay its debts.

See also Bankruptcy

Intangible asset

A category of assets typically appearing under the classification "long-term assets" on a company's balance sheet. Intangible assets usually represent some right(s), as opposed to property, having probable future benefit to a company. Common intangibles include patents,copyrights, trademarks, franchise rights and goodwill. Under GAAP, research and development costs and other costs a company incurs in developing any intangible assets are typically expensed in the period incurred. As a result, most intangible assets appear in a company's balance sheet only when they are purchased from another company, thereby establishing an objective historical cost. The capitalized cost of any recorded intangible is typically amortized to expense using the straight-line method over the lesser term of its estimated useful or legal life. Total amortization recorded since the acquisition of an intangible asset is maintained in a contra-asset account (accumulated amortization) which appears as an offset against the asset's capitalized costs on the balance sheet. The resulting net balance sheet amount is often referred to as the "book value" of the asset.

See also Gain on sale and Loss on sale

Interest

The price charged by providers of debt financing, or in other words, the cost incurred in the borrowing of assets.

See also Interest expense, Loans, Note payable, Bonds, Mortgage note and Mortgage amortization

Interest

The price charged by providers of debt financing, or in other words, the cost incurred in the borrowing of assets.

See also Interest expense, Loans, Note payable, Bonds, Mortgage note and Mortgage amortization

Interest expense

The amount of interest paid plus the amount of any interest to be paid in the future (interest payable) as a result of any borrowing of assetsfor current period use.

See also Loan, Note payable, Bonds, Mortgage note, Mortgage amortization, Matching principle and Other revenues and expenses

Interest revenue

Also referred to as "interest income." Interest revenue is the amount of interest received plus the amount of any interest receivable as a result of interest earned during the current period on any company loans or other interest bearing investments.

See also Revenue recognition principle and Other revenues and expenses

Interests in a company

A phrase referring to ownership rights in a company. A person has interests in a company if he or she is a stockholder, partner or proprietor.

Internal audit

An examination performed by a company's own employees as part of an effort to safeguard company assets, improve operations or verify accounting information. The performance of periodic internal audits by a company is an example of an internal control procedure.

See also Audit

Internal controls

Policies and procedures designed to safeguard a company's assets and provide accurate accounting information. Internal controls include any measures taken by a company to protect its cash, inventory and other assets from employee or customer theft. Simple policies restricting physical access to assets through the locking of doors, availability of keys and the use of computer passwords are common and important examples of internal controls. Internal controls designed to safeguard and accurately account for a company's cash typically include the segregation of duties among employees handling and accounting for cash, the monthly preparation of bank reconciliations, and requirements for multiple check signatures and approvals of expenditures. The responsibility for establishing and effectively implementing adequate internal controls rests with a company's management. Management's report on financial information provided in a company's annual report addresses that responsibility and provides a statement as to the adequacy of a company's internal controls.

See also Internal audit

Internal Rate of Return (IRR)

A capital budgeting technique that is used to measure and compare the profitability of investments. The interest rate that makes the present value of the cash inflows equal to the present value of the cash outflows is calculated. Under this method, a project will be accepted if the internal rate of return (IRR) is greater than a predetermined hurdle rate.

See also Net Present Value; Payback Period; Unadjusted Rate of Return

Internal Revenue Code

The documented federal tax laws for the United States. The code is supplemented for clarification by regulations and rulings issued by theIRS and any court decisions involving tax issues.

Inventory

An asset reflecting the cost of a company's products held for sale to customers. These product costs are deducted from inventory and recorded as expenses (cost of goods sold) when products are sold. For merchandising businesses, a product's cost is its purchase price and any freight or other costs associated with actually obtaining the product from a vendor. In a manufacturing business, product costs include any direct material, direct labor and manufacturing overhead costs incurred in the manufacturing process. Manufacturing businesses have three stages of inventory: raw materials, work in process (WIP) and finished goods inventory. Raw materials inventory includes the costs of acquiring any direct and indirect materials to be used in the manufacturing process and includes any freight or other costs incurred in actually obtaining the materials from vendors. These costs of direct and indirect materials are then transferred to work in process (WIP) inventory when the materials are actually requisitioned and used in the production process. WIP includes the costs of these materials plus any direct labor and other manufacturing overhead costs incurred in the manufacturing process. Upon completion of production, these costs are transferred to finished goods inventory and then expensed as cost of goods sold upon subsequent product sales.

See also Inventory cost flows, Perpetual inventory accounting, Periodic inventory accounting, Purchase on account, Purchase returns, Purchase discounts, Physical inventory, Shrinkage, Inventory turnover, Days sales in inventory, Current assets and Current ratio

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See also Inventory cost flows, Perpetual inventory accounting, Periodic inventory accounting, Purchase on account, Purchase returns, Purchase discounts, Physical inventory, Shrinkage, Inventory turnover, Days sales in inventory, Current assets and Current ratio

Inventory cost flows

Accounting for the sale of inventory and the resulting expense (cost of good sold) requires determination of the inventory items sold and their costs. The specific identification method of accounting for inventory is used by companies that deal in inventories where each item of inventory is different in nature and/or cost. For example, an antique furniture store will use specific identification in determining the cost of inventory and the cost of goods sold because of the unique character and costs of each item of inventory. Companies that sell products that are similar in nature and cost typically use an inventory cost flow assumption, rather than the specific identification method. The three basic cost flow assumptions used are FIFO (first-in, first-out), LIFO (last-in, first-out), or a moving weighted-average approach. These methods do not seek to specifically identify the cost of a particular unit sold. Instead, they simply assume that the cost of any unit sold is either the cost of the first, last or some moving weighted-average cost of the units previously purchased and available for sale. Any cost flow assumption may be selected for use in a company's accounting records, regardless of the actual physical flow of goods to customers. However, the assumption selected must be applied consistently over time. The cost flow assumption made for financial reporting purposes must also be used for income tax purposes. The effects of the different cost flow methods on a company's cost of goods sold, net income and ending inventory amounts will depend on whether inventory costs are rising or falling (inflation vs. deflation) during the period.

Inventory shrinkage

Inventory lost through deterioration, obsolescence, theft or waste.

Inventory turnover

A ratio used in financial statement analysis to evaluate a company's management of its inventories. The ratio is determined by dividing the amount of cost of goods sold for a period by the average balance of inventory maintained during that period. The average balance of inventory is usually calculated by adding the amounts of beginning and ending inventory and dividing that sum by two. The resulting inventory turnover reflects the number of times the company buys and then sells its entire average balance of inventory during a period of time. Inventory is a critical asset for most companies and needs to be well-managed. Having sufficient inventory to satisfy customer demand and promote sales is crucial. Having excessive inventory can, on the other hand, be expensive due to costs of space, maintenance, possible obsolescence and financing. Generally speaking, the higher a company's inventory turnover the better as long as customers are satisfied with product selection and availability. Higher turnover results from lower inventory levels relative to sales volume. The calculation and comparison of a company's inventory turnover with that of other comparable companies in the same industry can be helpful in evaluating a company's management.

See also Days sales in inventory

Investing Activities

The acquisition of any long-term assets such as property, plan and equipment. Any subsequent disposition of those assets is also part of a company's investing activities. The investing activities for the period are reported on the companies Statement of Cash Flows.

Investment banking company

A company's agent hired to facilitate and manage the issuance of stocks or bonds.

See also Public offering

Investment Center

An organizational unit over which the assigned manager has accountability for the allocation and use of assets as well as revenue and costs.

See also Cost Center, Profit Center

Investment in Debt Securities

An investment in or the purchase of corporate or government issued bonds. They're referred to as debt securities because upon issuance a liability, or debt, is recorded on the books of the issuing company or governmental entity. When bonds are purchased, the investor becomes an owner of debt, or, in effect, a lender with rights to receive future payments of principal and interest.

See also Investment in Equity Securities.

Investment in Equity Securities

An investment in or the purchase of a company's common or preferred stock. Stocks are called equity securities because they provide holders with ownership rights or equity interests in a company. When stocks are purchased, returns on investment come in the form of dividends and any gains on the subsequent sale of the stock.

See Also Investment in Debt Securities.

Investment revenues

Also referred to as "investment income." Investment revenues typically include dividends or any gains on the sale of investment securities.

Sometimes companies include any interest revenues in the category of investment revenues on their income statement.

See also Revenue recognition principle and Other revenues and expenses

Investor

A provider of capital to a company. The term "investor" is most commonly associated with providers of equity financing ; however, providers of debt financing might also refer to a loan as an "investment."

See also Financial accounting

IRS

Internal Revenue Service. The IRS is a federal agency responsible for the collection of federal taxes in the United States.

Issued stock

Shares of common or preferred stock that have been given to owners in exchange for capital contributed or services provided to acorporation. In some cases, the number of issued shares may not correspond to the number of shares currently held by owners (stockholders). This situation exists when a corporation has bought back some of its previously issued stock. Issued stock that is no longeroutstanding due to company ownership is referred to as "treasury stock."

See also Public offering

Job cost record or sheet

A written or electronic record maintained in a manufacturing company's job order cost system to accumulate all of the product costs (direct materials, direct labor and manufacturing overhead) associated with a specific production job. Such an accumulation allows for the determination of the cost per unit produced and is crucial for accurate accounting and quality management of a business. All of a company's job cost records taken as a whole for all jobs in progress constitutes a subsidiary ledger for the company's WIP Inventory account.

Job order cost system

A method of determining the costs of different products manufactured by a company in a single factory or manufacturing process. A job order cost system utilizes a separate job cost sheet or record to accumulate the product costs of each batch (job) of common units ofproduction. For example, a job cost record will be set up for the production of ten oak chairs and a separate record maintained for the production of two mahogany tables. This separate accumulation of product costs by job or batch allows for the determination of each product's unique costs. A mahogany table costs more to produce than an oak chair and this system is designed to make that distinction. Knowing a specific product's unique cost is necessary to properly account for cost of goods sold, but even more importantly, it is critical for effective management of a business. The setting of a product's selling price, implementation of strategies designed to cut specific product costs, decisions on product sales promotions and advertising, and a variety of other management issues all require an accurate understanding of each separate product's manufactured cost.

See also Process cost system

Journal

A record in either written or electronic form used to originally record a company's transactions through appropriate debit and credit entriesto the company's accounts. Journals also serve as the original record for a company's adjusting and closing entries. Most companies maintain special journals as well as a general journals to record their transactions.

See also Accounting cycle and Double-entry accounting

Journal entries

The original recording of a company's transactions in a general or special journal. Debit and credit entries are used in journal entries to record each transaction's effect on company accounts. Double-entry accounting requires that each journal entry include equal totals of debits and credits while maintaining the integrity of the basic accounting equation. Adjusting and closing entries are also recorded in a company's general journal and referred to as journal entries.

See also Accounting cycle

Junk Bonds

Bonds that are issued by companies with low credit ratings.

Labor Efficiency Variance

The difference between the amount of labor time that was used in production when compared to the standard (or budgeted) amount time expected. These variances often result when employees lack proper supervision, are poorly trained or lack adequate motivation. It is calculated by (Actual Hours – Standard Hours) X Standard Price.

See also Labor Rate Variance

Labor Rate Variance

Actual rate used to pay laborers compared to standard (or budgeted) rate to pay laborers. These variances often result when a company uses higher or lower skilled employees for certain production jobs. It is calculated by (Actual Rate – Standard Rate) X Actual Hours

See also Labor Efficiency Variance.

Labor Variance

The difference between the amount of budgeted or standard labor costs relative to the actual cost. This can be broken down into Labor Rate Variance and Labor Efficiency Variance.

Large stock dividend

Stock dividend defined as more than 20 to 25% of the shares outstanding at the date of declaration. A large stock dividend decreases retained earnings at the par or stated value only. Usually motivated by a company's desire to lower the stock's market price per share in hopes that this will increase trading in the company's stock and lift its overall value over time.

See Also Small Stock Dividend.

Least Squares Method

The best of all methods used to distinguish fixed and variable components of mixed costs. It uses all of the data reflected in the scattergraph and applies an objective statistical approach to determine the one straight-line that best fits, given all of the graph's plotted points. Also known as Linear Regression Method.

See Also High-low Method and Scattergraph Method.

Ledger

A file which maintains all of a company's accounts.

See also General ledger, Subsidiary ledger, Accounting cycle, Posting and Trial balance

Lender

Also referred to as a "creditor," a lender is the maker of a loan.

See also Debt financing

Leverage

A term used to describe the extent of a company's debt financing. Companies that are highly leveraged have been financed primarily with debt as opposed to equity. High leverage has its pros and cons. The advantage of debt is the ability to make money on borrowed money. This works well when the profits generated on borrowed assets exceed the interest costs on the debt incurred to obtain those assets. The disadvantage of debt financing is the obligation to make future payments. If principal or interest payments are due and a company is short of funds, then foreclosure or bankruptcy may result. Debt can be very unforgiving. Common ratios used in financial statement analysis to measure a company's leverage include the debt ratio and the debt to equity ratio.

Liabilities

Probable future obligations to pay assets (usually cash) or provide services to another entity. Liabilities are also referred to as a company's debts and are the result of a company's debt financing.

See also Financing, Basic accounting equation, Balance sheet, Accounts payable, Note payable, Mortgage note payable, Accrued liabilities, Unearned revenues, Bonds, Current liabilities, Long-term liabilities, Working capital, Leverage, Debt ratio, Debt to equity ratio, Liquidity, Current ratio, Acid-test ratio, Expenditure, Expense, Cost, Book value of a company, Fair market value of a company, Goodwill, Collateral, Default, Foreclosure, Insolvent, Liquidation, Bankruptcy, Dissolution and Distributions in the event of dissolution

LIFO (last-in, first-out)

An inventory cost flow method which may be used to account for inventory that is similar in nature and cost. For example, the LIFO method may be used to account for a candy store's jelly bean inventories but would not be acceptable for used-car inventories of an automobile dealership. LIFO provides for costs of the last units purchased and available for sale to be used as the cost of the first units sold in determining the amount of costs of goods sold. Comparison of the effects of LIFO versus other cost flow methods (FIFO and moving weighted-average) on cost of goods sold, net income and ending inventory depends on whether inventory costs are rising or falling (inflation vs. deflation) during the period. In periods of inflation, FIFO yields lower cost of goods sold, higher net income and higher ending inventory amounts. The opposite effect occurs in periods of deflation. If inventory costs are stable, all cost flow methods produce the same results.

See also Specific identification

Linear Regression Method

See Least Squares Method

Liquidation

The process of selling some or all of a company's assets in an effort to convert those assets to cash. Asset liquidation is often done in conjunction with the dissolution of a business requiring payoff of all debts before any excess cash or other remaining assets can be distributed to the owners of the company. Foreclosure is an example of forced liquidation of assets to satisfy company debts.

See also Bankruptcy

Liquidity

Refers to a company's ability to pay or meet its obligations in the short term. Companies that are unable to meet their current obligations on a timely basis are said to be "illiquid" and may be faced with foreclosures and possible bankruptcy. The classification of current assets andcurrent liabilities on a company's balance sheet are specifically designed to assist in evaluating a company's liquidity. A company's working capital refers to any excess of current assets over current liabilities. Companies with little or no working capital may have difficulty in continuing their operations. Both the current ratio and the acid-test ratio are commonly used in financial statement analysis to measure a company's liquidity.

LLC

Limited Liability Corporation. A corporate form of business ownership that enjoys some partnership characteristics, including the possible avoidance of federal corporate income taxes, while maintaining limited legal liability for its owners. Limited liability refers to the legal shielding of a business owner's personal assets from any claims against the business. LLCs are subject to their authorizing state's law, which in most cases restricts the number of stockholders allowed and limits certain transfers of ownership.

LLP

Limited Liability Partnership. Limited liability refers to the legal shielding of a business owner's personal assets from any claims against the business. Partnerships do not generally provide such legal protections unless they are formed and operated as LLPs according to state law. LLPs are treated as partnerships for income tax purposes and are therefore exempt from the separate income taxation faced by mostcorporations.

Loan

The borrowing of an asset, usually cash, to be repaid in the future. Most loans also provide for payment of interest representing the cost of borrowing. Loans are accounted for as assets (receivables) of the lender and as liabilities (payables) of the borrower.

See also Retained earnings/deficits

Long-term assets

A balance sheet classification of assets sometimes referred to as "operating assets" or "capital assets." Long-term assets include any assets which provide future benefits extending beyond the next year of a company's operations. Property, plant and equipment, intangible assetsand natural resources are assets that usually fit in this section of a company's balance sheet. Any asset that is not a long-term asset is referred to as a "current asset."

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Long-term liabilities

A balance sheet classification of liabilities representing a company's probable future obligations maturing beyond its next year ofoperations.Common long-term liabilities include bonds payable, notes payable and mortgage notes payable. Any liabilities that are not long-term liabilities are referred to as "current liabilities" and are obligations payable within the next year. Long-term liabilities are also commonly referred to as "non-current liabilities." Some obligations, such as fully amortizing mortgages, mature over extended periods of time. To the extent a portion of an obligation matures within the next year, that amount should be separately classified as the "current portion" of a payable within the current liabilities section of the balance sheet. Any remaining amount of the obligation would be a long-term liability.

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Loss

A loosely used term which may refer to a net loss but is also used in some cases to describe an expense, such as a loss on sale or loss on disposal of assets.

See also Debts and Debt financing

Loss on disposal

An expense resulting from any costs incurred in the discarding of a non- inventory asset plus the write-off of any of its remaining book value. Common non-inventory assets that are sometimes disposed of include property, plant and equipment. Any loss on disposal is typically classified with "other revenues and expenses" in a multi-step formatted income statement. The expense associated with the disposal of useless or spoiled inventory is typically referred to as "shrinkage" rather than a loss on disposal.

See also Gain on sale and Loss on sale

Loss on sale

An expense resulting from the sale of a non- inventory asset at a price below its book value. Non-inventory assets that are sometimes sold due to discontinued use or changes in management plans may include property, plant and equipment and other long-term assets. The amount of loss recorded is equal to the excess of the book value of the asset sold above the asset's sales price, and is typically classified with "other revenues and expenses" in a multi-step formatted income statement.

See also Gain on sale and Loss on disposal

Lower of Cost or Market (LCM)

GAAP requires that a company evaluate it's ending inventory balance and determine if the inventory is damaged, obsolete or simply worth less than it's original historical cost. This is done through a Lower of Cost or Market analysis. Inventory should be recorded at historical cost or market value if it is BELOW historical cost. Companies may NOT increase the value of their inventory from historical cost. The LCM analysis is done by first determining market. Market value is the replacement cost of the inventory, not to exceed a ceiling cost and not to fall below a floor cost.

Management

Refers collectively to the people involved in managing a business. Management also refers to the process of organizing, controlling and directing a company's activities.

Management's report on financial information

A letter prepared by a company's management and included in its annual report. The letter states management's responsibility for the preparation and integrity of the financial statements and related financial information included in the annual report. The letter additionally notes management's responsibility for the establishment and implementation of adequate internal controls along with a statement regarding the adequacy of existing controls.

Managerial accounting

The system of accounting designed to provide information useful to a company's managers in improving operations. Managerial accounting information is rarely made public and is not governed by any rules of accounting or GAAP. The SEC has no role in managerial accounting information. Management reports are often produced daily and may include considerable detail required in the day-to-day monitoring of business operations. Much of managerial accounting information involves budgets and forecasts for planning purposes along with follow-up reports noting budget and actual variances. Whereas financial accounting is based entirely on historical reporting of completed operations, much of managerial accounting focuses on the future.

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Managers

People reponsible for the organization, control and direction of a company's business activities.

Manufacturing business

A business that assembles or constructs a tangible product for sale to customers. Manufacturing business customers are typically wholesaleor retail merchandisers involved in the distribution of manufactured products to the ultimate end user or consumer.

See also Merchandising business, Service business, Inventory, Product costs and Budgets

Manufacturing overhead account

An account used in a manufacturing company's job order cost system to accumulate all manufacturing overhead costs incurred in a period. These costs are applied to specific jobs in WIP inventory based on a predetermined overhead rate. The manufacturing overhead account is really a temporary "holding" account that effectively stores overhead costs until they can be transferred to WIP. Because of the imprecision of predetermined overhead rates, it is quite rare for the amount of applied costs to equal the actual overhead costs incurred in any period. As a result, the manufacturing overhead account will usually have a nominal debit or credit balance at the end of any accounting period. This balance reflects an under- or over-application of costs that should be corrected through an adjusting entry. This adjustment should leave the manufacturing overhead account with a zero balance and correct the under- or over-application to WIP. In practice, this adjustment usually includes an increase or decrease to cost of goods sold on the premise that most inventory produced during the period has been completed and sold by the end of the period.

Manufacturing overhead budget

An operational budget prepared to project the amount of a company's future manufacturing overhead costs. Information generated through this budget is subsequently used in preparation of a company's cash flow budget and pro-forma financial statements as well as the company's predetermined overhead rate to be used in applying overhead costs to WIP in a job order cost system.

See also Production budget

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See also Production budget

Manufacturing overhead costs

All costs incurred in the manufacture of products excluding direct material and direct labor costs. Manufacturing overhead costs typically include the costs of any indirect materials, indirect labor and any other costs incurred as a result of operating a manufacturing facility such as building and equipment depreciation, utility costs, insurance costs and property taxes. Companies using a job order cost system maintain a manufacturing overhead account to accumulate all actual manufacturing overhead costs incurred during a period until those costs can be applied to WIP through use of a predetermined overhead rate. Upon completion, a product's manufacturing overhead costs are transferred from WIP to finished goods inventory and then to cost of goods sold upon subsequent product sale

See also Product costs

Manufacturing Overhead Variance

The difference between the total actual overhead costs incurred and the total standard overhead cost applied to Work in Process. This can be broken down into Variable Manufacturing Overhead Variance and Fixed Manufacturing Overhead Variance.

Market Adjustment

The account used to increase or decrease trading or available for sale investment securities to their fair market values. This approach allows the investment general ledger control account and its related subsidiary ledger accounts to be maintained at historical costs, and having those costs readily available can facilitate our subsequent accounting when the stock is actually sold.

Market Capitalization (Market Cap)

A number that is used to determine a company's size. It is calculated by the market price of one share multiplied by the number of shares outstanding.

See Fair Market Value of a Company.

Markup

A product's markup is also referred to as the product's "gross margin" or "gross profit," and is the amount added to the cost of a product in establishing its sales price to customers. The amount of a product markup is often expressed as a percentage of the product's cost. For example, if a product which cost $50 is marked up to $75 for sale, the $25 markup is also referred to a 50% markup on cost (25/50 = 50%). To "keystone'" a product means to sell it at a 100% markup or at a price double its cost. This percentage markup is often confused with a product's gross margin percentage, which is

the markup as a percentage of sales price rather than cost.

Matching principle

The part of accrual basis accounting that governs the timing of expenses. The matching principle requires the costs of operating a companyto be recorded as expenses in the period in which those costs provide benefits to the company, not necessarily when those costs are actually paid in cash. Compliance with the matching principle will often require a company to make adjusting entries to properly account for anyaccrued or prepaid expenses before preparation of the company's financial statements. The allowance method of accounting for uncollectible accounts receivable, depreciation of property, plant and equipment, depletion of natural recources and amortization ofintangibles are all examples of applications of the matching principle.

Material Price Variance

Actual price used to purchase the materials compared to the standard price, multiplied by the actual quantity. Unfavorable variances generally are the result of higher than expected supplier prices, failure to take advance of volume or purchase discounts, higher than expected freight costs. It is calculated by (Actual Price – Standard Price) X Actual Quantity.

See also Material Usage Variance

Material Usage (Quantity) Variance

The difference between the amount of material that was expected to make a product (the material quantity standard) compared to the amount of material that was actually used. Unfavorable variances generally occur due to spoilage, untrained workers, poor supervision and the use of inferior materials. It is calculated by (Actual Quantity – Standard Quantity) X Standard Price

See also Material Price Variance

Material Variance

The difference between the budgeted or standard material cost relative to the actual cost. This can be broken down into Material Usage Variance and Material Price Variance.

Materials requisition

A procedure that establishes authorization and initiates the transfer of specified raw materials (direct or indirect materials) into production for a manufacturing company. In most cases, a form or electronic record is used to document a materials requisition noting the specific job order or production batch for which direct materials are to be used. Material requisitions serve as the basis for entries assigning direct material costs to specific job cost sheets for WIP. Indirect materials used in production should also be supported by a requisition and accounted for as part of manufacturing overhead costs.

Maturity

The due date for payment of all or a portion of principal on a loan, note payable, bond or any other obligation of a company.

Merchandise

Products or goods held for sale to customers A company's cost of merchandise is an asset (inventory) and becomes an expense when sold (cost of goods sold). (See also Manufacturing business, Merchandising business, Wholesale merchandiser, Retail merchandiser and Product costs.)

Merchandise return

Previously sold merchandise that is returned by a customer for a cash refund or credit on account.

See also Sales returns and allowances, Contra-revenue account and Net sales revenues

Merchandising business

A company involved in the purchase and sale of finished products. Merchandisers are also referred to as "distributors." Wholesale merchandisers typically purchase finished products from manufacturers and then sell those products to retail merchandisers. Retail merchandisers sell products to the end user or consumer.

See also Inventory, Product costs and Budgets

Mixed costs

Costs which have both fixed and variable components when measuring behavior with changing volume of production or sales. An example of a mixed cost might be utility costs for which there are fixed monthly hookup fees plus costs that vary with the volume of production. Because basic CVP analysis requires that all company costs be distinguished as either fixed or variable, any mixed costs of a company must be analyzed and broken apart into their fixed and variable components. Two common methods used to accomplish this are the high-low andscattergraph methods.

Monetary measurement principle

The requirement under GAAP providing for a company's financial statements to reflect only those transactions that can be measured in dollars.

See also Historical cost

Mortgage amortization

The periodic payment of principal during the term of a mortgage note.

See also Manufacturing business, Merchandising business, Wholesale merchandiser, Retail merchandiser and Product costs

Mortgage loan

The providing of cash by a lender for which the borrower's obligation is secured by real estate through a trust deed.

See also Mortgage note, Collateral, Mortgage amortization and Fully amortizing mortgage

Mortgage note

A signed document specifying the terms and conditions of a financial obligation secured by real estate through a trust deed. A mortgage note documents the principal amount due, the interest rate charged and the amount and timing of principal and interest payments over the designated term of the mortgage loan.

See also Collateral, Mortgage amortization and Fully amortizing mortgage

Mortgage note payable

A liability account reflecting the principal amount due under a mortgage note. This amount is usually reduced each month with monthly payments made under a fully amortizing mortgage.

See also Mortgage amortization

Mortgage-backed bonds

Bonds for which real estate is specified as collateral through a trust deed. Because the pledging of collateral usually provides bondholders with greater assurance of ultimate repayment, mortgage-backed bonds usually carry lower interest rates than do debentures or other unsecured debt.

Moving weighted-average

An inventory cost flow method which may be used to account for inventory that is similar in nature and cost. For example, the moving weighted-average method may be used to account for a candy store's jelly bean inventories but would not be acceptable for used-car inventories of an automobile dealership. The moving weighted-average method provides that weighted-average costs of units purchased and available for sale be used as the cost of the first units sold in determining the amount of cost of goods sold. This method will always impact a company's cost of goods sold, net income and ending inventory amounts somewhere between the effects of either LIFO or FIFO, regardless of any changing inventory costs during a period.

See also Specific identification

Multi-step formatted income statement

A way of presenting income statement information to reflect a number of meaningful sub-categories leading up to a company's ultimate net income or loss. The multi-step format is not required, but is often used and creates the following sub-categories of income: (1) Gross sales revenues less any contra-revenues produce an amount referred to as "net sales revenues." (2) The amount of net sales revenues less cost of goods sold equals an amount called "gross margin." (3) The amount of gross margin less operating expenses (excluding cost of goods sold) produces an amount described as "operating income/loss." (4) The amount of operating income/loss less any other revenues and expensesdetermines a company's "income/loss before income taxes."(5) The amount of a company's income/loss before income taxes less the amount of any income tax expense finally reflects a company's net income or loss.(6) As required under GAAP, a company's EPS must also then be calculated and presented on the income statement.

NASDAQ

National Association of Securities Dealers Automated Quotations system. A computerized system established to facilitate public trading ofsecurities.

Natural resources

A category of assets that typically appears under "long-term assets" in a company's balance sheet. Natural resources typically include assets such as timber tracts, mineral deposits and oil wells. Under GAAP, these assets are recorded at their capitalized cost, which includes the costsof asset acquisition plus any costs of improvements. The allocation of the capitalized cost of a natural resource to expense over its productive life is done through the units-of-production method and is referred to as "depletion." The amount of total depleted costs since the acquisition of a natural resource is maintained in a contra-asset account (accumulated depletion) which appears as an offset against the asset's capitalized costs on the company's balance sheet. The resulting net amount is often referred to as the "book value of the asset."

See also Gain on sale and Loss on sale

Net assets

Usually refers to the amount of a company's total assets less total liabilities or the amount of total owners' equity. A company's net assets are provided through either owners' capital contributions or retained earnings.

See also Net income

Net Credit Sales Revenues

The amount of sales revenues from credit sales, less any sales discounts and sales returns and allowances on those sales.

Net Future Value (NFV)

The same as Net Present Value except the present value of all cash inflows and outflows is determined to a common point in the future rather than the present.

Net income

Also referred to as "profit," "net profit," "earnings" or "net earnings." Net income is equal to a company's total revenues less total expensesover a period of time and is reported through a company's income statement. Net income may also be defined as the amount of any increase in a company's net assets during a period of time due to profitable operations.

See also Retained earnings/deficits, Dividends, Earnings per share, Dividends per share, Multi-step formatted income statement, Break-even point, Targeted net income, Non-profit business and Net loss

Net loss

Also referred to as a "loss" or sometimes as a "deficit." A net loss results if a company's total expenses are greater than total revenues over a period of time. This would be reported through a company's income statement for the period. Net loss may also be defined as any decrease in the net assets of a compay during a period of time due to unprofitable operations.

See also Retained earnings/deficits, Dividends, Multi-step formatted income statement, Break-even point and Net income

Net present Value (NPV)

A capital budgeting technique that computes the present value of all cash inflows and outflows to the present or “now” and adds them together. Under this method, a project is accepted if the net present value is greater than zero.

See also Payback period; Unadjusted Rate of Return; Internal Rate of Return; Net Future Value

Net Realizable Value (NRV)

The price inventory could be sold for today in its current condition, less any selling costs. The value used as the ceiling cost in the LCManalysis.

Net realizable value of accounts receivable

The amount of total accounts receivable less any allowance for uncollectible accounts receivable. The net realizable value of accounts receivable is the amount of accounts receivable for which future cash collection is anticipated and is often referred to as the "book value" of accounts receivable.

See also Allowance method of accounting for uncollectible accounts receivable

Net sales revenues

The amount of gross sales revenues less any sales discounts and sales returns and allowances.

Net sales revenues

The amount of gross sales revenues less any sales discounts and sales returns and allowances.

Nominal accounts

Accounts that accumulate transactional entries for distinct periods of time and are closed to the retained earnings/deficits account at the end of each period. Nominal accounts are sometimes referred to as "temporary accounts" and include all revenue, contra-revenue, expenseand dividend accounts.

See also Closing entries and Real accounts

Non-cumulative preferred stock

Preferred stock issued without a provision for the carryover of unpaid dividend preferences. This means preferred stockholders receiving less than the full amount of their dividend preference in any year have no ongoing rights to that deficiency in future years. In other words, unpaid dividend rights are lost forever under non-cumulative preferred stock. Most companies issue cumulative as opposed to non-cumulative stock when and if preferred stock is issued because investors typically demand cumulative rights in their preferred stock investments.

Non-profit business

A business operated with no intent to produce a profit for the business owners. Non-profit businesses are generally operated to fulfill some charitable or social purpose of interest to the business owners. Many hospitals are operated on a non-profit basis.

Non-routine business decisions

Decisions not typically faced in the course of normal day-to-day operations. Examples might include the decision to discontinue a product line, the acceptance of a special customer order or the decision to make or buy a component part needed for a manufactured product. In making good non-routine business decisions, it is critical for management to identify and consider relevant revenues and costs and ignore information that should not impact the decision. The only relevant revenues and costs are future revenues and costs that vary among

the decision alternatives, or in other words, future revenues and costs that differentiate the decision options. In addition to the quantitative analysis involved in business decision-making, qualitative factors must also be considered. This means that regardless of the financialimpact, some choices are made to accomplish non-financial objectives. For example, a profitable business may be sold to a family relative at a price below its fair market value in order to accomplish some family objective.

See also Differential revenues and costs, Direct revenues and costs of a decision option, Opportunity costs and Sunk costs

Note Payable

An obligation supported by a signed legal document that typically provides for the payment of principal and interest at specified future dates.

See also Long-term liabilities

Notes to the financial statements

Footnotes to the general purpose financial statements provided to supplement and expand on the basic information presented in those statements. Specific note disclosures are required in many cases under GAAP.

NYSE

New York Stock Exchange. The oldest and largest stock exchange in the U.S., located on Wall Street in New York City. The NYSE is a secondary market for the trading of securities (stocks and bonds) listed with the exchange.

Off-balance sheet financing

When a company is allowed to, in effect, borrow and use a resource without having to record any related debt.

See Operating Lease

Operating Activities

The recurring day-to-day providing of goods or services to customers. All transactions involving sales and any collections of cash from sales along with all incurring and payment of expenses constitute a company's operating activities. The operating activities for the period are reported on the companies Statement of Cash Flows.

Operating Cycle

The average number of days it takes the company to purchase inventory and then collect the cash upon sale of the inventory. This is calculated by taking the number of day's sales in inventory and adding the number of days sales in receivables.

Operating expenses

A company's costs incurred as a result of its normal recurring business activities. Operating expenses include the cost of goods sold formanufacturing or merchandising businesses or the cost of providing services for a service business. In addition, operating expenses include any costs incurred in selling the goods or services to customers and any costs incurred in administering or managing the overall business operations (selling and administrative costs). Any interest costs incurred by a company could arguably be classified as an operating expense; however, the costs of financing a business as opposed to operating a business are traditionally reflected as "other expenses." Operating expenses are often reflected as a category in a multi-step formatted income statement and typically include only the selling and administrative expenses of a company. Cost of goods sold, although an operating expense, is excluded from this category because it is reflected separately in a multi-step format to generate a company's gross margin.

Operating income/loss

A sub-category leading to net income or loss on a multi-step formatted income statement. Operating income/loss is sometimes referred to as "income/loss from operations" or "operating profit/loss" and is equal to a company's gross margin less operating expenses of thebusiness. This amount excludes other non-operating revenues and expenses and measures only a company's profit or loss from its normal recurring activities. Operating income/losses are important to financial analysts seeking to accurately forecast a company's future profits because they tend to be more predictable than non-operating revenues and expenses.

Operating Lease

Operating leases are essentially rental contracts. The lessee takes temporary possession of the lessor's property in exchange for periodic payments of rent. Current accounting standards provide that if a lease is non-cancelable and meets any one of four criteria that are indicators of an effective purchase, the leased property must be accounted for as a capital lease; otherwise, it is classified as an operating lease. Operating leases are often referred to as Off-balance sheet financing. The lessee does not record an asset or obligation but rather expenses immediately any rental payments made to the lessor. However, because these operating leases often involve significant long-term commitments, GAAP requires supplemental disclosure of any future amounts due in th notes to the financial statements.

Operating Leverage

A measurement of a company's structure of fixed and variable costs. Companies with higher

fixed costs and lower variable costs have higher operating leverage, which results in greater potential profits and increased risk of loss with any changes in volume.

Operational budgeting

Detailed plans of immediate goals for prospective sales, purchases, production, expenses, cash flows and financial statement results. These plans typically require the preparation of a sales budget, purchases budget, and selling and administrative expense budget formerchandising companies before a cash flow budget and pro-forma financial statements can be prepared. Manufacturing companiestypically require a production budget, direct materials budget, direct labor budget, and manufacturing overhead budget in place of a merchandising company's purchases budget.

See also Budgets and Managerial accounting

Operations

Business activities intended to produce a profit. These activities commonly include the buying and selling of products or services and the general administration of the business. Operations of a manufacturing business include the product manufacturing processes of thecompany.

Opportunity costs

Future revenues that will not be realized under a decision option. Opportunity costs associated with decision options always differentiate the options and are relevant to decision analysis. By way of example, an opportunity cost associated with a decision to sell or lease a building would be any gain that could be realized upon the building's sale. That gain would not be realized (an opportunity cost) if a decision was made to lease the building rather than sell it. Likewise, any rental revenues that could be earned if the building is leased would be an opportunity cost of a decision to sell the building because those revenues would be foregone under that decision.

See also Non-routine business decisions and Relevant revenues and costs

Other revenues and expenses

A category of revenues and expenses typically appearing in a company's multi-step formatted income statement and resulting from activities outside its normal recurring operations. Normal recurring operations refers to a company's activities in providing its customary goods or services to customers. Examples of other revenues might include any interest revenues, investment revenues and gains on the saleof non- inventory assets. This assumes, of course, that the company is not in the usual business of making loans, investments or sales of property. Examples of other expenses might include interest expense, investment losses and any losses on the sale of non-inventory assets. Interest expense, although commonly incurred by most companies, is typically included in the category of other revenues and expenses because it is a cost of financing rather than operating a business.

Outstanding stock

Any of a company's common or preferred shares of st ock currently held by stockholders. In some cases, the number of issued shares of a company's stock may not correspond to the number of shares actually outstanding at a point in time. This situation exists when a company has bought back some of its previously issued stock as "treasury stock."

See also Earnings per share, Dividends per share and Book value per share

Overhead application

The accounting process designed to allocate a portion of actual manufacturing overhead costs to specific jobs or batches in WIP in amanufacturing company's job order cost system. The amount of any overhead application to a specific job is determined through the use of a predetermined overhead rate.

See also Manufacturing overhead account

Overhead Cost Activity

Steps or activities that must be followed to manufacture a product. These activities result in overhead costs. The activities are defined as unit level, batch level, product line or facility support.

See also Overhead cost driver

Overhead Cost Driver

A numerical measure of the amount of effort involved in each overhead cost activity.

Overhead Variance

See Manufacturing Overhead Variance.

Owners

The proprietors, partners or corporate stockhol ders in a business.

Owners' equity

The amount of a company's equity financing, often referred to simply as "equity" or "stockholders' equity" in the case of a company operating as a corporation. Owners' equity is the amount of assets that owners have contributed to a company, plus or minus the amount of any net assets created or lost as a result of the company's operations less dividends. As a result, owners' equity is simply the amount of totalcapital

contributions plus or minus the amount of retained earnings/deficits. Owners' equity can also be determined by taking the amount of total assets and deducting the amount of total liabilities. This reflects the fact that a company's assets can be financed in only two ways, through either debt or equity. The amount of owners' equity can also be characterized as the amount of residual claims the owners have on the assets of the company following the claims of creditors.

See also Balance sheet, Statement of owners' equity, Book value of a company, Book value per share, Equity in a business, Common stock, Preferred stock, Par value, Paid in capital in excess of par and Debt to equity ratio

Paid in capital in excess of par

The amount of capital contributed by investors to a corporation upon original issuance of common or preferred stock above the establishedpar value of the stock. In the case of common stock this amount is usually significantly higher than any amounts contributed at par value given that par values are usually nominal in amount. However, for preferred stock, amounts contributed at par tend to be significant relative to amounts contributed in excess of par. This is due to the fact that par values on preferred stock are used as the basis for determining the amount of the stock's dividend preferences.

See also Capital contributions

Par value

In the case of common stock, par value is a nominal per share amount established by a corporation's founders under requirements established by the state in which incorporation takes place. The par value bears no relationship to the issuance price of the stock or its subsequent fair market value. The only significance of par value on common stock is that the stock must be originally issued at a price in excess of the par value. As a result, most corporate founders establish the par value at $.01 per share or less. Because par value on common stock has no economic substance, many states have eliminated its requirement. In the case of preferred stock, however, the par value is usually substantial in amount because the par value serves as the basis for calculating preferred stockholders' preferential rights todividends and distributions in the event of dissolution. In most cases, preferred stock is issued to investors at a price that is fairly close to its par value.

Partnership

A form of business ownership in which two or more individuals and/or organizations share in the ownership of all of the business assets,liabilities and profits or losses. Partnerships can be formed verbally, although a written partnership agreement spelling out the roles, responsibilities and rights of the partners is highly recommended. A major disadvantage of the partnership form is the lack of any separate legal liability between the business and the partners. This means that if claims exist against the business and the business has insufficient resources to satisfy those claims, the personal assets of the partners may be taken to satisfy those claims. This can be avoided through alternative partnership forms such as an LLP. Partnerships do not pay federal or state income taxes on profits. Instead, all partnership profits and losses are allocated to the partners for inclusion on their personal income tax returns in proportion to their partnership interests. Alternative forms of business ownership include proprietorships and corporations.

Patent

An exclusive right granted by the federal government to use an invention or discovery in the production and/or sale of goods or services for a term of 17 years. Under GAAP, any research and development costs incurred in the invention or discovery process are to be accounted for as expenses in the period incurred. The only costs typically capitalized as intangible assets upon successful development and establishment of patent rights are the legal and filing fees associated with the actual processing of the patent applications and any legal fees incurred in a patent's successful legal defense. Under GAAP, any costs incurred in the purchase of an existing patent from another entity are also capitalized as an intangible asset. Any such capitalized costs are to be amortized to expense over the period of the patent's remaining legal life. The amount of accumulated amortization is maintained in a contra-asset account appearing on the balance sheet as an offset against the patent's original capitalized cost.

See also Book value of an asset, Fair market value of a company and Long-term assets

Payables

Obligations to pay cash in the future.

See also Liabilities

Payback period

A capital budgeting technique that determines the length of time required to recover the initial cost of an investment. This method ignores the time value of money. Under this method a project will be accepted if the computed payback period is less than a predetermined length of time.

See Also Unadjusted Rate of Return; Internal Rate of Return; Net Present Value

Payroll tax expense

The amount of an employer's payroll taxes (FICA, FUI and SUI) incurred as a result of employee salary or wage expense recorded for the current period. Employer payroll taxes incurred as a product cost would be included in direct or indirect labor costs and recorded as an expense through cost of goods sold.

See also Employee payroll withholdings, Matching principle and Period cost

Pension Expense

The annual expense related to a pension that is reported on the income statement each period. For defined contribution pension plans this is amount of money that was contributed to the fund. For defined benefit pension plans it is equal to the increase in the pension obligation as a result of the current year's employment, plus imputed interest on the pension obligation for the year, less any current earnings on the invested funds.

Pensions

Funds that are set aside and invested to be paid out to the employee upon retirement. Typically part of a compensation package.

See Defined Benefit Pension Plans and Defined Contribution Pension Plans.

Percentage markup

An expression of a product's markup relative to its cost. For example, if a product which cost $50 is marked up to $75 for sale, the percentage markup is 50% (25/50 = 50%). To "keystone'" a product means to sell it at a 100% markup or at a price double its cost. A company's average percentage markup on the cost of all products sold can be determined by dividing the company's total gross margin by the amount of totalcost of goods sold.

Period costs

All costs associated with the operations of a business, excluding product costs. These costs are alternatively referred to as a company's"selling and administrative costs" and are accounted for as expenses in the period in which they benefit the company's operations.

See also Selling costs and Administrative costs

Periodic inventory accounting

A method of accounting for inventory that ignores the recording of inventory outflows and inflows at the time of any inventory sales andsales returns from customers. As a result, the balance of inventory and the amount of cost of goods sold can only be determined through a periodic physical count of inventory. The periodic method was used almost exclusively before the advent of computers. Today, virtually allcompanies account for their inventories perpetually through computer-based systems. Perpetual inventory accounting provides better and more timely information to managers at a relatively low cost.

Perpetual inventory accounting

A method of accounting for inventory which records every inventory transaction as it occurs and maintains a continuous running balance of inventory quantities on-hand and their costs. The inventory transactions affecting inventory quantities and costs include inventory purchases, purchase discounts and returns, sales and sales returns. To maintain a perpetual record that updates both the general ledgerinventory account and a subsidiary ledger account with every inventory transaction for each product line carried in inventory, a computerized accounting system is a must. Today, due to the availability of cheap and powerful computer technology, most companies operating with inventories account for it perpetually.

See also Inventory cost flows

Physical inventory

Refers to the actual counting of inventory on-hand that is done at the end of each accounting period to establish the inventory balance and cost of goods sold amount in a periodic inventory accounting system. Physical inventories are also taken periodically under a perpetual inventory accounting system to verify the accuracy of inventory balances in the accounting records. If differences exist between a perpetual balance and the actual physical count, the records must be adjusted to reflect the physical count. Discrepancies between accounting records and actual inventory quantities may occur for a variety of reasons, including accounting errors, customer or employee theft and inventory breakage and waste. Any adjustment to reduce inventory levels requires the recording of an expense commonly referred to as inventory "shrinkage."

See also Write-down

Posting

The manual or electronic transfer of an originally recorded debit or credit journal entry to the proper general ledger account. Postings to any general ledger account that has a supporting subsidiary ledger must also be made to the appropriate detailed account within the subsidiary ledger.

See also Accounting cycle

Predetermined overhead rate

Also referred to as an "overhead rate" or "burden rate." The predetermined overhead rate is a ratio that allows for timely applications ofmanufacturing overhead costs to specific jobs in WIP in a manufacturing company's job order cost system. The ratio is determined by dividing the total budgeted amount of manufacturing overhead costs for a period of time by the amount of a total budgeted activity for the same period. The activity used in the denominator of this ratio should be some activity that is measurable for each specific job order and strongly correlates with manufacturing overhead costs. An activity that correlates with manufacturing overhead costs is an activity that moves in an amount consistent with movements in overhead cost over the same period. Direct labor hours are an example of a measurable activity that often correlates well with manufacturing overhead costs. In most cases, increased labor hours cause increases in overhead costs, such as utilities, space, supplies and other costs of supporting that labor. Once determined, the predetermined overhead rate is then multiplied by the actual measure of activity (i.e., actual direct labor hours) for each separate job in WIP to determine the amount of overhead to be applied to each job.

See also Manufacturing overhead account and Overhead application

Preferred stock

A supplemental form of ownership used in some corporations in addition to common stock. Preferred stockholders typically have no voting rights, but do have a limited priority right over common stockholders to declared dividends and any distributions arising from corporatedissolution. Most companies do not issue preferred stock; however, it can be an attractive option in accessing capital at a relatively low costwith no obligation to repay the assets received (except in the event of dissolution) and no sacrifice in voting rights. Most preferred stockinvestors are other corporations looking to earn a fairly reliable fixed dividend return that is excluded from income taxation under federal tax law.

See also Capital contributions, Par value, Paid in capital in excess of par, Cumulative preferred stock, Non-cumulative preferred stock, Dividends, Dividend preference, Dividends in arrears, Earnings per share and Dividends per share

Prepaid expense

An asset arising from the payment of business costs in advance of the actual period in which those costs will benefit company operations. For example, insurance premiums are usually paid in advance of the period of insurance coverage. Under the matching principle, the cost of the insurance should be recorded as an expense in the period of benefit and not before. As a result, an asset rather than an expense is recorded at the time of prepayment, reflecting the right to future insurance coverage. The cost of the prepaid expense must then beadjusted and recorded as an expense as time passes and the benefits of the cost are realized.

See also Current asset

Present Value

The current value of a cash flow payment (today).

See also Future Value.

Price earnings ratio (P/E ratio)

Also referred to as the "price earnings multiple," the "P/E multiple," or simply as the "multiple" at which a company's stock is selling. A company's P/E ratio measures the relationship of the company's current common stock price to its earnings by dividing the current fair market value of a share of common stock by the most recent earnings per share (EPS). The resulting ratio serves as an index of how expensively a company's stock is priced relative to its current earnings. In most cases, stocks with high P/E ratios reflect investor optimism about a company's future earnings. Many risk-oriented investors choose to invest in stocks with high P/E multiples because they like the excitement of owning a growing company with sometimes-volatile stock prices. These investors are usually banking on a company exceeding the already high expectations of financial analysts and the investment market. Some investors, referred to as "value investors," look to invest in companies that have relatively low P/E multiples and may have hidden value and brighter earnings prospects than currently anticipated by the rest of the market.

See also Financial statement analysis

Principal

The amount payable under a loan or note payable, excluding interest. The original principal of a loan or note payable is usually equal to the amount that was originally borrowed. In many cases, partial principal payments are required during the term of a note or loan. Some notes call for the entire principal amount to be made at the end of the loan term.

See also Maturity, Fully amortizing mortgage, Bonds, Bonds issued at a premium or a discount, Bond indenture, Serial bonds and Term bonds

Prior Period Adjustment

A direct journal entry made to retained earnings to correct a prior-year accounting

error. Examples include a mathematical error, an improper application of an accounting principle; an error due to incorrect information. It does NOT include an error in estimation. Prior year errors in estimation are corrected through compensating entries made in the current year.

Pro-forma financial statements

A balance sheet, income statement and statement of cash flows prepared for future dates and periods of time with amounts based onbudgets and forecasts of future operations. Pro-forma financial statements are typically prepared by and for management as part of theoperational budgeting process and are not available to the public as a general rule.

See also Sales budget, Purchases budget, Selling and administrative expense budget, Direct materials budget, Direct labor budget, Manufacturing overhead budget and Cash flow budget

Probable Losses

where the future event is likely to occur and the amount of the loss can be reasonable estimated, should be recorded, in the current period along with a detailed disclosure in the notes to the financial statements.

See also Reasonable Possible Losses, Unlikely Loss.

Process costing

A method of accumulating product costs used by manufacturers of standardized products made in separate manufacturing processes orfactories. For example, a cereal manufacturer that utilizes a separate factory to make a particular brand of cereal will use process costing to determine that cereal's cost per box manufactured. This method accumulates all product costs for a process or factory over a period of time (direct material, direct labor and manufacturing overhead costs) and then divides that total by the number of units produced during that period to determine the cost per unit of production.

See also Job order cost system

Product costs

The cost of a company's inventory. In a merchandising business, product costs are the purchase price and any freight or other costs associated with actually obtaining inventory from vendors. In a manufacturing business, product costs include any direct material, direct labor and manufacturing overhead costs incurred in the manufacturing process. These costs are accumulated and accounted for in three stages of inventory: raw materials, work in process (WIP) and finished goods inventory. Upon sale of a company's inventory to customers, the product costs are recorded as an expense (cost of goods sold).

See also Period costs, Job order cost system and Process costing

Product line

Overhead Cost Activities that are incurred that directly relate to a particular product line

See also Activity Based Costing, Unit Level, Batch Level, Facility Support, Overhead Cost Activity

Product Warranties

Promises made by the company to repair or replace merchandise sold to customers if the product malfunctions.

Production

Refers to the manufacture of a product.

See also Production budget

Production budget

An operational budget prepared by a manufacturing company to project the volume of production required to meet budgeted customersales and maintain adequate levels of finished goods inventory. A company's budgeted production serves as the basis for subsequently prepared direct materials, direct labor and manufacturing overhead budgets. Plans for direct material purchases, hours of direct labor, andmanufacturing overhead costs will naturally depend on the volume of units the company plans to produce.

See also Budgets

Profit Center

A department or organizational unit which has both revenues and costs over which the assigned manager has ultimate control and accountability.

See also Cost Center, Investment Center

Profitability Index

An index that measures the relationship between the cost and benefits of a proposed capital budgeting project. It is calculated as follows (Net Present Value/Initial. A rate of 1.0 is the lowest acceptable measure. As the profitability increases, so does the attractiveness of the proposed project. Investment) + 1

Profits

See Net income

Property, plant and equipment

A category of assets typically appearing under the classification "long-term assets" on a company's balance sheet. Property, plant and equipment includes any land, buildings, vehicles, and any other machinery or equipment that has an expected useful life to the company in excess of one year. The capitalized costs of these assets include their costs of acquisition

plus any costs of improvements. Under GAAP,repairs and maintenance costs incurred on behalf of property, plant and equipment are accounted for as expenses in the period incurred. The allocation of the capitalized cost of property, plant and equipment to expense over its estimated useful life is called "depreciation" and is calculated through either the straight-line, units-of-production or some other acceptable method of depreciation. The amount of total depreciation since the acquisition of an asset is maintained in a contra-asset account (accumulated depreciation) which appears as an offset against the asset's capitalized costs on the balance sheet. The resulting net balance sheet amount is often referred to as the "book value of the asset."

See also Gain on sale, Loss on sale and Loss on disposal

Proprietorship

A form of business ownership in which a single individual owns all of the business assets, bears all of the business liabilities, and is the sole beneficiary of any net income or losses from business operations. A major disadvantage of a proprietorship form of ownership is the lack of any separate legal liability between the business and the owner. This means that if claims exist against the business and the business has insufficient resources to satisfy those claims, the personal assets of the owner may be taken to satisfy those claims. Proprietorships do not pay federal or state income taxes on profits. Instead, all of the business profits are taxable to the owner and any losses are deductible on the owner's personal income tax return. Individuals may alternatively choose to operate a business as a corporation rather than as a proprietorship.

Public offering

The making available of an original or additional issuance of a company's securities (stocks or bonds) to the public. This is usually accomplished through an underwriter, typically an investment banking company. Once shares of stock or bonds are originally issued to the public, they typically are available for subsequent trading in secondary markets.

Publicly held company

A company that has shares of ownership available for purchase in a public secondary market such as the NYSE or NASDAQ. Publicly held companies are subject to federal securities laws and the rules and regulations of the SEC.

Purchase discount

Any reduction in the established price of a product purchased from a vendor. Under a perpetual inventory accounting system, the amount of any purchase discount should be accounted for as reduction of inventory so that the inventory is properly reflected at its true historical cost.

See also Purchase discount

Purchase returns

Previously purchased products that are returned to the original supplier or vendor. Under a perpetual inventory accounting system, the return of a product to a supplier should be recorded with a corresponding reduction in inventory at the time of return. If the original purchase was made on account, a reduction should also be made in accounts payable. If the goods were previously paid for, then a cash refund should be received or accounts payable may be reduced against future credit purchases.

Purchases budget

An operational budget prepared by a merchandising business to project the quantity of inventory purchases required to meet budgetedcustomer sales and maintenance of adequate levels of inventory. The purchases budget also projects the costs of budgeted inventory purchases and the resulting cash outflows. Information generated through this budget is subsequently used in preparation of a company'scash flow budget and pro-forma financial statements.

See also Budgets

Purchases on account

The acquisition of some asset, usually inventory or supplies, for which payment is not made at the time of acquisition but is to be made in the near future, usually within 30 days. The term "credit purchase" might also be used to describe a purchase on account.

See also Accounts payable

Purchases on account

The acquisition of some asset, usually inventory or supplies, for which payment is not made at the time of acquisition but is to be made in the near future, usually within 30 days. The term "credit purchase" might also be used to describe a purchase on account.

See also Accounts payable

R2

See Correlation Coefficient

Ranking

The process of choosing the best capital budgeting project among a group of acceptable projects.

Ratios

Comparisons of financial statement information designed to provide insights on a company's financial status and prospects for the future.Financial analysts commonly use ratios in their evaluation of a company's investment potential. Ratios used to measure a company'sliquidity include the current and acid-test ratios. Accounts receivable turnover, days sales in accounts receivable, inventory turnover and days sales in inventory are used to evaluate a company's performance in the management of two key assets: accounts receivable and inventory. The debt and debt to equity ratios measure the extent of a company's leverage. Earnings per share, dividends per share and return on investment are used to evaluate and compare a company's overall operating performance. The price earnings ratio is a measure of how expensive a stock is given its current earnings and reflects the attitude of investors about a company's future. Vertical analysis andhorizontal analysis are ratios that are used to better understand trends in certain elements of a company's financial position and results of operations. These trends are analyzed to help in the forecasting of a company's future operations.

Raw materials

Direct or indirect materials to be used in the manufacturing processes of a company. A company's raw materials are usually maintained in a secured storage area of a manufacturing facility and are released to production through an authorized materials requisition. The costs of acquiring and obtaining raw materials are included in raw materials inventory until transferred to WIP upon requisition and use in the production process. In a job order cost system, the costs of indirect materials put into production are actually accounted for asmanufacturing overhead costs and included in WIP through overhead applications based on a predetermined overhead rate.

See also Product costs, Inventory, Budgets, Direct materials budget and Manufacturing overhead budget *Product costs, Inventory, Budgets, Direct materials budget and Manufacturing overhead budget*

Raw materials inventory

A category of inventory in a manufacturing business which includes the costs of acquiring and obtaining direct and indirect materials until those materials are requisitioned and placed into production.

See also Raw materials and Work in process inventory

Real accounts

Accounts that maintain cumulative running balances and are reflected on a company's balance sheet. These accounts include all asset,contra-asset, liability, capital contribution and retained earnings/deficits accounts. Real accounts are never closed because they are designed specifically to maintain running balances of business activities from a company's inception. The retained earnings/deficit account is a real account and is never closed; however, all revenue, contra-revenue, expense and dividend accounts are closed to retained earnings at the end of each accounting period to update its running balance for the current period's net income / loss and dividends.

See also Nominal accounts and Accounting cycle

Real estate

Refers to land, land improvements and/or buildings.

See also Property, plant and equipment, Mortgage loan, Collateral, Trust deed and Mortgage-backed bonds

Reasonable Possible Losses

Future obligations of the company that are reasonable possible but not yet probable. These obligations are NOT recorded in the financial statements but are disclosed in the notes.

See also Probable Losses, Unlikely Loss.

Receivables

A right to receive cash in the future.

See also Assets and Accounts receivable

Registered Bonds

Bonds that require any change in ownership to be registered with the issuer before payments are made to the new investor.

Relevant range

The range of volume, in terms of sales or production, reasonably anticipated by a company in its operations for a specified period of time.

See also Variable costs, Fixed costs and Stepped costs

Relevant revenues and costs

Revenues and costs that differentiate the options in non-routine business decisions. The only relevant revenues and costs are future revenues and costs that vary among decision options. Past costs that are unrecoverable in the future are referred to as "sunk costs" and are never relevant. Opportunity costs are future revenues available under one but not all decision options and are always relevant.

See also Differential revenues and costs and Direct revenues and costs of a decision option

Repairs and maintenance expense

An expense representing normal recurring costs incurred to maintain property, plant and/or equipment's originally anticipated productivity over its originally anticipated useful life. For example, the costs of a tune-up, tire replacement or other common repairs to a delivery truck would be included in this category of expense. Under GAAP, any significant costs incurred in asset improvements which substantially extend the originally anticipated useful life or significantly enhance the asset's expected productivity are to be accounted for as part of thecapitalized cost of the asset.

See also Matching principle, Product costs and Period costs

Replacement Cost

The cost that would be paid today to buy that identical item

Research and development costs

Also referred to as "R&D costs." Research and development costs are costs incurred by companies in discovering and then proving the market worthiness of a new process, product or service. Under GAAP, these costs are to be accounted for as expenses when incurred and not as capitalized costs of an asset, even if the research and development ultimately results in valuable patent rights. At the time research and development costs are incurred, there is no objective way to determine if those costs will ultimately result in assets having probable future benefit. It usually takes years for R&D costs to result in patent rights, if they ever do. If there is no assurance of future benefits arising from R&D costs, then accounting for those costs as assets would violate the conservatism that prevails in GAAP.

See also Intangible asset

Responsibility Accounting

An information system designed to provide reports that assess the performance of management personnel assigned to specific areas of responsibility within the company. Such reports are necessary when companies increase in size and complexity over time leading to the decentralization of management responsibilities.

Restructuring Charges

Costs associated with a major reorganization of company affairs involving such things as plant closures or employee layoffs. These costs do not qualify as extraordinary items.

Results of operations

Refers to a company's profits or losses over a period of time. A company's income statements reports its results of operations and is sometimes referred to as the "statement of operations."

Retail merchandiser

A distribution business that typically purchases finished goods from manufacturers or wholesale merchandisers for the purpose of selling those goods to the end user or consumer.

See also Merchandising business

Retained earnings/deficits

An owners' equity account reflecting the amount of net assets that have been created or used up by a company through its profitable or unprofitable operations (net income/ losses) less dividends since inception. Retained earnings/deficits can alternatively be expressed in terms of a company's cumulative revenues less cumulative expenses and dividends since inception. Retained deficits are also sometimes referred to as "accumulated deficits" or "accumulated losses."

See also Balance sheet, Statement of owner's equity, Closing entries and Equity financing

Return on Assets “ROA”

A ratio used in evaluating a company’s profit performance. It measures how efficient the company is with their assets to generate earnings. It is calculated by net income divided by total assets.

Return on Equity “ROE”

A ratio used in measuring a company’s profitability. It measures how much profit was generated from the shareholders investment. It is calculated by net income divided by total equity. A more detailed analysis of the ROE is through the DuPont Framework.

Return on investment

A loosely used term that means a lot of different things to different people. To some, return on investment refers to a company's profitsrelative to the cost of company ownership. In this context, potential investors may calculate their potential return on investment by dividing a company's earnings per share by the current fair market value of the company's common stock. However, this would not be a true measure of a potential investor's return on investment because the earnings per share reflects earnings for the company's previously completed fiscal or calendar year. Most potential investors will calculate a prospective or forecasted return on investment based on some projection of future earnings per

share. For existing stockholders, return on investment may be calculated by dividing current or projected earnings per share by the amount they personally paid per share for their stock. In reality, however, a stockholder's true return on investment is ultimately the amount of any dividends received plus or minus any gain or loss upon the sale of the stock. An investor's real return on investment cannot be determined until stock is sold. A company's return on investment may also be calculated in a number of ways. A company's net income divided by total assets is a company's return on total capital or return on assets. Net income divided by totalowners' equity is the return on the owners' invested capital. Due to the variety of possible interpretations applied to the term "return on investment," care must be exercised in its use and additional explanation is usually required to determine its context.

Return on Investment (ROI)

A performance measure used to evaluate segments within a company. It is calculated as follows Segment Margin divided by Segment total assets.

Revenue recognition principle

The part of accrual basis accounting that deals with the timing of revenues. The revenue recognition principle provides for revenues to be recorded in the period in which those revenues are earned, not necessarily when cash is collected from customers. The earning of revenues takes place when goods have been delivered to a customer or the performance of services has been substantially completed. Compliance with the revenue recognition principle will often require a company to make adjusting entries to properly account for accrued revenues and any unearned revenues before the preparation of the company's financial statements.

Revenues

The amount of any assets (usually cash or accounts receivable) received from customers on the sale of goods or services. This amount is also the product's sales price or the service fee charged to a customer. Revenues also include the amount of any interest or dividends earned on any loans or investments and any gains on the sale of non-inventory assets. The revenue recognition principle governs the timing of revenues and provides for revenues to be recorded in the period in which those revenues are earned, not necessarily when cash is collected from customers. The earning of revenues takes place when goods have been delivered to customers or services have been substantially provided. As a result, a company may record revenues in December for services provided in December even though the service fees may not be received until the following January. This is referred to as an "accrued revenue" and is recorded in conjunction with the recording of an account receivable. In some cases, cash or other assets are received from customers in advance of the period in which goods are sold or services are actually rendered. Any such cash advance or deposit received from a customer prior to product delivery or the actual rendering of services should be accounted for as a liability to reflect the future obligation to deliver products or perform services. These liabilities are typically referred to as "unearned revenues." Revenues are not really revenues until they are earned. Unearned revenues are liabilities until goods are delivered or the earnings process is substantially complete. The amount of a company's revenues less expenses during a period of time equals the company's net income or net loss for that period and is the best measure of a company's results from operations.

See also Sales revenues, Gross sales revenues, Sales discounts, Sales returns and allowances, Net sales revenues, Service fee revenues, Other revenues and expenses, Journal entries, Adjusting entries, Closing entries, Debit entries, Credit entries, Multi-step formatted income statement, Vertical analysis, and Budgets

S corporation

An electable status under the Internal Revenue Code that allows for a corporation to avoid federal income taxation and requires instead that all taxable income or losses of the business be attributed directly to the stockholders of the corporation for inclusion in their taxable income. As a result, S corporations avoid the typical double taxation that may occur on corporate profits when they are taxed at the corporate level and then taxed again to stockholders to the extent dividends are paid. In effect, S corporation status allows for a corporation to be taxed as if it were a partnership. The S corporation election is only available to companies meeting certain criteria specified in the code. Generally speaking, only corporations with relatively few domestic, non-corporate stockholders may qualify.

Salaries expense

The cost incurred in the current period for employees' gross salaries, which includes amounts withheld from those salaries for payment to government or other entities on the employees' behalf. Salaries expense differs from wage expense in that wages are paid to employees who are paid on an hourly rate, as

opposed to some fixed monthly amount or salary. In many cases, these two expenses are combined for accounting and/or financial reporting purposes as "salaries and wage expense." This amount does not include an employer's payroll tax expense incurred as a result of having employees. Salaries expense incurred as a product cost would typically be included in indirect labor costs and recorded as an expense through cost of goods sold.
See also Manufacturing overhead costs, Period costs, Selling expense, Administrative expense, Matching principle and Selling and administrative expense budget

Salaries expense

The cost incurred in the current period for employees' gross salaries, which includes amounts withheld from those salaries for payment to government or other entities on the employees' behalf. Salaries expense differs from wage expense in that wages are paid to employees who are paid on an hourly rate, as opposed to some fixed monthly amount or salary. In many cases, these two expenses are combined for accounting and/or financial reporting purposes as "salaries and wage expense." This amount does not include an employer's payroll tax expense incurred as a result of having employees. Salaries expense incurred as a product cost would typically be included in indirect labor costs and recorded as an expense through cost of goods sold.
See also Manufacturing overhead costs, Period costs, Selling expense, Administrative expense, Matching principle and Selling and administrative expense budget

Sales

The providing of goods to customers for a price. The providing of services to customers for a price is also commonly referred to as a "sale."
See also Sales price, Revenues, Sales revenues, Service fee revenues, Sales budget, Volume and CVP analysis

Sales budget

The starting point in a company's operational budgeting process. A company's sales budget notes the projected volume of product salesand pricing of those sales in order to determine projected sales revenues and cash flows from customers for future periods. Actual cash flows from customers may differ from sales revenues due to sales made on account and the timing of collections on the resulting accounts receivable. The projected volume of sales used in a company's sales budget drives the product purchases budget for merchandising companies and the production budget for manufacturing companies along with the company's selling and administrative expense budget.
See also Cash flow budget and Pro-forma financial statements

Sales discounts

Any reduction in the established sales price of a product or service, including any cash discounts provided to customers. Sales discounts are commonly accounted for through use of a contra-revenue account which is reflected on a company's income statement as on offset to or reduction of gross sales revenues.
See also Net sales revenues, Multi-step formatted income statement and Nominal accounts

Sales Mix

The relative proportionate amount of sales of products or services in a company.

Sales price

The amount a company charges upon the sale of goods or services to customers. Cash customers pay the sales price in cash at the time of sale, whereas credit customers agree to pay the price sometime in the future, usually within 30 days.

Sales returns and allowances

The amount of any full or partial cash refunds or credits to customer accounts receivable given by a company to customers returning previously purchased merchandise. Companies deal with merchandise returns from customers in a variety of ways based on their marketing strategies. Some companies accept customer returns with no questions asked regardless of the condition of the returned merchandise. Others may refuse to accept any returns after a sale has been made. Regardless of the condition of merchandise returns, the amount of the customer refund or the credit given on the customer's account is accounted for in a contra-revenue account referred to as sales returns and allowances. This account offsets the amount of originally recorded sales revenue on a company's income statement.
See also Net sales revenues, Multi-step formatted income statement and Nominal accounts

Sales revenues

Revenues resulting from a company's product sales to customers. Revenues from the rendering of services to customers may also be referred to as "sales revenues" or "service fee revenues." Sales revenues may also be identified as either cash sales or credit sales based on whether the sales price is paid in cash at the point of sale or the sale is made on account.

See also Gross sales revenues, Sales discounts, Sales returns and allowances, Net sales revenues, Gross margin and Multi-step formatted income statement and Revenue recognition principle

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See also Gross sales revenues, Sales discounts, Sales returns and allowances, Net sales revenues, Gross margin and Multi-step formatted income statement and Revenue recognition principle

Sales taxes

Taxes imposed by most states and some municipalities on specified kinds of retail transactions conducted within the state or city's geographic boundaries. The consumer typically pays the tax to the company making the sale, who in turn remits the tax to the appropriate government institution. Because the company making a taxable sale acts merely as a conduit for payment of the tax, it is neither a revenueor an expense of the company. The expense associated with the tax is the customer's expense, and the revenue is the state or city government's revenue. The company making the taxable sale simply records a liability to the government upon collection of the tax and records payment of that liability when it is subsequently remitted.

Salvage value

The fair market value of an asset at the end of its useful life. For purposes of calculating depreciation of property, plant and equipment,amortization of an intangible asset or depletion of a natural resource, management must reasonably estimate the asset's salvage value.

See also Straight-line method and Units-of-production method

Scattergraph method

A subjective approach used to distinguish the fixed and variable components of mixed costs. The scattergraph method utilizes a graph in which points of volume and the related mixed cost for a number of periods are plotted and a line is subjectively drawn through the resulting points on a visual best-fit basis. The slope of the resulting line represents the variable cost per unit component of the mixed cost, while the point of intersection of the line with the graph's vertical axis (costs) represents the fixed cost portion. An alternative approach used to segregate the fixed and variable cost components of a mixed cost is the high-low method. This method is more objective, but is generally inferior to the scattergraph method because it utilizes only two points of reference (costs at the high point of volume and costs at the low point of volume) to make its determination of fixed and variable costs.

Screening

The process of identifying which capital budgeting projects are worth pursuing or collecting additional data and which projects should no longer be considered.

SEC

Securities and Exchange Commission. A federal regulatory agency charged with the responsibility of regulating the issuance and trading ofsecurities of publicly held companies in the United States. The SEC requires that all public companies register with and provide specified periodic information to the SEC that is then made available to the public through the SEC's internet website. Included in those information requirements are annual general purpose financial statements which must be prepared in accordance with GAAP and audited by an independent CPA firm.

See also FASB and Financial accounting

Secondary market

A market or exchange where previously issued and publicly held investment securities (stocks and bonds) may be bought and sold. The NYSEand NASDAQ are secondary markets. Publicly held stocks and bonds are usually issued to investors through underwriters. Original investors in a company's stock or bonds may then sell those securities to other investors through the secondary securities market. Secondary market operations are subject to securities laws and regulated by the SEC.

Secured bonds

Bonds for which assets are specified as collateral to bondholders in the event of default. Secured bonds typically carry a lower interest rate than if the same bonds had been issued without security as a debenture. Mortgage-backed bonds are a form of secured bonds for which the specified collateral is real estate.

Secured Bonds

Bonds that pledge specific assets as collateral in the event of an issuer's default.

Securities

A market or exchange where previously issued and publicly held investment securities (stocks and bonds) may be bought and sold. The NYSEand NASDAQ are secondary markets. Publicly held stocks and bonds are usually issued to investors through underwriters. Original investors in a company's stock or bonds may then sell those securities to other investors through the secondary securities market. Secondary market operations are subject to securities laws and regulated by the SEC.

See also SEC, Secondary market, Public offering, Common stock and Preferred stock

Security

A term used to describe protections to a lender in the event of loan default. The usual form of security for a loan is collateral. Unsecured loans typically refer to loans in which there is no collateral provided. A security also refers to a single share of stock or a bond (seeSecurities).

See also Mortgage loan, Mortgage note, Trust deed, Secured bond, Debentures and Mortgage-backed bonds

Segment Margin

The amount of profit or loss produced by one segment or component of a business.

See also Return on Investment.

Self-constructed Assets

When companies choose to make or manufacture a fixed asset for their own future use. All of the costs incurred in the construction or manufacturing process should be capitalized as part that asset. Examples of costs include materials, labor, overhead costs and interest on construction loans or interest that could have been saved if the company's own money used on construction had been applied to the payoff of other outstanding debts.

Selling and administrative costs

The combined total of any selling costs and any administrative costs of a business.

See also Period costs and Selling and administrative expenses

Selling and administrative expense budget

An operational budget prepared to project the amount of a company's selling and administrative expenses and resulting cash outflows for future periods based on projected budgeted sales. Information generated through this budget is subsequently used in preparation of a company's cash flow budget and pro-forma financial statements.

See also Budgets

Selling and administrative expenses

Any selling and administrative costs incurred that benefit the current period's operations. Selling and administrative expenses are often reflected as a company's "operating expenses" in a multi-step formatted income statement.

See also Matching principle, Period costs, Selling expenses, Administrative expenses, Selling costs, Administrative costs and Selling and administrative expense budget

Selling costs

Any costs incurred in the marketing of a company's goods or services to customers. These costs include any salaries, wages and commissions paid to employees or representatives of the company that are involved in product marketing, sales or sales support. In addition, building and equipment costs (i.e., rent, utilities, depreciation, property taxes, etc.) and any other costs incurred to accommodate and support product sales to customers are part of a company's selling costs. Even costs incurred in shipping or delivering goods to customers and any bad debt expenses would be properly considered part of a company's selling costs. Selling costs do not include product costs. Product costs are separately accounted for as inventory and then as an expense (cost of goods sold) at the time of product sales.

See also Period Costs, Selling and administrative costs and Selling expenses

Selling expenses

Any selling costs that benefit the current period's operations. Selling expenses are included as part of "operating expenses" in a multi-step formatted income statement.

See also Matching principle and Selling and administrative expenses

Senior bonds

Bonds which are designated as having some legal priority to repayment over the claims of other creditors.

See also Debentures and Subordinated bonds

Serial bonds

Bonds requiring periodic principal and interest payments throughout the term of the bond. These bonds might also be referred to as "amortizing bonds."

See also Term bonds

Service business

A company devoted to providing services to clients or customers rather than tangible products. Examples of service businesses include consulting firms, law firms, hospitals and car washes. Some companies are involved in providing both goods and services. A car dealership is both a merchandiser and a service

business if they provide repair and maintenance services as well as car sales. In some ways, restaurants may be manufacturers, merchandisers and service businesses. They make meals from raw materials, deliver the product to the end user and provide service in the process. Some restaurants provide more service than others and have higher menu prices as a result.

Service fee revenues

May also be referred to as "sales revenues." Service fee revenues are amounts received or receivable from customers as a result of fees earned due to the providing of some service. Service fees are earned when performance of services have been substantially completed.

See also Revenues, Accrued revenues, Unearned revenues and Revenue recognition principle

Shares

A share of stock represents a single unit of ownership in a corporation and has equal voting and dividend rights with every other share of stock in its class, either common or preferred. The actual percentage ownership rights (voting influence and participation in dividends) represented in a share of stock depends entirely on the total number of shares that have been issued and are outstanding at any point in time. An owner of one share of stock in a company that has only two shares outstanding is a 50% owner and can effectively control the company. However, an owner of one share in a company that has a million shares outstanding has very little voting influence and percentage rights to dividends. The fair market value of a share of stock (trading price in a secondary market) is dependent on the amount of percentage ownership represented in each share. Most companies have large numbers of shares outstanding, and the resulting price of a share of stock is affordable for most individual investors. In the event that additional shares of stock are issued to raise additional capital for a company, the percentage rights of existing owners are diluted and the value of their stock decreases accordingly. As a result, any additional issuance may require stockholder approval or the existing stockholders will have an automatic right of first refusal to buy a portion of the additional shares such that their percentage ownership will remain the same.

See also Stock split and Treasury stock

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See also Stock split and Treasury stock

Shrinkage

A reduction in inventory from causes other than recorded sales, purchase returns or purchase discounts. Much of shrinkage often results from customer or employee theft or inventory breakage or spoilage. The amount of shrinkage determined through comparison of inventory accounting records and actual physical counts should be recorded as an expense through a write-down of inventory.

See also Perpetual inventory and Physical inventory

Significant Influence

Generally assumed when 20-50% of the outstanding common stock of another company is owned. However, other criteria may also be considered when making this determination. The equity method of accounting is used to account for equity method securities.

SIT Withholding

State Income Tax Withholding. Employers are required to withhold and submit a designated amount of the employees wages each pay period to cover the employees State personal income tax liability. This is an expense of the employee not the employer. It is a payable for the employer because they submit the money to the governing agency.

Small stock dividend

Stock dividend defined as less than 20 to 25% of the shares outstanding at the date of declaration. A small stock dividend decreases retained earnings equal to the amount of the fair value of the shares issued.

See Also Large Stock dividend.

Special journals

Journals used to originally record transactions having certain common characteristics. For example, a cash receipts journal is a special journal used to exclusively record all transactions involving receipts of cash. Other special journals commonly used by companies include a purchases journal to record all purchases of inventory on account, a cash disbursements journal to record all transactions involving payments of cash, and a sales journal to record all transactions involving credit sales. A general journal is used for all journal entries that are not recorded in a special journal. Special journals were originally developed in manual accounting systems to facilitate the posting process and improve internal controls by facilitating the segregation of employee duties. In computerized accounting systems today, special journals may represent software modules designed to facilitate the programming necessary to handle the accounting for various kinds of transactions.

See also Accounting cycle

Specific identification

An inventory cost flow method used to determine the cost of goods sold for companies that have inventory that tends to be easily differentiated unit by unit in its nature and cost. Under the specific identification method, the cost of a specific inventory item is determined and accounted for as the cost of goods sold upon sale of that item. For example, an art dealer will use the specific identification method ofaccounting for its inventory of paintings because of the unique nature and cost of each painting. To do otherwise would most likely distort the dealer's reported profits for a period of time. Companies that sell products that are similar in nature and cost, but for which costs may change over time due to factors of inflation or deflation rather than product differentiation, will typically use an inventory cost flow assumption rather than specific identification in accounting for the cost of goods sold.

Standard Costs

Represent management's goals relative to a product's cost per unit of production. In most cases, those costs are determined based on the combined input of all of a company's managers having some responsibility or control over product costs, including managers involved in product design, raw material purchases, the hiring of production personnel and the general operation of the production department. In addition, a company's general manager and controller will also usually be involved in the final determination of a product's standard cost. In effect, standard costs are a company's budgeted costs per unit of production.

Statement of cash flows

One of the three general purpose financial statements required under GAAP. The statement of cash flows is designed to highlight a company's change in cash during an accounting period with a summary of the major factors giving rise to cash increases and decreases during the period. The statement discloses a company's cash flows under each of the three basic activities of a business: operating, investing and financing activities. Because cash is such a critical asset in sustaining a company's operations and growth, most financial analysts utilize the statement of cash flows to understand the causes of past changes in cash for purposes of projecting a company's future operations.

See also Financial statement analysis, Budgets, Cash flow budget and Pro-forma financial statements

Statement of cash flows

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See also Financial statement analysis, Budgets, Cash flow budget and Pro-forma financial statements

Statement of owners' equity

Sometimes referred to as a "statement of changes in owners' equity." A statement of owners' equity is not a required general purpose financial statement under GAAP, but is often included in a company's annual report or other financial disclosures. The statement is designed

to show the cause of any changes in the amounts of capital contributions and retained earnings reflected in the balance sheet over a periodof time.

See also Statement of retained earnings/deficits

Statement of retained earnings/deficits

Sometimes referred to as a "statement of changes in retained earnings/deficits." A statement of retained earnings/deficits is not a requiredgeneral purpose financial statement under GAAP, but is often included in a company's annual report or other financial disclosures. The statement is designed to show the cause of any change in the amount of retained earnings/deficits over a period of time. The two primary causes of a change in retained earnings/deficit are net income / losses and any dividends for the period. In many cases, information included in this statement is simply incorporated into a statement of owners' equity and no separate statement is provided.

Stepped costs

Costs that are not perfectly fixed or variable in their behavior with changes in volume. A stepped cost tends to be fixed for a certain volume, but then increases to new higher fixed levels as certain increased levels of production or sales are reached. An example of a stepped cost would be a progressively higher bonus paid to sales personnel as they reach various benchmark levels of sales volume. For purposes of CVP analysis, which requires that all costs be classified and quantified as either perfectly fixed or variable, stepped costs present a problem.Management must subjectively evaluate the costs' behavior within the relevant range and decide if they appear more variable or fixed. Based on this process, the stepped cost is simply assumed to be perfectly fixed or variable, and a cost approximation is made on that basis for use in CVP analysis.

Stock

Shares of ownership in a corporation. Stock ownership takes the form of either common stock or preferred stock.

See also Stockholder, Capital stock, Issued stock, Outstanding stock, Treasury stock, Stock split, Stock options and Fair market value of a share of stock

Stock Dividend

A dividend that is paid out in additional shares of stock rather than cash. No company assets are distributed in a stock dividend. Sometimes referred to as the capitalization of retained earnings. There is no net affect on the company's overall financial position, but the amount of retained earnings available for future dividend distributions has been reduced.

Stock options

Rights given to employees or others to purchase shares of a company's stock at a predetermined price at certain times.

Stock split

The process of distributing a number of shares of stock to existing stockholders in exchange for shares that are currently owned. A 2-for-1 stock split means that two shares are issued for every one previously owned. In a stock split, no additional capital is provided to the company, and the only real effect is that there are now twice as many shares outstanding as there were immediately before the split. As a result, each share of stock has a lower percentage of influence, dividend participation and value than previously existed. Many companies that experience increasing stock values over time will choose to split their stock simply to keep a lower per share trading price available toinvestors in the secondary stock markets.

Stockholder

A person, organization or any other entity that owns either Common or Preferred shares of stock in a corporation.

Stockholder's Return on Investment

A ratio that calculates a stockholders' return on their investment in stock. This is calculated by (dividends plus or minus the increase or decrease in stock price) divided by the original stock purchase price. Because stock prices change daily, an investor's return on investment is constantly fluctuating. In fact, the stockholders returns are never actually realized until the stock is sold.

Straight-line amortization

A method used for amortizing premiums and discounts on bonds. The premium or discount is amortized equally over the life of the bond. The straight-line method is acceptable only if the amount doesn't differ significantly with the results that would otherwise be obtained under a more accurate effective-interest method, which takes into account the time value of money.

Straight-line method

The calculation of an equal amount of annual depreciation for property, plant and equipment determined by dividing the capitalized cost of the asset less any estimated salvage value by the asset's years of estimated useful life. The result is an amount of depreciation to be recorded annually over each year of the asset's useful life until its book value reaches its salvage value. This same

approach is typically used for amortization of intangible assets.

Straight-line rate of depreciation

The annual percentage of an asset's depreciable cost that's allocated evenly to expense each year under the straight-line method of depreciation. This rate depends on each individual asset's estimated useful life.

Subordinated bonds

Also referred to as "subordinated debentures." Subordinated bonds are unsecured bonds designated as having some inferior legal status relative to the claims of other creditors in their rights to repayment.

See also Bonds

Subsidiary ledger

A file which serves as a detailed supplement to a general ledger account. For example, the accounts receivable general ledger account will typically have a supporting subsidiary ledger file referred to as the "accounts receivable subsidiary ledger" which notes the running balance of each credit customer's account. Other general ledger accounts which commonly have supporting subsidiary ledgers include inventory,property, plant and equipment and accounts payable. These accounts maintain detail that is valuable information for a company'smanagement. Managers must know the balance of units on-hand for each of their products as well as the total balance of all inventories. Likewise, the detail of accounts payable for each of a company's vendors is critical in making timely payments on account. General ledger accounts supported by a subsidiary ledger are referred to as the "control account" for the related subsidiary ledger. The total of all of a subsidiary ledger's account balances should equal the balance in its related general ledger control account.

See also Accounting cycle and Posting

SUI

State unemployment insurance. SUI is a tax that must be paid by employers to state governments that operate unemployment insurance programs for state residents.

Sum-of-the-years'-digits method

An accelerated method of depreciating an asset. This method takes the asset's expected life and adds together the digits for each year. Each digit is then divided by this sum to calculate the percentage of the asset to be depreciated each year. The percentage can be calculated by using the formula N (N + 1) /2 where N is the number of remaining years. This method is appropriate where the usage of the asset declines with age.

Sunk cost

Unrecoverable past costs. Sunk costs are never relevant to non-routine business decisions. An example of such a cost might be the original cost of obsolete equipment that has no possible resale value. Any decision regarding replacement of the equipment with a newer, more productive model should be based entirely on the future costs and benefits of the decision options. A manager that allows the equipment's original sunk cost to be a factor in the decision is not thinking rationally. The only things that matter are a decision's effect on futurerevenues and future costs. This is a hard concept for many business owners and managers. Ignoring past costs in current decision-making sometimes requires acceptance of past mistakes.

See also Relevant revenues and costs

Supplier

See Vendor.

Supplies

Goods purchased for use in support of the operations of a business. Supplies differ from inventory in that supplies are not held for sale tocustomers. When used up, supplies are accounted for as an expense of the business. Supplies used in support of a manufacturingcompany's production process are accounted for as manufacturing overhead costs and are reflected as an expense through cost of goods sold.

See also Current assets, Product costs, Period costs, Selling expenses, Administrative expenses, Selling and administrative expenses and Operating expenses

Targeted net income

An amount established as a company's goal for profits during a specified period of time.

See also CVP analysis

Tax Deduction

A tax write-off, it reduces taxable income, lowering the taxpayers tax liability.

Technical Analysts

Analysts who rely exclusively on complicated mathematical models using market data, such as trading volume and interest rates. In this approach, a company's intrinsic or real value and it's financial statements are pretty much ignored.

Also review fundamental analysts

Term

The period over which an obligation is to be outstanding. The typical mortgage loan has a 30-year term, meaning that the mortgage note will not be paid off in full for 30 years. A bond having a 5-year term, whether a serial or term bond, will provide for a

final principal paymentmaturing five years from the date of issuance.

Term bonds

Bonds that require payment of the entire amount of principal in a single lump sum at the end of the bond term.

See also Serial bonds

Time sheet

A written or electronic record maintained by each employee providing direct labor in a company's manufacturing process. In a job order cost system, the total direct labor hours incurred on each job in WIP must be determined and included in that job's separate job cost sheet. To accomplish this, each direct labor employee is required to account for the specific jobs worked on each day and the time spent per job. Time sheets serve this purpose.

Time Value of Money

Money today is worth more than the same amount of money tomorrow.

Times Interest Earned Ratio

A ratio used to measure a company's ability to pay its debt obligations. It is calculated by income before interest expense and income taxes divided by interest expense. This ratio provides with how many times a company can pay the interest on their debt with their current pre-tax earnings. If the company fails to make their interest payments they could be forced into bankruptcy.

Trademarks

The exclusive right that protects the use of a name, logo, picture, sound or any other distinguishing symbol against any unauthorized use. Under GAAP, trademark rights are recorded as intangible assets only when purchased from another entity. The purchase price becomes thecapitalized cost of the intangible. Any such capitalized costs are to be amortized to expense over the period of the trademark's useful life, not to exceed 40 years. The amount of accumulated amortization is maintained in a contra-asset account appearing on the balance sheet as an offset against the trademark's original capitalized cost. Costs incurred in developing a trademark's value through advertising or other efforts are expensed when incurred primarily because of the inability to objectively determine whether a specific promotional campaign really adds measurable trademark value. Coca-Cola's most valuable asset is probably its trademark name; however, under GAAP, this asset does not appear on the company's balance sheet because its value was internally developed through years of marketing. This accounting approach is an example of the conservatism that prevails in GAAP.

See also Book value of an asset, Fair market value of a company and Long-term assets

Trading Securities

Includes all shares of stock or bond purchases as part of an active trading program. That means these shares are frequently bought and sold based on short-term price fluctuations. Companies investing in trading securities are, in effect, playing the market in an attempt to maximize investment returns. (This classification specifically excludes any shares that may provide a company with significant influence or control over another company).

See also Available for Sale Securities, Held-to-Maturity Securities.

Traditional product costing

A method of allocating costs to product and services. Under the traditional method overhead is allocated based on one overhead cost driver (most commonly, direct labor hours.)

See also Activity-Based Costing

Transaction

An economic event that effects the status of any asset, liability or owners' equity account of a business. All of a company's transactions must be recorded and summarized by a company's accounting system in order to periodically produce general purpose financial statements. The identification of a company's transactions and the original recording of those transactions through journal entries are the first steps of a company's accounting cycle.

See also Double-entry accounting and Arm's-length transaction

Treasury stock

Shares of previously issued stock that have been bought back by the issuing company and are no longer outstanding. Companies will occasionally buy back previously issued stock if they have surplus cash and believe that the trading price of the company's stock is low. This buyback of shares is also done at times to raise the value of the remaining outstanding shares of a company's stock. Treasury stock has no voting or dividend participation rights, and as a result, a company's purchase of its own stock enhances the value of the remaining outstanding shares due to their higher percentage ownership interests.

Trial balance

A listing of all general ledger accounts with their respective end-of-the-period debit or credit balances produced for the purpose of determining that the total of all debit balances equals the total of all credit balances. A trial balance indicates that during the

current period, equal debit and credit entries have been made in the accounting journals and posted to the general ledger during the period in compliance with double-entry accounting. A trial balance does not prove that all transactions were properly recorded and posted; it simply verifies that for the transactions that were recorded and posted, debit entries equaled credit entries. Computerized accounting systems are typically programmed to disallow the recording and posting of any transactions with unequal debit and credit entries, and therefore, preparation of a trial balance is often excluded in the accounting cycle of a company using a computerized system.

Trust deed

A legal document, typically executed in conjunction with a mortgage loan authorizing a third-party trustee to sell designated real estate if there is a default under the terms of the note. Any proceeds upon trustee sale of the real estate are to be distributed by the trustee to thelender first in satisfaction of the note with any excess remitted to the defaulting property owner. A trust deed is sometimes referred to simply as a "mortgage."

See also Collateral and Mortgage-backed bonds

Unadjusted rate of return

A capital budgeting technique that computes the return from investments calculated by additional yearly accounting earnings, divided by the initial investment cost. This method ignores the time value of money. Under this method, a project will be accepted if the computed unadjusted rate of return is greater than a predetermined percentage.

See also Internal Rate of Return; Net Present Value; Payback Period

Uncollectible accounts receivable

Amounts due from customers from credit sales which will not be collected, usually as a result of a customer's insolvency. Uncollectibleaccounts receivable are also simply referred to as "bad debts."

See also Allowance method of accounting for uncollectible accounts receivable

Underwriter

An intermediary between a company issuing stocks or bonds and the investing public, usually an investment banking company.

See also Historical cost, Fair market value of an asset and Shrinkage

Unearned revenues

Liabilities resulting from customer receipts in advance of the period in which goods are sold or services are actually to be provided. For example, a cash advance or deposit received from a customer prior to product delivery should be accounted for with an increase in cash and a corresponding increase in a liability (unearned revenue) to reflect the future obligation to deliver the product. At the time of product delivery, an adjusting entry is required to reduce the unearned revenue and properly record the revenue earned. Under the revenue recognition principle, revenues are not really revenues until they are earned; therefore, any unearned revenues are accounted for as liabilities and then adjusted to revenue over time as the earnings process is completed.

See also Current liabilities

Unit level

Overhead Cost Activities that are incurred for every single unit that is produced.

See also Activity Based Costing, Batch Level, Product Line, Facility Support, Overhead Cost Activity

Units-of-production method

A method sometimes used for calculating depreciation of property, plant and equipment, and always used for determining depletion ofnatural resources. This method first requires that the capitalized cost of an asset, less any estimated salvage value, be divided by some estimated measure of total future productivity (i.e., estimated miles for a truck or estimated tonnage for a coal mine). This calculation results in a rate of depreciation or depletion per unit of anticipated production. The amount of recorded depreciation or depletion for any period is then determined by multiplying the rate of depreciation or depletion per unit of production by the actual amount of productivity measured for the period.

Unlikely Loss

Claims of the company that are unlikely to result in any future obligation do not need to be recorded or disclosed anywhere in the financial statements.

See also Probable Losses, Reasonable Possible Losses.

Unrealized gains and losses on investment securities

An adjusting journal entry made that involves reporting certain stocks and bonds to their market value each period. The increase and decrease in market value results in an unrealized gain or loss on the companies investment.

Unsecured bonds

See Debentures.

See also Subordinated bonds

Unsecured loan

Security is a term used to describe protections to a lender in the event of loan default. The usual form of security for a loan is collateral. Unsecured loans typically refer to loans for which no collateral is provided.

Useful life

The period over which an asset is expected to provide future benefits to its owner. In some cases, this useful life is the period of anticipated ownership, which may be less than its functional life. For purposes of straight-line depreciation of property, plant and/or equipment andamortization of an intangible asset, management must reasonably estimate the asset's useful life.

Variable cost ratio

The amount of a company's total variable costs as a percentage of its total sales revenues.

Variable costs

Any cost that varies in total over a period of time with changes in a company's volume of production or sales. For example, if amanufacturing company's direct material costs amount to $5 per unit produced, then the total amount of the company's direct material costs for any period will vary based on that period's volume of production. Production of 100 units and 200 units in consecutive periods would result in direct material costs of $500 and then $1,000, respectively. Clearly, direct material costs in this case vary in total with changes in volume. Perfectly variable costs increase in total by the same amount with each additional unit of sales or production ($5 in this case) and amount to zero if there is no production or sales. In reality, few costs are ever perfectly variable because significant changes in volume can often have an effect on the amount of the variable costs per unit. In performing simple CVP analysis, a company's variable costs are assumed to be perfectly variable with stable variable costs per unit within the company's relevant range of volume.

See also Stepped costs and Mixed costs

Variable costs per unit

An amount determined by taking total variable cost for a period of time and dividing that amount by the period's volume. The variable cost per unit can also be described as the amount of increase in total variable costs with each additional unit of volume, or the rate of change in total costs given changes in volume. For a perfectly variable cost, the variable cost per unit is the same regardless of the company's level of volume during a period. In performing simple CVP analysis, a company's variable costs per unit are assumed to be constant within the company's relevant range of volume.

Variable Manufacturing Overhead Efficiency Variance

The difference between the standard or budged variable manufacturing overhead and the actual variable manufacturing overhead that results from inefficient use in indirect materials, indirect labor. It is calculated by (Actual hours – Standard hours) X Standard rate.

See also Variable Manufacturing Overhead Spending Variance.

Variable Manufacturing Overhead Spending Variance

The difference between the standard or budged variable manufacturing overhead rate and the actual variable manufacturing overhead that results from changes in indirect materials, indirect labor and other overhead prices. It is calculated by (Actual Rate – Standard Rate) X Actual Hours.

See also Variable Manufacturing Overhead Efficiency Variance

Variable Manufacturing Overhead Variance

The difference between the standard or budgeted variable overhead costs and the actual costs. This can be broken down into Variable Manufacturing Overhead Spending Variance and Variable Manufacturing Overhead Efficiency Variance.

Vendor

A supplier or provider of goods or services to a business.

Vertical analysis

The process of dividing each item in a company's income statement by the amount of net sales revenues, thereby producing a ratio for each reported revenue, expense and sub-category of net income as a percentage of net sales revenues. Because comparison of these ratios over periods of time can be a useful tool in efforts to project or forecast a company's net income for the future, vertical analysis is a frequently used tool for most financial analysts. For example, cost of goods sold increasing as a percentage of net sales revenues from 60% and 65% over consecutive years may reflect increasing product costs, decreasing sales prices, or some combination of the two. In any case, this is a negative trend unless any decrease in sales prices produced a large increase in sales volume and resulting revenues and profits. Increasing cost of goods sold as a percentage of net sales revenues that are not accompanied by increasing revenues and profits is probably an indication of increasing business competition and is generally a bad omen for future profits.

Volume

Refers to the number of units of a company's goods or services that are produced or sold. "Volume of production" refers to the number of units produced and "volume of sales" or simply "sales" refers to the number of units sold or the dollar amount of total sales (sales revenues). The difference between volumes of production and sales for manufacturing companies generate increases or decreases in the balance of finished goods inventory. If sales exceed production, then inventories decrease and vice-versa.

Wage expense

The cost incurred in the current period for employees' gross wages, which includes amounts withheld from those wages for payment to government or other entities on the employees' behalf. Wage expense differs from salaries expense in that wages are paid to employees who are paid on an hourly rate, as opposed to some fixed monthly amount or salary. In many cases, these two expenses are combined for accounting and/or financial reporting purposes as "salaries and wage expense." This amount does not include an employer's payroll tax expense incurred as a result of having employees. Wage expense incurred as a product cost would be included in direct or indirect labor costs and recorded as an expense through cost of goods sold.

See also Manufacturing overhead costs, Period costs, Selling expense, Administrative expense, Matching principle and Selling and administrative expense budget

Warranty Obligation

A liability recorded on the company's books that estimates and reports the company's future obligation related to product warranties.

Weighed-average cost of capital (WACC)

The rate at which a company is expected to pay on average according to its capital structure. This includes all sources of debt and equity capital.

Wholesale merchandiser

A distribution or merchandising business that typically purchases finished products from manufacturers and then sells those products toretail merchandisers.

WIP

See Work in process inventory.

WIP inventory

See Work in process inventory.

Work in process inventory

Also referred to as "work in progress inventory" or simply as "WIP" or "WIP inventory." WIP is a category of inventory for a manufacturing business that includes all manufacturing product costs (direct materials, direct labor and manufacturing overhead) from the point production is initiated through the time of product completion and transfer to finished goods inventory.

See also Raw materials inventory

Working capital

The net amount of a company's total current assets less total current liabilities. A company's working capital reflects its liquidity and ability to fund operations in the short term.

See also Current ratio

Write-down

A recorded reduction of a company's asset. An expense is typically recorded with such a reduction.

See also Public offering

Write-off

The recorded elimination of an asset from a company's books. An expense is typically recorded with such a reduction.

See also Direct write-off method of accounting for uncollectible accounts receivable and Loss on disposal

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