

Glossary of Financial Terms

GAAP* is Generally Accepted Accounting Principles

Accelerated depreciation – A depreciation method that provides for higher depreciation in earlier years of use as an asset and gradually declining periodic changes thereafter.

Account – A form used to record additions and deductions for each additional asset, liability, capital, revenue and expense.

Account form of balance sheet – A balance sheet with assets on the left side and liabilities on the right side.

Accounting cycle – The principal accounting procedures employed to process transactions during a fiscal period.

Accounts payable – A liability created by the purchase of goods or services made on credit.

Accounts receivable – A claim against a customer for sales of goods or services made on credit.

Accounts receivable turnover – A relationship between credit sales and accounts receivable, computed by dividing net sales on account by the average net accounts receivable.

Accrual – An expense or a revenue that usually increases with the passage of time.

Accumulated depreciation – A contra-asset account used to accumulate the depreciation recognized to date on plant assets.

Aging receivables – A process of analyzing accounts receivable and classifying them according to various age groupings by using the due dates as the point of determined age.

Allowance method – A method of accounting for uncorrectable receivables by which advance provision for the uncollectibles is made.

Amortization – A periodic expense attributed to the decline of an intangible asset's usefulness or the allocation of bond premium or discount over the life of a bond issue.

Appropriation of retained earnings – An amount of retained earning that has been restricted and not available for dividend distribution to shareholders.

Asset – Resources acquired and owned by the business.

Bond – A form of interest-bearing note employed by corporations to borrow on a long-term basis.

Bond discount – Excess of the face amount of the bond over the issue price.

Bond indenture – A contract between a corporation issuing bonds and the bondholders.

Bond premium – Excess a bond's issue price over the face amount.

Book value of an asset – The cost of an asset less the balance of any related contra-account.

Break-even point – A point in the operations at which revenues equal expenses.

Budgeting – A process of establishing specific goals for future operations and making periodic comparisons with actual results.

Budget performance report – A report comparing actual results with budget amounts.

GAAP* Business entity concept – Distinguishes between a legal entity and accounting entity.

Capital – The rights (equity) of the owners in a business.

Capital expenditure – A cost that adds to an asset's usefulness for more than one accounting period.

Capital lease – A lease that includes one or more of four provisions that result in treating the leased asset as a purchase in the accounts.

Capital stock – Shares of ownership in a corporation.

Cash – Any medium of exchange that a bank will accept at face value.

Cash discount – Allowable if an invoice is paid by a specific date.

Cash dividend – A distribution of cash by a corporation to its shareholders.

Cash payback method – The expected period of time that will elapse between the date of a capital expenditure and the complete recovery in cash (or equivalent) of the amount invested.

Chart of accounts – An organized listing of all the business's accounts.

Common stock – A basic ownership class of corporate capital stock.

GAAP* Conservatism principle – A concept dictating that when selecting among alternatives, the method or procedure that yields the smaller amount of net income or asset value should be selected.

GAAP* Consistency principle – A concept that assumes the same generally accepted accounting principles have been applied in preparation of successive financial statements.

Contingent liability – A potential obligation that will materialize only if certain events occur or fail to occur in the future.

Contra-asset account – An account that is offset against an asset account.

Contribution margin – Sales less variable cost of goods sold and variable operating expenses.

Contribution margin ratio – A percentage of each sales dollar available to cover the fixed expenses and provide an operating income.

GAAP* Cost principle – A principle that assumes the monetary amount for properties and services purchased by a business should be maintained in terms of cost.

Current asset – Cash or another asset that may reasonably be expected to be realized in cash or consumed, usually within a year or less, through normal business operations.

Current liability – A liability due within a short time (usually one year or less) to be paid out of current assets.

Declining balance depreciation method – A method of depreciation that provides declining depreciation charges to expense over the estimated life of the asset.

Deferral – A postponement of the recognition of an expense already paid or a revenue already received.

Departmental margin – Departmental gross profit less direct departmental expense.

Direct labor – Wages of factory workers who convert materials into a finished product.

Direct-labor rate variance – A cost associated with the difference between the actual rate paid for direct labor used in producing a commodity and standard rate for the commodity.

Direct-labor time variance – A cost associated with the difference between the actual direct-labor hours spent producing a commodity and the standard hours for the commodity.

Direct materials – A cost of materials that enter directly into a finished product.

Direct-materials price variance – A cost associated with the difference between the actual price of the direct materials used in producing a commodity and standard price for the commodity.

Direct-materials quantity variance – A cost associated with the difference between the actual quantity of direct materials used in producing a commodity and the standard quantity for the commodity.

GAAP* Disclosure principle – Provides a narrative description of captions and/or figures in reports.

Discounted cash-flow analysis – A method of analysis of proposed capital expenditures that give consideration to the timing of the net cash flows.

Discount on stock – An excess of the stock's par amount over its sales price.

Discount rate – A rate used in computing the interest to be deducted from the maturity value of a note.

Dividend – A distribution of a corporation's earnings to its owners.

Economic order quantity (EOQ) – An optimum quantity of specified inventoriable materials to be ordered at one time.

Effective rate of interest – A market rate of interest at the time bonds are issued.

Equity – A right or claim to the properties of a business enterprise.

Equity per share – A ratio of shareholders' equity to the related number of shares of stock outstanding.

Equity security – Preferred or common stock.

Expense – An amount of assets consumed or services used in the process of earning revenue.

Extraordinary item – An event or transaction that is unusual and infrequent.

Factory overhead – The costs of operating the factory except for direct materials and direct labor.

FIFO (first-in, first-out) – A method of inventory costing based on the assumption that the cost of merchandise sold should be charged against revenue in the order in which the costs were incurred.

Finished goods – Goods in the state in which they are to be sold.

GAAP* Going concern concept – Transactions consummated on the assumption that an entity is ongoing.

Goodwill – An intangible asset that attaches to a business as a result of such favorable factors as location, product superiority, reputation and managerial skill.

Gross profit – An excess of net revenue from sales over the cost of merchandise sold.

Historical cost – The cost or equivalent outlay for goods or services acquired.

Income from operations – An excess of gross profit over total operating expenses.

Independent auditor's report – A report accompanying financial statements in which CPAs express an opinion as to the fairness of the statements.

Indirect expense – An expense incurred for an entire business enterprise as a unit, not subject to the control of individual department managers.

Intangible asset – A long-lived asset useful in operations of an enterprise, not held for sale and without physical qualities.

Interim statement – Financial statement issued for a period covering less than a fiscal year.

Internal controls – Detailed procedures adopted by an enterprise to control its operations.

Lease – A contractual agreement conveying the right to use an asset for a stated period of time.

LIFO (last-in, first-out) – Method of inventory costing based on the assumption that the most recent cost incurred should be charged against the revenue.

Long-term liability – A liability not due for a comparatively long time (usually greater than the accounting year).

Lower of cost or market – A method of costing inventory or valuing temporary investments that carries those assets at the lower of their costs or market prices.

Marketable security – An investment in a security that can be readily sold when cash is needed.

GAAP* Matching principle – A principle that all revenues should be matched with expenses incurred in earning those revenues during a period of time.

Matching – A principle that all revenues should be matched with expenses incurred in earning those revenues during a period of time.

Materials – Goods in the state in which they were acquired for use in manufacturing operations.

Materials requisition – The form used by the appropriate manufacturing department to authorize the issuance of materials from the store room.

Maturing value – An amount due at the note's due date.

Merchandise inventory – Merchandise on hand and available for sale.

Merchandise inventory turnover – A relationship between the volume of merchandise sold and merchandise inventory, computed by dividing the cost of merchandise sold by the average inventory.

GAAP* Monetary unit concept – Records transactions with stable monetary assumptions.

Net income – A final figure in the income statement when revenues exceed expenses.

Net loss – A final figure in the income statement when expenses exceed revenues.

Net worth – The owner's equity in a business.

Note payable – A written promise to pay, representing an amount owed by a business.

Note receivable – A written promise to pay, representing an amount to be received by a business.

Number-of-days sales in merchandise inventory – A relationship between the volume of merchandise sold and merchandise inventory computed by dividing the merchandise inventory at the end of the year by the average daily cost of merchandise sold.

Number-of-days sales in receivables – A relationship between credit sales and accounts receivable, computed by dividing the net accounts receivable at the end of the year by the average daily sales on account.

Operating lease – A lease that does not meet the criteria for a capital lease and thus is accounted for as an operating lease, so neither future lease obligations nor future rights to use the leased asset are recognized in the accounts.

Other expense – An expense that cannot be associated directly with operations.

Other income – Revenue from sources other than the principal activity of a business.

Owners' equity – The rights of the owners in a business enterprise.

Paid-in capital – The capital acquired from stockholders.

Par – The arbitrary monetary figure printed on a stock certificate.

Participating preferred stock – Preferred stock that could receive dividends in excess of the specified amount granted by its preferential rights.

Periodic inventory system – A system of inventory accounting in which only the revenue from sales is recorded each time a sale is made. The cost of merchandise on hand at the end of a period is determined by a detailed listing (physical inventory) of the merchandise on hand.

Perpetual inventory system – A system of inventory accounting that employs records that continually disclose the amount of the inventory.

Physical inventory – A detailed listing of merchandise on hand.

Plant asset – A tangible asset of a relatively fixed or permanent nature owned by a business.

Preferred stock – A class of stock with preferential rights over common stock.

Premium on stock – The excess of the stock's sales price over its par amount.

Prepaid expense – A purchased commodity or service not consumed at the end of an accounting period.

Prior-period adjustment – Correction of a material error related to a prior period, excluded from the determination of net income.

Proceeds – The amount available from discounting a note.

Promissory note – A written promise to pay a sum of money on demand or at a specified time.

Purchases discount – An available discount taken by the purchaser for an early payment of an invoice.

Quick assets – The sum of cash, receivables and marketable securities.

Receiving report – A form used by the receiving department to indicate materials have been received and inspected.

GAAP* Recognition principle – Distinguishes between cash and accrual for revenue and expense.

Replacement cost – The cost of replacing an asset at current market prices.

Report form of balance sheet – A form of balance sheet with the liability and capital sections presented below the asset section.

Residual value – An estimated recoverable cost of a depreciable asset as of the time of its removal from service.

Responsibility reporting – A process of reporting operating data by areas of responsibility.

Retained earnings – Net income retained in a corporation.

Retained earnings statement – A statement for a corporate enterprise summarizing the changes in retained earnings during a specific period of time.

Revenue – The amount charged to customers for goods sold or services rendered.

Revenue expenditures – An expenditure that benefits only the current period.

Sales discount – An available discount granted by the seller for early payment of an invoice.

Sales returns and allowances – Reductions in sales resulting from merchandise returned by customers or from the seller's reduction in the original sales price.

Selling expense – An expense incurred in connection with the sale of merchandise.

Semivariable cost – A cost with both fixed and variable characteristics.

Serial bonds – Bonds of an issue with maturities spread over several dates.

Sinking fund – Assets set aside in a special fund to be used for a specific purpose.

Standard cost – Detailed estimates of what a product should cost.

Stated value – An amount assigned by the board of directors to each share of no-par stock.

Statement of financial condition – A principal financial statement for individuals, presenting the estimated current values of assets, current amounts of liabilities, estimated income tax on unrealized appreciation of assets, and net worth.

Stock dividend – Distribution of a company's own stock to its shareholders.

Stockholders' equity – The equity of the shareholders in a corporation.

Stock outstanding – The stock in the hands of the stockholders.

Stock split – A reduction in the par or stated value of a share of common stock and the issuance of a proportionate number of additional shares.

Straight-line depreciation method – A method of depreciation that provides for equal periodic charges to expense over the estimated life of an asset.

Subsidiary ledger – A ledger containing individual accounts with a common characteristic.

Sum of the years' digits depreciation method – A method of depreciation that provides for declining periodic depreciation of charges to expense over an asset's estimated life.

Temporary investment – An investment in securities that can be readily sold when cash is needed.

Term bonds – Bonds of an issue, all of which mature at the same time.

Time period concept – Divides the business into equal periods of time (month, quarter, year).

GAAP* Time value of money concept – This distinguishes between future value and present value.

Trade discount – A reduction allowable from the list price of goods offered for sale.

Treasury stock – A corporation's own outstanding stock that has been reacquired.

Trial balance – A summary listing of the accounts' balances and titles.

Units of production depreciation method – A method of depreciation that provides for depreciation expense based on an asset's expected productive capacity.

Variable expense – An expense that tends to fluctuate in accordance with activity variations.

Variations from standard – The difference between standard and actual cost.

Zero-based budgeting – A concept of budgeting that requires all management levels to start from zero and estimate budget data as if there had been no previous activities in their units.