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# Glossary

for using in
lectural and practical lessons of “Financial and managerial accounting”

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# GLOSSARY

## A

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| **Accelerated method**: A method of depreciation that allocates relatively large amounts of the depreciable cost of an asset to earlier years and smaller amounts to later years. |
| **Accounting cycle:** The series of steps followed in measuring business transactions and transforming them into financial statements. |
| **Accounting equation:** Assets = Liabilities + Owners Equity. |
| **Accounting rate of return method:** A method of evaluating capital investments that does not use an investment's cash flows but considers the financial reporting effects of the investment instead. |
| **Accounting:** An information system that measures, processes, and communicates financial information about an economic entity. |
| **Accounts receivable aging method:** A method of estimating uncollectible accounts based on the |
| **Accounts receivable:** Short-term financial assets that arise from sales on credit at the wholesale or retail level. |
| **Accounts**: Basic units for accumulating and storing accounting data from similar transactions. |
| **Accrual accounting:** Recording transactions in the periods in which they occur, rather than in the periods in which cash is received or paid; all the techniques that accountants use to apply the matching rule. |
| **Accrual:** The recognition of an expense or revenue that has arisen but has not yet been recorded. |
| **Accrued expenses:** Expenses incurred but not recognized in the accounts; unrecorded expenses. |
| **Accrued revenues:** Revenues for which a service has been performed or goods delivered but for which no entry has been made; unrecorded revenues. |
| **Accumulated Depreciation account:** A contra-asset account used to accumulate depreciation on specific long-term assets. |
| **Activity-based costing (ABC):** A management accounting practice that identifies all of an organization's major operating activities (both production and nonproduction), traces costs to those activities, and then assigns costs to the products or services that use the resources and services supplied by the activities. |
| **Activity-based costing (ABC):** A method of assigning overhead costs that categorizes all indirect costs by activity, traces the indirect costs to those activities, and assigns activity costs to products using a cost driver related to the cause of the cost. |
| **Activity-based costing:** A method of assigning costs that calculates a more accurate product cost than traditional methods by categorizing all indirect costs by |

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| activity, tracing the indirect costs to those activities, and assigning those costs to products using a cost driver related to the cause of the cost. |
| **Activity-based management (ABM):** An approach to managing an organization that identifies all major operating activities, determines the resources consumed by each of those activities and the cause of the resource usage, categorizes the activities as either adding value to a product or service or not adding value, and seeks to eliminate or reduce nonvalue-adding activities. |
| **Activity-based management (ABM):** An approach to managing an organization that identifies all major operating activities, determines the resources consumed by each activity and the cause of the resource usage, categorizes the activities as either adding value to a product or service or not adding value, and seeks to reduce or eliminate nonvalueadding activities. |
| **Activity-based systems:** Information systems that provide quantitative information about an organization's activities. |
| **Actual costing:** A method of cost measurement that uses the actual costs of direct materials, direct labor, and overhead to calculate a product or service unit cost. |
| **Additions**: Enlargements to the physical layout of a plant asset. |
| **Adjusted trial balance:** A trial balance prepared after all adjusting entries have been recorded and posted to the accounts. |
| **Adjusting entries:** Entries made to apply accrual accounting to transactions that span accounting periods. |
| **Aging of accounts receivable:** The process of listing each customer's receivable account according to the due date of the account. |
| **Allowance for Uncollectible Accounts:** A contra-asset account that reduces accounts receivable to the amount expected to be collected in cash. Also called *Allowance for Doubtful Accounts* and *Allowance for Bad Debts*. |
| **Allowance method:** A method of accounting for uncollectible accounts by expensing estimated uncollectible accounts in the period in which the related sales take place. |
| Also called *bad debts*. |
| **American Institute of Certified Public Accountants (AICPA):** The professional association of certified public accountants. |
| **Amortization**: The periodic allocation of the cost of an intangible asset to the periods it benefits. |
| **Articles of incorporation:** An official document filed with and approved by a state that authorizes the incorporators to do business as a corporation. |
| **Asset impairment**: Loss of revenue-generating potential of a long-lived asset before the end of its useful life; the difference between an asset's carrying value and its fair value, as measured by the present value of the expected cash flows. |
| **Asset turnover:** The productivity of assets, or the number of sales soms generated by each som invested in assets; Sales _ Assets Invested. |
| **Assets:** The economic resources of a company that are expected to benefit future operations. |
| assumption that a predictable proportion of each som of accounts receivable |

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| outstanding will not be collected. At that point, a company may choose to sell the product as is or process it into another form for sale to a different market |
| **Audit committee:** A subgroup of a corporation's board of directors that is charged with ensuring that the board will be objective in reviewing management's performance; it engages the company's independent auditors and reviews their work. |
| **Audit:** An examination of a company's financial statements in order to render an independent professional opinion about whether they have been presented fairly, in all material respects, in conformity with GAAP. |
| **Authorized shares:** The maximum number of shares a corporation can issue without a change in its state charter. |
| **Available-for-sale securities:** Debt or equity securities that do not meet the criteria for trading or held-to-maturity securities. |
| **Average-cost method**: An inventory costing method in which inventory is priced at the average cost of the goods available for sale during the period. |
| **Avoidable costs:** Costs that can be eliminated by dropping a segment. |

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| **Backflush costing:** A product costing approach in which all product costs are first accumulated in the Cost of Goods Sold account and at the end of the period are "flushed back," or worked backward, into the appropriate inventory accounts. |
| **Balance sheet:** The financial statement that shows a business's assets, liabilities, and owner's equity as of a specific date. Also called the *statement of financial position.* |
| **Balance**: The difference in soms between the total debit footing and the total credit footing of an account. Also called *account balance.* |
| **Balanced scorecard:** A framework that links the perspectives of an organization's four basic stakeholder groups—financial (investors), learning and growth (employees), internal business processes, and customers—with the organization's mission and vision, performance measures, strategic plan, and resources. |
| **Bank reconciliation:** The process of accounting for the difference between the balance appearing on a company's bank statement and the balance in its Cash account. |
| **Base year:** In financial analysis, the first year to be considered in any set of data. |
| **Basic earnings per share:** The net income applicable to common stock divided by the weighted-average number of common shares outstanding. |
| **Batch-level activities:** Activities performed each time a batch of goods is produced. |
| **Benchmarking:** A technique for determining a company's competitive advantage by comparing its performance with that of its best competitors. |
| **Benchmarks:** Measures of the best practices in an industry. |
| **Betterments**: Improvements that do not add to the physical layout of a plant asset. |

**Bill of activities:** A list of activities and related costs that is used to compute the costs assigned to activities and the product unit cost.

**Bond certificate:** Evidence of an organization's debt to a bondholder.

**Bond indenture:** A contract that defines the terms of a bond issue.

**Bond issue:** The total value of bonds issued at one time.

**Bond:** A security, usually long term, representing money that a corporation or other entity borrows from the investing public.

**Bonding:** The process of carefully checking an employee's background and insuring the company against theft by that person.

**Book value per share:** The equity of the owner of one share of stock in a corporation's net assets.

**Book value:** A company's total assets less its liabilities; stockholders' equity or net assets.

**Bookkeeping:** The process of recording financial transactions and keeping financial records.

**Brand name**: A registered name that can be used only by its owner to identify a product or service.

**Breakeven point:** The point at which total revenues equal total costs.

**Budget committee:** A committee made up of top management that has overall responsibility for budget implementation.

**Budgeted balance sheet:** A statement that projects an organization's financial position at the end of an accounting period.

**Budgeted income statement:** A projection of an organization's net income for an accounting period based on the revenues and expenses estimated for that accounting period.

**Budgeting:** The process of identifying, gathering, summarizing, and communicating financial and nonfinancial information about an organization's future activities.

**Budgets:** Plans of action based on forecasted transactions, activities, and events.

**Business plan:** A comprehensive statement of how a company will achieve its objectives.

**Business transactions:** Economic events that affect a business's financial position.

**Business:** An economic unit that aims to sell goods and services to customers at prices that will provide an adequate return to its owners.

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**Call price:** A specified price, usually above face value, at which a corporation can buy back its bonds before maturity.

**Callable bonds:** Bonds that the issuing corporation can buy back and retire at a call price before their maturity dates.

**Callable preferred stock:** Preferred stock that the issuing corporation can redeem or retire at a stated price.

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| **Capital expenditure**: An expenditure for the purchase or expansion of a long-term asset, which is recorded in an asset account. |
| **Capital expenditures budget:** A detailed plan outlining the anticipated amount and timing of capital outlays for long-term assets during an accounting period. |
| **Capital investment analysis:** The process of making decisions about capital investments. Also called *capital budgeting.* |
| **Capital investment decisions:** Management decisions about when and how much to spend on capital facilities and other long-term projects. |
| **Capital lease:** A long-term lease that resembles a purchase or sale on installment and in which the lessee assumes the risk of ownership. |
| **Carrying value:** The undepreciated portion of the original cost of a fixed asset. Also called *book value.* |
| **Cash basis of accounting:** Accounting for revenues and expenses on a cash-received and cash-paid basis. |
| **Cash budget:** A projection of the cash that an organization will receive and the cash that it will pay out during an accounting period. |
| **Cash equivalents:** Short-term investments that will revert to cash in 90 days or less from the time they are purchased. (Short-term (90 days or less), highly liquid investments, including money market accounts, commercial paper, and U.S.) |
| **Cash flow yield:** A measure of a company's ability to generate operating cash flows in relation to net income; Net Cash Flows from Operating Activities _ Net Income. |
| **Cash flows to assets:** A measure of the ability of assets to generate operating cash flows; Net Cash Flows from Operating Activities _ Average Total Assets. |
| **Cash flows to sales:** A measure of the ability of sales to generate operating cash flows; Net Cash Flows from Operating Activities _ Net Sales. |
| **Cash flows:** The inflows and outflows of cash into and out of a business. |
| **Cash return on assets**: A ratio that shows how much cash is generated by each som of assets; Net Cash Flows from Operating Activities _ Average Total Assets. |
| **Cash:** Coins and currency on hand, checks and money orders from customers, and deposits in checking and savings accounts. |
| **Cash-generating efficiency**: A company's ability to generate cash from its current or continuing operations. |
| **Certified public accountant (CPA):** A public accountant who has met stringent state licensing requirements. |
| **Chart of accounts**: A list of account numbers and titles that facilitates finding accounts in the ledger. |
| **Check authorization:** A form that an accounting department prepares after it has compared a receiving report with a purchase order and invoice and that authorizes the issuance of a check to pay the invoice. |
| **Classification**: The process of assigning transactions to the appropriate accounts. |
| **Closing entries:** Entries made at the end of an accounting period that set the stage for the next period by clearing temporary accounts of their balances and transferring them to the owner's Capital account; they summarize a period's |

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| revenues and expenses. |
| **Commercial paper:** Unsecured loans sold to the public, usually through professionally managed investment firms, as a means of borrowing short-term funds. |
| **Commitment:** A legal obligation that does not meet the technical requirements for recognition as a liability. |
| **Common stock:** Shares of stock that carry voting rights but that rank below preferred stock in terms of dividends and the distribution of assets. |
| **Common-size statement:** A financial statement in which the components are expressed as percentages of a total figure in the statement. |
| **Compensating balance:** A minimum amount that a bank requires a company to keep in its bank account as part of a credit-granting arrangement. |
| **Compensation committee:** A committee of independent directors appointed by a public corporation's board of directors to determine how top executives will be compensated. |
| **Complex capital structure:** A capital structure that includes preferred stocks, bonds, and stock options that can be converted to common stock. |
| **Compound entry**: An entry that has more than one debit or credit entry. |
| **Compound interest:** The interest cost for two or more periods when after each period, the interest of that period is added to the amount on which interest is computed in future periods. |
| **Compound interest:** The interest cost for two or more periods when the amount on which interest is computed changes in each period to include all interest paid in previous periods. |
| **Comprehensive income:** Items from sources other than owners that account for the change in stockholders' equity during an accounting period. |
| **Consignment**: Merchandise that its owner (the consignor) places on the premises of another company (the consignee) with the understanding that payment is expected only when the merchandise is sold and that unsold items may be returned to the consignor. |
| **Consolidated financial statements:** Financial statements that reflect the combined operations of a parent company and its subsidiaries. |
| **Contingent liability:** A potential liability that arises from a past transaction and is dependent on a future event. |
| **Continuity:** The difficulty associated with not knowing how long a business will survive. |
| **Continuous improvement:** The management concept that one should never be satisfied with what is, but should instead constantly seek improved efficiency and lower cost through better methods, products, services, processes, or resources. |
| **Contra account:** An account whose balance is subtracted from an associated account in the financial statements. |
| **Contribution margin (CM):** The amount that remains after all variable costs are subtracted from sales. |
| **Control activities:** Policies and procedures that management establishes to ensure |

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| that the objectives of internal control are met. |
| **Control environment:** A company's ethics, philosophy and operating style, organizational structure, method of assigning authority and responsibility, and personnel policies and practices. |
| **Control:** An investing company's ability to decide the operating and financial policies of another firm because it owns more than 50 percent of that firm's voting stock. |
| **Controllable costs and revenues:** Costs and revenues that are the result of a manager's actions, influence, or decisions. |
| **Conversion costs:** The costs of converting direct materials into a finished product; the sum of direct labor costs and overhead costs. Also called *processing costs.* |
| **Convertible bonds:** Bonds that can be exchanged for the issuing corporation's common stock. |
| **Convertible preferred stock:** Preferred stock that the owner can exchange for common stock. |
| **Copyright**: An exclusive right granted by the federal government to reproduce and sell literary, musical, and other artistic materials and computer programs for a period of the author's life plus 70 years. |
| **Core competency:** The thing a company does best and that gives it an advantage over its competitors. |
| **Corporate governance:** The oversight of a corporation's management and ethics by the board of directors. |
| **Corporation:** A business unit granted a state charter recognizing it as a separate legal entity having its own rights, privileges, and liabilities distinct from those of its owners. |
| **Cost allocation:** The process of assigning a collection of indirect costs to a specific cost object using an allocation base known as a cost driver. |
| **Cost behavior:** The way costs respond to changes in volume or activity. |
| **Cost center:** A responsibility center whose manager is accountable only for controllable costs that have well-defined relationships between the center's resources and certain products or services. |
| **Cost driver:** An activity base that causes a cost pool to increase in amount as the cost driver increases in volume. |
| **Cost flow**: The association of costs with their assumed flow in the operations of a company. |
| **Cost hierarchy:** A framework for classifying activities according to the level at which their costs are incurred. |
| **Cost object:** The destination of an assigned, or allocated, cost. |
| **Cost of capital:** The minimum desired rate of return on an investment, such as assets invested in an investment center. |
| **Cost of goods available for sale:** The sum of beginning inventory and the net cost of purchases during an accounting period. |
| **Cost of goods manufactured budget:** A detailed plan that summarizes the estimated costs of production during an accounting period. |

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| **Cost of goods manufactured:** The cost of all units completed and moved to finished goods storage during an accounting period. |
| **Cost pool:** The collection of overhead costs assigned to a cost object. |
| **Cost principle**: The practice of recording transactions at cost. |
| **Cost savings:** Benefits, such as reduced costs, from a proposed capital investment. |
| **Cost**: The exchange price associated with a business transaction at the point of recognition. |
| **Cost-adjusted-to-market method:** A method of accounting for available-for-sale securities at cost adjusted for changes in the securities' market value. |
| **Cost-plus contracts:** Job contracts that require the customer to pay all costs incurred in performing the job plus a predetermined amount of profit. |
| **Costs of quality:** Both the costs of achieving quality and the costs of poor quality in the manufacture of a product or the delivery of a service. |
| **Cost-volume-profit (C-V-P) analysis:** An examination of the cost behavior patterns that underlie the relationships among cost, volume of output, and profit. |
| **Coupon bonds:** Bonds not registered with the issuing organization that bear coupons stating the amount of interest due and the payment date. |
| **Credit**: The right side of an account. |
| **Crossfooting:** Adding and subtracting numbers across a row. |
| **Cumulative preferred stock:** Preferred stock on which unpaid dividends accumulate over time and that must be satisfied before a dividend can be paid to common stockholders. |
| **Current liabilities:** Debts and obligations that a company expects to satisfy within one year or within the normal operating cycle, whichever is longer. |
| **Current ratio:** A measure of short-term debt-paying ability; Current Assets _ Current Liabilities. |
| **Customer list**: A list of customers or subscribers. |

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| **Date of payment:** The date on which a dividend is paid. |
| **Days' inventory on hand:** A measure that shows the average number of days taken to sell inventory; Days in Year _ Inventory Turnover. |
| **Days' inventory on hand**: The average number of days required to sell the inventory on hand; Number of Days in a Year _ Inventory Turnover. |
| **Days' payable:** A measure that shows the average number of days taken to pay accounts payable; Days in Year _ Payables Turnover. |
| **Days' payable:** How long, on average, a company takes to pay its accounts payable; 365 days _ Payables Turnover. |
| **Days' sales uncollected:** A measure that shows the number of days, on average, that a company must wait to receive payment for credit sales; Days in Year _ Receivable Turnover. |
| **Debit**: The left side of an account. |

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| **Debt to equity ratio**: A measure that shows the relationship of debt financing to equity financing, or the extent to which a company is leveraged; Total Liabilities _ Stockholders' Equity. |
| **Declaration date:** The date on which a board of directors declares a dividend. |
| **Declining-balance method**: An accelerated method of depreciation in which depreciation is computed by applying a fixed rate to the carrying value (the declining balance) of a tangible long-lived asset. |
| **Deferral:** The postponement of the recognition of an expense already paid or of revenue received in advance. |
| **Deferred Income Taxes:** The account used to record the difference between income taxes expense and income taxes payable. The result of using different methods to calculate income taxes for financial reporting and tax purposes |
| **Deficit:** A debit balance in the Retained Earnings account. |
| **Definitely determinable liabilities:** Current liabilities that are set by contract or statute and that can be measured exactly. |
| **Delivery expense:** The transportation cost of delivering merchandise. Also called *freight-out*. |
| **Depletion**: The exhaustion of a natural resource through mining, cutting, pumping, or other extraction, and the way in which the cost is allocated. |
| **Depreciable cost**: The cost of an asset less its residual value. |
| **Depreciation**: The periodic allocation of the cost of a tangible long-lived asset (other than land and natural resources) over its estimated useful life. The portion of the cost of a long-term asset allocated to any one accounting period. Also called *depreciation expense* |
| **Differential cost:** A cost that changes among alternatives. Also called *incremental cost.* |
| **Diluted earnings per share:** The net income applicable to common stock divided by the sum of the weighted-average number of common shares outstanding and potentially dilutive securities. |
| **Direct charge-off method:** A method of accounting for uncollectible accounts by directly debiting an expense account when bad debts are discovered; it violates the matching rule but is required for computing federal income tax. |
| **Direct costs:** Costs that can be conveniently and economically traced to a cost object. |
| **Direct labor budget:** A detailed plan that estimates the direct labor hours needed during an accounting period and the associated costs. |
| **Direct labor costs:** The costs of the labor needed to make a product or perform a service that can be conveniently and economically traced to specific units of the product or service. |
| **Direct labor efficiency variance:** The difference between the standard direct labor hours allowed for good units produced and the actual direct labor hours worked multiplied by the standard direct labor rate. Also called *direct labor quantity* or *usage variance*. |
| **Direct labor rate standard:** The hourly direct labor rate that is expected to prevail |

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| during the next accounting period for each function or job classification. |
| **Direct labor rate variance:** The difference between the standard direct labor rate and the actual direct labor rate multiplied by the actual direct labor hours worked. Also called *direct labor spending variance*. |
| **Direct labor time standard:** The expected labor time required for each department, machine, or process to complete the production of one unit or one batch of output. |
| **Direct materials costs:** The costs of the materials used in making a product that can be conveniently and economically traced to specific units of the product. |
| **Direct materials price standard:** A careful estimate of the cost of a specific direct material in the next accounting period. |
| **Direct materials price variance:** The difference between the standard price and the actual price per unit multiplied by the actual quantity purchased. Also called *direct materials spending* or *rate variance*. |
| **Direct materials purchases budget:** A detailed plan that identifies the quantity of purchases required to meet budgeted production and inventory needs and the costs associated with those purchases. |
| **Direct materials quantity standard:** An estimate of the amount of direct materials, including scrap and waste, that will be used in an accounting period. |
| **Direct materials quantity variance:** The difference between the standard quantity allowed and theactual quantity used multiplied by the standard price. Also called *direct materials efficiency* or *usage variance*. |
| **Direct method**: The procedure for converting the income statement from an accrual basis to a cash basis by adjusting each item on the income statement. |
| **Discontinued operations:** Segments that are no longer part of a company's operations. |
| **Discount:** The amount by which a bond's face value exceeds its issue price, which occurs when the market interest rate is higher than the face interest rate. |
| **Discounting:** A method of selling notes receivable to a bank in which the bank derives its profit by deducting the interest from the maturity value of the note. |
| **Discretionary cost center:** A responsibility center whose manager is accountable for costs only and in which the relationship between resources and the products or services produced is not well defined. |
| **Dishonored note:** A promissory note that the maker cannot or will not pay at the maturity date. |
| **Diversified companies:** Companies that operate in more than one industry. Also called *conglomerates*. |
| **Dividend:** A distribution of a corporation's assets (usually cash generated by past earnings) to its stockholders. |
| **Dividends in arrears:** Past dividends on cumulative preferred stock that remain unpaid. |
| **Dividends yield**: A measure of a stock's current return to an investor; Dividends per Share _ Market Price per Share. |
| **Double taxation:** Taxation of corporate earnings twice—once as income of the |

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| corporation and once as income to stockholders in the form of dividends. |
| **Double-declining-balance method**: An accelerated method of depreciation in which a fixed rate equal to twice the straight-line percentage is applied to the carrying value (the declining balance) of a tangible long-lived asset. |
| **Double-entry system**: The accounting system in which each transaction is recorded with at least one debit and one credit, so that the total amount of debits equals the total amount of credits. |
| **Due care:** Competence and diligence in carrying out professional responsibilities. |
| **Duration of a note:** The time between a promissory note's issue date and its maturity date. |

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| **Early extinguishment of debt:** The retirement of a bond issue before its maturity date. |
| **Earnings management:** The manipulation of revenues and expenses to achieve a specific outcome. |
| **Economic value added (EVA):** The shareholder wealth created by an investment center; Economic Value Added _ After-Tax Operating Income _ Cost of Capital in Soms. |
| **Effective interest method:** A method of amortizing bond discounts or premiums that applies a constant interest rate (the market rate when the bonds were issued) to the bonds' carrying value at the beginning of each interest period. |
| **Electronic funds transfer (EFT):** The transfer of funds from one bank to another through electronic communication. |
| **Eliminations:** Entries made on consolidation work sheets to eliminate transactions between parent and subsidiary companies. |
| **Engineering method:** A method that separates costs into their fixed and variable components by performing a step-by-step analysis of the tasks, costs, and processes involved in completing an activity or product. |
| **Equity method:** A method of accounting for influential but noncontrolling long-term investments in which the investment is initially recorded at cost and is then adjusted for the investor's share of the company's net income or loss and for dividends. |
| **Equivalent production:** A measure that applies a percentage-of-completion factor to partiallycompleted units to compute the equivalent number of whole units produced in an accounting period for each type of input. Also called *equivalent units*. |
| **Estimated liabilities:** Definite debts or obligations whose exact amounts cannot be known until a later date. |
| **Estimated useful life**: The total number of service units expected from a long-term asset. |
| **Ethics:** A code of conduct that addresses whether actions are right or wrong. |

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| **Exchange gain or loss:** A gain or loss due to exchange ate fluctuation, which is reported on the income statement. |
| **Exchange price**: The price resulting from an agreement between the buyer and seller that can be verified by evidence created at the time of the transaction; the price at which a transaction is recorded. |
| **Exchange rate:** The value of one currency in terms of another. |
| **Ex-dividend:** A description of stock between the record date and the date of payment, during which the right to the dividend remains with the person who owned the stock on the record date. |
| **Expenditure**: A payment or an obligation to make future payment for an asset or a service. |
| **Expenses:** Decreases in owner's equity resulting from the costs of goods and services used in the course of earning revenues. Also called *cost of doing business* or *expired costs.* |
| **Extraordinary items:** Events or transactions that are both unusual in nature and infrequent in occurrence. |
| **Extraordinary repairs**: Repairs that significantly enhance a plant asset's estimated useful life or residual value and thereby increase its carrying value. |

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| **Face interest rate:** The fixed rate of interest paid to bondholders based on the face value of the bonds. |
| **Facility-level activities:** Activities performed to support a facility's general manufacturing process. |
| **Factor:** An entity that buys accounts receivable. |
| **Factoring:** The sale or transfer of accounts receivable. |
| **FIFO costing method:** A process costing method in which the cost flow follows the actual flow of production, so that the costs assigned to the first products processed are the first costs transferred out when those products flow to the next process, department, or work cell. |
| **Financial Accounting Standards Board (FASB):** The most important body for developing rules on accounting practice; it issues *Statements of Financial Accounting Standards.* |
| **Financial accounting:** The process of generating and communicating accounting information in the form of financial statements to those outside the organization. |
| **Financial budgets:** Budget projections of the financial results for an accounting period. |
| **Financial leverage:** A corporation's ability to increase earnings for stockholders by earning more on assets than it pays in interest on the debt it incurred to finance the assets.Also called *trading on equity.* |
| **Financial performance measurement:** An evaluation method that uses all the techniques available to show how important items in financial statements relate to |

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| a company's financial objectives. Also called *financial statement analysis*. |
| **Financial position:** The economic resources that belong to a company and the claims (equities) against those resources at a particular time. |
| **Financial statements:** The primary means of communicating important accounting information to users. They include the income statement, statement of owner's equity, balance sheet, and statement of cash flows. |
| **Financing activities:** Activities undertaken by management to obtain adequate funds to begin and to continue operating a business. Business activities that involve obtaining resources from stockholders and creditors and providing the former with a return on their investments and the latter with repayment. |
| **Financing period:** The amount of time from the purchase of inventory until it is sold and payment is collected, less the amount of time creditors give the company to pay for the inventory. |
| **Finished Goods Inventory account:** An inventory account that shows the costs assigned to all completed products that have not been sold. |
| **First-in, first-out (FIFO) method**: An inventory costing method based on the assumption that the costs of the first items acquired should be assigned to the first items sold. |
| **Fiscal year:** Any 12-month accounting period. |
| **Fixed cost:** A cost that remains constant within a defined range of activity or time period. |
| **Fixed overhead budget variance:** The difference between budgeted and actual fixed overhead costs. Also called *budgeted fixed overhead variance*. |
| **Fixed overhead volume variance:** The difference between budgeted fixed overhead costs and the overhead costs that are applied to production using the standard fixed overhead rate. |
| **Flexible budget formula:** An equation that determines the expected, or budgeted, cost for any level of output. |
| **Flexible budget:** A summary of expected costs for a range of activity levels. Also called a *variable budget*. |
| **FOB destination:** A term indicating that the seller retains title to the merchandise until it reaches its destination and that the seller bears the shipping costs. |
| **FOB shipping point:** A term indicating that the buyer assumes title to the merchandise at the shipping point and bears the shipping costs. |
| **Footings**: Working totals of columns of numbers. To *foot* means to total a column of numbers. |
| **Franchise**: The right to an exclusive territory or market. |
| **Fraudulent financial reporting:** The intentional preparation of misleading financial statements. |
| **Free cash flow**: The amount of cash that remains after deducting the funds a company must commit to continue operating at its planned level; Net Cash Flows from Operating Activities _ Dividends _ (Purchases of Plant Assets _ Sales of Plant Assets). |
| **Freight-in:** The transportation cost of receiving merchandise. |

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| **Full product cost:** A cost that includes not only the costs of direct materials and direct labor, but also the costs of all production and nonproduction activities required to satisfy the customer. |
| **Full-costing method**: A method of accounting for the costs of exploring and developing oil and gas resources in which all costs are recorded as assets and depleted over the estimated life of the producing resources. |
| **Future value:** The amount an investment will be worth at a future date if invested at compound interest. |

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| **General journal**: The simplest and most flexible type of journal. |
| **General ledger**: A book or file that contains all of a company's accounts arranged in the order of the chart of accounts. Also called the *ledger.* |
| **Generally accepted accounting principles (GAAP):** The conventions, rules, and procedures that define accepted accounting practice at a particular time. |
| **Going concern:** The assumption that unless there is evidence to the contrary, a business will continue to operate indefinitely. |
| **Goods flow**: The actual physical movement of goods in the operations of a company. |
| **Goodwill:** The excess of the purchase price of a business over the fair market value of its net assets. Also called *goodwill from consolidation.* |
| **Governmental Accounting Standards Board (GASB):** The board responsible for issuing accounting standards for state and local governments. |
| **Gross profit method**: A method of inventory estimation based on the assumption that the ratio of gross margin for a business remains relatively stable from year to year. Also called *gross margin method.* |
| **Group depreciation**: The grouping of similar items to calculate depreciation. |

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| **Held-to-maturity securities:** Debt securities that management intends to hold until their maturity date. |
| **High-low method:** A three-step approach to separating a mixed cost into its variable and fixed components. |
| **Horizontal analysis:** A technique for analyzing financial statements in which changes from the previous year to the current year are computed in both som amounts and percentages. |

## I

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| **Imprest system:** A system for controlling small cash disbursements by |

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| establishing a fund at a fixedamount and periodically reimbursing the fund by the amount necessary to restore its original cash balance. |
| **Imprest system:** A system for controlling small cash disbursements by establishing a fund at a fixed amount and periodically reimbursing the fund by the amount necessary to restore the original cash balance. |
| **Income from continuing operations:** The operating income section of the income statement when a company has both continuing and discontinued operations. |
| **Income statement:** A financial statement that summarizes the revenues earned and expenses incurred by a business over an accounting period. |
| **Income Summary account:** A temporary account used in the closing process that holds a summary of all revenues and expenses before the net income or loss is transferred to the owner's Capital account. |
| **Income tax allocation:** The accounting method used to accrue income taxes expense on the basis of accounting income when accounting income and taxable income differ. |
| **Incremental analysis:** A technique used in decision analysis that compares alternatives by focusing on the differences in their projected revenues and costs. Also called *differential analysis.* |
| **Independence:** The avoidance of all relationships that impair or appear to impair an accountant's objectivity. |
| **Index number:** In trend analysis, a number that shows changes in related items over time and that is calculated by setting the base year equal to 100 percent. |
| **Indirect costs:** Costs that cannot be conveniently or economically traced to a cost object. |
| **Indirect labor costs:** The costs of labor for productionrelated activities that cannot be conveniently or economically traced to a unit of the product or service. |
| **Indirect materials costs:** The costs of materials that cannot be conveniently and economically traced to a unit of the product or service. |
| **Indirect method**: The procedure for converting the income statement from an accrual basis to a cash basis by adjusting net income for items that do not affect cash flows, including depreciation, amortization, depletion, gains, losses, and changes in current assets and current liabilities. |
| **Information and communication:** A component of internal control that refers to the way in which the accounting system gathers and treats information and how it communicates responsibilities within the system. |
| **Initial public offering (IPO):** A company's first issue of capital stock to the public. |
| **Insider trading:** Making use of inside information for personal gain. |
| **Inspection time:** The time spent looking for product flaws or reworking defective units. |
| **Installment accounts receivable:** Accounts receivable that are payable in a series of time payments. |
| **Institute of Management Accountants (IMA):** A professional organization made up primarily of management accountants. |

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| **Intangible assets**: Long-term assets with no physical substance whose value is based on rights or advantages accruing to the owner. |
| **Integrity:** Honesty, candidness, and the subordination of personal gain to service and the public trust. |
| **Interest coverage ratio:** A measure of the degree of protection a company has from default on interest payments; (Income Before Income Taxes _ Interest Expense) _ Interest Expense. |
| **Interest:** The cost associated with the use of money for a specific period of time. |
| **Interim financial statements:** Financial statements issued for a period of less than one year, usually a quarter or a month. |
| **Interim periods:** Accounting periods of less than one year. |
| **Internal control:** A process designed by a company to establish the reliability of the accounting records and financial statements in accordance with generally accepted accounting principles (GAAP) and to ensure that the company's assets are protected. |
| **Internal Revenue Service (IRS):** The agency that interprets and enforces the tax laws governing the assessment and collection of revenue for operating the federal government. |
| **International Accounting Standards Board (IASB):** An organization that encourages worldwide cooperation in the development of accounting principles. |
| **Inventory cost**: The invoice price of an asset less purchases discounts, plus freight in, plus applicable taxes and tariffs. |
| **Inventory turnover**: A ratio indicating the number of times a company's average inventory is sold during an accounting period; Cost of Goods Sold _ Average Inventory. |
| **Investing activities**: Business activities that involve the acquisition and sale of marketable securities and long-term assets and the making and collecting of loans. |
| **Investment center:** A responsibility center whose manager is accountable for profit generation and can also make significant decisions about the resources the center uses. |
| **Invoice:** A form that a vendor sends to a purchaser describing the goods delivered and the quantity, price, and terms of payment. |
| **Issued shares (Decision Point):** The shares of stock sold or otherwise transferred to stockholders. |

# *J*

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| **Job order cost card:** A document on which all costs incurred in the production of a particular job order are recorded; part of the subsidiary ledger for the Work in Process Inventory account. |
| **Job order costing system:** A product costing system that traces the costs of direct materials, direct labor, and overhead to a specific batch of products or a specific job order; used by companies that make unique or special-order products. |

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| **Job order:** A customer order for a specific number of specially designed, made-to-order products. |
| **Joint products:** Two or more products made from a common material or process that cannot be identified as separate products during some or all of the production process. |
| **Journal entry**: A journal notation that records a single transaction. |
| **Journal form**: A way of recording a transaction in which the date, debit account, and debit amount appear on one line and the credit account and credit amount appear on the next line. |
| **Journal**: A chronological record of all transactions; the place where transactions first enter the accounting records. Also called *book of original entry.* |
| **Journalizing**: The process of recording transactions in a journal. |
| **Just-in-time (JIT) operating philosophy:** An operating philosophy that requires that all resources—materials, personnel, and facilities—be acquired and used only as needed; it focuses on eliminating or reducing waste. |
| **Just-in-time operating environment**: A method of reducing levels of inventory by working closely with suppliers to coordinate and schedule deliveries so that goods arrive just at the time they are needed. |

## *K*

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| **Key Ratios Asset turnover:** A measure of how efficiently assets are used to produce sales; Net Sales _ Average Total Assets. |

## *L*

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| **Last-in, first-out (LIFO) method**: An inventory costing method based on the assumption that the costs ofthe last items purchased should be assigned to the first items sold. |
| **Leasehold improvements**: Improvements to leased property that become the property of the lessor at the end of the lease. |
| **Leasehold**: A right to occupy land or buildings under a long-term rental contract. |
| **Ledger account form**: An account form that has four som amount columns: one column for debit entries, one column for credit entries, and two columns (debit and credit) for showing the balance of the account. |
| **Legal capital:** The number of shares of stock issued times the par value; the minimum amount a corporation can report as contributed capital. |
| **Liabilities:** A business's present obligations to pay cash, transfer assets, or provide services to other entities in the future. |
| **License**: The right to use a formula, technique, process, or design. |
| **LIFO liquidation**: The reduction of inventory below previous levels because sales of older, lower-priced units have exceeded the purchases of units for the current period. |

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| **Line of credit:** An arrangement with a bank that allows a company to borrow funds as needed. |
| **Liquidating dividend:** A dividend that exceeds retained earnings and that a corporation usually pays only when it is going out of business or reducing its operations. |
| **Liquidity:** Having enough cash available to pay debts when they are due. |
| **Long-term assets**: Assets that have a useful life of more than one year, are used in the operation of a business, and are not intended for resale. Less commonly called *fixed assets.* |
| **Long-term liabilities:** Debts and obligations due beyond one year or beyond the normal operating cycle. |
| **Lower-of-cost-or-market (LCM) rule**: A method of valuing inventory at an amount less than cost when the replacement cost falls below historical cost. |

# *M*

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| **Make-or-buy decisions:** Decisions about whether to make a part internally or buy it from an external supplier. |
| **Management accounting:** The process of identifying, measuring, accumulating, analyzing, preparing, interpreting, and communicating information that management uses to plan, evaluate, and control an organization and to ensure that its resources are used and accounted for appropriately. |
| **Management information system (MIS):** The interconnected subsystems that provide the information needed to run a business. |
| **Management:** The people who have overall responsibility for operating a business and meeting its goals. |
| **Manufacturing cost flow:** The flow of manufacturing costs (direct materials, direct labor, and overhead) through the Materials Inventory, Work in Process Inventory, and Finished Goods Inventory accounts into the Cost of Goods Sold account. |
| **Margin of safety:** The number of sales units or amount of sales soms by which actual sales can fall below planned sales without resulting in a loss. |
| **Market interest rate:** The rate of interest paid in the market on bonds of similar risk. Also called *effective interest rate.* |
| **Market**: Current replacement cost of inventory. |
| **Marketable securities:** Investments with a maturity of more than 90 days but that are intended to be held only until cash is needed to pay current obligations. Also called *short-term investments.* |
| **Master budget:** A set of operating budgets and a set of financial budgets that detail an organization’s financial plans for a specific accounting period. |
| **Matching rule:** The principle that revenues must be assigned to the accounting period in which the goods are sold or the services performed, and expenses must be assigned to the accounting period in which they are used to produce revenue. |

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| **Materials Inventory account:** An inventory account that shows the balance of the cost of unused materials. |
| **Maturity date:** The date on which a promissory note must be paid. |
| **Maturity value:** The total proceeds of a promissory note—face value plus interest—at the maturity date. |
| **Merchandise inventory:** The goods on hand at any one time that are available for sale to customers. |
| **Merchandising business:** A business that earns income by buying and selling goods. |
| **Minority interest:** An amount recorded on a consolidated balance sheet that represents the holdings of owners of less than 50 percent of a subsidiary's voting stock. |
| **Mission statement:** A description of the fundamental way in which a business will achieve its goal of increasing the value of the owners' interest in the business. |
| **Mixed costs:** Costs that have both variable and fixed components. |
| **Money measure:** The recording of all business transactions in terms of money. |
| **Monitoring:** Management's regular assessment of the quality of internal control. |
| **Mortgage:** A debt secured by real property. |
| **Moving time:** The time spent moving a product from one operation or department to another. |
| **Multinational or transnational corporations:** Companies that expand by establishing or buying foreign subsidiaries. |

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| **Natural resources**: Long-term assets purchased for the economic value that can be taken from the land and used up. |
| **Net assets:** Assets minus liabilities; owner's equity. |
| **Net cash inflows:** The balance of increases in projected cash receipts over increases in projected cash payments resulting from a proposed capital investment. |
| **Net cost of purchases:** Net purchases plus any freight charges on the purchases. |
| **Net income:** The difference between revenues and expenses when revenues exceed expenses. |
| **Net loss:** The difference between expenses and revenues when expenses exceed revenues. |
| **Net of taxes:** A phrase indicating that taxes have been taken into account in reporting an item in the financial statements. |
| **Net present value method:** A method of evaluating capital investments in which all future cash flows for each proposed project are discounted to their present values, and the amount of the initial investment is subtracted from their sum. |
| **Net purchases:** Total purchases less any deductions, such as purchases returns and allowances and discounts on purchases. |
| **Noncash investing and financing transactions**: Significant investing and |

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| financing transactions involving only long-term assets, long-term liabilities, or stockholders' equity that do not affect current cash inflows or outflows. |
| **Noncompete covenant**: A contract limiting the rights of others to compete in a specific industry or line of business for a specified period. |
| **Noncumulative preferred stock:** Preferred stock that does not oblige the issuer to make up a missed dividend in a subsequent year. |
| **Nonvalue-adding activities:** Activities that add cost to a product or service but do not increase its market value. |
| **Nonvalue-adding cost:** The cost of an activity that adds cost to a product or service but does not increase its market value. |
| **No-par stock:** Capital stock that does not have a par value. |
| **Normal balance**: The usual balance of an account; the side (debit or credit) that increases the account. |
| **Normal capacity:** The average annual level of operating capacity needed to meet expected sales demand. |
| **Normal costing:** A method of cost measurement that combines the actual direct costs of materials and labor with estimated overhead costs to determine a product or service unit cost. |
| **Notes payable:** Collective term for promissory notes owed by the entity (maker) who promises payment to other entities. |
| **Notes receivable:** Collective term for promissory notes held by the entity to whom payment is promised (payee). |

# ***O***

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| **Objectivity:** Impartiality and intellectual honesty. |
| **Obsolescence**: The process of becoming out of date, which is a factor in the limited useful life of tangible assets. |
| **Off-balance-sheet financing:** Structuring long-term debts in such a way that they do not appear as liabilities on the balance sheet. |
| **Operating activities**: Business activities that involve the cash effects of transactions and other events that enter into the determination of net income. |
| **Operating budgets:** Budget plans used in daily operations. |
| **Operating capacity:** The upper limit of an organization's productive output capability, given its existing resources. |
| **Operating cycle:** A series of transactions that includes purchases of merchandise inventory for cash or on credit, payment for purchases made on credit, sales of merchandise inventory for cash or on credit, and collection of cash from credit sales. |
| **Operating lease:** A short-term lease in which the risks of ownership remain with the lessor and for which payments are recorded as rent expense. |
| **Operating objectives:** Short-term goals that outline expectations for the performance of day-to-day operations. |

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| **Opportunity costs:** The benefits forfeited or lost when one alternative is chosen over another. |
| **Ordinary annuity:** A series of equal payments made at the end of equal intervals of time, with compound interest on the payments. |
| **Organization chart:** A visual representation of an organization's hierarchy of responsibility for the purposes of management control. |
| **Other postretirement benefits:** Health care and other nonpension benefits paid after retirement but earned while the employee is still working. |
| **Outsourcing:** The use of suppliers outside the organization to perform services or produce goods that could be performed or produced internally. |
| **Outstanding shares:** Shares that have been issued and that are still in circulation. |
| **Overapplied overhead costs:** The amount by which overhead costs applied using the predetermined overhead rate exceed the actual overhead costs for the accounting period. |
| **Overhead budget:** A detailed plan of anticipated manufacturing costs, other than direct materials and direct labor costs, that must be incurred to meet budgeted production needs. |
| **Overhead costs:** Production-related costs that cannot be practically or conveniently traced to an end product or service. Also called *factory overhead, factory burden, manufacturing overhead, service overhead,* or *indirect manufacturing costs.* |
| **Owner's equity:** The claims of the owner of a company to the assets of the business. |

# P

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| **Par value:** An arbitrary amount assigned to each share of stock; constitutes a corporation's legal capital. |
| **Parent company:** A company that has a controlling interest in another firm. |
| **Participative budgeting:** A process in which personnel at all levels of an organization actively engage in making decisions about a budget. |
| **Partnership:** A business that is owned by two or more people and that is not incorporated. |
| **Patent**: An exclusive right granted by the federal government for a period of 20 years to make a particular product or use a specific process. |
| **Payables turnover:** The number of times, on average, that a company pays its accounts payable in an accounting period; (Cost of Goods Sold _/_ Change in Merchandise Inventory) _ Average Accounts Payable. |
| **Payback period method:** A method of evaluating capital investments that bases the decision to invest in a capital project on the minimum length of time it will take to get the amount of the initial investment back in cash. |
| **Pension fund:** A fund established by the contributions of an employer and often of employees from which payments are made to employees after retirement or upon |

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| disability or death. |
| **Pension plan:** A contract requiring a company to pay benefits to its employees after they retire. |
| **Percentage of net sales method:** A method of estimating uncollectible accounts based on the assumption that a predictable proportion of each som of sales will not be collected. |
| **Performance management and evaluation system:** A set of procedures that account for and report on both financial and nonfinancial performance, so that a company can identify how well it is doing, where it is going, and what improvements will make it more profitable. |
| **Performance measurement:** The use of quantitative tools to gauge an organization's performance in relation to a specific goal or an expected outcome. |
| **Performance measures:** Indicators of whether managers are achieving business goals and whether business activities are well managed. |
| **Performance-based pay:** The linking of employee compensation to the achievement of measurable business targets. |
| **Period costs:** The costs of resources used during an accounting period that are not assigned to products or services. Also called *noninventoriable costs* or *selling, administrative, and general expenses*. |
| **Periodic inventory system:** A system for determining inventory on hand by periodically taking a physical count. |
| **Periodicity:** The assumption that although the lifetime of a business is uncertain, it is still useful to estimate its net income in terms of accounting periods. |
| **Permanent accounts:** Balance sheet accounts that carry their balances into the next accounting period. Also called *real accounts*. |
| **Perpetual inventory system:** A system for determining inventory on hand by keeping continuous records of the quantity and, usually, the cost of individual items as they are bought and sold. |
| **Petty cash fund:** A fund for making small payments of cash when it is inconvenient to pay by check. |
| **Petty cash voucher:** A form signed by a person who receives cash from a petty cash fund; lists the date, amount, and purpose of the expenditure. |
| **Physical deterioration**: A decline in the useful life of a depreciable asset resulting from use and from exposure to the elements. |
| **Physical inventory:** An actual count of all merchandise on hand. |
| **Post-closing trial balance:** A trial balance prepared after all adjusting and closing entries have been posted to ensure that all temporary accounts have zero balances and that total debits equal total credits. |
| **Posting**: The process of transferring journal entry information from the journal to the ledger. |
| **Practical capacity:** Theoretical capacity reduced by normal and expected work stoppages. |
| **Predetermined overhead rate:** The rate calculated before an accounting period begins by dividing the cost pool of total estimated overhead costs by the total |

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| estimated cost driver for that pool. |
| **Preferred stock:** Stock that has preference over common stock, usually in terms of dividends and the distribution of assets. |
| **Premium:** The amount by which a bond's issue price exceeds its face value, which occurs when the market interest rate is lower than the face interest rate. |
| **Prepaid expenses:** Expenses paid in advance that have not yet expired; an asset account. |
| **Present value:** The amount that must be invested today at a given rate of interest to produce a given future value. |
| **Price/earnings (P/E) ratio**: A measure of investors' confidence in a company and a means of comparingstock values; Market Price per Share _ Earnings per Share. |
| **Primary processes:** Components of the value chain that add value to a product or service. |
| **Prime costs:** The primary costs of production; the sum of direct materials costs and direct labor costs. |
| **Pro forma statements:** Financial statements that show projections rather than actual results and that are often used to communicate business plans to external parties. |
| **Process cost report:** A report that managers use to track and analyze costs in a process costing system. |
| **Process costing system:** A product costing system that traces the costs of direct materials, direct labor, and overhead to processes, departments, or work cells and then assigns the costs to the products manufactured by those processes, departments, or work cells; used by companies that produce large amounts of similar products or liquid products or that have long, continuous production runs of identical products. |
| **Process value analysis (PVA):** A technique that analyzes business processes by relating activities to the events that prompt those activities and to the resources that the activities consume. |
| **Processing costs:** The combined total costs of direct labor and overhead. Also called *conversion costs.* |
| **Processing time:** The actual amount of time spent working on a product. |
| **Product costing system:** A set of procedures used to account for an organization's product costs and to provide timely and accurate unit cost information for pricing, cost planning and control, inventory valuation, and financial statement preparation. |
| **Product costs:** The costs assigned to inventory, which include the costs of direct materials, direct labor, and overhead. Also called *inventoriable costs.* |
| **Product unit cost:** The cost of manufacturing a single unit of a product, computed either by dividing the total cost of direct materials, direct labor, and overhead by the total number of units produced, or by determining the cost per unit for each element of the product cost and summing those per-unit costs. |
| **Production budget:** A detailed plan showing the number of units that a company must produce to meet budgeted sales and inventory needs. |
| **Production method**: A method of depreciation that assumes depreciation is solely |

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| the result of use and that allocates depreciation based on the units of use or output during each period of an asset's useful life. |
| **Product-level activities:** Activities performed to support a particular product line. |
| **Professional ethics:** A code of conduct that applies to the practice of a profession. |
| **Profit center:** A responsibility center whose manager is accountable for both revenue and costs and for the resulting operating income. |
| **Profit margin:** A ratio that shows the percentage of each sales som that results in net income; Net Income _ Net Revenues. |
| **Profit:** The increase in owner's equity that results from business operations. |
| **Profitability:** The ability to earn enough income to attract and hold investment capital. |
| **Promissory note:** An unconditional promise to pay a definite sum of money on demand or at a future date. |
| **Public Company Accounting Oversight Board (PCAOB):** A governmental body created by the Sarbanes-Oxley Act to regulate the accounting profession. |
| **Pull-through production:** A production system in which a customer's order triggers the purchase of materials and the scheduling of production for the required products. |
| **Purchase method:** A method of accounting for controlling investments in which similar accounts from the parent's and subsidiaries' statements are combined. |
| **Purchase order:** A form that a company's purchasing department sends to a vendor describing the items ordered and the quantity, price, terms, and shipping date. |
| **Purchase requisition:** A formal written request for a purchase that a company's credit office (requesting department) sends to the purchasing department. |
| **Purchases account:** A temporary account used under the periodic inventory system to accumulate the cost of merchandise purchased for resale during an accounting period. |
| **Purchases discounts:** Discounts that buyers take for early payment of merchandise; the Purchases Discounts account is a contra-purchases account used under the periodic inventory system. |
| **Purchases Returns and Allowances account:** A contra-purchases account used under the periodic inventory system to accumulate cash refunds, credits on account, and other allowances made by suppliers. |
| **Push-through method:** A production system in which products are manufactured in long production runs and stored in anticipation of customers' orders. |

# *Q*

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| **Quality of earnings:** The substance of earnings and their sustainability into the future. |
| **Queue time:** The time a product spends waiting to be worked on once it enters a new operation or department. |

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| **Quick ratio**: A measure of short-term debt-paying ability; (Cash _ Marketable Securities _ Receivables) _ Current Liabilities. |

# ***R***

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| **Ratio analysis:** A technique of financial performance evaluation that identifies key relationships between components of the financial statements. |
| **Receivable turnover:** A ratio for measuring the average number of times receivables are turned into cash during an accounting period; Net Sales _ Average Accounts Receivable. |
| **Receiving report:** A form on which an employee in a company's receiving department notes the quantity, type of goods, and their condition upon delivery from the vendor. |
| **Recognition point**: The predetermined time at which a transaction should be recorded; usually, the point at which title passes to the buyer. |
| **Recognition**: The determination of when a business transaction should be recorded. |
| **Record date:** The date on which ownership of stock, and thus the right to receive a dividend, is determined. |
| **Registered bonds:** Bonds that the issuing company registers in the names of the bondholders. |
| **Regression analysis:** A mathematical approach to separating a mixed cost into its variable and fixed components. |
| **Relevant range:** The span of activity in which a company expects to operate. |
| **Reporting currency:** The currency in which consolidated financial statements are presented. |
| **Residual equity:** The equity of common stockholders after all other claims have been satisfied. |
| **Residual income (RI):** The operating income that an investment center earns above a minimum desired return on invested assets; Residual Income _ Investment Center's Operating Income _ (Desired ROI _ Assets Invested). |
| **Residual value**: The estimated net scrap, salvage, or trade-in value of a tangible asset at the estimated date of its disposal. Also called *salvage value* or *disposal value.* |
| **Responsibility accounting:** An information system that classifies data according to areas of responsibility and reports each area's activities by including only the categories that the manager can control. |
| **Responsibility center:** An organizational unit whose manager has been assigned the responsibility of managing a portion of the organization's resources. |
| **Restatement:** The stating of one currency in terms of another. |
| **Restructuring:** The estimated cost of a change in a company's operations, usually involving the closing of facilities and the laying off of personnel. |
| **Retail method**: A method of inventory estimation, used in retail merchandising |

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| businesses, in which inventory at retail value is reduced by the ratio of cost to retail price. |
| **Retained earnings:** Stockholders' claims to assets arising from the earnings of the business; the accumulated earnings of a corporation since its inception, minus any losses, dividends, or transfers to contributed capital. |
| **Return on assets**: A measure of overall earning power, or profitability, that shows the amount earned on each som of assets invested; Net Income _ Average Total Assets. |
| **Return on equity**: A measure of how much income was earned on each som invested by stockholders; Net Income _ Average Stockholders' Equity. |
| **Return on investment (ROI):** A traditional performance measure that takes into account both operating income and the assets invested to produce that income; ROI _ Operating Income _ Assets Invested. ROI can also be expressed as Profit Margin _ Asset Turnover. |
| **Revenue center:** A responsibility center whose manager is accountable primarily for revenue and whose success is based on its ability to generate revenue. |
| **Revenue expenditure**: An expenditure for ordinary repairs and maintenance of a long-term asset, which is recorded by a debit to an expense account. |
| **Revenue recognition:** The process of determining when revenue is earned. |
| **Revenues:** Increases in owner's equity resulting from selling goods, rendering services, or performing other business activities. |
| **Reversing entry:** An optional journal entry made on the first day of an accounting period that is the exact opposite of an adjusting entry made at the end of the previous period. |
| **Risk assessment:** The identification of areas in which risk of loss of assets or inaccuracies in accounting records is high. |

## ***S***

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| **Salaries:** Compensation of employees at a monthly or yearly rate. |
| **Sales budget:** A detailed plan, expressed in both units and soms, that identifies the product (or service) sales expected during an accounting period. |
| **Sales discount:** A discount given to a buyer for early payment of a sale made on credit; the Sales Discounts account is a contra-revenue account. |
| **Sales forecast:** A projection of sales demand based on an analysis of external and internal factors. |
| **Sales mix decision:** A decision to select the alternative that maximizes the contribution margin per constrained resource. |
| **Sales mix:** The proportion of each product's unit sales relative to the company's total unit sales. |
| **Sales Returns and Allowances account:** A contrarevenue account used to accumulate cash refunds, credits on account, and other allowances made to customers who have received defective or otherwise unsatisfactory products. |

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| **Sarbanes-Oxley Act:** An act of Congress that regulates financial reporting in public corporations. |
| **Scatter diagram:** A chart of plotted points that helps determine whether a linear relationship exists between a cost item and its related activity measure. |
| **Secured bonds:** Bonds that carry a pledge of certain assets as a guarantee of repayment. |
| **Securities and Exchange Commission (SEC):** A governmental agency that regulates the issuing, buying, and selling of stocks. It has the legal power to set and enforce accounting practices for firms whose securities are sold to the general public. |
| **Securitization:** The grouping of receivables into batches for sale at a discount to companies and investors. |
| **Segment margin:** A segment's sales revenue minus its direct costs (direct variable costs and direct fixed costs traceable to the segment). |
| **Segments:** Distinct parts of a company's operations. |
| **Sell or process-further decision:** A decision about whether to sell a joint product at the split-off point or sell it after further processing. |
| **Selling and administrative expense budget:** A detailed plan of operating expenses, other than those related to production, that are needed to support sales and overall operations during an accounting period. |
| **Separate entity:** A business that is treated as distinct from its creditors, customers, and owners. |
| **Serial bonds:** Bonds in one issue that mature on different dates. |
| **Share of stock:** A unit of ownership in a corporation. |
| **Short-run decision analysis:** The systematic examination of any decision whose effects will be most felt over the next year or less. |
| **Short-term financial assets:** Assets that arise from cash transactions, the investment of cash, and the extension of credit. |
| **Short-term investments:** Investments that have a maturity of more than 90 days but that management intends to hold only until cash is needed to pay current obligations. Also called *marketable securities.* |
| **Significant influence:** An investing company's ability to affect the operating and financial policies of the firm in which it has invested, even though it holds 50 percent or less of the voting stock. |
| **Simple capital structure:** A capital structure in which there are no stocks, bonds, or stock options that can be converted to common stock. |
| **Simple interest:** The interest cost for one or more periods when the amount on which the interest is computed stays the same from period to period. |
| **Software**: Capitalized costs associated with computer programs developed for sale, lease, or internal use and amortized over the estimated economic life of the programs. |
| **Sole proprietorship:** A business that is owned by one person and that is not incorporated. |
| **Source documents**: Invoices, checks, receipts, or other documents that support a |

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| transaction. |
| **Special order decisions:** Decisions about whether to accept or reject a special order at a price below the normal market price. |
| **Specific identification method**: An inventory costing method in which the cost of each item in ending inventory is identified as coming from a specific purchase. |
| **Split-off point:** A specific point in the production process at which two or more joint products become separate and identifiable. |
| **Standard costing:** A method of cost control with three components: a standard, or predetermined, performance level; a measure of actual performance; and a measure of the difference, or variance, between standard and actual performance. |
| **Standard costs:** Realistic estimates of costs based on analyses of both past and projected operating costs and conditions. |
| **Standard direct labor cost:** The standard wage for direct labor multiplied by the standard hours of direct labor. |
| **Standard direct materials cost:** The standard price for direct materials multiplied by the standard quantity for direct materials. |
| **Standard fixed overhead rate:** Total budgeted fixed overhead costs divided by an expression of capacity, usually normal capacity in terms of standard hours or units. |
| **Standard overhead cost:** The sum of the estimates of variable and fixed overhead costs in the next accounting period. |
| **Standard variable overhead rate:** Total budgeted variable overhead costs divided by an expression of capacity, such as the expected number of standard machine hours or standard direct labor hours. |
| **Start-up and organization costs:** The costs of forming a corporation. |
| **Stated value:** A value that a board of directors assigns to no-par stock. |
| **Statement of cash flows**: A financial statement that shows how a company's operating, investing, and financing activities have affected cash during an accounting period. |
| **Statement of cost of goods manufactured:** A formal statement summarizing the flow of all manufacturing costs incurred during an accounting period. |
| **Statement of owner's equity**: A financial statement that shows the changes in owner's equity over an accounting period. |
| **Statement of stockholders' equity:** A financial statement that summarizes changes in the components of the stockholders' equity section of the balance sheet. Also called the *statement of changes in stockholders' equity.* |
| **Stock certificates:** Documents issued to stockholders showing the number of shares that they own. |
| **Stock dividend:** A proportional distribution of shares among a corporation's stockholders. |
| **Stock option plans:** Plans that give employees the right to purchase their companies' stock under specified terms. |
| **Stock split:** An increase in the number of outstanding shares of stock accompanied by a proportionate reduction in the par or stated value. |
| **Storage time:** The time a product spends in materials storage, work in process |

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| inventory, or finished goods inventory. |
| **Straight-line method**: A method of depreciation that assumes depreciation depends only on the passage of time and that allocates an equal amount of depreciation to each accounting period in an asset's useful life. |
| **Strategic objectives:** Broad, long-term goals that determine the fundamental nature and direction of a business and that serve as a guide for decision making. |
| **Strategic planning:** The process by which management establishes an organization's long-term goals. |
| **Subsidiary:** A firm in which another company owns a controlling interest. |
| **Successful efforts accounting**: A method of accounting for the costs of exploring and developing oil and gas resources in which successful exploration is recorded as an asset and depleted over the estimated life of the resource and all unsuccessful efforts are immediately written off as losses. |
| **Sunk cost:** A cost that was incurred because of a previous decision and cannot be recovered through the current decision. |
| **Supply chain:** The path that leads from the suppliers of the materials from which a product is made to the final consumer. Also called the *supply network.* |
| **Supply-chain management**: A system of managing inventory and purchasing through business-tobusiness transactions conducted over the Internet. |
| **Support services:** Components of the value chain that facilitate the primary processes but do not add value to a product or service. |

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| **T account**: The simplest form of account, which is used to analyze transactions. |
| **Tactical objectives:** Interim goals that position a business to achieve its long-term strategies. |
| **Tangible assets**: Long-term assets that have physical substance. |
| **Temporary accounts:** Revenue and expense accounts whose balances are transferred to owner's Capital at the end of an accounting period. Also called *nominal accounts*. |
| **Term bonds:** Bonds in one issue that mature at the same time. |
| The five types of responsibility centers are a cost center, discretionary cost center, revenue center, profit center, and investment center. |
| The projects with the highest positive net present value are selected for implementation. |
| **Theoretical (ideal) capacity:** The maximum productive output for a given period in which all machinery and equipment are operating at optimum speed, without interruption. |
| **Theory of constraints (TOC):** A management theory that contends that limiting factors, or bottlenecks, occur during the production of any product or service, but that once managers identify such a constraint, they can focus their attention and |

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| resources on it and achieve significant improvements. |
| **Throughput time:** The time it takes to move a product through the entire production process. |
| **Time value of money:** The concept that cash flows of equal som amounts separated by an interval of time have different present values because of the effect of compound interest. |
| **Total direct labor cost variance:** The difference between the standard direct labor cost for good units produced and actual direct labor costs. |
| **Total direct materials cost variance:** The difference between the standard cost and actual cost of direct materials. Also called *good units produced*. |
| **Total fixed overhead variance:** The difference between actual fixed overhead costs and the standard fixed overhead costs that are applied to good units produced using the standard fixed overhead rate. |
| **Total manufacturing costs:** The total costs of direct materials, direct labor, and overhead incurred and transferred to Work in Process Inventory during an accounting period. Also called *current manufacturing costs.* |
| **Total overhead variance:** The difference between actual overhead costs and standard overhead costs applied. |
| **Total quality management (TQM):** A management tool that requires that all parts of a business work together to build quality into the business's product or service. |
| **Total variable overhead variance:** The difference between actual variable overhead costs and the standard variable overhead costs that are applied to good units produced using the standard variable overhead rate. |
| **Trade credit:** Credit granted to customers by wholesalers or retailers. |
| **Trade discount:** A deduction (usually 30 percent or more) off a list or catalogue price, which is not recorded in the accounting records. |
| **Trademark**: A registered symbol that can be used only by its owner to identify a product or service. |
| **Trading securities:** Debt or equity securities bought and held principally for the purpose of being sold in the near term. |
| Treasury bills. |
| **Treasury stock:** Capital stock, either common or preferred, that the issuing company has reacquired and has not subsequently resold or retired. |
| **Trend analysis:** A variation of horizontal analysis in which percentage changes are calculated for several successive years instead of for two years. |
| **Trial balance**: A comparison of the total of debit and credit balances in the accounts to check that they are equal. |

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| **Uncollectible accounts:** Accounts receivable owed by customers who cannot or will not pay. |
| **Underapplied overhead costs:** The amount by which actual overhead costs |

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| exceed the overhead costs applied using the predetermined overhead rate for the accounting period. |
| **Underwriter:** An intermediary between the corporation and the investing public who facilitates an issue of stock or other securities for a fee. |
| **Unearned revenues:** Revenues received in advance for goods or services that will not be delivered during the current accounting period. |
| **Unit-level activities:** Activities performed each time a unit is produced. |
| **Unsecured bonds:** Bonds issued on an organization's general credit.Also called *debenture bonds*. |

# V

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| **Valuation**: The process of assigning a monetary value to a business transaction. |
| **Value chain:** A way of defining a business as a set of primary processes and support services that link together to add value to a business's products or services, thus fulfilling the business's mission and objectives. |
| **Value-adding activities:** Activities that add value to a product or service as perceived by the customer. |
| **Value-adding activity:** An activity that adds value to a product or service as perceived by the customer. |
| **Value-adding cost:** The cost of an activity that increases the market value of a product or service. |
| **Variable cost:** A cost that changes in direct proportion to a change in productive output (or some other measure of volume). |
| **Variable costing:** A method of preparing profit center performance reports that classifies a manager's controllable costs as either fixed or variable and produces a contribution income statement. |
| **Variable costs:** Total costs that change in direct proportion to changes in productive output or any other measure of volume. |
| **Variable overhead efficiency variance:** The difference between the standard direct labor hours allowed for good units produced and the actual hours worked multiplied by the standard variable overhead rate per hour. |
| **Variable overhead spending variance:** The difference between actual variable overhead costs and the standard variable overhead rate multiplied by the actual hours used. Also called the *variable overhead rate variance*. |
| **Variance analysis:** The process of computing the differences between standard costs and actual costs and identifying the causes of those differences. |
| **Variance:** The difference between a standard cost and an actual cost. |
| **Vertical analysis:** A technique for analyzing financial statements that uses percentages to show how the different components of a statement relate to a total figure in the statement. |

# W

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| **Wages:** Compensation of employees at an hourly rate. |
| **Work cell:** An autonomous production line that can perform all required operations efficiently and continuously. |
| **Work in Process Inventory account:** An inventory account used to record the manufacturing costs incurred and assigned to partially completed units of product. |
| **Work sheet:** A type of working paper used as a preliminary step in recording adjusting and closing entries and that is used in preparing the financial statements. |
| **Working papers:** Documents that accountants use to organize their work and that support the information in the financial statements. |
| **Write-down:** A reduction in the value of an asset below its carrying value on the balance sheet. Also called a *write-off*. |

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| **Zero coupon bonds:** Bonds that do not pay periodic interest but that pay a fixed amount on the maturity date. |