

ACCOUNTING DICTIONARY

A

Account a record summarizing all the information pertaining to a single item in the accounting equation

Account balance the amount in an account

Account number the number assigned to an account

Account title the name given to an account

Accounting planning, recording, analyzing, and interpreting financial information

Accounting cycle the series of accounting activities included in recording financial information for a fiscal period

Accounting equation an equation showing the relationship among assets, liabilities, and owner's equity

Accounting period see *Fiscal period*

Accounting records organized summaries of a business's financial activities

Accounting system a planned process for providing financial information that will be useful to management

Accounts expenses expenses incurred in one fiscal period but not paid until a later fiscal period

Accounts payable ledger a subsidiary ledger containing only accounts for vendors from whom items are purchased or bought on account

Accounts receivable ledger a subsidiary ledger containing only accounts for charge customers

Accounts receivable turnover ratio the number of times the average amount of accounts receivable is collected during a specified period

Accrual basis of accounting the accounting method that records revenues when they are earned and expenses when they are incurred

Accrued expenses expenses incurred in one fiscal period but not paid until a later fiscal period

Accrued interest expense interest incurred but not yet paid

Accrued interest income interest earned but not yet received

Accrued revenue revenue earned in one fiscal period but not received until a later fiscal period

Accumulated depreciation the total amount of depreciation expense that has been recorded since the purchase of a plant asset

Acid-test ratio a ratio that shows the numeric relationship of quick assets to current liabilities

Adjusting entries journal entries recorded to update general ledger accounts at the end of a fiscal period

Adjustments changes recorded on a work sheet to update general ledger accounts at the end of a fiscal period

Administrative expenses budget schedule a statement that shows the projected expenses for all operating expenses not directly related to selling operations

Aging accounts receivable analyzing accounts receivable according to when they are due

Allowance method of recording losses from uncollectible accounts crediting the estimated value of uncollectible accounts to a contra account

Amortization recognizing a portion of an expense in each of several years

Appropriations authorizations to make expenditures for specified purposes
Articles of incorporation a written application requesting permission to form a corporation
Assessed value the value of an asset determined by tax authorities for the purpose of calculating taxes
Asset anything of value that is owned
Auditing the independent reviewing and issuing of an opinion on the reliability of accounting records
Auditor a person who examines the records that support the financial records of a business to assure that generally accepted accounting principles (GAAP) are being followed
Automatic check deposit depositing payroll checks directly to an employee's checking or savings account in a specific bank
Average number of days' sales in merchandise inventory the period of time needed to sell an average amount of merchandise inventory

B

Bad debts see *Uncollectible accounts*
Balance sheet a financial statement that reports assets, liabilities, and owner's equity on a specific date
Bank statement a report of deposits, withdrawals, and bank balances sent to a depositor by a bank
Bill of exchange see *Draft*
Bill of lading a receipt signed by the authorized agent of a transportation company for merchandise received that also serves as a contract for the delivery of the merchandise
Blank endorsement an endorsement consisting only of the endorser's signature
Board of directors a group of persons elected by the stockholders to manage a corporation
Bond a printed, long-term promise to pay a specified amount on a specific date and to pay interest at stated intervals
Bond issue all the bonds representing the total amount of a loan
Bond sinking fund an amount set aside to pay a bond issue when due
Book inventory see *Perpetual inventory*
Book value the difference between an asset's account balance and its related contra account balance
Book value of a plant asset the original cost of a plant asset minus accumulated depreciation
Book value of accounts receivable the difference between the balance of Accounts Receivable and its contra account, Allowance for Uncollectible Accounts
Book value per share see *Equity per share*
Breakeven point the amount of sales at which net sales is exactly the same as total costs
Budget a written financial plan of a business for a specific period of time, expressed in dollars
Budget period the length of time covered by a budget
Budgeted income statement a statement that shows a company's projected sales, costs, expenses, and net income
Budgeting planning the financial operations of a business

C

Capital the account used to summarize the owner's equity in a business

Capital stock total shares of ownership in a corporation

Cash basis of accounting the accounting method that records revenues when they are received and expenses when they are paid

Cash budget a statement that shows for each month or quarter a projection of a company's beginning cash balance, cash receipts, cash payments, and ending cash balance

Cash discount a deduction from the invoice amount, allowed by a vendor to encourage early payment

Cash flows the cash receipts and cash payments of a company

Cash over a petty cash on hand amount that is more than a recorded amount

Cash payments budget schedule projected cash payments

Cash payments journal a special journal used to record only cash payment transactions

Cash receipts budget schedule projected cash receipts

Cash receipts journal a special journal used to record only cash receipt transactions

Cash sale a sale in which cash is received for the total amount of the sale at the time of the transaction

Cash short a petty cash on hand amount that is less than a recorded amount

Certificate of deposit a document issued by a bank as evidence of money invested with the bank

Charge sale see *Sale on account*

Chart of accounts a list of accounts used by a business

Charter the approved articles of incorporation

Check a business form ordering a bank to pay cash from a bank account

Check register a journal used in a voucher system to record cash payments

Checking account a bank account from which payments can be ordered by a depositor

Closing entries journal entries used to prepare temporary accounts for a new fiscal period

Commercial invoice a statement prepared by the seller of merchandise addressed to the buyer, showing a detailed listing and description of merchandise sold, including prices and terms

Common stock stock that does not give stockholders any special preferences

Comparative income statement an income statement containing sales, cost, and expense information for two or more years

Component percentage the percentage relationship between one financial statement item and the total that includes that item

Consignee the person or business who receives goods on consignment

Consignment goods that are given to a business to sell, but for which title to the goods remains with the vendor

Consignor the person or business who gives goods on consignment

Contra account an account that reduces a related account on a financial statement

Contra balance an account balance that is opposite the normal balance

Contract of sale a document that details all the terms agreed to by seller and buyer for a sales transaction

Contribution margin income determined by subtracting all variable costs from net sales

Controlling account an account in a general ledger that summarizes all accounts in a subsidiary ledger

Corporation an organization with the legal rights of a person and which may be owned by many persons

Correcting entry a journal entry made to correct an error in the ledger

Cost accounting the determination and control of costs of a business enterprise

Cost ledger a ledger containing all cost sheets for products in the process of being manufactured

Cost of goods sold see *Cost of merchandise sold*

Cost of merchandise the price a business pays for goods it purchases to sell

Cost of merchandise sold the total original price of all merchandise sold during a fiscal period

Credit an amount recorded on the right side of a T account

Credit card sale a sale in which a credit card is used for the total amount of the sale at the time of the transaction

Credit memorandum a form prepared by the vendor showing the amount deducted for returns and allowances

Creditor a person or organization to whom a liability is owed

Current assets cash and other assets expected to be exchanged for cash or consumed within a year

Current liabilities liabilities due within a short time, usually within a year

Current ratio a ratio that shows the numeric relationship of current assets to current liabilities

Customer a person or business to whom merchandise or services are sold

D

Date of a note the day a note is signed

Date of declaration the date on which a board of directors votes to distribute a dividend

Date of payment the date on which dividends are actually to be paid to stockholders

Debit an amount recorded on the left side of a T account

Debit card a bank card that, when making purchases, automatically deducts the amount of the purchase from the checking account of the cardholder

Debit memorandum a form prepared by the customer showing the price deduction taken by the customer for returns and allowances

Debt ratio the ratio found by dividing total liabilities by total assets

Declaring a dividend action by a board of directors to distribute corporate earnings to stockholders

Declining-balance method of depreciation multiplying the book value by a constant depreciation rate at the end of each fiscal period

Deferred revenue see *Unearned revenue*

Deficit the amount by which allowances to partners exceed net income

Departmental accounting system an accounting system showing accounting information for two or more departments

Departmental margin the revenue earned by a department less its cost of merchandise sold and less its direct expenses

Departmental margin statement a statement that reports departmental margin for a specific department

Departmental statement of gross profit a statement prepared at the end of a fiscal period showing the gross profit for each department

Depletion the decrease in the value of a plant asset because of the removal of a natural resource

Depreciation expense the portion of a plant asset's cost that is transferred to an expense account in each fiscal period during a plant asset's useful life

Direct expense an operating expense identifiable with and chargeable to the operation of a specific department

Direct labor salaries of factory workers who make a product

Direct materials materials that are of significant value in the cost of and that become an identifiable part of a finished product

Direct write-off method of recording losses from uncollectible accounts recording uncollectible accounts expense only when an amount is actually known to be uncollectible

Discount on capital stock an amount less than par or stated value at which capital stock is sold

Dishonored check a check that a bank refuses to pay

Dishonored note a note that is not paid when due

Distribution of net income statement a partnership financial statement showing net income or loss distribution to partners

Dividends earnings distributed to stockholders

Double-entry accounting the recording of debit and credit parts of a transaction

Doubtful accounts see *Uncollectible accounts*

Draft a written, signed, and dated order from one party ordering another party, usually a bank, to pay money to a third party

E

Earnings per share the amount of net income belonging to a single share of stock

Electronic funds transfer a computerized cash payments system that uses electronic impulses to transfer funds

Employee benefits payments to employees for non-working hours and to insurance and retirement programs

Employee earnings record a business form used to record details affecting payments made to an employee

Encumbrance a commitment to pay for goods or services that have been ordered but not yet provided

Endorsement a signature or stamp on the back of a check transferring ownership

Endorsement in full see *Special endorsement*

Entry information for each transaction recorded in a journal

Equities financial rights to the assets of a business

Equity per share the amount of total stockholders' equity belonging to a single share of stock

Equity ratio the ratio found by dividing stockholders' equity by total assets

Estimated salvage value the amount an owner expects to receive when a plant asset is removed from use

Ethics the principles of right and wrong that guide an individual in making decisions

Exhibit see *Supporting schedule*

Expenditures cash disbursements and liabilities incurred for the cost of goods delivered or services rendered

Expense a decrease in owner's equity resulting from the operation of a business

Exports goods or services shipped out of a seller's home country to a foreign country

F

Face amount see *Principal of a note*

Factory overhead all expenses other than direct materials and direct labor that apply to the making of products

Federal unemployment tax a federal tax used for state and federal administrative expenses of the unemployment program

Fifo see *First-in, first-out inventory costing method*

File maintenance the procedure for arranging accounts in a general ledger, assigning account numbers, and keeping records current

Financial accounting the recording of a business's financial activities and the periodic preparation of financial reports

Financing activities cash receipts and payments involving debt or equity transactions

Finished goods manufactured products that are fully completed

Finished goods ledger a ledger containing records of all finished goods on hand

First-in, first-out inventory costing method using the price of merchandise purchased first to calculate the cost of merchandise sold first

Fiscal period the length of time for which a business summarizes and reports financial information

Fixed assets see *Plant assets*

Fixed costs total costs that remain constant regardless of change in business activity

Fund a governmental accounting entity with a set of accounts in which assets always equal liabilities plus equities

G

Gain on plant assets revenue that results when a plant asset is sold for more than book value

General amount column a journal amount column that is not headed with an account title

General fixed assets governmental properties that benefit future periods

General journal a journal with two amount columns in which all kinds of entries can be recorded

General ledger a ledger that contains all accounts needed to prepare financial statements

Goodwill the value of a business in excess of the total investment of owners

Gross earnings see *Total earnings*

Gross pay see *Total earnings*

Gross profit method of estimating inventory estimating inventory by using the previous year's percentage of gross profit on operations

Gross profit on sales the revenue remaining after cost of merchandise sold has been deducted

H

Horizontal analysis see *Trend analysis*

I

Imports goods or services bought from a foreign country and brought into a buyer's home country

Income statement a financial statement showing the revenue and expenses for a fiscal period

Indirect expense an operating expense chargeable to overall business operations and not identifiable with a specific department

Indirect labor salaries paid to factory workers who are not actually making products

Indirect materials materials used in the completion of a product that are of insignificant value to justify accounting for separately

Intangible assets assets of a non-physical nature that have value for a business

Interest an amount paid for the use of money for a period of time

Interest expense the interest accrued on money borrowed

Interest income the interest earned on money loaned

Interest rate of a note the percentage of the principal that is paid for use of the money

Interim departmental statement of gross profit a statement showing gross profit for each department for a portion of a fiscal period

Internal auditor see *Auditor*

Inventory the amount of goods on hand

Inventory record a form used during a periodic inventory to record information about each item of merchandise on hand

Investing activities cash receipts and cash payments involving the sale or purchase of assets used to earn revenue over a period of time

Invoice a form describing the goods or services sold, the quantity, and the price

J

Journal a form for recording transactions in chronological order

Journalizing recording transactions in a journal

L

Last-in, first-out inventory costing method using the price of merchandise purchased last to calculate the cost of merchandise sold first

Ledger a group of accounts

Letter of credit a letter issued by a bank guaranteeing that a named individual or business will be paid a specified amount, provided stated conditions are met

Liability an amount owed by a business

Lifo see *Last-in, first-out inventory costing method*

Liquidation of a partnership the process of paying a partnership's liabilities and distributing remaining assets to the partners

List price a business's printed or catalog price

Long-term assets see *Plant assets*

Long-term liabilities liabilities owed for more than a year

Loss on plant assets the loss that results when a plant asset is sold for less than book value
Lower of cost or market inventory costing method using the lower of cost or market price to calculate the cost of ending merchandise inventory

M

MACRS see *Modified Accelerated Cost Recovery System*

Maker of a note the person or business who signs a note and thus promises to make payment

Management advisory services management advice provided to an organization by a private accountant

Managerial accounting the analysis, measurement, and interpretation of financial accounting information

Marginal income see *Contribution margin*

Market value the price at which a share of stock may be sold on the stock market

Markup the amount added to the cost of merchandise to establish the selling price

Materials ledger a ledger containing all records of materials

Maturity date of a note the date a note is due

Maturity value the amount that is due on the maturity date of a note

Medicare tax a federal tax paid for hospital insurance

Memorandum a form on which a brief message is written describing a transaction

Merchandise goods that a merchandising business purchases to sell

Merchandise inventory the amount of goods on hand for sale to customers

Merchandise inventory turnover ratio the number of times the average amount of merchandise inventory is sold during a specific period of time

Merchandising business a business that purchases and sells goods

Modified Accelerated Cost Recovery System a depreciation method required by the Internal Revenue Service to be used for income tax calculation purposes for most plant assets placed in service after 1986

Mutual agency the right of all partners to contract for a partnership

N

Net income the difference between total revenue and total expenses when total revenue is greater

Net loss the difference between total revenue and total expenses when total expenses is greater

Net pay the total earnings paid to an employee after payroll taxes and other deductions

Net purchases total purchases less purchases discount and purchases returns and allowances

Net sales total sales less sales discount and sales returns and allowances

No-par-value stock a share of stock that has no authorized value printed on the stock certificate

Nominal accounts see *Temporary accounts*

Nonprofit organization see *Not-for-profit organization*

Normal balance the side of the account that is increased

Not-for-profit organization an organization providing goods or services with neither a conscious motive nor expectation of earning a profit

Note see *Notes payable*

Notes payable promissory notes signed by a business and given to a creditor

Notes receivable promissory notes that a business accepts from customers

Number of a note the number assigned to identify a specific note

O

Opening an account writing an account title and number on the heading of an account

Operating activities the cash receipts and payments necessary to operate a business on a day-to-day basis

Operating budget a plan of current expenditures and the proposed means of financing those expenditures

Organization costs fees and other expenses of organizing a corporation

Other revenue and expenses budget schedule budgeted revenue and expenses from activities other than normal operations

Overapplied overhead the amount by which applied factory overhead is more than actual factory overhead

Overhead see *Factory overhead*

Owner's equity the amount remaining after the value of all liabilities is subtracted from the value of all assets

Owners' equity statement a financial statement that summarizes the changes in owners' equity during a fiscal period

P

Par value a value assigned to a share of stock and printed on the stock certificate

Par-value stock a share of stock that has an authorized value printed on the stock certificate

Partner each member of a partnership

Partnership a business in which two or more persons combine their assets and skills

Partnership agreement a written agreement setting forth the conditions under which a partnership is to operate

Pay period the period covered by a salary payment

Payee of a note the person or business to whom the amount of a note is payable

Payroll the total amount earned by all employees for a pay period

Payroll register a business form used to record payroll information

Payroll taxes taxes based on the payroll of a business

Performance report a report showing a comparison of projected and actual amounts for a specific period of time

Periodic inventory a merchandise inventory determined by counting, weighing, or measuring items of merchandise on hand

Permanent accounts accounts used to accumulate information from one fiscal period to the next

Perpetual inventory a merchandise inventory determined by keeping a continuous record of increases, decreases, and balance on hand

Personal financial planning assisting individuals in managing their personal investments

Personal property all property not classified as real property

Petty cash an amount of cash kept on hand and used for making small payments

Petty cash slip a form showing proof of a petty cash payment

Physical inventory see *Periodic inventory*

Plant asset record an accounting form on which a business records information about each plant asset

Plant assets assets that will be used for a number of years in the operation of a business

Post-closing trial balance a trial balance prepared after the closing entries are posted

Postdated check a check with a future date on it

Posting transferring information from a journal entry to a ledger account

Preferred stock stock that gives stockholders preference in earnings and other rights

Prepaid expenses expenses paid in one fiscal period but not reported as expenses until a later fiscal period

Price-earnings ratio the relationship between the market value per share and earnings per share of a stock

Principal of a note the original amount of a note; sometimes referred to as *face amount of a note*

Production-unit method of depreciation calculating estimated annual depreciation expense based on the amount of production expected from a plant asset

Promissory note a written and signed promise to pay a sum of money at a specified time

Proprietorship a business owned by one person

Proving cash determining that the amount of cash agrees with the accounting records

Purchase invoice an invoice used as a source document for recording a purchase on account transaction

Purchase order a completed form authorizing a seller to deliver goods with payment to be made later

Purchases allowance credit allowed for part of the purchase price of merchandise that is not returned, resulting in a decrease in the customer's accounts payable

Purchases budget schedule a statement prepared to show the projected amount of purchases that will be required during a budget period

Purchases discount a cash discount on purchases taken by a customer

Purchases journal a special journal used to record only purchases of merchandise on account

Purchases return credit allowed for the purchase price of returned merchandise, resulting in a decrease in the customer's accounts payable

Q

Quick assets those current assets that are cash or that can be quickly turned into cash

R

Rate earned on average stockholders' equity the relationship between net income and average stockholders' equity

Rate earned on average total assets the relationship between net income and average total assets

Rate earned on net sales the rate found by dividing net income after federal income tax by net sales

Ratio a comparison between two numbers showing how many times one number exceeds the other

Real accounts see *Permanent accounts*

Real estate see *Real property*

Real property land and anything attached to the land

Realization cash received from the sale of assets during liquidation of a partnership

Receipt a business form giving written acknowledgement for cash received

Residual value see *Estimated salvage value*

Responsibility accounting assigning control of business revenues, costs, and expenses as a responsibility of a specific manager

Responsibility statements financial statements reporting revenue, costs, and direct expenses under a specific department's control

Restrictive endorsement an endorsement restricting further transfer of a check's ownership

Retail merchandising business a merchandising business that sells to those who use or consume the goods

Retail method of estimating inventory estimating inventory by using a percentage based on both cost and retail prices

Retained earnings an amount earned by a corporation and not yet distributed to stockholders

Retiring a bond issue paying the amounts owed to bondholders for a bond issue

Revenue an increase in owner's equity resulting from the operation of a business

Reversing entry an entry made at the beginning of one fiscal period to reverse an adjusting entry made in the previous fiscal period

S

Salary the money paid for employee services

Sale on account a sale for which cash will be received at a later date

Sales allowance credit allowed a customer for part of the sales price of merchandise that is not returned, resulting in a decrease in the vendor's accounts receivable

Sales budget schedule a statement that shows the projected net sales for a budget period

Sales discount a cash discount on sales

Sales invoice an invoice used as a source document for recording a sale on account

Sales journal a special journal used to record only sales of merchandise on account

Sales mix relative distribution of sales among various products

Sales return credit allowed a customer for the sales price of returned merchandise, resulting in a decrease in the vendor's accounts receivable

Sales slip see *Sales invoice*

Sales tax a tax on a sale of merchandise or services

Salvage value see *Estimated salvage value*

Schedule of accounts payable a listing of vendor accounts, account balances, and total amount due all vendors

Schedule of accounts receivable a listing of customer accounts, account balances, and total amount due from all customers

Scrap value see *Estimated salvage value*

Selling expenses budget schedule a statement prepared to show projected expenditures related directly to the selling operations

Serial bonds portions of a bond issue that mature on different dates

Service business a business that performs an activity for a fee

Share of stock each unit of ownership in a corporation

Sight draft a draft payable on sight when the holder presents it for payment

Social security tax a federal tax paid for old-age, survivors, and disability insurance

Sole proprietorship see *Proprietorship*

Source document a business paper from which information is obtained for a journal entry

Special amount column a journal amount column headed with an account title

Special endorsement an endorsement indicating a new owner of a check

Special journal a journal used to record only one kind of transaction

State unemployment tax a state tax used to pay benefits to unemployed workers

Stated-value stock no-par-value stock that is assigned a value by a corporation

Statement of cash flows a statement that summarizes cash receipts and cash payments resulting from business activities during a fiscal period

Statement of cost of goods manufactured a statement showing details about the cost of finished goods

Statement of stockholders' equity a financial statement that shows changes in a corporation's ownership for a fiscal period

Stock certificate written evidence of the number of shares each stockholder owns in a corporation

Stock ledger a file of stock records for all merchandise on hand

Stock record a form used to show the kind of merchandise, quantity received, quantity sold, and balance on hand

Stockholder an owner of one or more shares of a corporation

Stockholders' equity value of the owners' equity in a corporation

Straight-line method of depreciation charging an equal amount of depreciation expense for a plant asset in each year of useful life

Subscribing for capital stock entering into an agreement with a corporation to buy capital stock and pay at a later date

Subsidiary ledger a ledger that is summarized in a single general ledger account

Sum-of-the-years-digits method of depreciation using fractions based on years of a plant asset's useful life

Supplementary report see *Supporting schedule*

Supporting schedule a report prepared to give details about an item on a principal financial statement

T

T account an accounting device used to analyze transactions

Taking an inventory see *Periodic inventory*

Tax accounting the preparation of tax returns as well as tax planning

Tax base the maximum amount of earnings on which a tax is calculated

Tax levy authorized action taken by a governmental organization to collect taxes by legal authority

Temporary accounts accounts used to accumulate information until it is transferred to the owner's capital account

Term bonds bonds that all mature on the same date

Terms of sale an agreement between a buyer and a seller about payment for merchandise

Time draft a draft that is payable at a fixed or determinable future time after it is accepted

Time of a note the days, months, or years from the date of signing until a note is to be paid

Total costs all costs for a specific period of time

Total earnings the total pay due for a pay period before deductions
Trade acceptance a form signed by a buyer at the time of a sale of merchandise in which the buyer promises to pay the seller a specified sum of money, usually at a stated time in the future
Trade discount a reduction in the list price granted to customers
Transaction a business activity that changes assets, liabilities, or owner's equity
Treasury stock a corporation's own stock that has been issued and reacquired
Trend analysis a comparison of the relationship between one item on a financial statement and the same item on a previous fiscal period's financial statement
Trial balance a proof of the equality of debits and credits in a general ledger
Trustee a person or institution, usually a bank, who is given legal authorization to administer property for the benefit of property owners

U

Uncollectible accounts accounts receivable that cannot be collected
Underapplied overhead the amount by which applied factory overhead is less than actual factory overhead
Unearned revenue revenue received in one fiscal period but not earned until the next fiscal period
Unit cost an amount spent for one of a specific product or service

V

Variable costs total costs that change in direct proportion to a change in the number of units
Vendor a business from which merchandise is purchased or supplies or other assets are bought
Vertical analysis see *Component percentage*
Voucher a business form used to show an authorized person's approval for a cash payment
Voucher check a check with space for writing details about a cash payment
Voucher jacket see *Voucher*
Voucher register a journal used to record vouchers
Voucher system a set of procedures for controlling cash payments by preparing and approving vouchers before payments are made

W

Weighted-average inventory costing method using the average cost of beginning inventory plus merchandise purchased during a fiscal period to calculate the cost of merchandise sold
Wholesale merchandising business a business that buys and resells merchandise to retail merchandising businesses
Withdrawals assets taken out of a business for the owner's personal use
Withholding allowance a deduction from total earnings for each person legally supported by a taxpayer, including the employee
Work in process products that are being manufactured but are not yet complete
Work sheet a columnar accounting form used to summarize the general ledger information needed to prepare financial statements
Working capital the amount of total current assets less total current liabilities

Writing off an account canceling the balance of a customer account because the customer does not pay