

Glossary

(Selected from College Accounting/Price)

Absorption costing	The accounting procedure whereby all manufacturing costs, including fixed costs, are included in the cost of goods manufactured
Accelerated method of depreciation	A method of depreciating asset cost that allocates greater amounts of depreciation to an asset's early years of useful life
Account balance	The difference between the amounts recorded on the two sides of an account
Account form balance sheet	A balance sheet that lists assets on the left and liabilities and owner's equity on the right (<i>see also</i> Report form balance sheet)
Accounting	The process by which financial information about a business is recorded, classified, summarized, interpreted, and communicated to owners, managers, and other interested parties
Accounting cycle	A series of steps performed during each accounting period to classify, record, and summarize data for a business and to produce needed financial information
Accounting system	A process designed to accumulate, classify, and summarize financial data
Accounts	Written records of the assets, liabilities, and owner's equity of a business
Accounts payable	Amounts a business must pay in the future
Accounts payable ledger	A subsidiary ledger that contains a separate account for each creditor
Accounts receivable	Claims for future collection from customers
Accounts receivable ledger	A subsidiary ledger that contains credit customer accounts
Accounts receivable turnover	A measure of the speed with which sales on account are collected; the ratio of net credit sales to average receivables

Accrual basis	A system of accounting by which all revenues and expenses are matched and reported on financial statements for the applicable period, regardless of when the cash related to the transaction is received or paid
Accrued expenses	Expense items that relate to the current period but have not yet been paid and do not yet appear in the accounting records
Accrued income	Income that has been earned but not yet received and recorded
Acid-test ratio	A measure of immediate liquidity; the ratio of quick assets to current liabilities
Adjusting entries	Journal entries made to update accounts for items that were not recorded during the accounting period
Adjustments	See Adjusting entries
Aging the accounts receivable	Classifying accounts receivable balances according to how long they have been outstanding
Allowance method	A method of recording uncollectible accounts that estimates losses from uncollectible accounts and charges them to expense in the period when the sales are recorded
Amortization	The process of periodically transferring the acquisition cost of an intangible asset to an expense account
Appropriation of retained earnings	A formal declaration of an intention to restrict dividends
Articles of partnership	See Partnership agreement
Asset turnover	A measure of the effective use of assets in making sales; the ratio of net sales to total assets
Assets	Property owned by a business
Audit trail	A chain of references that makes it possible to trace information, locate errors, and prevent fraud
Auditing	The review of financial statements to assess their fairness and adherence to generally accepted accounting

	principles
Auditor's report	An independent accountant's review of a firm's financial statements
Authorized capital stock	The number of shares authorized for issue by the corporate charter
Average collection period	The ratio of 365 days to the accounts receivable turnover; also called the number of days' sales in receivables
Average cost method	A method of inventory costing using the average cost of units of an item available for sale during the period to arrive at cost of the ending inventory
Average method of process costing	A method of costing that combines the cost of beginning inventory for each cost element with the costs during the current period
Balance ledger form	A ledger account form that shows the balance of the account after each entry is posted
Balance sheet	A formal report of a business's financial condition on a certain date; reports the assets, liabilities, and owner's equity of the business
Bank draft	A check written by a bank that orders another bank to pay the stated amount to a specific party
Bank reconciliation statement	A statement that accounts for all differences between the balance on the bank statement and the book balance of cash
Banker's year	A 360-day period used to calculate interest on a note
Bill of lading	A business document that lists goods accepted for transportation
Blank endorsement	A signature of the payee written on the back of the check that transfers ownership of the check without specifying to whom or for what purpose
Bond indenture	A bond contract
Bond issue costs	Costs incurred in issuing bonds, such as legal and accounting fees and printing costs

Bond retirement	When a bond is paid and the liability is removed from the company's balance sheet
Bond sinking fund investment	A fund established to accumulate assets to pay off bonds when they mature
Bonding	The process by which employees are investigated by an insurance company that will insure the business against losses through employee theft or mishandling of funds
Bonds payable	Long-term debt instruments that are written promises to repay the principal at a future date; interest is due at a fixed rate payable over the life of the bond
Book value (of assets)	That portion of an asset's original cost that has not yet been depreciated
Book value (of stocks)	The total equity applicable to a class of stock divided by the number of shares outstanding
Brand name	See Trade name
Break even	A point at which revenue equals expenses
Budget	An operating plan expressed in monetary units
Budget performance report	A comparison of actual costs and budgeted costs
Business transaction	A financial event that changes the resources of a firm
Bylaws	The guidelines for conducting a corporation's business affairs
Call price	The amount the corporation must pay for the bond when it is called
Callable bonds	Bonds that allow the issuing corporation to require the holder to surrender the bonds for payment before their maturity date
Callable preferred stock	Stock that gives the issuing corporation the right to repurchase the preferred shares from the stockholders at a specific price
Canceled check	A check paid by the bank on which it was drawn
Capacity	A facility's ability to produce or use

Capital	Financial investment in a business; equity
Capital stock ledger	A subsidiary ledger that contains a record of each stockholder's purchases, transfers, and current balance of shares owned; also called stockholders' ledger
Capital stock transfer journal	A record of stock transfers used for posting to the stockholders' ledger
Capitalized costs	All costs recorded as part of an asset's costs
Carrying value of bonds	The balance of the Bonds Payable account plus the Premium on Bonds Payable account minus the Discount on Bonds Payable account; also called book value of bonds
Cash	In accounting, currency, coins, checks, money orders, and funds on deposit in a bank
Cash discount	A discount offered by suppliers for payment received within a specified period of time
Cash equivalents	Assets that are easily convertible into known amounts of cash
Cash payments journal	A special journal used to record transactions involving the payment of cash
Cash receipts journal	A special journal used to record and post transactions involving the receipt of cash
Cash register proof	A verification that the amount of currency and coins in a cash register agrees with the amount shown on the cash register audit tape
Cash Short or Over account	An account used to record any discrepancies between the amount of currency and coins in the cash register and the amount shown on the audit tape
Cashier's check	A draft on the issuing bank's own funds
Certified public accountant (CPA)	An independent accountant who provides accounting services to the public for a fee
Charge-account sales	Sales made through the use of open-account credit or one of various types of credit cards

Chart of accounts	A list of the accounts used by a business to record its financial transactions
Check	A written order signed by an authorized person instructing a bank to pay a specific sum of money to a designated person or business
Check register	The record of cash payments of vouchers
Chronological order	Organized in the order in which the events occur
Classification	A means of identifying each account as an asset, liability, or owner's equity
Classified financial statement	A format by which revenues and expenses on the income statement, and assets and liabilities on the balance sheet, are divided into groups of similar accounts and a subtotal is given for each group
Closing entries	Journal entries that transfer the results of operations (net income or net loss) to owner's equity and reduce the revenue, expense, and drawing account balances to zero
Collateral trust bonds	Bonds secured by the pledge of securities, such as stocks or bonds of other companies
Combined journal	A journal that combines features of the general journal and the special journals in a single record
Commercial draft	A note issued by one party that orders another party to pay a specified sum on a specified date
Commission basis	A method of paying employees according to a percentage of net sales
Common costs	Costs not directly traceable to a specific segment of a business
Common stock	The general class of stock issued when no other class of stock is authorized; each share carries the same rights and privileges as every other share. Even if preferred stock is issued, common stock will also be issued
Common Stock Dividend Distributable	account Equity account used to record par, or stated, value of shares to be issued as the result of the declaration of a stock dividend
Common-size statements	Financial statements with items expressed as

	percentages of a base amount
Comparative statements	Financial statements presented side by side for two or more years
Compensation record	See Individual earnings record
Compound entry	A journal entry with more than one debit or credit
Conservatism	The concept that revenue and assets should be understated rather than overstated if GAAP allows alternatives. Similarly, expenses and liabilities should be overstated rather than understated
Consistency principle	The concept that requires a business to apply an accounting principle the same way from one period to the next
Contingent liability	An item that can become a liability if certain things happen
Contra account	An account with a normal balance that is opposite that of a related account
Contra asset account	An asset account with a credit balance, which is contrary to the normal balance of an asset account
Contra revenue account	An account with a debit balance, which is contrary to the normal balance for a revenue account
Contribution margin	Revenues minus variable costs
Control account	An account that links a subsidiary ledger and the general ledger since its balance summarizes the balances of the accounts in the subsidiary ledger
Controllable fixed costs	Costs that the segment manager can control
Convertible bonds	Bonds that give the owner the right to convert the bonds into common stock under specified conditions
Convertible preferred stock	Preferred stock that conveys the right to convert that stock to common stock after a specified date or during a period of time
Copyright	An intangible asset; an exclusive right granted by the federal government to produce, publish, and sell a literary or artistic work for a period equal to the creator's

	life plus 70 years
Corporate charter	A document issued by a state government that establishes a corporation
Corporation	A publicly or privately owned business entity that is separate from its owners and has a legal right to own property and do business in its own name; stockholders are not responsible for the debts or taxes of the business
Correcting entry	A journal entry made to correct an erroneous entry
Cost basis principle	The principle that requires assets to be recorded at their cost at the time they are acquired
Cost center	A business segment that incurs costs but does not produce revenue
Cost of goods sold	The actual cost to the business of the merchandise sold to customers
Cost of production report	Summarizes all costs charged to each department and shows the costs assigned to the goods transferred out of the department and to the goods still in process
Cost variance	The difference between the total standard cost and the total actual cost
Coupon bonds	Unregistered bonds that have coupons attached for each interest payment; also called bearer bonds
Credit	An entry on the right side of an account
Credit memorandum (accounts receivable)	A note verifying that a customer's account is being reduced by the amount of a sales return or sales allowance plus any sales tax that may have been involved
Credit memorandum (banking)	A form that explains any addition, other than a deposit, to a checking account
Creditor	One to whom money is owed
Cumulative preferred stock	Stock that conveys to its owners the right to receive the preference dividend for the current year and any prior years in which the preference dividend was not paid before common stockholders receive any dividends
Current assets	Assets consisting of cash, items that normally will be

converted into cash within one year, or items that will be used up within one year

Current liabilities	Debts that must be paid within one year
Current ratio	A relationship between current assets and current liabilities that provides a measure of a firm's ability to pay its current debts (current ratio = current assets ÷ current liabilities)
Debentures	Unsecured bonds backed only by a corporation's general credit
Debit	An entry on the left side of an account
Debit memorandum	A form that explains any deduction, other than a check, from a checking account
Declaration date	The date on which the board of directors declares a dividend
Declining-balance method	An accelerated method of depreciation in which an asset's book value at the beginning of a year is multiplied by a percentage to determine depreciation for the year
Deferred expenses	See Prepaid expenses
Deferred income	See Unearned income
Deferred income taxes	The amount of taxes that will be payable in the future as a result of the difference between taxable income and income for financial statement purposes in the current year and in past years
Departmental income statement	Income statement that shows each department's contribution margin and net income from operations after all expenses are allocated
Depletion	Allocating the cost of a natural resource to expense over the period in which the resource produces revenue
Deposit in transit	A deposit that is recorded in the cash receipts journal but that reaches the bank too late to be shown on the monthly bank statement
Deposit slip	A form prepared to record the deposit of cash or checks to a bank account

Depreciation	Allocation of the cost of a long-term asset to operations during its expected useful life
Differential cost	The difference in cost between one alternative and another
Direct charge-off method	A method of recording uncollectible account losses as they occur
Direct costing	The accounting procedure whereby only variable costs are included in the cost of goods manufactured, and fixed manufacturing costs are written off as expenses in the period in which they are incurred
Direct expenses	Operating expenses that are identified directly with a department and are recorded by department
Direct labor	The costs attributable to personnel who work directly on the product being manufactured
Direct materials	All items that go into a product and become a part of it
Direct method	A means of reporting sources and uses of cash under which all revenue and expenses reported on the income statement appear in the operating section of the statement of cash flows and show the cash received or paid out for each type of transaction
Discount on bonds payable	The excess of the face value over the price received by the corporation for a bond
Discounting	Deducting the interest from the principal on a note payable or receivable in advance
Discussion memorandum	An explanation of a topic under consideration by the Financial Accounting Standards Board
Dishonored check	A check returned to the depositor unpaid because of insufficient funds in the drawer's account; also called an NSF check
Dissolution	The legal termination of a partnership
Distributive share	The amount of net income or net loss allocated to each partner
Dividends	Distributions of the profits of a corporation to its

	shareholders
Donated capital	Capital resulting from the receipt of gifts by a corporation
Double-declining-balance method	A method of depreciation that uses a rate equal to twice the straight-line rate and applies that rate to the book value of the asset at the beginning of the year
Double-entry system	An accounting system that involves recording the effects of each transaction as debits and credits
Draft	A written order that requires one party (a person or business) to pay a stated sum of money to another party
Drawee	The bank on which a check is written
Drawer	The person or firm issuing a check
Drawing account	A special type of owner's equity account set up to record the owner's withdrawal of cash from the business
Economic entity	A business or organization whose major purpose is to produce a profit for its owners
Employee	A person who is hired by and works under the control and direction of the employer
Employee's Withholding Allowance Certificate, Form W-4	A form used to claim exemption (withholding) allowances
Employer's Annual Federal Unemployment Tax Return, Form 940 or 940-EZ	Preprinted government form used by the employer to report unemployment taxes for the calendar year
Employer's Quarterly Federal Tax Return, Form 941	Preprinted government form used by the employer to report payroll tax information relating to social security, Medicare, and employee income tax withholding to the Internal Revenue Service
Endorsement	A written authorization that transfers ownership of a check
Entity	Anything having its own separate identity, such as an individual, a town, a university, or a business
Equity	An owner's financial interest in a business

Equivalent production	The estimated number of units that could have been started and completed with the same effort and costs incurred in the department during the same time period
Exempt employees	Salaried employees who hold supervisory or managerial positions who are not subject to the maximum hour and overtime pay provisions of the Wage and Hour Law
Expense	An outflow of cash, use of other assets, or incurring of a liability
Experience rating system	A system that rewards an employer for maintaining steady employment conditions by reducing the firm's state unemployment tax rate
Exposure draft	A proposed solution to a problem being considered by the Financial Accounting Standards Board
Extraordinary, nonrecurring items	Transactions that are highly unusual, clearly unrelated to routine operations, and that do not frequently occur
Face interest rate	The contractual interest specified on the bond
Face value	An amount of money indicated to be paid, exclusive of interest or discounts
Fair market value	The current worth of an asset or the price the asset would bring if sold on the open market
Fair market value method	A method of recording the trade-in of an asset that allows a loss to be recognized on the transaction if the book value exceeds the trade-in allowance
Federal unemployment taxes (FUTA)	Taxes levied by the federal government against employers to benefit unemployed workers
Financial statements	Periodic reports of a firm's financial position or operating results
Financing activities	Transactions with those who provide cash to the business to carry on its activities
Finished goods inventory	The cost of completed products ready for sale; corresponds to the Merchandise Inventory account of a merchandising business
Finished goods subsidiary	A ledger containing a record for each of the different

ledger	types of finished products
First in, first out (FIFO) method	A method of inventory costing that assumes the oldest merchandise is sold first
Fixed budget	A budget representing only one level of activity
Fixed costs	Costs that do not change in total as the level of activity changes
Flexible budget	A budget that shows the budgeted costs at various levels of activity
Footing	A small pencil figure written at the base of an amount column showing the sum of the entries in the column
Franchise	An intangible asset; a right to exclusive dealership granted by a governmental unit or a business entity
Freight In account	An account showing transportation charges for items purchased
Full disclosure principle	The requirement that all information that might affect the user's interpretation of the profitability and financial position of a business be disclosed in the financial statements or in footnotes to the statements
Full endorsement	A signature transferring a check to a specific person, firm, or bank
Fundamental accounting equation	The relationship between assets and liabilities plus owner's equity
Gain	The disposition of an asset for more than its book value
General journal	A financial record for entering all types of business transactions
General ledger	A permanent, classified record of all accounts used in a firm's operation; a record of final entry
General partner	A member of a partnership who has unlimited liability
Generally accepted accounting principles (GAAP)	Accounting standards developed and applied by professional accountants
Going concern assumption	The assumption that a firm will continue to operate indefinitely

Goodwill	An intangible asset; the value of a business in excess of the value of its identifiable assets
Governmental accounting	Accounting work performed for a federal, state, or local governmental unit
Gross profit	The difference between net sales and the cost of goods sold
Gross profit method	A method of estimating inventory cost based on the assumption that the rate of gross profit on sales and the ratio of cost of goods sold to net sales are relatively constant from period to period
Gross profit percentage	The amount of gross profit from each dollar of sales (gross profit percentage = gross profit ÷ net sales)
High-low point method	A method to determine the fixed and variable components of a semi variable cost
Historical cost principle	See Cost basis principle
Horizontal analysis	Computing the percentage change for individual items in the financial statements from year to year
Hourly rate basis	A method of paying employees according to a stated rate per hour
Impairment	A situation that occurs when the asset is determined to have a market value or a value in use less than its book value
Income statement	A formal report of business operations covering a specific period of time; also called a profit and loss statement or a statement of income and expenses
Income Summary account	A special owner's equity account that is used only in the closing process to summarize the results of operations
Income tax method	A method of recording the trade-in of an asset according to tax rules that do not permit a gain or loss to be recognized on the transaction
Independent contractor	One who is paid by a company to carry out a specific task or job but is not under the direct supervision or control of the company

Indirect expenses	Operating expenses that cannot be readily identified and are not closely related to activity within a department
Indirect labor	Cost attributable to personnel who support production are not directly involved in the manufacture of a product; for example, supervisory, repair and maintenance, and janitorial staff
Indirect materials and supplies	Materials used in manufacturing a product that do not become a part of the product
Indirect method	A means of reporting cash generated from operating activities by treating net income as the primary source of cash in the operating section of the statement of cash flows and adjusting that amount for changes in current assets and liabilities associated with net income, noncash transactions, and other items
Individual earnings record	An employee record that contains information needed to compute earnings and complete tax reports
Industry averages	Financial ratios and percentages reflecting averages for similar companies
Intangible assets	Assets that lack a physical substance, such as goodwill, patents, copyrights, and computer software, although software has, in a sense, a physical attribute
Interest	The fee charged for the use of money
Internal control system	A system designed to safeguard assets, achieve efficient processing of transactions, and ensure accuracy and reliability of financial records
International accounting	The study of accounting principles used by different countries
Interpret	To understand and explain the meaning and importance of something (such as financial statements)
Inventory sheet	A form used to list the volume and type of goods a firm has in stock
Inventory turnover	The number of times inventory is purchased and sold during the accounting period (inventory turnover = cost of goods sold ÷ average inventory)

Investing activities	Transactions that involve the acquisition or disposal of long-term assets
Invoice	A customer billing for merchandise bought on credit
Job order	A specific order for a specific batch of manufactured items
Job order cost accounting	A cost accounting system that determines the unit cost of manufactured items for each separate production order
Job order cost sheet	A record of all manufacturing costs charged to a specific job
Journal	The record of original entry
Journalizing	Recording transactions in a journal
Just-in-time system	An inventory system in which raw materials are ordered so they arrive just in time to be placed into production
Labor efficiency variance	See Labor time variance
Labor rate variance	The difference between the actual labor rate per hour and the standard labor rate per hour multiplied by the actual number of hours worked on the job
Labor time variance	The difference between the actual hours worked and the standard labor hours allowed for the job multiplied by the standard cost per hour
Last in, first out (LIFO) method	A method of inventory costing that assumes that the most recently purchased merchandise is sold first
Ledger	The record of final entry
Leveraged buyout	Purchasing a business by acquiring the stock and obligating the business to pay the debt incurred
Leveraging	Using borrowed funds to earn a profit greater than the interest that must be paid on the borrowing
Liabilities	Debts or obligations of a business
Limited liability company (LLC)	Provides limited liability to the owners, who can elect to have the profits taxed at the LLC level or on their

	individual tax returns
Limited liability partnership (LLP)	A partnership that provides some limited liability for all partners
Limited partner	A member of a partnership whose liability is limited to his or her investment in the partnership
Limited partnership	A partnership having one or more limited partners
Liquidation	Termination of a business by distributing all assets and discontinuing the business
Liquidation value	Value of assets to be applied to preferred stock, usually par value or an amount in excess of par value, if the corporation is liquidated
Liquidity	The ease with which an item can be converted into cash; the ability of a business to pay its debts when due
List price	An established retail price
Long-term liabilities	Debts of a business that are due more than a year in the future
Loss	The disposition of an asset for less than its book value
Lower of cost or market rule	The principle by which inventory is reported at either its original cost or its replacement cost, whichever is lower
Management advisory services	Services designed to help clients improve their information systems or their business performance
Managerial accounting	Accounting work carried on by an accountant employed by a single business in industry
Manufacturing business	A business that sells goods that it has produced
Manufacturing cost budget	A budget made for each manufacturing cost
Manufacturing margin	Sales minus the variable cost of goods sold
Manufacturing overhead	All manufacturing costs that are not classified as direct materials or direct labor
Manufacturing overhead ledger	A subsidiary ledger that contains a record for each overhead item

Manufacturing Summary account	The account to which all items on the statement of cost of goods manufactured are closed; similar to the Income Summary account
Marginal income	The manufacturing margin minus variable operating expenses
Markdown	Price reduction below the original markon
Market interest rate	The interest rate a corporation is willing to pay and investors are willing to accept at the current time
Market price	The price the business would pay to buy an item of inventory through usual channels in usual quantities
Market value	The price per share at which stock is bought and sold
Markon	The difference between the cost and the initial retail price of merchandise
Markup	A price increase above the original markon
Matching principle	The concept that revenue and the costs incurred in earning the revenue should be matched in the appropriate accounting periods
Materiality	The significance of an item in relation to a particular situation or set of facts
Materials price variance	The difference between the actual price and the standard cost for materials multiplied by the actual quantity of materials used
Materials quantity variance	The difference between the actual quantity used and the quantity of materials allowed multiplied by the standard cost of the materials
Materials requisition	A form that describes the item and quantity needed and shows the job or purpose
Materials usage variance	See Materials quantity variance
Maturity value	The total amount (principal plus interest) that must be paid when a note comes due
Medicare tax	A tax levied on employees and employers to provide medical care for the employee and the employee's

	spouse after each has reached age 65
Memorandum entry	An informational entry in the general journal
Merchandise inventory	The stock of goods a merchandising business keeps on hand
Merchandising business	A business that sells goods purchased for resale
Merit rating system	See Experience rating system
Minute book	A book in which accurate and complete records of all meetings of stockholders and directors are kept
Mortgage loan	A long-term debt created when a note is given as part of the purchase price for land or buildings
Multiple-step income statement	A type of income statement on which several subtotals are computed before the net income is calculated
Mutual agency	The characteristic of a partnership by which each partner is empowered to act as an agent for the partnership, binding the firm by his or her acts
Negotiable	A financial instrument whose ownership can be transferred to another person or business
Negotiable instrument	A financial document containing a promise or order to pay that meets all requirements of the Uniform Commercial Code in order to be transferable to another party
Net book value	The cost of an asset minus its accumulated depreciation, depletion, or amortization, also known as book value
Net income	The result of an excess of revenue over expenses
Net income line	The worksheet line immediately following the column totals on which net income (or net loss) is recorded in two places: the Income Statement section and the Balance Sheet section
Net loss	The result of an excess of expenses over revenue
Net of discount	The invoice amount minus the cash discount offered
Net price	The list price less all trade discounts
Net sales	The difference between the balance in the Sales account

	and the balance in the Sales Returns and Allowances account
Net salvage value	The salvage value of an asset less any costs to remove or sell the asset
Net value of accounts receivable	The difference between the Accounts Receivable account and the Allowance for Doubtful Accounts account
Noncumulative preferred stock	Stock that conveys to its owners the stated preference dividend for the current year but no rights to dividends for years in which none were declared
Nonparticipating preferred stock	Stock that conveys to its owners the right to only the preference dividend amount specified on the stock certificate
No-par-value stock	Stock that is not assigned a par value in the corporate charter
Normal balance	The increase side of an account
Note payable	A liability representing a written promise by the maker of the note (the debtor) to pay another party (the creditor) a specified amount at a specified future date
Note receivable	An asset representing a written promise by another party (the debtor) to pay the note holder (the creditor) a specified amount at a specified future date
Objectivity assumption	The idea that financial reports are unbiased and fair to all parties
On account	An arrangement to allow payment at a later date; also called a charge account or open-account credit
Open-account credit	A system that allows the sale of services or goods with the understanding that payment will be made at a later date
Operating activities	Routine business transactions-selling goods or services and incurring expenses
Operating assets and liabilities	Current assets and current liabilities
Opportunity cost	Potential earnings or benefits that are given up because a certain course of action is taken

Organization costs	The costs associated with establishing a corporation; an intangible asset account
Outstanding checks	Checks that have been recorded in the cash payments journal but have not yet been paid by the bank
Overapplied overhead	The result of applied overhead exceeding the actual overhead costs
Overhead application rate	The rate at which the estimated cost of overhead is charged to each job
Owner's equity	The financial interest of the owner of a business; also called proprietorship or net worth
Paid-in capital	Capital acquired from capital stock transactions
Par value	An amount assigned by the corporate charter to each share of stock for accounting purposes
Participating preferred stock	Stock that conveys the right not only to the preference dividend amount but also to a share of other dividends paid
Partnership	A business entity owned by two or more persons who carry on a business for profit and who are legally responsible for the debts and taxes of the business
Partnership agreement	A legal contract forming a partnership and specifying certain details of operation
Patent	An intangible asset; an exclusive right given by the U.S. Patent Office to manufacture and sell an invention for a period of 17 years from the date the patent is granted
Payee	The person or firm to whom a check is payable
Payment date	The date that dividends are paid
Payment voucher	See Voucher
Payroll register	A record of payroll information for each employee for the pay period
Periodic inventory	Inventory based on a periodic count of goods on hand

Periodicity of income assumption	The concept that income should be reported in certain time periods
Permanent account	An account that is kept open from one accounting period to the next
Perpetual inventory	Inventory based on a running total of number of units
Perpetual inventory system	An inventory system that tracks the inventories on hand at all times
Petty cash analysis sheet	A form used to record transactions involving petty cash
Petty cash fund	A special-purpose fund used to handle payments involving small amounts of money
Petty cash voucher	A form used to record the payments made from a petty cash fund
Physical inventory	An actual count of the number of units of each type of good on hand
Piece-rate basis	A method of paying employees according to the number of units produced
Plant and equipment	Property that will be used in the business for longer than a year
Postclosing trial balance	A statement that is prepared to prove the equality of total debits and credits after the closing process is completed
Postdated check	A check dated some time in the future
Posting	Transferring data from a journal to a ledger
Preemptive right	A shareholder's right to purchase a proportionate amount of any new stock issued at a later date
Preference dividend	A basic or stated dividend rate for preferred stock that must be paid before dividends can be paid on common stock
Preferred stock	A class of stock that has special claims on the corporate profits or, in case of liquidation, on corporate assets
Premium on bonds payable	The excess of the price paid over the face value of a bond

Prepaid expenses	Expense items acquired, recorded, and paid for in advance of their use
Price-earnings ratio	The ratio of the current market value of common stock to earnings per share of that stock
Principal	The amount shown on the face of a note
Private sector	The business sector, which is represented in developing accounting principles by the Financial Accounting Standards Board (FASB)
Process cost accounting	A cost accounting system whereby unit costs of manufactured items are determined by totaling unit costs in each production department
Process cost accounting system	A method of accounting in which costs are accumulated for each process or department and then transferred on to the next process or department
Production order	See Job order
Profit center	A business segment that produces revenue
Promissory note	A written promise to pay a specified amount of money on a specific date
Property, plant, and equipment	Long-term assets that are used in the operation of a business and that are subject to depreciation (except for land, which is not depreciated)
Public accountants	Members of firms that perform accounting services for other companies
Public sector	The government sector, which is represented in developing accounting principles by the Securities and Exchange Commission (SEC)
Purchase allowance	A price reduction from the amount originally billed
Purchase invoice	A bill received for goods purchased
Purchase order	An order to the supplier of goods specifying items needed, quantity, price, and credit terms
Purchase requisition	A list sent to the purchasing department showing the items to be ordered

Purchase return	Return of unsatisfactory goods
Purchases account	An account used to record cost of goods bought for resale during a period
Purchases discount	A cash discount offered to customers buying goods for payment within a specified period
Purchases journal	A special journal used to record the purchase of goods on credit
Qualitative characteristics	Traits necessary for credible financial statements: usefulness, relevance, reliability, verifiability, neutrality, understandability, timeliness, comparability, and completeness
Quick assets	Cash, receivables, and marketable securities
Ratio analysis	Computing the relationship between various items in the financial statements
Raw materials	The materials placed into production
Raw materials ledger card	A record showing details of receipts and issues for a type of raw material
Raw materials subsidiary ledger	A ledger containing the raw materials ledger cards
Real property	Assets such as land, land improvements, buildings, and other structures attached to the land
Realization principle	The concept that revenue occurs when goods or services, merchandise, or other assets are exchanged for cash or claims to cash
Receiving report	A form showing quantity and condition of goods received
Recognition	The determination of the period in which to record a business transaction
Record date	The date on which the specific stockholders to receive a dividend are determined
Recoverability test	Test for possible impairment that compares the asset's net book value with the estimated net cash flows from

	future use of the asset
Registered bonds	Bonds issued to a party whose name is listed in the corporation's records
Registrar	A person or institution in charge of the issuance and transfer of a corporation's stock
Reinstate	To put back or restore an accounts receivable amount that was previously written off
Relevant range of activity	The different levels of activity at which a factory is expected to operate
Replacement cost	See Market price
Report form balance sheet	A balance sheet that lists the asset accounts first, followed by liabilities and owner's equity
Residual value	The estimate of the amount that could be obtained from the sale or disposition of an asset at the end of its useful life; also called salvage or scrap value
Responsibility accounting	The process that allows management to evaluate the performance of each segment of the business and assign responsibility for its financial results
Restrictive endorsement	A signature that transfers a check to a specific party for a stated purpose
Retail business	A business that sells directly to individual consumers
Retail method	A method of estimating inventory cost by applying the ratio of cost to selling price in the current accounting period to the retail price of the inventory
Retained earnings	The cumulative profits and losses of the corporation not distributed as dividends
Return on common stockholders' equity	A measure of how well the corporation is making a profit for its shareholders; the ratio of net income available for common stockholders to common stockholders' equity
Revenue	An inflow of money or other assets that results from the sales of goods or services or from the use of money or property; also called income
Reversing entries	Journal entries made to reverse the effect of certain

	adjusting entries involving accrued income or accrued expenses to avoid problems in recording future payments or receipts of cash in a new accounting period
Salary basis	A method of paying employees according to an agreed-upon amount for each week or month
Sales allowance	A reduction in the price originally charged to customers for goods or services
Sales discount	A cash discount offered by the supplier to customers for payment within a specified period
Sales invoice	A supplier's billing document
Sales journal	A special journal used to record sales of merchandise on credit
Sales return	A firm's acceptance of a return of goods from a customer
Salvage value	An estimate of the amount that could be received by selling or disposing of an asset at the end of its useful life
Schedule of accounts payable	A list of all balances owed to creditors
Schedule of accounts receivable	A listing of all balances of the accounts in the accounts receivable subsidiary ledger
Schedule of operating expenses	A schedule that supplements the income statement, showing the selling and general and administrative expenses in greater detail
Schedule of vouchers payable	A list of all amounts owed for unpaid vouchers
Scrap value	See Residual value
Secured bonds	Bonds for which property is pledged to secure the claims of bondholders
Semidirect expenses	Operating expenses that cannot be directly assigned to a department but are closely related to departmental activities
Semivariable costs	Costs that vary with, but not in direct proportion to, the volume of activity
Separate entity assumption	The concept that a business is separate from its owners;

the concept of keeping a firm's financial records separate from the owner's personal financial records

Serial bonds	Bonds issued at one time but payable over a period of years
Service business	A business that sells services
Service charge	A fee charged by a bank to cover the costs of maintaining accounts and providing services
Shareholder	A person who owns shares of stock in a corporation; also called a stockholder
Sight draft	A commercial draft that is payable on presentation
Single-step income statement	A type of income statement where only one computation is needed to determine the net income (total revenue - total expenses = net income)
Slide	An accounting error involving a misplaced decimal point
Social entity	A nonprofit organization, such as a city, public school, or public hospital
Social Security Act	A federal act providing certain benefits for employees and their families; officially the Federal Insurance Contributions Act
Social security tax (FICA)	A tax imposed by the Federal Insurance Contributions Act and collected on employee earnings to provide retirement and disability benefits
Sole proprietorship	A business entity owned by one person who is legally responsible for the debts and taxes of the business
Special journal	A journal used to record only one type of transaction
Specific identification method	A method of inventory costing based on the actual cost of each item of merchandise
Stable monetary unit assumption	The concept that accounting records are kept in terms of money and the assumption that the value of money is stable
Standard cost card	A form that shows the per-unit standard costs for materials, labor, and overhead

Standard costs	A measure of what costs should be in an efficient operation
State unemployment taxes (SUTA)	Taxes levied by a state government against employers to benefit unemployed workers
Stated value	The value that can be assigned to no-par-value stock by a board of directors for accounting purposes
Statement of account	A form sent to a firm's customers showing transactions during the month and the balance owed
Statement of cash flows	A financial statement that provides information about the cash receipts and cash payments of a business
Statement of cost of goods manufactured	A financial report showing details of the cost of goods completed for a manufacturing business
Statement of owner's equity	A formal report of changes that occurred in the owner's financial interest during a reporting period
Statement of partners' equities	A financial statement prepared to summarize the changes in the partners' capital accounts during an accounting period
Statement of retained earnings	A financial statement that shows all changes that have occurred in retained earnings during the period
Statement of stockholders' equity	A financial statement that provides an analysis reconciling the beginning and ending balance of each of the stockholders' equity accounts
Statements of Financial Accounting Standards	Accounting principles established by the Financial Accounting Standards Board
Stock	Certificates that represent ownership of a corporation
Stock certificate	The form by which capital stock is issued; the certificate indicates the name of the corporation, the name of the stockholder to whom the certificate was issued, the class of stock, and the number of shares
Stock dividend	Distribution of the corporation's own stock on a pro rata basis that results in conversion of a portion of the firm's retained earnings to permanent capital

Stock split	When a corporation issues two or more shares of new stock to replace each share outstanding without making any changes in the capital accounts
Stockholders	The owners of a corporation; also called shareholders
Stockholders of record	Stockholders in whose name shares are held on date of record and who will receive a declared dividend
Stockholders' equity	The corporate equivalent of owners' equity; also called shareholders' equity
Stockholders' ledger	See Capital stock ledger
Straight-line amortization	Amortizing the premium or discount on bonds payable in equal amounts each month over the life of the bond
Straight-line depreciation	Allocation of an asset's cost in equal amounts to each accounting period of the asset's useful life
Subchapter S corporation (S corporation)	An entity formed as a corporation that meets the requirements of Subchapter S of the Internal Revenue Code to be treated essentially as a partnership, so that the corporation pays no income tax
Subscribers' ledger	A subsidiary ledger that contains an account receivable for each stock subscriber
Subscription book	A list of the stock subscriptions received
Subsidiary ledger	A ledger dedicated to accounts of a single type and showing details to support a general ledger account
Sum-of-the-years'-digits method	A method of depreciating asset costs by allocating as expense each year a fractional part of the asset's depreciable cost, based on the sum of the digits of the number of years in the asset's useful life
Sunk cost	A cost that has been incurred and will not change as a result of a decision
T account	A type of account, resembling a T, used to analyze the effects of a business transaction
Tangible personal property	Assets such as machinery, equipment, furniture, and fixtures that can be removed and used elsewhere

Tax accounting	A service that involves tax compliance and tax planning
Tax-exempt wages	Earnings in excess of the base amount set by the Social Security Act
Temporary account	An account whose balance is transferred to another account at the end of an accounting period
Tickler file	See Unpaid voucher file
Time and a half	Rate of pay for an employee's work in excess of 40 hours a week
Time draft	A commercial draft that is payable during a specified period of time
Time ticket	Form used to record hours worked and jobs performed
Total equities	The sum of a corporation's liabilities and stockholders' equity
Trade acceptance	A form of commercial time draft used in transactions involving the sale of goods
Trade discount	A reduction from list price
Trade name	An intangible asset; an exclusive business name registered with the U.S. Patent Office; also called brand name
Trademark	An intangible asset; an exclusive business symbol registered with the U.S. Patent Office
Trading on the equity	See Leveraging
Transfer agent	A person or institution that handles all stock transfers and transfer records for a corporation
Transfer price	The price at which one segment's goods are transferred to another segment of the company
Transmittal of Wage and Tax Statements, Form W-3	Preprinted government form submitted with Forms W-2 to the Social Security Administration
Transportation In account	See Freight In account
Transposition	An accounting error involving misplaced digits in a number

Treasury stock	A corporation's own capital stock that has been issued and reacquired; the stock must have been previously paid in full and issued to a stockholder
Trend analysis	Comparing selected ratios and percentages over a period of time
Trial balance	A statement to test the accuracy of total debits and credits after transactions have been recorded
Underapplied overhead	The result of actual overhead costs exceeding applied overhead
Unearned income	Income received before it is earned
Unemployment insurance program	A program that provides unemployment compensation through a tax levied on employers
Units-of-output method	See Units-of-production method
Units-of-production method	A method of depreciating asset cost at the same rate for each unit produced during each period
Unlimited liability	The implication that a creditor can look to all partners' personal assets as well as the assets of the partnership for payment of the firm's debts
Unpaid voucher file	A file to hold vouchers until they are due to be paid, filed by due date
Updated account balances	The amounts entered in the Adjusted Trial Balance section of the worksheet
Valuation account	An account, such as Allowance for Doubtful Accounts, whose balance is revalued or reappraised in light of reasonable expectations
Variable costing	See Direct costing
Variable costs	Costs that vary in total in direct proportion to changes in the level of activity
Variance analysis	Explains the difference between standard cost and actual cost
Vertical analysis	Computing the relationship between each item on a

	financial statement to some base amount on the statement
Voucher	A form used to authorize payment of an obligation
Voucher register	A journal used to record liabilities arising from business transactions
Voucher system	A method of controlling liabilities and cash payments based on vouchers
Wage and Tax Statement, Form W-2	Preprinted government form that contains information about an employee's earnings and tax withholdings for the year
Wage-bracket table method	A simple method to determine the amount of federal income tax to be withheld using a table provided by the government
Weighted average method	See Average cost method
Wholesale business	A business that manufactures or distributes goods to retail businesses or large consumers such as hotels and hospitals
Withdrawals	Funds taken from the business by the owner for personal use
Withholding statement	See Wage and Tax Statement, Form W-2
Workers' compensation insurance	Insurance that protects employees against losses from job-related injuries or illnesses, or compensates their families if death occurs in the course of the employment
Work in process	Partially completed units in the production process
Work in process subsidiary ledger	A ledger containing the job order cost sheets
Working capital	The measure of the ability of a company to meet its current obligations; the excess of current assets over current liabilities
Worksheet	A form used to gather all data needed at the end of an accounting period to prepare financial statements