GLOSSARY

absolute amounts Dollar totals reported in accounts on financial reports that can be misleading because they make no reference to the relative size of the company being analyzed. *p. 321*

accelerated depreciation methods Depreciation methods that recognize depreciation expense more rapidly in the early stages of an asset's life than in the later stages of its life. *p. 208*

account balance Difference between total debits and total credits in an account. *p. 661*

accounting Service-based profession that provides reliable and relevant financial information useful in making decisions. *p. 2*

accounting controls Procedures designed to safeguard assets and to ensure accuracy and reliability of the accounting records and reports.

accounting equation Expression of the relationship between the assets and the claims on those assets. *p. 12*

accounting event Economic occurrence that causes changes in an enterprise's assets, liabilities, or equity. *p. 13*

accounting period Span of time covered by the financial statements, normally one year, but may be a quarter, a month or some other time span. *p. 15*

account receivable Expected future cash receipt arising from permitting a customer to *buy now and pay later;* typically a relatively small balance due within a short time period. *p. 46*

accounts Records used for classifying and summarizing transaction data; subclassifications of financial statement elements. *p. 11*

accounts receivable turnover ratio Financial ratio that measures how fast accounts receivable are turned into cash; computed by dividing sales by accounts receivable.

accrual Recognition of events before exchanging cash. *p. 45*

accrual accounting Accounting system that recognizes expenses or revenues when they occur regardless of when cash is exchanged. *p. 45*

accrued expenses Expenses that are recognized before cash is paid. An example is accrued salaries expense. *p. 48*

accrued interest Interest revenue or expense that is recognized before cash has been exchanged. *p. 167*

accumulated conversion factors Factors used to convert a series of future cash inflows into their present value equivalent and that are applicable to cash inflows of equal amounts spread over equal interval time periods and that can be determined by computing the sum of the individual single factors used for each period. *p. 567*

accumulated depreciation Contra asset account that indicates the sum of all depreciation expense recognized for an asset since the date of acquisition. *p. 206*

acid-test ratio (quick ratio) Measure of immediate debt-paying ability; calculated by dividing very liquid assets (cash, receivables, and marketable securities) by current liabilities. *p. 326*

activities The actions taken by an organization to accomplish its mission. *p. 377*

activity base Factor that causes changes in variable cost; is usually some measure of volume when used to define cost behavior. *p. 406*

activity-based management (ABM) Management of the activities of an organization to add the greatest value by developing products that satisfy the needs of that organization's customers. *p. 377*

adjusting entry Entry that updates account balances prior to preparing financial statements. *p. 48*

administrative controls Procedures designed to evaluate performance and the degree of compliance with a firm's policies and public laws.

adverse opinion Opinion issued by a certified public accountant that means one or more departures from GAAP in a company's financial statements are so very material the auditors believe the financial statements do not fairly represent the company's status; contrast with *unqualified opinion. p. 141*

aging of accounts receivable Classifying each account receivable by the number of days it has been outstanding. The aging schedule is used to develop an estimate of the amount of the allowance for doubtful accounts. *p. 165*

AICPA (American Institute of Certified Public Accountants) National association that serves the educational and professional interests of members of the public accounting profession; membership is voluntary. *p. 137*

allocation Process of dividing a total cost into parts and apportioning the parts among the relevant cost objects. *p. 434*

allocation base Cost driver used as the basis for the allocation process. *p. 435*

allocation rate Factor used to allocate or assign costs to a cost object; determined by taking the total cost to be allocated and dividing it by the appropriate cost driver. *p. 435*

allowance for doubtful accounts Contra asset account that contains an amount equal to the accounts receivable that are expected to be uncollectible. *p. 158*

allowance method of accounting for uncollectible accounts Method of accounting for bad debts in which bad debts are estimated and expensed in the same period in which the corresponding sales are recognized. The receivables are reported in the financial statements at net realizable value (the amount expected to be collected in cash). *p. 158*

amortization Method of systematically allocating the costs of intangible assets to expense over their useful lives; also term for converting the discount on a note or a bond to interest expense over a designated period. *pp. 202, 248*

amortizing See *amortization.*

annual report Document in which an organization provides information to stockholders, usually on an annual basis. *p. 25*

annuity Series of equal payments made over a specified number of periods. *p. 567*

appropriated retained earnings Retained earnings restricted by the board of directors for a specific purpose (e.g., to repay debt or for future expansion); although a part of total retained earnings, not available for distribution as dividends. *p. 301*

articles of incorporation Items on an application filed with a state agency for the formation of a corporation; contains such information as the corporation's name, its purpose, its location, its expected life, provisions for its capital stock, and a list of the members of its board of directors. *p. 288*

articulation Characteristic of financial statements that means they are interrelated. For example, the amount of net income reported on the income statement is added to beginning retained earnings as a component in calculating the ending retained earnings balance reported on the statement of changes in stockholders' equity. *p. 18*

asset exchange transaction A transaction that decreases one asset while increasing another asset so that total assets do not change; for example, the purchase of land with cash. *pp. 14, 46*

assets Economic resources used by a business to produce revenue. *p. 4*

asset source transaction Transaction that increases an asset and a claim on assets; three types of asset source transactions are acquisitions from owners (equity), borrowings from creditors (liabilities), or earnings from operations (revenues). *p. 13*

asset turnover ratio The amount of net income divided by average total assets. *p. 332*

asset use transaction Transaction that decreases an asset and a claim on assets; the three types are distributions (transfers to owners), liability payments (to creditors), or expenses (used to operate the business). *pp. 25, 47*

audits Detailed examination of some aspect of a company's accounting records or operating procedures in order to report the results to interested parties. *p. 139*

authority manual A document that outlines the chain of command for authority and responsibility. The authority manual provides guidelines for specific positions such as personnel officer as well as general authority such as all vice presidents are authorized to spend up to a designated limit. *p. 127*

authorized stock Number of shares that the corporation is approved by the state to issue. *p. 293*

average cost The total cost of making products divided by the total number of products made. *p. 363*

average number of days to collect accounts receivable Length of the average collection period for accounts receivable; computed by dividing 365 by the accounts receivable turnover ratio. *p. 328*

average number of days to sell inventory Financial ratio that measures the average number of days that inventory stays in stock before being sold. *p. 328*

avoidable costs Future costs that can be avoided by taking a specified course of action. To be avoidable in a decision-making context, costs must differ among the alternatives. For example, if the cost of material used to make two different products is the same for both products, that cost could not be avoided by choosing to produce one product over the other. Therefore, the material's cost would not be an avoidable cost. *p. 467*

balanced score card A management evaluation tool that includes financial and nonfinancial measures. *p. 545*

balance sheet Statement that lists the assets of a business and the corresponding claims (liabilities and equity) on those assets. *p. 9*

bank reconciliation Schedule that identifies and explains differences between the cash balance reported by the bank and the cash balance in the firm's accounting records. *p. 131*

bank statement Statement issued by a bank (usually monthly) that denotes all activity in the bank account for that period. *p. 131*

bank statement credit memo Memorandum that describes an increase in the account balance. *p. 131*

bank statement debit memo Memorandum that describes a decrease in the account balance. *p. 131*

basket purchase Acquisition of several assets in a single transaction with no specific cost attributed to each asset. *p. 203*

batch-level costs The costs associated with producing a batch of products. For example, the cost of setting up machinery to produce 1,000 products is a batch-level cost. The classification of batch-level costs is context sensitive. Postage for one product would be classified as a unit-level cost. In contrast, postage for a large number of products delivered in a single shipment would be classified as a batch-level cost. *p. 467*

benchmarking Identifying the best practices used by world-class competitors. *p. 376*

best practices Practices used by world-class companies. *p. 376*

board of directors Group of individuals elected by the stockholders of a corporation to oversee its operations. *p. 290*

bond certificates Debt securities used to obtain long-term financing in which a company borrows funds from a number of lenders, called *bondholders;* usually issued in denominations of $1,000. *p. 251*

bond discount Difference between the selling price and the face amount of a bond sold for less than the face amount. *p. 256*

bond premium Difference between the selling price and the face amount of a bond that is sold for more than the face amount. *p. 260*

bondholder The party buying a bond (the lender or creditor). *p. 251*

book of original entry A journal in which transactions are first recorded. *p. 662*

book value Historical (original) cost of an asset minus the accumulated depreciation; alternatively, undepreciated amount to date. *p. 207*

book value per share Value of stock determined by dividing the total stockholders' equity by the number of shares of stock. *pp. 293, 334*

break-even point Point where total revenue equals total cost; can be expressed in units or sales dollars. *p. 407*

budgeting Form of planning that formalizes a company's goals and objectives in financial terms. *p. 498*

capital budget Budget that describes the company's plans regarding investments, new products, or lines of business for the coming year; is used as input to prepare many of the operating budgets and becomes a formal part of the master budget. *p. 502*

capital budgeting Financial planning activities that cover the intermediate range of time such as whether to buy or lease equipment, whether to purchase a particular investment, or whether to increase operating expenses to stimulate sales. *p. 500*

capital expenditures (on an existing asset) Substantial amounts of funds spent to improve an asset's quality or to extend its life. *p. 214*

capital investments Expenditures for the purchase of operational assets that involve a long-term commitment of funds that can be critically important to the company's ultimate success; normally recovered through the use of the assets. *p. 564*

carrying value Face amount of a bond liability less any unamortized bond discount or plus any unamortized bond premium. *p. 257*

cash Coins, currency, checks, balances in checking and certain savings accounts, money orders, bank drafts, certificates of deposit, and other items that are payable on demand. *p. 129*

cash budget A budget that focuses on cash receipts and payments that are expected to occur in the future. *p. 508*

cash discount Discount offered on merchandise sold to encourage prompt payment; offered by sellers of merchandise and represent sales discounts to the seller when they are used and purchase discounts to the purchaser of the merchandise. *p. 94*

certified check Check guaranteed by a bank to be drawn on an account having funds sufficient to pay the check. *p. 133*

certified suppliers Suppliers who have gained the confidence of the buyer by providing quality goods and services at desirable prices and usually in accordance with strict delivery specifications; frequently provide the buyer with preferred customer status in exchange for guaranteed purchase quantities and prompt payment schedules. *p. 472*

chart of accounts List of all ledger accounts and their corresponding account numbers. *p. 662*

checks Prenumbered forms, sometimes multicopy, with the name of the business issuing them preprinted on the face, indicating to whom they are paid, the amount of the payment, and the transaction date. *p. 131*

claims Owners' and creditors' interests in a business's assets. *p. 4*

claims exchange transaction Transaction that decreases one claim and increases another so that total claims do not change. For example, the accrual of interest expense is a claims exchange transaction; liabilities increase, and the recognition of the expense causes retained earnings to decrease. *p. 48*

classified balance sheet Balance sheet that distinguishes between current and noncurrent items. *p. 262*

closely held corporation Corporation whose stock is exchanged between a limited number of individuals. *p. 288*

closing See *closing the books.*

closing the books Process of transferring balances from temporary accounts (Revenue, Expense, and Dividends) to the permanent account (Retained Earnings). *p. 22*

Code of Professional Conduct A set of guidelines established by the American Institute of Certified Public Accountants (AICPA) to promote high ethical conduct among its membership. *p. 137*

collateral Assets pledged as security for a loan. *pp. 167, 261*

common costs Costs that are incurred to support more than one cost object but cannot be traced to any specific object. *p. 434*

common size financial statements Financial statements in which amounts are converted to percentages to allow a better comparison of period-to-period and company-to-company financial data since all information is placed on a common basis. *p. 103*

common stock Basic class of corporate stock that carries no preferences as to claims on assets or dividends; certificates that evidence ownership in a company. *pp. 12, 294*

conservatism A principle that guides accountants in uncertain circumstances to select the alternative that produces the lowest amount of net income. *p. 53*

consistency The generally accepted accounting principle that a company should, in most circumstances, continually use the same accounting method(s) so that its financial statements are comparable across time. *p. 177*

contingent liability A potential obligation, the amount of which depends on the outcome of future events. *p. 244*

continuity Concept that describes the fact that a corporation's life may extend well beyond the time at which any particular shareholder decides to retire or to sell his or her stock. *p. 290*

continuous improvement Total quality management (TQM) feature that refers to an ongoing process through which employees learn to eliminate waste, reduce response time, minimize defects, and simplify the design and delivery of products and services to customers. *p. 376*

contra asset account Account subtracted from another account with which it is associated; has the effect of reducing the asset account with which it is associated. *pp. 160, 206*

contribution margin Difference between a company's sales revenue and total variable cost; represents the amount available to cover fixed cost and thereafter to provide a profit. *p. 402*

contribution margin per unit The contribution margin per unit is equal to the sales price per unit minus the variable cost per unit. *p. 408*

controllability concept Evaluating managerial performance based only on revenue and costs under the manager's direct control. *p. 532*

controllable costs Costs that can be influenced by a particular manager's decisions and actions. *p. 434*

copyright Legal protection of writings, musical compositions, and other intellectual property for the exclusive use of the creator or persons assigned the right by the creator. *p. 217*

corporation Legal entity separate from its owners; formed when a group of individuals with a common purpose join together in an organization according to state laws. *p. 288*

cost Measure of resources used to acquire an asset or to produce revenue. *p. 54*

cost accumulation Process of determining the cost of a particular object by accumulating many individual costs into a single total cost. *p. 432*

cost allocation Process of dividing a total cost into parts and assigning the parts to relevant objects. *pp. 368, 433*

cost behavior How a cost reacts (goes up, down, or remains the same) relative to changes in some measure of activity (e.g., the behavior pattern of the cost of raw materials is to increase as the number of units of product made increases). *p. 398*

cost center Type of responsibility center which incurs costs but does not generate revenue. *p. 532*

cost driver Any factor, usually some measure of activity, that causes cost to be incurred, sometimes referred to as *activity base* or *allocation base.* Examples are labor hours, machine hours, or some other measure of activity whose change causes corresponding changes in the cost object. *p. 432*

cost method of accounting for treasury stock Method of accounting for treasury stock in which the purchase of treasury stock is recorded at its cost to the firm but does not consider the original issue price or par value. *p. 298*

cost objects Objects for which managers need to know the cost; can be products, processes, departments, services, activities, and so on. *p. 432*

cost of capital Return paid to investors and creditors for the use of their assets (capital); usually represents a company's minimum rate of return. *p. 565*

cost of goods available for sale Total costs paid to obtain goods and to make them ready for sale, including the cost of beginning inventory plus purchases and transportation-in costs, less purchase returns and allowances and purchase discounts. *p. 89*

cost of goods sold Total cost incurred for the goods sold during a specific accounting period. *p. 89*

cost-plus pricing Pricing strategy that sets the price at cost plus a markup equal to a percentage of the cost. *p. 362*

cost pool A collection of costs organized around a common cost driver. The cost pool as opposed to individual costs is allocated to cost objects using the common cost driver thereby promoting efficiency in the allocation process. *p. 445*

cost tracing Relating specific costs to the objects that cause their incurrence. *p. 433*

credit Entry that increases liability and equity accounts or decreases asset accounts. *p. 661*

creditors Individuals or institutions that have loaned goods or services to a business. *p. 4*

cumulative dividends Preferred dividends that accumulate from year to year until paid. *p. 295*

current (short-term) assets Assets that will be converted to cash or consumed within one year or an operating cycle, whichever is longer. *p. 261*

current (short-term) liability Obligation due within one year or an operating cycle, whichever is longer. *p. 261*

current ratio Measure of liquidity (short-term debt-paying ability); calculated by dividing current assets by current liabilities. *p. 326*

date of record Date that establishes who will receive the dividend payment: shareholders who actually own the stock on the record date will be paid the dividend even if the stock is sold before the dividend is paid. *p. 299*

debit Entry that increases asset accounts or decreases liability and equity accounts. *p. 661*

debt to assets ratio Financial ratio that measures a company's level of risk. *p. 329*

debt to equity ratio Financial ratio that compares creditor financing to owner financing, expressed as the dollar amount of liabilities for each dollar of stockholder's equity. *p. 329*

decentralization Practice of delegating authority and responsibility for the operation of business segments. *p. 512*

declaration date Date on which the board of directors actually declares a dividend. *p. 299*

deferral Recognition of revenue or expense in a period after the cash is exchanged. *p. 45*

depletion Method of systematically allocating the costs of natural resources to expense as the resources are removed from the land. *p. 202*

deposits in transit Deposits recorded in a depositor's books but not received and recorded by the bank. *p. 132*

deposit ticket Bank form that accompanies checks and cash deposited into a bank account; normally specifies the account number, name of the account, and a record of the checks and cash being deposited. *p. 131*

depreciable cost Original cost minus salvage value (of a long-term depreciable asset). *p. 204*

depreciation Decline in value of long-term tangible assets such as buildings, furniture, or equipment. It is systematically recognized by accountants as depreciation expense over the useful lives of the affected assets. *p. 202*

depreciation expense Portion of the original cost of a long-term tangible asset systematically allocated to an expense account in a given period. *p. 204*

differential revenues Future-oriented revenues that differ among the alternatives under consideration. *p. 467*

direct cost Cost that is easily traceable to a cost object and for which the sacrifice to trace is small in relation to the information benefits attained. *p. 433*

direct labor Wages paid to production workers whose efforts can be easily and conveniently traced to products. *p. 366*

direct raw materials Costs of raw materials used to make products that can be easily and conveniently traced to those products. *p. 365*

disclaimer of opinion Report on financial statements issued when the auditor is unable to obtain enough information to determine if the statements conform to GAAP; is neither positive nor negative. *p. 141*

discount on bonds payable Contra liability account used to record the amount of discount on a bond issue. *p. 256*

dividend Transfer of wealth from a business to its owners. *p. 16*

dividends in arrears Cumulative dividends on preferred stock that have not been paid; must be paid prior to paying dividends to common stockholders. *p. 295*

dividend yield Ratio for comparing stock dividends paid in relation to the market price; calculated as dividends per share divided by market price per share. *p. 335*

double-declining-balance depreciation Depreciation method that recognizes larger amounts of depreciation in the early stages of an asset's life and progressively smaller amounts as the asset ages. *p. 208*

double-entry accounting (bookkeeping) Method of keeping records that provides a system of checks and balances by recording transactions in a dual format. *pp. 14, 661*

double taxation Policy to tax corporate profits distributed to owners twice, once when the income is reported on the corporation's income tax return and again when the dividends are reported on the individual's return. *p. 289*

downstream costs Costs, such as delivery costs and sales commissions, incurred after the manufacturing process is complete. *p. 371*

earnings The difference between revenues and expenses. Same as net income or profit. *p. 4*

earnings per share Measure of the value of a share of common stock in terms of company earnings; calculated as net income available to common stockholders divided by the average number of outstanding common shares. *p. 334*

effective interest rate Yield rate of bonds, equal to the market rate of interest on the day the bonds are sold. *p. 256*

effective interest rate method Method of amortizing bond discounts and premiums that bases interest computations on the carrying value of liability. As the liability increases or decreases, the amount of interest expense also increases or decreases. *p. 264*

elements Primary components of financial statements including assets, liabilities, equity, contributions, revenue, expenses, distributions, and net income. *p. 10*

entity See *reporting entities.*

entrenched management Management that may have become ineffective but because of political implications may be difficult to remove. *p. 291*

equation method Cost-volume-profit analysis technique that uses the algebraic relationship among sales, variable costs, fixed costs, and desired net income before taxes to solve for required sales volume. *p. 407*

equipment replacement decisions Decisions regarding whether existing equipment should be replaced with newer equipment based on identification and comparison of the avoidable costs of the old and new equipment to determine which equipment is more profitable to operate. *p. 477*

equity Portion of assets remaining after the creditors' claims have been satisfied (i.e., Assets Liabilities Equity); also called *residual interest* or *net assets. p. 12*

estimated useful life Time for which an asset is expected to be used by a business. *p. 204*

ex-dividend Stock traded after the date of record but before the payment date; does not receive the benefit of the upcoming dividend. *p. 300*

expenses Economic sacrifices (decreases in assets or increase in liabilities) that are incurred in the process of generating revenue. *p. 15*

face value Amount of the bond to be paid back (to the bondholders) at maturity. *p. 252*

facility-level costs Costs incurred on behalf of the whole company or a segment of the company; not related to any specific product, batch, or unit of production or service and unavoidable unless the entire company or segment is eliminated. *p. 468*

favorable variance Variance that occurs when actual costs are less than standard costs or when actual sales are higher than standard sales. *p. 535*

fidelity bond Insurance policy that a company buys to insure itself against loss due to employee dishonesty. *p. 127*

financial accounting Field of accounting designed to meet the information needs of external users of business information (creditors, investors, governmental agencies, financial analysts, etc.); its objective is to classify and record business events and transactions to facilitate the production of external financial reports (income statement, balance sheet, statement of cash flows, and statement of changes in equity). *p. 359*

Financial Accounting Standards Board (FASB) Privately funded organization with the primary authority for the establishment of accounting standards in the United States. *p. 8*

financial audit Detailed examination of a company's accounting records and the documents that support the information reported in the financial statements; includes testing the reliability of the underlying accounting system used to produce the financial reports. *p. 139*

financial statements Primary means of communicating the financial information of an organization to the external users. The four general-purpose financial statements are the income statement, statement of changes in equity, balance sheet, and statement of cash flows. *p. 10*

financing activities Cash inflows and outflows from transactions with investors and creditors (except interest). These cash flows include cash receipts from the issue of stock, borrowing activities, and cash disbursements associated with dividends. *p. 21*

finished goods inventory Asset account used to accumulate the product costs (direct materials, direct labor, and overhead) associated with completed products that have not yet been sold. *p. 370*

first-in, first-out (FIFO) cost flow method Inventory cost flow method that treats the first items purchased as the first items sold for the purpose of computing cost of goods sold. *p. 172*

fixed cost Cost that in total remains constant when activity volume changes; varies per unit inversely with changes in the volume of activity. *p. 398*

fixed cost volume variance The difference between the budgeted fixed cost and the applied fixed cost. *p. 537*

fixed interest rate Interest rate (charge for the use of money) that does not change over the life of the loan. *p. 247*

flexible budgets Budgets that show expected revenues and costs at a variety of different activity levels. *p. 533*

flexible budget variances Differences between budgets based on standard amounts at the actual level of activity and actual results; caused by differences in standard and actual unit cost since the volume of activity is the same. *p. 538*

FOB (free on board) destination Term that designates the seller as the responsible party for freight costs (transportation-in costs). *p. 95*

FOB (free on board) shipping point Term that designates the buyer as the responsible party for freight costs (transportation-in costs). *p. 95*

franchise Exclusive right to sell products or perform services in certain geographic areas. *p. 217*

full disclosure The accounting principle that financial statements should include all information relevant to an entity's operations and financial condition. Full disclosure frequently requires adding footnotes to the financial statements. *p. 177*

gains Increases in assets or decreases in liabilities that result from peripheral or incidental transactions. *p. 98*

general authority Policies and procedures that apply across different levels of a company's management, such as everyone flies coach class. *p. 127*

general journal Journal in which all types of accounting transactions can be entered but which is commonly used to record adjusting and closing entries and unusual types of transactions. *p. 661*

general ledger Complete set of accounts used in accounting systems. *pp. 17, 662*

generally accepted accounting principles (GAAP) Rules and regulations that accountants agree to follow when preparing financial reports for public distribution. *p. 8*

general, selling, and administrative costs All costs not associated with obtaining or manufacturing a product; in practice are sometimes referred to as *period costs* because they are normally expensed in the period in which the economic sacrifice is incurred. *p. 367*

general uncertainties Uncertainties inherent in operating a business, such as competition and damage from storms. Unlike contingent liabilities, these uncertainties arise from future rather than past events. *p. 244*

going concern assumption Assumption that a company will continue to operate indefinitely, will pay its obligations and should therefore report those obligations at their full face value in the financial statements. *p. 240*

goodwill Added value of a successful business that is attributable to factors—reputation, location, and superior products—that enable the business to earn above-average profits; stated differently, the excess paid for an existing business over the appraised value of the net assets. *p. 218*

gross margin (gross profit) Difference between sales revenue and cost of goods sold; the amount a company makes from selling goods before subtracting operating expenses. *p. 89*

gross margin percentage Expression of gross margin as a percentage of sales computed by dividing gross margin by net sales; the amount of each dollar of sales that is profit before deducting any operating expenses. *p. 107*

gross profit See *gross margin.*

historical cost concept Actual price paid for an asset when it was purchased. *pp. 16, 203*

horizontal analysis Analysis technique that compares amounts of the same item over several time periods. *p. 321*

horizontal statements model Arrangement of a set of financial statements horizontally across a sheet of paper. *p. 23*

income Added value created in transforming resources into more desirable states. *p. 4*

income statement Statement that measures the difference between the asset increases and the asset decreases associated with running a business. This definition is expanded in subsequent chapters as additional relationships among the elements of the financial statements are introduced. *p. 18*

incremental revenue Additional cash inflows from operations generated by using an additional capital asset. *p. 571*

independent auditor Licensed certified public accountant engaged to audit a company's financial statements; not an employee of the audited company. *p. 140*

indirect cost Cost that cannot be easily traced to a cost object and for which the economic sacrifice to trace is not worth the informational benefits. *pp. 368, 433*

information overload Situation in which presentation of too much information confuses the user of the information. *p. 320*

installment notes Obligations that require regular payments of principal and interest over the life of the loan. *p. 248*

intangible assets Assets that may be represented by pieces of paper or contracts that appear tangible; however, the true value of an intangible asset lies in the rights and privileges extended to its owners. *p. 202*

interest Fee paid for the use of borrowed funds; also refers to revenue from debt securities. *pp. 5, 167*

internal controls A company's policies and procedures designed to reduce the opportunity for fraud and to provide reasonable assurance that its objectives will be accomplished. *p. 126*

internal rate of return Rate that will produce a present value of an investment's future cash inflows that equals cash outflows required to acquire the investment; alternatively, the rate that produces in a net present value of zero. *p. 571*

inventory cost flow methods Methods used to allocate the cost of goods available for sale between cost of goods sold and inventory. *p. 174*

inventory holding costs Costs associated with acquiring and retaining inventory including cost of storage space; lost, stolen, or damaged merchandise; insurance; personnel and management costs; and interest. *p. 372*

inventory turnover Ratio of cost of goods sold to inventory that indicates how many times a year the average inventory is sold (turned over). *p. 328*

investing activities One of the three categories of cash inflows and outflows shown on the statement of cash flows; includes cash received and spent by the business on productive assets and investments in the debt and equity of other companies. *p. 21*

investment center Type of responsibility center for which revenue, expense and capital investments can be measured. *p. 532*

investors Company or individual who gives assets or services in exchange for security certificates representing ownership interests. *p. 4*

issued stock Stock sold to the public. *p. 293*

issuer Individual or business that issues a note payable, bonds payable, or stock (the party receiving cash). See also *maker. pp. 242, 251*

journals Books of original entry in which accounting data are entered chronologically before posting to the ledger accounts. *p. 662*

just in time (JIT) Inventory flow system that minimizes the amount of inventory on hand by making inventory available for customer consumption on demand, therefore eliminating the need to store inventory. The system reduces explicit holding costs including financing, warehouse storage, supervision, theft, damage, and obsolescence. It also eliminates hidden opportunity costs such as lost revenue due to the lack of availability of inventory. *p. 372*

last-in, first-out (LIFO) cost flow method Inventory cost flow method that treats the last items purchased as the first items sold for the purpose of computing cost of goods sold. *p. 172*

legal capital Amount of assets that should be maintained as protection for creditors; the number of shares multiplied by the par value. *p. 293*

liabilities Obligations of a business to relinquish assets, provide services, or accept other obligations. *pp. 10, 241, 261*

limited liability Concept that investors in a corporation may not be held personally liable for the actions of the corporation (the creditors cannot lay claim to the owners' personal assets as payment for the corporation's debts). *p. 290*

limited liability companies (LLC) Organizations offering many of the best features of corporations and partnerships and with many legal benefits of corporations (e.g., limited liability and centralized management) but permitted by the Internal Revenue Service to be taxed as a partnership, thereby avoiding double taxation of profits. *p. 289*

line of credit Preapproved credit arrangement with a lending institution in which a business can borrow money by simply writing a check up to the approved limit. *p. 251*

liquidation Process of dividing up the assets and returning them to the resource providers. Creditors normally receive first priority in business liquidations; in other words, assets are distributed to creditors first. After creditor claims have been satisfied, the remaining assets are distributed to the investors (owners) of the business. *p. 4*

liquidity Ability to convert assets to cash quickly and meet short-term obligations. *pp. 20, 169*

liquidity ratios Measures of short-term debt-paying ability. *p. 325*

long-term liabilities Liabilities with maturity dates beyond one year or the company's operating cycle, whichever is longer; noncurrent liabilities. *p. 247*

long-term operational assets Assets used by a business to generate revenue; condition of being used distinguishes them from assets that are sold (inventory) and assets that are held (investments). *p. 200*

losses Decreases in assets or increases in liabilities that result from peripheral or incidental transactions. *p. 98*

low-ball pricing Pricing a product below competitors' price to lure customers away and then raising the price once customers depend on the supplier for the product. *p. 472*

maker The party issuing a note (the borrower). *p. 167*

making the numbers Expression that indicates marketing managers attained the planned master budget sales volume. *p. 536*

management by exception The philosophy of focusing management attention and resources only on those operations where performance deviates significantly from expectations. *p. 540*

managerial accounting Branch of accounting that provides information useful to internal decision makers and managers in operating an organization. *p. 6*

manufacturing business Companies that make the goods they sell to customers. *p. 24*

manufacturing overhead Production costs that cannot be traced directly to products. *p. 368*

margin Component in the determination of the return on investment. Computed by dividing operating income by sales. *p. 542*

margin of safety Difference between break-even sales and budgeted sales expressed in units, dollars, or as a percentage; the amount by which actual sales can fall below budgeted sales before a loss is incurred. *p. 410*

market rate of interest Interest rate currently available on a wide range of alternative investments with similar levels of risk. *p. 260*

market value The price at which securities sell in the secondary market: also called fair value. *p. 293*

master budget Composition of the numerous separate but interdependent departmental budgets that cover a wide range of operating and financial factors such as sales, production, manufacturing expenses, and administrative expenses. *p. 502*

matching concept Process of matching expenses with the revenues they produce; three ways to match expenses with revenues include matching expenses directly to revenues, matching expenses to the period in which they are incurred, and matching expenses systematically with revenues. *pp. 53, 18, 168*

materiality Concept that recognizes practical limits in financial reporting by allowing flexible handling of matters not considered material; information is considered material if the decisions of a reasonable person would be influenced by its omission or misstatement; can be measured in absolute, percentage, quantitative, or qualitative terms. *p. 321*

maturity date The date a liability is due to be settled (the date the borrower is expected to repay a debt). *p. 167*

merchandise business Companies that buy and resell merchandise inventory. *p. 86*

merchandise inventory Supply of finished goods held for resale to customers. *p. 86*

minimum rate of return Minimum amount of profitability required to persuade a company to accept an investment opportunity; also known as *desired rate of return, required rate of return, hurdle rate, cutoff rate,* and *discount rate. p. 565*

mixed costs (semivariable costs) Costs composed of a mixture of fixed and variable components. *p. 405*

multistep income statement Income statement format that matches particular revenue items with related expense items and distinguishes between recurring operating activities and nonoperating items such as gains and losses. *p. 98*

natural resources Mineral deposits, oil and gas reserves, and reserves of timber, mines, and quarries are examples; sometimes called *wasting assets* because their value wastes away as the resources are removed. *p. 202*

net income Increase in net assets resulting from operating the business. *p. 18*

net loss Decrease in net assets resulting from operating the business. *p. 18*

net margin Profitability measurement that indicates the percentage of each sales dollar resulting in profit; calculated as net income divided by net sales. *p. 331*

net present value Evaluation technique that uses a desired rate of return to discount future cash flows back to their present value equivalents and then subtracts the cost of the investment from the present value equivalents to determine the net present value. A zero or positive net present value (present value of cash inflows equals or exceeds the present value of cash outflows) implies that the investment opportunity provides an acceptable rate of return. *p. 569*

net realizable value Face amount of receivables less an allowance for accounts whose collection is doubtful (amount actually expected to be collected). *p. 158*

net sales Sales less returns from customers and allowances or cash discounts given to customers. *p. 103*

non-sufficient-funds (NSF) check Customer's check deposited but returned by the bank on which it was drawn because the customer did not have enough funds in its account to pay the check. *p. 133*

nonvalue-added activities Tasks undertaken that do not contribute to a product's ability to satisfy customer needs. *p. 377*

note payable A liability that results from executing a legal document called a *promissory note* which describes the interest rate, maturity date, collateral, and so on. *p. 242*

notes receivable Notes that evidence rights to receive cash in the future from the maker of a *promissory note;* usually specify the maturity date, interest rate, and other credit terms. *p. 156*

operating activities Cash inflows and outflows associated with operating the business. These cash flows normally result from revenue and expense transactions including interest. *p. 21*

operating budgets Budgets prepared by different departments within a company that will become a part of the company's master budget; typically include a sales budget, an inventory purchases budget, a selling and administrative budget, and a cash budget. *p. 502*

operating cycle Time required to turn cash into inventory, inventory into receivables, and receivables back to cash. *p. 261*

operating income (or loss) Income statement subtotal representing the difference between operating revenues and operating expenses, but before recognizing gains and losses from peripheral activities which are added to or subtracted from operating income to determine net income or loss. *p. 99*

operating leverage Operating condition in which a percentage change in revenue produces a proportionately larger percentage change in net income; measured by dividing the contribution margin by net income. The higher the proportion of fixed cost to total costs, the greater the operating leverage. *p. 398*

operations budgeting Short-range planning activities such as the development and implementation of the master budget. *p. 502*

opportunity An element of the fraud triangle that recognizes weaknesses in internal controls that enable the occurrence of fraudulent or unethical behavior. *p. 138*

opportunity cost Cost of lost opportunities such as the failure to make sales due to an insufficient supply of inventory or the wage a working student forgoes to attend class. *pp. 373, 464*

ordinary annuity Annuity whose cash inflows occur at the end of each accounting period. *p. 568*

outsourcing The practice of buying goods and services from another company rather than producing them internally. *p. 471*

outstanding checks Checks deducted from the depositor's cash account balance but not yet presented to the bank for payment. *p. 133*

outstanding stock Stock owned by outside parties; normally the amount of stock issued less the amount of treasury stock. *p. 293*

overhead Costs associated with producing products that cannot be cost effectively traced to products including indirect costs such as indirect materials, indirect labor, utilities, rent, and depreciation. *p. 362*

overhead costs Indirect costs of doing business that cannot be directly traced to a product, department, or process, such as depreciation. *p. 433*

paid-in capital in excess of par (or stated) value Any amount received above the par or stated value of stock when stock is issued. *p. 296*

participative budgeting Budget technique that allows subordinates to participate with upper-level managers in setting budget objectives, thereby encouraging cooperation and support in the attainment of the company's goals. *p. 502*

partnership agreement Legal document that defines the responsibilities of each partner and describes the division of income and losses. *p. 288*

partnerships Business entities owned by at least two people who share talents, capital, and the risks of the business. *p. 288*

par value Arbitrary value assigned to stock by the board of directors. *p. 293*

patent Legal right granted by the U.S. Patent Office ensuring a company or an individual the exclusive right to a product or process. *p. 217*

payback method Technique that evaluates investment opportunities by determining the length of time necessary to recover the initial net investment through incremental revenue or cost savings; the shorter the period, the better the investment opportunity. *p. 578*

payee The party collecting cash. *p. 167*

payment date Date on which a dividend is actually paid. *p. 300*

percentage analysis Analysis of relationships between two different items to draw conclusions or make decisions. *p. 322*

percent of receivables method Estimating the amount of the allowance for doubtful accounts as a percentage of the outstanding receivables balance. The percentage is typically based on a combination of factors such as historical experience, economic conditions, and the company's credit policies. *p. 164*

percent of revenue method Estimating the amount of uncollectible accounts expense as a percentage of the revenue earned on account during the accounting period. The percentage is typically based on a combination of factors such as historical experience, economic conditions, and the company's credit policies. *p. 163*

period costs General, selling, and administrative costs that are expensed in the period in which the economic sacrifice is made. *pp. 53, 89*

periodic inventory system Method of accounting for changes in the Inventory account only at the end of the accounting period. *p. 106*

permanent accounts Accounts that contain information transferred from one accounting period to the next. *p. 22*

perpetual (continuous) budgeting Continuous budgeting activity normally covering a 12-month time span by replacing the current month's budget at the end of each month with a new budget; keeps management constantly involved in the budget process so that changing conditions are incorporated on a timely bases. *p. 500*

perpetual inventory system Method of accounting for inventories that increases the Inventory account each time merchandise is purchased and decreases it each time merchandise is sold. *p. 106*

physical flow of goods Physical movement of goods through the business; normally a FIFO flow so that the first goods purchased are the first goods delivered to customers, thereby reducing the likelihood of obsolete inventory. *p. 172*

plant assets to long-term liabilities Financial ratio that suggests how well a company manages its long-term debt. *p. 321*

postaudit Repeat calculation using the techniques originally employed to analyze an investment project; accomplished with the use of actual data available at the completion of the investment project so that the actual results can be compared with expected results based on estimated data at the beginning of the project. Its purpose is to provide feedback as to whether the expected results were actually accomplished in improving the accuracy of future analysis. *p. 581*

posting Process of copying information from journals to ledgers. *p. 662*

predetermined overhead rate Allocation rate calculated before actual costs or activity are known; determined by dividing the estimated overhead costs for the coming period by some measure of estimated total production activity for the period, such as the number of labor-hours or machine-hours. The base should relate rationally to overhead use. The rate is used throughout the accounting period to allocate overhead costs to work in process inventory based on actual production activity. *p. 445*

preferred stock Stock that receives some form of preferential treatment (usually as to dividends) over common stock; normally has no voting rights. *p. 294*

premium on bonds payable Difference between the selling price and the face amount of a bond that is sold for more than the face amount. *p. 260*

prepaid items Deferred expenses. An example is prepaid insurance. *p. 54*

present value index Present value of cash inflows divided by the present value of cash outflows. Higher index numbers indicate higher rates of return. *p. 574*

present value table Table that consists of a list of factors to use in converting future values into their present value equivalents; composed of columns that represent different return rates and rows that depict different periods of time. *p. 566*

pressure An element of the fraud triangle that recognizes conditions that motivate fraudulent or unethical behavior. *p. 139*

price-earnings (P/E) ratio Measurement used to compare the values of different stocks in terms of earnings; calculated as market price per share divided by earnings per share. *p. 334*

principal Amount of cash actually borrowed. *p. 167*

procedures manual Manual that sets forth the accounting procedures to be followed. *p. 127*

product costing Classification and accumulation of individual inputs (materials, labor, and overhead) for determining the cost of making a good or providing a service. *p. 362*

product costs All costs related to obtaining or manufacturing a product intended for sale to customers; are accumulated in inventory accounts and expensed as cost of goods sold at the point of sale. For a manufacturing company, product costs include direct materials, direct labor, and manufacturing overhead. *pp. 89, 362*

productive assets Assets used to operate the business; frequently called *long-term assets. p. 21*

product-level costs Costs incurred to support different kinds of products or services; can be avoided by the elimination of a product line or a type of service. *p. 468*

profitability ratios Measurements of a firm's ability to generate earnings. *p. 355*

profit center Type of responsibility center for which both revenues and costs can be indentified. *p. 532*

pro forma financial statements Budgeted financial statements prepared from the information in the master budget. *p. 502*

promissory note A legal document representing a credit agreement between a lender and a borrower. The note specifies technical details such as the maker, payee, interest rate, maturity date, payment terms, and any collateral. *p. 166*

property, plant, and equipment Category of assets, sometimes called *plant assets,* used to produce products or to carry on the administrative and selling functions of a business; includes machinery and equipment, buildings, and land. *p. 202*

purchase discount Reduction in the gross price of merchandise extended under the condition that the purchaser pay cash for the merchandise within a stated time (usually within 10 days of the date of the sale). *p. 94*

purchase returns and allowances A reduction in the cost of purchases resulting from dissatisfaction with merchandise purchased. *p. 93*

qualified opinion Opinion issued by a certified public accountant that means the company's financial statements are, for the most part, in compliance with GAAP, but there is some circumstance (explained in the auditor's report) about which the auditor has reservations; contrast with *unqualified opinion. p. 141*

qualitative characteristics Nonquantifiable features such as company reputation, welfare of employees, and customer satisfaction that can be affected by certain decisions. *p. 466*

quantitative characteristics Numbers in decision making subject to mathematical manipulation, such as the dollar amounts of revenues and expenses. *p. 466*

quick ratio See *acid-test ratio. p. 326*

ratio analysis See *percentage analysis. p. 324*

rationalization An element of the fraud triangle that recognizes a human tendency to justify fraudulent or unethical behavior. *p. 139*

raw materials Physical commodities (e.g., wood, metal, paint) used in the manufacturing process. *p. 365*

raw materials inventory Asset account used to accumulate the costs of materials (such as lumber, metals, paints, chemicals) that will be used to make a company's products. *p. 370*

realization A term that usually refers to actually collecting cash. *p. 44*

recognition Reporting an accounting event in the financial statements. *p. 44*

recovery of investment Recovery of the funds used to acquire the original investment. *p. 580*

reengineering Business practices designed by companies to make production and delivery systems more competitive in world markets by eliminating or minimizing waste, errors, and costs. *p. 376*

reinstate Recording an account receivable previously written off back into the accounting records, generally when cash is collected long after the original due date. *p. 162*

relative fair market value method Method of assigning value to individual assets acquired in a basket purchase in which each asset is assigned a percentage of the total price paid for all assets. The percentage assigned equals the market value of a particular asset divided by the total of the market values of all assets acquired in the basket purchase. *p. 203*

relevant costs Future-oriented costs that differ between business alternatives; also known as *avoidable costs. p. 465*

relevant information Decision-making information about costs, costs savings, or revenues that have these features: (1) future-oriented information and (2) the information differs between the alternatives; decision-specific (information that is relevant in one decision may not be relevant in another decision). *p. 464*

relevant range Range of activity over which the definitions of fixed and variable costs are valid. *p. 405*

reliability concept Information is reliable if it can be independently verified. Reliable information is factual rather than subjective. *p. 17*

reporting entities Particular businesses or other organizations for which financial statements are prepared. *p. 9*

residual income Approach that evaluates managers on their ability to maximize the dollar value of earnings above some targeted level of earnings. *p. 543*

responsibility accounting Performance measure that evaluates managers based on how well they maximize the dollar value of earning above some target level of earnings. *p. 530*

responsibility center Point in an organization where the control over revenue or expense items is located. *p. 532*

restrictive covenants Special provisions specified in the loan contract that are designed to prohibit management from taking certain actions that place creditors at risk. *p. 261*

retail companies Companies that sell goods to consumers. *p. 86*

retained earnings Portion of stockholders' equity that includes all earnings retained in the business since inception (revenues minus expenses and distributions for all accounting periods). *p. 12*

return on equity Measure of the profitability of a firm based on earnings generated in relation to stockholders' equity; calculated as net income divided by stockholders' equity. *p. 333*

return on investment Measure of profitability based on the asset base of the firm. It is calculated as net income divided by average total assets. ROI is a product of net margin and asset turnover. *pp. 332, 540*

return on sales Percent of net income generated by each $1 of sales; computed by dividing net income by net sales. *p. 103*

revenue The economic benefit (increase in assets or decrease in liabilities) gained by providing goods or services to customers. *p. 10*

revenue expenditures Costs incurred for repair or maintenance of long-term operational assets; recorded as expenses and subtracted from revenue in the accounting period in which incurred. *p. 214*

salaries payable Amounts of future cash payments owed to employees for services that have already been performed. *p. 46*

sales discount Cash discount extended by the seller of goods to encourage prompt payment. When the buyer of the goods takes advantage of the discount to pay less than the original selling price, the difference between the selling price and the cash collected is the sales discount. *p. 101*

sales price variance Difference between actual sales and expected sales based on the standard sales price per unit times the actual level of activity. *p. 538*

sales return and allowances A reduction in sales revenue resulting from dissatisfaction with merchandise sold. *p. 103*

sales volume variance Difference between sales based on a static budget (standard sales price times standard level of activity) and sales based on a flexible budget (standard sales price times actual level of activity). *p. 535*

salvage value Expected selling price of an asset at the end of its useful life. *p. 204*

Sarbanes-Oxley Act of 2002 Federal law established to promote ethical behavior in corporate governance and fairness in financial reporting. Key provisions of the act include a requirement that a company's chief executive officer (CEO) and chief financial officer (CFO) must certify in writing that they have reviewed the financial reports being issued, and that the reports present fairly the company's financial status. An executive who falsely certifies the company's financial reports is subject to significant fines and imprisonment. The act also establishes the Public Company Accounting Oversight Board (PCAOB). This Board assumes the primary responsibility for developing and enforcing auditing standards for CPAs who audit SEC companies. The Sarbanes-Oxley Act also prohibits auditors from providing most types of nonaudit services to companies they audit.

schedule of cost of goods sold Schedule that reflects the computation of the amount of the cost of goods sold under the periodic inventory system; an internal report not shown in the formal financial statements. *p. 106*

Securities Act of 1933 and Securities Exchange Act of 1934 Acts passed after the stock market crash of 1929 designed to regulate the issuance of stock and govern the stock exchanges; created the Securities and Exchange Commission (SEC), which has the authority to establish accounting policies for companies registered on the stock exchanges. *p. 289*

Securities and Exchange Commission (SEC) Government agency responsible for overseeing the accounting rules to be followed by companies required to be registered with it. *p. 289*

segment Component part of an organization that is designated as a reporting entity. *p. 473*

selling and administrative costs Costs that cannot be directly traced to products that are recognized as expenses in the period in which they are incurred. Examples include advertising expense and rent expense. *p. 89*

separation of duties Internal control feature of, whenever possible, assigning the functions of authorization, recording, and custody to different individuals. *p. 126*

service business Organizations such as accounting and legal firms, dry cleaners, and insurance companies that provide services to consumers. *p. 24*

service charges Fees charged by a bank for services performed or a penalty for the depositor's failing to maintain a specified minimum cash balance throughout the period. *p. 133*

shrinkage A term that reflects decreases in inventory for reasons other than sales to customers. *p. 100*

signature card Bank form that records the bank account number and the signatures of the people authorized to write checks on an account. *p. 130*

single-payment (lump-sum) A one-time receipt of cash which can be converted to its present value using a conversion factor. *p. 566*

single-step income statement Single comparison between total revenues and total expenses. *p. 99*

sole proprietorships Businesses (usually small) owned by one person. *p. 288*

solvency Ability of a business to pay liabilities in the long run.

solvency ratios Measures of a firm's long-term debt-paying ability. *p. 329*

source documents Documents such as a cash register tape, invoice, time card, or check stub that provide accounting information to be recorded in the accounting journals and ledgers. *p. 661*

special journals Journals designed to improve the efficiency of recording specific types of repetitive transactions. *p. 662*

special order decisions Decisions of whether to accept orders from nonregular customers who want to buy goods or services significantly below the normal selling price. If the order's relevant revenues exceed its avoidable costs, the order should be accepted. Qualitative features such as the order's effect on the existing customer base if accepted must also be considered. *p. 468*

specific authorizations Policies and procedures that apply to designated levels of management, such as the policy that the right to approve overtime pay may apply only to the plant manager. *p. 127*

specific identification Inventory method that allocates costs between cost of goods sold and ending inventory using the cost of the specific goods sold or retained in the business. *p. 172*

spending variance The difference between the actual fixed overhead costs and the budgeted fixed overhead costs. *p. 537*

stakeholders Parties interested in the operations of a business, including owners, lenders, employees, suppliers, customers, and government agencies. *p. 6*

stated interest rate Rate of interest specified in the bond contract that will be paid at specified intervals over the life of the bond. *p. 252*

stated value Arbitrary value assigned to stock by the board of directors. *p. 293*

statement of cash flows Statement that explains how a business obtained and used cash during an accounting period. *p. 10*

statement of changes in stockholders' equity Statement that summarizes the transactions occurring during the accounting period that affected the owners' equity. *p. 23*

static budgets Budgets such as the master budget based solely on the level of planned activity; remain constant even when volume of activity changes. *p. 533*

stock certificate Evidence of ownership interest issued when an investor contributes assets to a corporation; describes the rights and privileges that accompany ownership. *p. 298*

stock dividend Proportionate distribution of additional shares of the declaring corporation's stock. *p. 300*

stockholders Owners of a corporation. *p. 12*

stockholders' equity Stockholders' equity represents the portion of the assets that is owned by the stockholders. *pp. 10, 12*

stock split Proportionate increase in the number of outstanding shares; designed to reduce the market value of the stock and its par value. *p. 301*

straight-line amortization Method of amortization in which equal amounts of the account being reduced (e.g., Bond Discount, Bond Premium, Patent) are transferred to the appropriate expense account over the relevant time period. *p. 257*

straight-line depreciation Method of computing depreciation that allocates the cost of an asset to expense in equal amounts over its life. The formula for calculating straight line depreciation is [(Cost − Salvage)/Useful Life]. *p. 205*

strategic planning Planning activities associated with long-range decisions such as defining the scope of the business, determining which products to develop, deciding whether to discontinue a business segment, and determining which market niche would be most profitable. *p. 500*

suboptimization Situation in which managers act in their own self-interests even though the organization as a whole suffers. *p. 643*

sunk costs Costs that have been incurred in past transactions and therefore are not relevant for decision making. *p. 464*

T-account Simplified account form, named for its shape, with the account title placed at the top of a horizontal bar, debit entries listed on the left side of the vertical bar, and credit entries shown on the right side. *p. 661*

tangible assets Assets that can be touched, such as equipment, machinery, natural resources, and land. *p. 202*

temporary accounts Accounts used to collect information for a single accounting period (usually revenue, expense, and distribution accounts). *p. 22*

times interest earned ratio Ratio that computes how many times a company would be able to pay its interest by using the amount of earnings available to make interest payments; amount of earnings is net income before interest and income taxes. *p. 329*

time value of money Recognition that the present value of a promise to receive a dollar some time in the future is worth less than a dollar because of interest, risk, and inflation factors. For example, a person may be willing to pay $0.90 today for the right to receive $1.00 one year from today. *p. 564*

total quality management (TQM) Management philosophy that includes: (1) a continuous systematic problem-solving philosophy that engages personnel at all levels of the organization to eliminate waste, defects, and nonvalue-added activities; and (2) the effort to manage quality costs in a manner that leads to the highest level of customer satisfaction. *p. 19*

trademark Name or symbol that identifies a company or an individual product. *p. 376*

transaction Particular event that involves the transfer of something of value between two entities. *pp. 12, 46*

transferability Concept referring to the practice of dividing the ownership of corporations into small units that are represented by shares of stock, which permits the easy exchange of ownership interests. *p. 290*

transportation-in (freight-in) Cost of freight on goods purchased under terms FOB shipping point that is usually added to the cost of inventory and is a product cost. *p. 95*

transportation-out (freight-out) Freight cost for goods delivered to customers under terms FOB destination; a period cost expensed when it is incurred. *p. 95*

treasury stock Stock first issued to the public and then bought back by the corporation. *p. 293*

trend analysis Study of the performance of a business over a period of time. *p. 321*

trial balance List of ledger accounts and their balances that provides a check on the mathematical accuracy of the recording process. *p. 664*

true cash balance Actual balance of cash owned by a company at the close of business on the date of the bank statement. *p. 131*

turnover Component in the determination of the return on investment. Computed by dividing sales by operating assets. *p. 542*

2/10, n/30 Expression meaning the seller will allow the purchaser a 2 percent discount off the gross invoice price if the purchaser pays cash for the merchandise within 10 days from the date of purchase. *p. 94*

unadjusted bank balance Ending cash balance reported by the bank as of the date of the bank statement. *p. 131*

unadjusted book balance Balance of the Cash account as of the date of the reconciliation before making any adjustments. *p. 131*

unadjusted rate of return Measure of profitability computed by dividing the average incremental increase in annual net income by the average cost of the original investment (original cost ÷ 2). *p. 579*

uncollectible accounts expense Expense associated with uncollectible accounts receivable; the amount recognized may be estimated using the percent of revenue or the percent of receivables method, or actual losses may be recorded using the direct write-off method. *p. 159*

unearned revenue Revenue for which cash has been collected but the service has not yet been performed. *p. 55*

unfavorable variance Variance that occurs when actual costs exceed standard costs or when actual sales are less than standard sales. *p. 535*

unit-level costs Costs incurred each time a company makes a single product or performs a single service and that can be avoided by eliminating a unit of product or service. Likewise, unit-level costs increase with each additional product produced or service provided. *p. 467*

units-of-production depreciation Depreciation method based on a measure of production rather than a measure of time; for example, an automobile may be depreciated based on the expected miles to be driven rather than on a specific number of years. *p. 211*

unqualified opinion Opinion issued by a certified public accountant that means the company's financial statements are, in all material respects, in compliance with GAAP; the auditor has no reservations. Contrast with qualified opinion. *p. 141*

upstream costs Costs incurred before the manufacturing process begins, for example, research and development costs. *p. 371*

value-added activity Any unit of work that contributes to a product's ability to satisfy customer needs. *p. 377*

value-added principle The benefits attained (value added) from the process should exceed the cost of the process. *p. 361*

value chain Linked sequence of activities that create value for the customer. *p. 377*

variable cost Cost that in total changes in direct proportion to changes in volume of activity; remains constant per unit when volume of activity changes. *p. 387*

variable cost volume variance The difference between a variable cost calculated at the planned volume of activity and the same variable cost calculated at the actual volume of activity. *p. 535*

variable interest rate Interest rate that fluctuates (may change) from period to period over the life of the loan. *p. 247*

variances Differences between standard and actual amounts. *p. 535*

vertical analysis Analysis technique that compares items on financial statements to significant totals. *p. 324*

vertical integration Attainment of control over the entire spectrum of business activity from production to sales; as an example a grocery store that owns farms. *p. 472*

vertical statements model Arrangement of a full set of financial statements on a single page with account titles arranged from the top to the bottom of the page. *p. 62*

warranties Promises to correct deficiencies or dissatisfactions in quality, quantity, or performance of products or services sold. *p. 245*

weighted-average cost flow method Inventory cost flow method in which the cost allocated between inventory and cost of goods sold is based on the average cost per unit, which is determined by dividing total costs of goods available for sale during the accounting period by total units available for sale during the period. If the average is recomputed each time a purchase is made, the result is called a *moving average. p. 172*

wholesale companies Companies that sell goods to other businesses. *p. 86*

withdrawals Distributions to the owners of proprietorships and partnerships. *p. 291*

work in process inventory Asset account used to accumulate the product costs (direct materials, direct labor, and overhead) associated with incomplete products that have been started but are not yet completed. *p. 370*

working capital Current assets minus current liabilities. *p. 571*

working capital ratio Another term for the current ratio; calculated by dividing current assets by current liabilities. *p. 326*