National Student Nurses Association

GLOSSARY OF ACCOUNTING TERMS

A

ACCOUNT AGING usually refers to the methods of tracking past due accounts in accounts receivable based on the dates the charges were incurred. Account aging can also be used in accounts payable, to a lesser degree, to monitor payment history to suppliers.
ACCOUNT ANALYSIS is a way to measure cost behavior. It selects a volume-related cost driver and classifies each account from the accounting records as a fixed or variable cost. The cost accountant then looks at each cost account balance and estimates either the variable cost per unit of cost driver activity or the periodic fixed cost.
ACCOUNTING CONCEPTS are the assumptions underlying the preparation of financial statements, i.e., the basic assumptions of going concern, accruals, consistency and prudence.
ACCOUNTING ENTITY ASSUMPTION states that a business is a separate legal entity from the owner. In the accounts the business' monetary transactions are recorded only.
ACCOUNTING EQUATION is a mathematical expression used to describe the relationship between the assets, liabilities and owner's equity of the business model. The basic accounting equation states that assets equal liabilities and owner's equity, but can be modified by operations applied to both sides of the equation, e.g., assets minus liabilities equal owner's equity.
ACCOUNTS PAYABLE is open accounts (bills) and note obligations due to external vendors.
ACCOUNT RECEIVABLE is a current asset representing money due for services (invoices) performed or merchandise sold on credit.
ACCRUAL BASIS OF ACCOUNTING is wherein revenue and expenses are recorded in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period. This is the accounting basis that generally is required to be used in order to conform to generally accepted accounting principles (GAAP) in preparing financial statements for external users.
ACCRUED ASSETS are assets from revenues earned but not yet received (a receivable).
ACCRUED EXPENSES are expenses incurred during an accounting period for which payment is postponed.
ACCRUED INCOME is income earned during a fiscal period but not paid by the end of the period.
ACCRUED LIABILITY are liabilities which are incurred, but for which payment is not yet made, during a given accounting period. Some examples in a manufacturing environment would be: wages, taxes, suppliers/vendors, etc.
ACCUMULATED AMORTIZATION is the cumulative charges against the intangible assets of a company over the expected useful life of the assets.
ACCUMULATED DEPRECIATION is the cumulative charges against the fixed assets of a company for wear and tear or obsolescence.
ADJUSTING ENTRIES are special accounting entries that must be made when you close the books at the end of an accounting period. Adjusting entries are necessary to update your accounts for items that are not recorded in your daily transactions.

ASSET is anything owned by an individual or a business, which has commercial or exchange value. Assets may consist of specific property or claims against others, in contrast to obligations due others. (See also Liabilities).

AUDIT is the inspection of the accounting records and procedures of a business, government unit, or other reporting entity by a trained accountant for the purpose of verifying the accuracy and completeness of the records. It could be conducted by a member of the organization (internal audit) or by an outsider (independent audit). A CPA audit determines the overall validity of financial statements. A tax audit (IRS in the U.S.) determines whether the appropriate tax was paid. An internal audit generally determines whether the company's procedures are followed and whether embezzlement or other illegal activity occurred.
AUDIT STRATEGY is a game plan to attack audit issues before they are raised. Reasons and justifications for all positions must be understood and the foundation laid for taking the position.

B

BAD DEBT is an open account balance or loan receivable that has proven to be uncollectible and is written off.
BALANCE SHEET is an itemized statement that lists the total assets and the total liabilities of a given business to portray its net worth at a given moment of time. The amounts shown on a balance sheet are generally the historic cost of items and not their current values. It is a summary of all the accounts of a business. Usually prepared at the end of each financial year.
BANK RECONCILIATION is the verification of a bank statement balance and the depositor's checkbook balance.
BASIC TENETS OF ACCOUNTING are four in number: 1. Assets = Liabilities + Owner's Equity, 2. Debits = Credits, 3. Assets are on the left (debit side), and, 4. Liabilities and Equity are on the right (credit side).
BOOK COST, normally, is the cost at the time an asset is purchased or realized, i.e. the total amount paid to acquire an asset.
BOTTOM LINE, in accounting/finance, is specifically net income after taxes. In general, it is an expression as to the end results of something, e.g. the net worth of a corporation on a balance sheet, sales generated from a marketing campaign, or final decision on most any subject (Often said: "give me the bottom line").
BUDGET is an itemized listing of the amount of all estimated revenue which a given business anticipates receiving, along with a listing of the amount of all estimated costs and expenses that will be incurred in obtaining the above mentioned income during a given period of time. A budget is typically for one business cycle, such as a year, or for several cycles (such as a five year capital budget). Of the many kinds of budgets, a CASH BUDGET shows CASH FLOW, an EXPENSE BUDGET lists expected payments of money, and a CAPITAL BUDGET shows the anticipated payments for CAPITAL ASSETS. See FORECAST, PROJECTION.
BUDGET CONTROL is actions carried out according to a budget plan. Through the use of a budget as a standard, an organization ensures that managers are implementing its plans and objectives. Their actual performance is measured against budgeted performance.

C

CAPITAL, in economics, can mean: factories, machines, and other man-made inputs into a production process. In finance, capital is money and other property of a corporation or other enterprise used in transacting the business.
CAPITAL ASSET is a long-term asset that is not purchased or sold in the normal course of business. Generally, it includes fixed assets, e.g., land, buildings, furniture, equipment, fixtures and furniture.
CAPITAL BUDGET is the estimated amount planned to be expended for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods. The capital budget, however, is limited to the expenditures that will be made within the fiscal year comparable to the related operating budgets.
CAPITAL EXPENDITURE is the amount used during a particular period to acquire or improve long-term assets such as property, plant or equipment.
CAPITAL RESERVE is a fund set aside for specific purposes, thereby cannot be distributed for other uses. See also REVENUE RESERVE.
CAPITAL STOCK is the ownership shares of a corporation authorized by its articles of incorporation, including preferred and common stock.
CARRYING VALUE, also known as "book value", it is a company's total assets minus intangible assets and liabilities, such as debt.
CASH BASIS OF ACCOUNTING is the accounting basis in which revenue and expenses are recorded in the period they are actually received or expended in cash. Use of the cash basis generally is not considered to be in conformity with generally accepted accounting principles (GAAP) and is therefore used only in selected situations, such as for very small businesses and (when permitted) for income tax reporting. See also Accrual Basis.
CASH & EQUIVALENTS means all cash, marketplace securities, and other near-cash items. Excludes sinking funds.
CASH FLOW is earnings before depreciation and amortization.
CASH FLOW / CURRENT PORTION OF LONG TERM DEBT is a measure of the firms ability to meet its obligations with internally generated cash.
CASH FROM FINANCING is sum of all the individual financing activity cash flow line items.
CASH FROM INVESTING is the sum of all the individual investing activity cash flow line items.
CASH FLOW FROM OPERATIONS is the sum of all the individual operating activity cash flow line items, less cash realized from the sale of extraordinary items, e.g., fixed assets.
CERTIFIED FINANCIAL STATEMENTS are financial statements that have undergone a formal audit by a certified public accountant and usually contain statements of certification by the CPA.
CHARGEBACK, in the credit industry, occurs when a credit card processor “charges back” to the merchant the cost of returned items or incorrect orders that the customer claims were made to his or her credit card.
CHARGE OFF see BAD DEBT.

CHART OF ACCOUNTS is a list of ledger account names and associated numbers arranged in the order in which they normally appear in the financial statements. The Chart of Accounts are customarily arranged in the following order: Assets, Liabilities, Owners' Equity (Stockholders' Equity for a corporation), Revenue, and Expenses.
CHECK is a draft drawn against a bank, payable upon demand to the person/entity named upon the draft.
CLOSING ENTRY is a journal entry at the end of a period to transfer the net effect of revenue and expense items from the income statement to owners' equity.
COMPTROLLER is the misspelling of the word CONTROLLER caused by confusion in the root of the word in French and Latin. Comptroller is sometimes used within titles in the government, e.g. Comptroller of the Currency.
CONSUMER PRICE INDEX (CPI) is the measure of change in consumer prices as determined by a monthly survey by the U.S. Bureau of Labor Statistics. Among the CPI components are the costs of food, housing, transportation, and electricity. Also known as the cost-of-living index.
CONVERTIBLE BOND is a bond that can be converted to other securities under certain conditions.
COMPOUND INTEREST is interest calculated from the total of original principal plus accrued interest.
CONSERVATISM PRINCIPLE provides that accounting for a business should be fair and reasonable. Accountants are required in their work to make evaluations and estimates, to deliver opinions, and to select procedures. They should do so in a way that neither overstates nor understates the affairs of the business or the results of operation.
CONSISTENCY is using the same accounting procedures by an accounting entity from period to period. That means using similar measurement concepts and procedures for related items within the company’s financial statements for one period.
CONTINGENT LIABILITY is a liability that is dependent upon uncertain events that may occur in the future.
CONTROLLER is usually an experienced accountant who directs internal accounting processes and procedures, including cost accounting.
CONTINGENT LIABILITY, in corporate reports, are pending lawsuits, judgments under appeal, disputed claims, and the like, representing potential financial liability.
CORPORATION is a type of business organization chartered by a state and given many of the legal rights as a separate entity.
CORPORATION TAX is the tax payable by corporations.
COST ACCOUNTING is a managerial accounting activity designed to help managers identify, measure, and control operating costs.
COST-BENEFIT ANALYSIS is the method of measuring the benefits anticipated from a decision by determining the cost of the decision, then deciding whether the benefit outweighs the cost of that decision.
C.P.A. means Certified Public Accountant.
CREDIT, in accounting, is an accounting entry system that either decreases assets or increases liabilities.
CURRENT ASSETS are those assets of a company that are reasonably expected to be realized in cash, or sold, or consumed during the normal operating cycle of the business (usually one year). Such assets include cash, accounts receivable and money due usually

within one year, short-term investments, US government bonds, inventories, and prepaid expenses.

CURRENT LIABILITIES are liabilities to be paid within one year of the balance sheet date.

D

DBA (doing business as) is a legal entity (sole proprietorship, partnership, corporation) conducting business under any chosen name for which a business license has been issued.
DEBIT is a record of an indebtedness; specifically : an entry on the left-hand side of an account constituting an addition to an expense or asset account or a deduction from a revenue, net worth, or liability account.
DEFERRED, in accounting, is any account where the asset or liability is not realized until a future date, e.g. annuities, charges, taxes, income, etc. The deferred item may be carried, dependent on type of deferral, as either an asset or liability.
DEFERRED ASSET is an amount owed to an entity that is not expected to be received by that entity within one year from the date of the balance sheet.
DEFERRED REVENUE is a liability account used for deposits and other cash receipts prior to the completion of the sale.
DEFERRED TAX LIABILITIES have an effect of increasing future year's income tax payments, which indicates that they are accrued income taxes and meet definition of liabilities. Whereas deferred tax assets have an effect of decreasing future income tax payments, which indicates that they are prepaid income taxes and meet definition of assets.
DEFICIT is a debit balance in the Retained Earnings account resulting from accumulated losses.
DEPRECIATION is the amount of expense charged against earnings by a company to write off the cost of a plant or machine over its useful live, giving consideration to wear and tear, obsolescence, and salvage value. If the expense is assumed to be incurred in equal amounts in each business period over the life of the asset, the depreciation method used is straight line (SL). If the expense is assumed to be incurred in decreasing amounts in each business period over the life of the asset, the method used is said to be accelerated. Two commonly used variations of the accelerated method of depreciating an asset are the sum-of-years digits (SYD) and the double-declining balance (DDB) methods. Frequently, accelerated depreciation is chosen for a business' tax expense but straight line is chosen for its financial reporting purposes.
DEPRECIATION SCHEDULE is the statement, over time, as to the schedule (timing and amounts) of depreciation of any long-term asset. A depreciation schedule is used for any type of depreciation applicable, i.e., either straight line or accelerated depreciation. See
DIVIDEND is that portion of a corporation's earnings which is paid to the stockholders.
DOUBLE-ENTRY ACCOUNTING is a system of recording transactions in a way that maintains the equality of the accounting equation. The accounting technique records each transaction as both a credit and a debit. Double-entry bookkeeping (DEB) or accounting was developed during the fifteenth century and was first recorded in 1494 as a system by the Italian mathematician Luca Pacioli.

DUE DILIGENCE usually refers to an internal audit of a target firm by an acquiring firm.
DUN is when you importune (beg or are insistent upon) a debtor for payment: a dunning letter.
DUN & BRADSTREET (D&B) is a United States based for profit agency that furnishes subscribers with marketing statistics and the financial standings and credit ratings of businesses.

E

EARNED INCOME is that income realized by the provisioning of goods and services.
EQUITY is, normally, ownership or percentage of ownership in a company or items of value.
EQUITY CAPITAL is a form of financing where equity in a business is sold to private investors.

F

FACTORING is the practice of buying debt at a discount, e.g., if somebody owes you $10,000 payable within a year, a factoring lender may pay you $9,000 for the debt. You receive $9,000 cash quickly, but at the cost of the $1,000 discount.
FAIR MARKET VALUE is the price at which a willing seller will sell and a willing buyer will buy, in an arms- length transaction, when neither is under compulsion to sell
FEDERAL UNEMPLOYMENT TAX ACT (FUTA) is a U.S, federal law providing guidelines for the unemployment compensation system. A Federal tax is paid by all liable employers to fund the administration of Federal and State unemployment insurance programs and the extended benefits program. FUTA provides for payments of unemployment compensation to workers who have lost their jobs. Most employers pay both a federal and a state unemployment tax.
FICA (FEDERAL INSURANCE CONTRIBUTIONS ACT) is the U.S. law requiring U.S. employers to match the amount of Social Security tax deducted from an employee's paycheck.
FINANCIAL STATEMENT is a written report which quantitatively describes the financial health of a company. This includes an income statement and a balance sheet, and often also includes a cash flow statement. Financial statements are usually compiled on a quarterly and annual basis.
FINANCIAL VIABILITY is the ability of an entity to continue to achieve its operating objectives and fulfill its mission over the long term.
FIXED ASSET is a long-term tangible asset held for business use and not expected to be converted to cash in the current or upcoming fiscal year, such as manufacturing equipment, real estate and furniture. Sometimes also called plant.
FINANCIAL ANALYSIS is analysis of a company's financial statement, usually by accountants or financial analysts.
FISCAL YEAR is the declared accounting year for a company, but it is not necessarily in conformance to a calendar year (January through December). However, it does cover twelve months, 52 weeks, 365 days. For example, the U.S. government fiscal year ends September 30, i.e. October 1 through September 30 is their fiscal or accounting year.

FIXED ASSET is a long-term tangible asset that is not expected to be converted into cash in the current or upcoming fiscal year, e.g., buildings, real estate, production equipment, and furniture. Sometimes called PLANT. FIXED ASSETS are those assets of a permanent nature required for the normal conduct of a business, and which will not normally be converted into cash during the ensuring fiscal period. For example, furniture, fixtures, land, and buildings are all fixed assets. However, accounts receivable and inventory are not. Sometimes called PLANT.
FIXED ASSETS (NET) is all property, plant, leasehold improvements and equipment, net of accumulated depreciation or depletion.

G

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) is a recognized common set of accounting principles, standards, and procedures. GAAP is a combination of accepted methods of doing accounting and policy board set authoritative standards.
GENERALLY ACCEPTED AUDITING STANDARDS (GAAS), in the US, are the broad rules and guidelines set down by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA). In carrying out work for a client, a certified public accountant would apply the generally accepted accounting principles (GAAP); if they fail to do so, they can be held to be in violation of the AICPA's code of professional ethics.
GENERAL LEDGER is the accounting records that show all the financial statement accounts of a business.
GOODWILL is that intangible possession which enables a business to continue to earn a profit that is in excess of the normal or basic rate of profit earned by other businesses of similar type. The goodwill of a business may be due to a particularly favorable location, its reputation in the community, or the quality of its employer and employees. The evidence that goodwill exists is the proven ability to earn excess profits. Goodwill is created on the books of a newly purchased company to the extent that the purchase price of the company is greater than the value of its net tangible assets.

H

HISTORICAL COST ACCOUNTING is an accounting principle requiring all financial statement items to be based on original cost. It is usually based upon the dollar amount originally exchanged in an arm's-length transaction; an amount assumed to reflect the fair market value of an item at the transaction date.

I

INCOME is money received by a person or organization because of effort (work), or from return on investments.
INCOME STATEMENT see PROFIT AND LOSS STATEMENT.
INFLATION is an increase in the general price level of goods and services; alternatively, a decrease in the purchasing power of the dollar or other currency.

INFLATION ACCOUNTING is a system of accounting which, unlike historical cost accounting, takes into account changing prices.
INTANGIBLE ASSET is an asset that is not physical in nature. Examples are things like copyrights, patents, intellectual property, or goodwill. An intangible asset is the opposite of tangible asset.
INVENTORY for companies: includes raw materials, items available for sale or in the process of being made ready for sale (work in process); for securities: it is securities bought and held by a broker or dealer for resale.
INVESTMENT is the purchase of real property, stocks, bonds, collectible annuities, mutual fund shares, etc, with the expectation of realizing income or capital gain, or both, in the future. Investment is longer term and usually less risky than speculation.
INVOICE is a detailed list of goods shipped or services rendered, with an account of all costs; an itemized bill.

J

JOURNAL, in accounting transactions, is where transactions are recorded as they occur.
JOURNAL ENTRY is the beginning of the accounting cycle. Journal entries are the logging of business transactions and their monetary value into the t-accounts of the accounting journal as either debits or credits. Journal entries are usually backed up with a piece of paper; a receipt, a bill, an invoice, or some other direct record of the transaction; making them easy to record and to maintain traceability for each transaction.

L

LAND, in terms of accounting, is the value of real estate less the value of improvements, e.g. buildings.
LEASEHOLD IMPROVEMENTS are those repairs and / or improvements, usually prior to occupancy, made to a leased facility by the lessee. The cost is then added to fixed assets and amortized over the life of the lease.
LEDGER, in accounting transactions, is the book of accounts.
LEGAL ENTITY is a person or organization that has the legal standing to enter into contracts and may be sued for failure to perform as agreed in the contract, e.g., a child under legal age is not a legal entity, while a corporation is a legal entity since it is a person in the eyes of the law.
LIABILITY, in accounting, is a loan, expense, or any other form of claim on the assets of an entity that must be paid or otherwise honored by that entity.
LIFO (last-in, first-out) is an inventory cost flow whereby the last goods purchased are assumed to be the first goods sold so that the ending inventory consists of the first goods purchased.
LONG-TERM LIABILITIES are liabilities of a business that are due in more than one year. An example of a long-term liability would be a mortgage payable.

M

MAINTENANCE is the activity involved in maintaining something in good working order. May include replacement of signifcant portions of the item(s) being maintained.
MANAGERIAL ACCOUNTING is a system using financial accounting records as basic data to enable better business decisions in the areas of planning and control.
MANAGEMENT CONTROL SYSTEM is essentially a strategic tool for holding managers accountable and responsible for their performance. Existence of such a system also provides feedback for managers to know how they perform, in which direction the organization is heading, and what type of course correction may be required to stay on course.
MANAGEMENT INFORMATION SYSTEM (MIS) is a well-developed data management system that provides uniform organizational information from all areas of the entity within a database. Information within the database is manipulated to help management reach accurate and rapid organizational decisions.
MARKET VALUE, in general, is the price at which buyers and sellers trade similar items in an open marketplace. In the absence of a market price, it is the estimated highest price a buyer would be warranted in paying and a seller justified in accepting, provided both parties were fully informed and acted intelligently and voluntarily. See also OPEN
MARKUP is the amount added to the cost of goods in order to produce the desired profit.
MATCHING, in accounting, is the matching of invoices to purchase orders and delivery notes prior to payment.
MATERIALITY is the importance of information or an event that influences a company's price of stock.
MATERIALITY PRINICIPLE requires accountants to use generally accepted accounting principles except when to do so would be expensive or difficult, and where it makes no real difference if the rules are ignored. If a rule is temporarily ignored, the net income of the company must not be significantly affected, nor should the reader's ability to judge the financial statements be impaired.

N

NEGOTIABLE INSTRUMENT is an unconditional order or promise to pay an amount of money; it is easily transferable from one person to another, e.g. a check, promissory note, bearer bond, and draft (bill of exchange).
NET, in general, is the figure remaining after all relevant deductions have been made from the starting, or gross, amount.
NET INCOME is the difference between a businesses total revenue and its total expenses. This caption and amount is usually found at the bottom of a company's Profit and Loss statement. Same as Net Profit.
NET OPERATING INCOME (NOI) is income after deducting for operating expenses but before deducting for income taxes and interest.
NET RECEIVABLES are a company's accounts receivable (money owed to the company) minus any provisions for bad debts.
NET REVENUE is GROSS REVENUE less discounts, allowances, sales returns, freight out, etc.
NET SALES is gross sales less discounts, allowances, sales returns, freight out, etc.

NET 10, 30, etc. usually refers to payment terms on an invoice, e.g. 'Net 10 2%, 30', would mean that if a purchaser pays the invoice within 10 days a 2% reduction in invoice amount may be enjoyed, but full invoice amount is due within 30 days.
NET WORTH is the difference between Total Liabilities and Total Assets. Minority interest is included here.
NON-CURRENT ASSETS includes PPE (property, plant and equipment) as opposed to current assets which includes cash, cash equivalents (e.g. securities, short-term notes, etc.), inventory and accounts receivable.
NOTES TO THE FINANCIAL STATEMENTS is a detailed set of notes immediately following the financial statements contained in the annual report that expands upon and/or explains in some depth the information contained in the financial statements.

O

OPERATING EXPENSES is all selling and general & administrative expenses. Includes depreciation, but not interest expense.
OPERATING INCOME is revenue less cost of goods sold and related operating expenses that are applied to the day-to-day operating activities of the company. It excludes financial related items (i.e., interest income, dividend income, and interest expense), extraordinary items, and taxes.
OPERATING PROFIT is Gross Profit minus Operating Expenses.
OPPORTUNITY COST is widely used in business planning in evaluating capital investment. A company measures the projected return against the anticipated return it would receive on a highest yielding alternative investment that contains a similar risk profile.
OVERHEAD is the costs associated with providing and maintaining a manufacturing or working environment. For example: renting the building, heating and lighting the work area, supervision costs and maintenance of the facilities. Includes indirect labor and indirect material.
OWNERS EQUITY see SHAREHOLDER'S EQUITY

P

PAID-IN-CAPITAL is capital received from investors for stock, equal to capital stock plus paid-in capital, NOT that capital received from earnings or donations. Also called contributed capital.
P&L see PROFIT AND LOSS STATEMENT.
PETTY CASH, normally, is an account and location where tangible cash is stored for usage in purchasing or the reimbursing of inexpensive out-of-pocket expenditures.
PREPAID EXPENSES are amounts that are paid in advance to a vender or creditor for goods and services. Typically, insurance premiums are paid in advance of the coverage contained in the policy. Prepaid Expenses is a Current Asset for your business. This is because you have paid for something and someone owes you the service or the goods for which you prepaid.
PRESENT VALUE is the current value of one or more future cash payments, discounted at some appropriate interest rate.

PRODUCTIVITY is a measured relationship of the quantity and quality of units produced and the labor required per unit of time.
PROFITABILITY is company's ability to generate revenues in excess of the costs incurred in producing those revenues.
PROFIT AND LOSS STATEMENT (P&L) is also known as an income statement. It shows your business revenue and expenses for a specific period of time. The difference between the total revenue and the total expense is your business net income. A key element of this statement, and one that distinguishes it from a balance sheet, is that the amounts shown on the statement represent transactions over a period of time while the items represented on the balance sheet show information as of a specific date (or point in time).
PRO-FORMA is to provide in advance to a prescribed form or to describe items <pro forma financial statement or pro forma invoice.
PROJECTION is an approximation of future events. Usually a projection is made by extrapolating known information into the future period, considering events that could affect the outcome. See FORECAST, BUDGET.
PRUDENCE CONCEPT, otherwise known as conservatism, says that whenever there are alternative procedures or values, the accountant will choose the one that results in a lower profit, a lower asset value and a higher liability value.
PURCHASE ORDER is a written authorization for a vendor to supply goods or services at a specified price over a specified time period. Acceptance of the purchase order constitutes a purchase contract and is legally binding on all parties.

R

RATE OF RETURN is the gain or loss for a security in a particular period, consisting of income plus capital gains relative to investment, usually quoted as a percentage. The real rate of return is the annual return realized on that investment, adjusted for changes in the price due to inflation.
REALIZATION PRINCIPLE is that revenue should be recognized at the time goods is sold and services are rendered.
REALIZED INCOME is the return or profit that is actually earned or collected over a given time period.
REAL PROPERTY is land and / or any permanent structures attached to it; to include saleable natural resources, e.g., vacant land, buildings, farms, oil, gas, timber, etc.
REIMBURSEMENT is to pay back to someone, e.g. to pay an employee for travel expenses that was paid by the employee out of that employees own personal funds.
RELATED PARTY TRANSACTION is an interaction between two parties, one of whom can exercise control or significant influence over the operating policies of the other. A special relationship may exist, e.g. a corporation and a major shareholder.
RESTRICTED ASSETS are assets / resources which are restricted by legal or contractual requirements for use under specific circumstances or purposes.
RESULTS FROM OPERATION is a synonym for the financial statement of a corporation: P&L, balance sheet, statement of cash flows, and sometimes a statement of owners equity. See FINANCIAL STATEMENT.

RETAINED EARNINGS are profits of the business that have not been paid out to the owners as of the balance sheet date. The earnings have been "retained" for use in the business (Retained Earnings is an account in the equity section of the balance sheet). It is comprised of the balance, either debit or credit, of appropriated or unappropriated earnings of an entity that are retained in the business. NOTE: Appropriated earnings are not available for dividends, but may be used to reduce a deficit or may be transferred to stated capital. Other appropriations of profits require a vote of the shareholders.
RETURN ON ASSETS (ROA) shows the after tax earnings of assets. Return on assets is an indicator of how profitable a company is. Use this ratio annually to compare a business' performance to the industry norms: The higher the ratio the greater the return on assets. However this has to be balanced against such factors as risk, sustainability and reinvestment in the business through development costs.
RETURN OF CAPITAL is the distribution of cash that resulted from tax savings on depreciation, sale of a capital asset or securities, or any other sources unrelated to retained earnings.
RETURN ON INVESTMENT (ROI) is a profitability measure that evaluates the performance of a business. ROI can be calculated in various ways. The most common method is Net Income as a percentage of Net Book Value (total assets minus intangible assets and liabilities).
REVENUE RECOGNITION is the process of recording revenue, under one of the various acceptable methods, in the accounting period. In each period of revenue recognition, all related expenses should be matched to revenue. The most common method of recognizing revenue is at the time of sale or provisioning of service.
REVENUE RESERVE is a fund that is not a CAPITAL RESERVE, i.e. the funds are distributable.
REVERSING ENTRY is a debit or credit bookkeeping entry made to reverse a prior bookkeeping entry.
REVIEW is an accounting service providing some assurance to the Board of Directors and interested parties as to the reliability of financial data without the CPA conducting an examination in accordance with generally accepted accounting standards. The AICPA auditing standards board formulates review standards for public companies while the AICPA Accounting and Review Services Committee provides review standards for non-public businesses.
ROYALTY is the share of the product, or of the proceeds realized from the product, reserved by an owner for permitting another entity to exploit and use that entity’s property, i.e. it is the rental paid to the original owner of property based upon a percentage of sales, profit or production. Royalty can involve literary works, inventions, and other intellectual property, as well as mining leases and conveyances.

S

SECURED LIABILITY is a liability that has a degree of protection towards satisfaction if unpaid because the debtor has pledged personal/company assets towards satisfaction of that liability; e.g., a property mortgage is a secured liability because the mortgage holder has a guarantee through a lien on the property.

SECURITIES FRAUD, in most cases, is nothing more than stealing. Federal and state securities laws contain more technical definitions. But when investors are enticed into purchasing security instruments based on untrue data, statements or promises, it is securities fraud.
SHAREHOLDER'S EQUITY is total assets minus total liabilities. It is the same as EQUITY, NET WORTH and stockholder's equity.
SMALL-CAP is a stock with a capitalization, meaning a total equity value, of less than $500 million.
SOLE PROPRIERTORSHIP is a business structure in which an individual and his/her company are considered a single entity for tax and liability purposes. A sole proprietorship is a company which is not registered with the state as a limited liability company or corporation. The owner does not pay income tax separately for the company, but he/she reports business income or losses on his/her individual income tax return. The owner is inseparable from the sole proprietorship, so he/she is liable for any business debts; also called proprietorship. The distinguishing characteristics of a sole proprietorship include: only one owner for the business (hence, "sole") and the business is unincorporated.
SOLVENCY is a company's long-term ability to meet all financial obligations.
SOURCE DOCUMENTS are the primary documents used when forwarding an argument or making a presentation of fact. Usually used as a direct reference as a source of empirical data, expert opinion or information. See SUPPORTING DOCUMENTS.
SPENDING LEVEL is the true expenditure or cash outlay of any entity in a given category or budgetary area.
SPREADSHEET is (1) A multi-column sheet of paper used for performing numeric work, especially accounting and business related weekly or monthly summaries. (2) A computer application program that supports a user in numeric manipulation, especially in column / row format.
STATE UNEMPLOYMENT TAX ACT (SUTA), in the U.S., is the same as FUTA except from an individual U.S. state in compliance to federal guidelines. See also FEDERAL UNEMPLOYMENT TAX ACT.
STATUTORY ACCOUNT is an involuntary account, which is created by law rather than by business need. An example of a statutory account would be taxes.
STRAIGHT-LINE DEPRECIATION METHOD allows an equal amount to be charged as depreciation for each year of the expected use of the asset. It is computed by dividing the adjusted basis of a property by the estimated number of years of remaining useful life.
STRATEGIC PLANNING is the activity of defining what you want to accomplish in your business and then identifying the path that will allow you to reach your goal in the most efficient and sensible manner.
SUBSIDIARY is a company whose voting stock is more that 50% owned by another company.
SUM-OF-THE-YEARS DIGITS (SYD) is the accelerated depreciation method in which a constant balance (cost minus salvage value) is multiplied by a declining depreciation rate.

T

T-ACCOUNT is the basis for journal entry in accounting. T-accounts have three basic elements. A title, a left side (debit side) and a right side (credit side). To make an entry in a t-account, put the currency (dollar, pound, etc.) amount on the appropriate side (debit or credit). There are five basic types of accounts: assets, liabilities, equity, revenue and expenses. Assets, liabilities and equity are the balance sheet accounts.
TAXABLE INCOME is that income that is reported to the government for the purposes of calculating income taxes. Taxable income normally is not aligned with the financial income reported within financial statements. See FINANCIAL INCOME.
THREE PERCENT (3%) RULE is a rule used in vesting pension plan benefits. The participant's accrued benefit must be at least equal to 3% of the participant's normal projected retirement benefit for each year of participation, with a maximum of 100% after 33 1/3 years of participation.
TREASURY CERTIFICATE is a U. S. Treasury security usually issued at par with a specified rate of interest and a maturity of one year or less. It is issued payable to the bearer and sold in minimum amounts of $l0,000.
TREASURY STOCK is stock reacquired by the issuing company and available for retirement or resale. It is issued but not outstanding. It cannot be voted and it pays or accrues no dividends. It is not included in any of the ratios measuring values per common share.
TRIAL BALANCE is a listing of the accounts in your general ledger and their balances as of a specified date. A trial balance is usually prepared at the end of an accounting period and is used to see if additional adjustments are required to any of the balances. Since the basic accounting system relies on double-entry bookkeeping, a trial balance will have the same total debit amount as it has total credit amounts.

U

UNEARNED REVENUE / INCOME represents money that you have received in advance of providing the goods or services to your customer. Unearned revenue is a liability of your business until you provide the goods or services you agreed to provide to the customer.
UNREALIZED INCOME (paper profit) is profit which has been made but not yet realized or collected through a transaction, such as a stock which has risen in value but is still being held. Also called unrealized gain or unrealized profit or paper gain or book profit.
UNREALIZED LOSS is a term that commonly refers to the write-down of an investment portfolio resulting from applying the lower of cost or market value on an aggregate basis. On a short-term portfolio, the unrealized loss is shown on the income statement. On a long-term portfolio, the unrealized loss is presented as a separate item in the stockholder's equity section of the balance sheet.
UNRESTRICTED ASSETS are assets / resources which are not restricted for use by legal or contractual requirements and may be used for any purpose.

V

VARIABLE COSTS are those costs associated with production that changes directly with the amount of production, e.g.,the direct material or labor required to complete the build or manufacturing of a product.
VARIABLE EXPENSES are those business expenses that usually fluctuate dependent upon production or sales volume. Contrast with FIXED EXPENSES.
VARIANCE, in accounting, is the difference between a projected number and the actual number, e.g. 1. a budget variance is spending either more or less from the amount that was budgeted; and 2. a cost variance is the difference between actual cost and standard cost in the categories of direct material, direct labor, and direct overhead.
VESTED refers to having an absolute right or title, when previously the holder of the right or title only had an expectation. Example: after 20 years of employment Larry Loyal's pension rights are now vested.
VOUCHER is a. a piece of substantiating evidence; a proof; or, b. a written record of expenditure, disbursement, or completed transaction; or, c. a written authorization or certificate, especially one exchangeable for cash or representing a credit against future expenditures.

W

WARRANTY is a guarantee given to a buyer from a seller that the goods or services purchased will perform as promised, or a refund will be given, repair will be done at no charge, or an exchange made.
WEIGHTED AVERAGE is one in which different data in the data set are given different "weights." Varying subjective assumptions are derived for determining the level of importance for each data category. For example, many teachers will use a "weighted average" when calculating a student's grade in a course. A teacher might determine the final grade for the course by calculating that the test average is 60% of the grade, quiz average is 30% of the grade, and a single project is 10% of the grade.
WITHHOLDING TAX usually refers to those taxes that are withheld from an employee’s compensation to account for that individuals tax liability on his/her compensation.
WORKER’S COMPENSATION is, usually, a state or privately managed insurance fund in the United States that reimburses employees for injuries suffered on the job.
WRITE-OFF is to decrease the value of an item, e.g., a tax write-off decreases tax liability, a vehicle involved in an accident can be declared a write-off if the cost to repair is in excess of the value of the vehicle.

Y

YIELD is the annual return on an investment, expressed as a percentage. The yield to redemption or maturity (the same thing) combines the running yield with the "pull to redemption"; thus a bond which has a 10% coupon and exactly one year of remaining life will sell at $98.2% when interest rates are at 12.0%, that 12.0% being composed of 10.2% running yield and 1.8% pull to redemption ($100.0 - 98.2%).

Z

ZERO COUPON BONDS are bonds priced at a large discount from face value. The bonds mature at full face value so the difference between the original issue price and the face value represents interest income. The issuer of the zero coupon bond saves on cash flow since the interest isn't paid out until the end of the bond holding period.
ZERO COUPON CONVERTIBLE DEBENTURE/SECURITY is a zero coupon bond that is convertible into the common stock of the issuing company after the common stock reaches a certain price.