



فرهنگ اصلاحات تجزیه و تحلیل مالی

Financial Analysis Glossary

10-K Report	Mandatory report filed by a company on an annual basis with the Securities and Exchange Commission.
10-Q Report	Mandatory report filed by a company on a quarterly basis with the Securities and Exchange Commission.
Accelerated Cost Recovery System (ACRS)	Depreciation method introduced for tax purposes in 1981 and subsequently modified. See Modified Accelerated Cost Recovery System (MACRS).
Accelerated depreciation	Any depreciation method in which the charges in earlier periods exceed those in later periods.
Account	A record used to classify and summarize transactions.
Account form of balance sheet	A balance sheet that presents assets on the left-hand side and liabilities and owners' equity on the right-hand side.
Accounting	The systematic process of measuring the economic activity of an entity to provide useful information to those who make business and economic decisions.
Accounting changes	A term used to describe the use of a different accounting principle, estimate, or reporting entity than used in a prior year.
Accounting controls	Procedures concerned with safeguarding the assets or the reliability of the financial statements.
Accounting cycle	A series of steps used for analyzing, recording, classifying, and summarizing transactions.
Accounting equation	$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}.$
Accounting errors	Mistakes resulting from mathematical errors, improper application of accounting principles, or omissions of material facts.
Accounting period	The time to which accounting reports are related.
Accounting policies	The accounting principles and practices adopted by a company to report its financial results.
Accounting Principles Board (APB)	A board established by the AICPA that issued opinions establishing accounting standards during the period 1959–1973.

Accounting process	The procedures used for analyzing, recording, classifying, and summarizing the information to be presented in accounting reports.
Accounting Research Bulletins (ARBs)	Publications of the Committee on Accounting Procedure of the AICPA that established accounting standards during the years 1939–1959.
Accounting system	The procedures and methods used to collect and report accounting data.
Accounts payable	Amounts owed for inventory, goods, or services acquired in the normal course of business.
Accounts receivable (trade receivables)	Monies due on accounts from customers arising from sales or services rendered.
Accounts receivable factoring	The sale of receivables without recourse for cash to a third party.
Accrual basis	The accrual basis of accounting dictates: revenue is recognized when realized (realization concept) and expenses are recognized when incurred (matching concept).
Accrued expenses	Expenses incurred but not recognized in the accounts.
Accrued liability	A liability resulting from the recognition of an expense before the payment of cash.
Accrued pension cost	The difference between the amount of pension recorded as an expense and the amount of the funding payment.
Accrued revenues	Revenues for services performed or for goods delivered that have not been recorded.
Accumulated Benefit Obligation (ABO)	The present value of pension benefits earned to date based on employee service and compensations to that date.
Accumulated depreciation	Depreciation allocates the cost of buildings and machinery over the periods of benefits. The depreciation expense taken each period accumulates in the account, accumulated depreciation.
Accumulated Postretirement Benefit Obligation (APBO)	The present value of postretirement benefits earned to date based on employee service to that date.
Acquisition	A business combination in which one corporation acquires control over the operations of another entity.
Acquisition cost	The amount that includes all of the cost normally necessary to acquire an asset and prepare it for its intended use.
Acquisitions	Companies that have been acquired.
Actuarial assumptions	Assumptions about future events based on historic data such as employee turnover, service lives, and longevity that are used to estimate future costs such as pension benefits.
Actuarial present value	The present value of pension obligations determined by using stated actuarial assumptions and estimates.
Additional paid-in capital	The investment by stockholders in excess of the stocks par or stated value as well as invested capital from other sources, such as donations of property or sale of treasury stock.
Additions	Enlargements and extensions of existing facilities.
Adjusting entries	Entries made at the end of each accounting period to update the accounts.
Administrative controls	Procedures concerned with efficient operation of the business and adherence to managerial policies.
Administrative expense	Result from the general administration of the company's operation.

Adverse opinion	An audit opinion issued whenever financial statements contain departures from GAAP that are too material to warrant only a qualification. This opinion states that the financial statements do not present fairly the financial position, results of operations, or cash flows of the entity in conformity with GAAP.
Aging of accounts receivables	A method of reviewing for uncollectible trade receivables by which an estimate of the bad debts expense is determined. The receivable balances are classified into age categories and then an estimate of noncollection is applied.
Aging schedule	A form used to categorize the various individual accounts receivable according to the length of time each has been outstanding.
Allowance for Funds Used During Construction (AFUDC)	The recording of AFUDC is a utility accounting practice prescribed by the state utility commission. It represents the estimated debt and equity costs of financing construction work in progress. AFUDC does not represent a current source of cash, but under regulatory rate practices, a return on and recovery of AFUDC is permitted in determining rates charged for utility services. Some utilities report the estimated debt and equity costs of financing construction work in progress in separate accounts.
Allowance for uncollectible accounts	A contra accounts receivable account showing an estimate of the accounts receivable that will not be collected.
Allowance method	A method of estimating bad debts on the basis of either the net credit sales of the period or the accounts receivable at the end of the period.
American Accounting Association (AAA)	An accounting organization of accounting professors and practicing accountants.
American Institute of Certified Public Accountants (AICPA)	The AICPA is the national professional organization for certified public accountants (http://www.aicpa.org).
Amortization	The periodic allocation of the cost of an intangible asset over its useful life.
Annual report	A formal presentation containing financial statements and other important information prepared by the management of a corporation once a year.
Annuity	A series of equal payments (receipts) over a specified number of equal time periods.
Antidilution of earnings	Assumed conversion of convertible securities or exercise of stock options that results in an increase in earnings per share or a decrease in loss per share.
Antidilutive securities	Securities whose assumed conversion or exercise results in an increase in earnings per share or a decrease in loss per share.
Appropriated retained earnings	A restriction of retained earnings that indicates that a portion of a company's assets are to be used for purposes other than paying dividends.
Appropriations (government accounting)	Budget authorizations of expenditures.
Arm's-length transaction	Transactions that are conducted by independent parties, each acting in their own self-interest.
Asset impairment	Condition where a resource's expected future cash flow is less than its reported book value. The income statement reports losses on impaired assets.
Assets	Probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.

Assignment of receivables	The borrowing of money with receivables pledged as security.
Attestation	Any service performed by a CPA resulting in a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of investigating another party.
Audit committee	A committee of the board of directors comprised mainly of outside directors having no management ties to the organization.
Audit report	The mechanism for communicating the results of an audit.
Auditing	A systematic process of objectively obtaining and evaluating evidence regarding assertions and communicating the results to interested users.
Auditor	A person who conducts an audit.
Authorized stock	The maximum number of shares a corporation may issue without changing its charter with the state.
Available-for-sale securities	Stocks and bonds that are not classified as either held-to-maturity or trading securities.
Average cost method (inventory)	Averaging methods lump the costs of inventory to determine an average.
Balance sheet (classified)	A form that segregates the assets and liabilities between current and noncurrent.
Balance sheet (financial position form)	A form that deducts current liabilities from current assets to show working capital. The form adds remaining assets and deducts the remaining liabilities to derive the residual stockholders' equity.
Balance sheet (statement of financial position)	The financial statement which shows the financial position of an accounting entity as of a specific date. The balance sheet lists assets, the resources of the firm; liabilities, the debts of the firm; and stockholders' equity, the owners' interest in the firm.
Balance sheet (unclassified)	A form that does not segregate the assets and liabilities between current and noncurrent.
Balancing equation	$\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$.
Bankruptcy protection	Legal arrangement in which creditor claims are suspended while a court appointed trustee reorganizes the bankrupt firm.
Bargain purchase option	Provision granting the lessee the right, but not the obligation, to purchase leased property at a price that, at the inception date, is sufficiently below the expected fair value of the property at exercise date to provide reasonable assurance of exercise.
Bargain renewal option	Provision granting the lessee the right, but not the obligation, to renew the lease at a rental that, at inception, is sufficiently below the expected fair rental at exercise date to provide reasonable assurance of renewal.
Basic earnings per share	The amount of earnings for the period available to each share of common stock outstanding during the reporting period.
Bearer (coupon) bonds	Bonds whose ownership is determined by possession and for which interest is paid to the holder (bearer) of an interest coupon.
Benchmark	In the content of outcomes and performance discussion, the term refers to desired program results. It may include a target or standard for the program to achieve. It is also used to denote best practices.
BestCalls.com	This site has live broadcasts and recordings of earnings announcements and management interviews (http://www.bestcalls.com).
Big bath	The concept that a company expecting to have a series of hits to earnings in future years is better off to try to recognize all of the bad news in one

	year, leaving future years unencumbered by continuing losses.
Board of directors	A body of individuals who are elected by the stockholders to be their representatives in managing the company.
Bond	A security, usually long-term, representing money borrowed by a corporation. Normally issued with \$1,000 face value.
Bond discount	The difference between the face value and the sales price when bonds are sold below their face value.
Bond indenture	The contract between the issuing entity and the bondholders specifying the terms, rights, and obligations of the contracting parties.
Bond issue price	The present value of the annuity interest payments plus the present value of the principal.
Bond premium	The difference between the face value and the sales price when bonds are sold above their face value.
Bond refinancing	Issuing new bonds to replace outstanding bonds either at maturity or prior to maturity.
Bond sinking fund	A fund established by the segregation of assets over the life of the bond issue to pay the bondholders at maturity.
Bonds (serial)	A bond issue which matures in installments.
Book value	The original cost of an asset less any accumulated depreciation (depletion or amortization) taken to date.
Book value per share	The dollar amount of the net assets of a company on a per share of common stock.
Bottom line	The financial vernacular for net income.
Buildings	A structure used in a business operation.
Business (source) document	Business record used as the basis for analyzing and recording transactions; examples include invoices, check stubs, receipts, and similar business papers.
Business combination	One or more businesses that are merged together as one accounting entity.
Business entity	The viewpoint that the business (or entity) for which the financial statements are prepared is separate and distinct from the owners of the entity.
Calendar year	The accounting year ends on December 31.
Callable bonds	Bonds that a corporation has the option of buying back and retiring at a given price before maturity.
Callable obligation	A debt instrument payable on demand of the company that issued the obligation.
Callable preferred stock	Preferred stock that may be redeemed and retired by the corporation at its option.
Capital	Owners' equity in an unincorporated firm.
Capital expenditures	Costs that increase the future economic benefits of an asset above those originally expected.
Capital lease	Long-term lease in which the risk of ownership lies with the lessee and whose terms resemble a purchase or sale; recorded as an asset with a corresponding liability at the present value of the lease payments.
Capital stock	The portion of the contribution by stockholders assignable to the shares of stock as par or stated value.
Capital structure	Amount, types, and proportion of an entity's liabilities and shareholder's

	equity.
Capitalization	The process of assigning value to a balance sheet account (asset or liability).
Capitalized interest	Interest added to the cost of a fixed asset instead of being expensed.
Carrying value	The face of a bond plus the amount of unamortized premium or minus the amount of unamortized discount.
Cash	The most liquid asset that includes negotiable checks, unrestricted balances in checking accounts, and cash on hand.
Cash (sales) discount	A reduction in sales price allowed if payment is received within a specified period, usually offered to customers to encourage prompt payment.
Cash basis accounting	A system of accounting that records revenues when received and expenses when paid.
Cash dividend	The payment (receipt) of a dividend in cash.
Cash equivalents	A company's highly liquid short-term investments considered to be cash equivalents and usually classified with cash on the balance sheet.
Cash flows from financing activities	Cash flows relating to liability and owners' equity accounts.
Cash flows from investing activities	Cash flows relating to lending money and to acquiring and selling investments and productive long-term assets.
Cash flows from operating activities	Generally the cash effects of transactions and other events that determine net income.
Cash surrender value	The investment portion of a life insurance policy, payable to the policyholder if the policyholder cancels the policy.
Certified Management Accountant (CMA)	An accountant that has met the admission criteria and demonstrated the competency of technical knowledge in management accounting required by the Institute of Management Accountants.
Certified Public Accountant (CPA)	An accountant who has received a certificate stating that he/she has met the requirements of state law.
Change in an accounting estimate	A change in the estimation of the effects of future events.
Change in an accounting principle	Adoption of a generally accepted accounting principle different from the one used previously for reporting purposes.
Change in reporting entity	An accounting change that reflects financial statements for a different unit of accountability.
Chart of accounts	A listing of all accounts used by a company.
Chief accountant of the SEC	An appointed official of the Securities and Exchange Commission.
Chief Financial Officer (CFO)	Executive responsible for overseeing the financial operations of an organization.
Classified balance sheet	A balance sheet that segregates the assets and liabilities as current and noncurrent.
Closing entries	Temporary account balances are transferred to the permanent stockholders' equity account, retained earnings.
Collateral	Security for loans or other forms of indebtedness.
Commercial paper	Short-term obligations or promissory notes, unsecured, interest bearing with flexible maturities.

Commitment fee	A fee for committing to holding a credit facility available over a period of time to a borrower.
Common stock (capital stock)	The stock representing the most basic rights to ownership of a corporation.
Common stock equivalent shares	A security that is not in the form of a common stock, but that contains provisions that enable its holder to acquire common stock.
Common-size analysis (horizontal)	Common-size analysis expresses comparisons in percentages. Horizontal analysis indicates proportionate change over a period of time.
Common-size analysis (vertical)	Common-size analysis expresses comparisons in percentages. Vertical analysis indicates the proportionate expression of each item in a given period to a base figure selected from that same period.
Comparability	For accounting information, the quality that allows a user to analyze two or more companies and look for similarities and differences.
Comparative statements	Financial statements for two or more periods.
Compensated absences	Payments to employees for vacation, holiday, illness, or other personal activities.
Compensating balance requirements	Provisions in loan agreements requiring the borrower to maintain minimum cash balances with the lending institution.
Compensatory option plans	Stock option plans offered to a select group of employees.
Compilation	A professional service in which the CPA presents information that is the representation of management without undertaking to express any assurance on the statements.
Completed-contract method	A method that recognizes revenues on long-term construction contracts only when the contract is completed.
Complex capital structure	Capital structure that has potentially dilutive securities such as convertible debt, preferred stock, and options.
Composite depreciation	A depreciation method which aggregates dissimilar assets and computes depreciation for the aggregation based on a weighted average life expectancy.
Compound interest	The process of earning interest on interest from previous periods.
Comprehensive income	Net income plus the periods change in accumulated other comprehensive income (accumulated other comprehensive income is a category within stockholders' equity).
Conglomerates	Complex companies that operate in multiple industries.
Conservatism	The concept that directs that the measurement with the least favorable effect on net income and financial position in the current period be selected.
Conservative analysis	This perspective represents a relatively strict interpretation of the value of assets and what constitutes debt.
Consigned goods	Inventory physically located at a dealer but another company retains title until the consignee sells the inventory.
Consignment	A transfer of property without a transfer of title and risk of ownership. The recipient of the property (consignee) acts as a selling agent on behalf of the owner (consignor).
Consistency	The concept requiring the entity to give the same treatment to comparable transactions from period to period.

Consolidated financial statements	The combined financial statements of a parent company and its subsidiary.
Constant dollar accounting (price-level accounting)	The method of reporting financial statement elements in dollars having similar purchasing power. Constant dollar accounting measures general changes in prices of goods and services.
Construction-in-process	Fixed asset account where construction costs are recorded until construction is completed.
Contingencies	Conditions which may result in gains and losses, and that will be resolved by the occurrence of future events.
Contingent asset	An asset that may arise in the future if certain events occur.
Contingent liabilities	Liabilities whose payment is dependent on a particular occurrence such as settlement of litigation or a ruling of tax court.
Contra account	An account used to offset a primary account in order to show a net valuation, e.g., accounts receivable (primary account) less allowance for doubtful accounts (contra account).
Contributed capital	The sum of the capital stock accounts and the capital in excess of par (or stated) value accounts.
Contributory pension plan	A pension plan in which employees make contributions to the plan and thus bear part of the cost.
Control account	The general ledger account that is supported by a subsidiary ledger.
Controller	The chief accounting officer for a company. This individual usually reports to the Chief Financial Officer (CFO).
Convertible bonds	Bonds that may be exchanged for other securities of the corporation, usually common stock.
Convertible preferred stock	Preferred stock that can be converted into common stock.
Convertible securities	Securities whose terms permit the holder to convert the investment into common stock of the issuing companies.
Copyright	An exclusive right granted by the federal government to publish and sell literary, musical, and other artistic materials.
Corporate officers	Senior executive managers of the company identified by title and name.
Corporation	A separate legal entity having its own rights, privileges, and liabilities distinct from those of its owners.
Cost accounting	Determines product costs and other relevant information used.
Cost of goods manufactured	The total cost of goods completed in the manufacturing process during an accounting period.
Cost of goods sold	Cost of goods available for sale minus ending inventory.
Cost of goods sold or cost of sales	The cost of goods sold during an accounting period.
Cost principle	The accounting principle that records historical cost as the appropriate basis of initial accounting recognition of all acquisitions, liabilities, and owners' equity.
Cost recovery	A revenue recognition method which requires recovery of the total cost prior to the recognition of revenue.
Cost/benefit	The process of determining that the benefit of an act or series of acts exceeds the cost of performing the act(s).
Coupon rate	The stated interest rate in a bond contract. Also referred to as the nominal,

	stated, or face rate.
Covenants	Conditions placed in a loan or credit agreement by the lender to protect its position as a creditor of the borrowing.
Credit	An entry on the right side of an account.
Credit agreement	A contractual arrangement between a lender and a borrower which sets the terms and conditions for borrowing.
Credit ratings	Formal credit risk evaluations by credit rating agencies of a company's ability to repay principal and interest on its debt obligations.
Credit risk	Uncertainty that the party on the other side of an agreement will abide by the terms of the agreement.
Creditor	A party who lends money to a company.
Cumulative effect of change in accounting principle	The effect that a new accounting principle would have had on net income of prior periods if it had been used instead of the old principle.
Cumulative preferred stock	Preferred stock on which unpaid dividends accumulate over time and must be satisfied in any given year before a dividend may be paid to common stockholders.
Currency swap	An exchange of two currencies as part of an agreement to reverse the exchange on a specific future date.
Current assets	Current assets are assets (1) in the form of cash, (2) that will normally be realized in cash, or (3) that conserve the use of cash during the operating cycle of a firm or for one year, whichever is longer.
Current cost	The current replacement cost of the same asset owned, adjusted for the value of any operating advantages or disadvantages.
Current liabilities	Obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets or the creation of other current liabilities.
Current market value	The amount of cash, or its equivalent, that could be obtained by selling an asset in an orderly liquidation.
Current maturity of long-term debt	The portion of a long-term debt payable within the next operating cycle or one year, whichever is longer.
Current replacement cost	The estimated cost of acquiring the best asset available to undertake the function of the asset owned.
Current value	The amount of cash, or its equivalent, that could be received by selling an asset currently.
Debenture bonds	Bonds issued on the general credit of a company.
Debit	An entry on the left side of an account.
Debt	Considered to be funds a company has borrowed from a creditor.
Debt securities	Investments in debt instruments such as commercial paper or bonds.
Debt service	A term used by bankers, which refers to a borrower's requirement to make payment of the current maturities on outstanding debt.
Decentralization	The freedom for managers at lower levels of the organization to make decisions.
Decision usefulness	The overriding quality or characteristic of accounting information.
Declining balance method	The declining balance method applies double the straight-line depreciation rate times the declining book value (cost minus accumulated depreciation) to achieve a declining depreciation charge over the estimated life of the

asset.

Default risk	The probability that a company will be unable to meet its obligations.
Defeasance	A method of early retirement of debt in which risk-free securities are purchased and then placed in a trust account to be used to retire the outstanding debt at its maturity.
Deferral	The postponement of the recognition of an expense already paid or of a revenue already received.
Deferred charge	A long-term expense prepayment amortized to expense.
Deferred expense	An asset resulting from the payment of cash before the incurrence of expense.
Deferred financing costs, net	An asset account usually classified under other assets; costs associated with the issuance of long-term bonds that have not been amortized.
Deferred revenue	A liability resulting from the receipt of cash before the recognition of revenue.
Deferred taxes	A balance sheet account; classified as an asset or liability depending on the nature of the timing differences. The differences are the result of any situation that recognizes revenue or expense in a different time period for tax purposes than for the financial statements.
Deficit	A negative (debit) balance in retained earnings.
Defined benefit pension plan	A pension plan that defines the benefits that employees will receive at retirement.
Defined contribution pension plan	A pension plan that specifies the employer's contributions and bases benefits solely on the amount contributed.
Depletion	Recognition of the wearing away or using up of a natural resource.
Depreciation expense	The process of allocating the cost of buildings, machinery, and equipment over the periods benefited.
Derivative instruments	Financial instruments or other contracts where rights or obligations meet the definitions of assets or liabilities.
Devaluation	A downward adjustment of the exchange rate between two currencies.
Diluted earnings per share	The amount of earnings for the period available to each share of common stock outstanding during the reporting period and to each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the reporting period.
Dilution	Refers to the effect on earnings calculations when the number of shares issued increases disproportionately to the growth in the earnings.
Direct financing type lease	A capital lease in which the lessor receives income only from financing the "purchase" of the leased asset.
Direct method	For preparing the operating activities section of the statement of cash flows, the approach in which cash receipts and cash payments are reported.
Direct write-off method	A method of recognizing specific accounts receivable determined to be uncollectible.
Disclaimer of opinion	Inability to render an audit opinion because of lack of sufficient evidence or lack of independence.
Discontinued operations	The disposal of a major segment of a business.
Discount	The excess of the face value of bonds over the issue price.

Discount on bonds	A bond is issued below its face amount, indicating that the coupon rate is lower than the market rate for similar bonds.
Discount on notes payable	A contra liability that represents interest deducted from a loan in advance.
Discount rate	The interest rate used to compute the present value.
Discounted Cash Flow (DCF)	Measures all expected future cash inflows and outflows as if they occurred at a single point in time.
Discounted note	A non-interest-bearing note where the interest charge has been deducted from the principal in advance.
Discounting	The process of selling a promissory note.
Discussion Memorandum (DM)	A document issued by the FASB that identifies the principal issues involved with financial accounting and reporting topics. It includes a discussion of the various points of view as to the resolution of issues but does not reach a specific conclusion.
Divestitures	Companies that have been disposed of.
Dividends (cash)	Cash payment from current or past income to the owners of a corporation.
Dividends (stock)	A percentage of outstanding stock issued as new shares to existing shareholders.
Dividends in arrears	The accumulated unpaid dividends from prior years on cumulative preferred stock.
Dividends payable	A current liability on the balance sheet resulting from the declaration of dividends by the board of directors.
Dollar-value LIFO	An adaptation of LIFO that measures inventory by total dollar amount rather than by individual units. LIFO increment layers are determined based on total dollar changes.
Donated assets	Receipt of assets without being required to give goods or services in return.
Donated capital	Assets donated to the company by stockholders, creditors, or other parties.
Double-declining-balance depreciation	A method of calculating depreciation by which a percentage equal to twice the straight-line percentage is multiplied by the declining book value to determine the depreciation expense for the period (salvage value is ignored when calculating).
Double-entry accounting	A system of recording transactions in a way that maintains the equality of the equation: Assets = Liabilities + Stockholders' Equity.
Dry holes	Wells drilled which do not find commercial quantities of oil or gas.
Early extinguishment of debt	The retirement of debt prior to the maturity date.
Earnings	A term used interchangeably with income and profit.
Earnings per share	A company's bottom line stated on a per-share basis.
Economic substance	The "real" nature of a transaction, as opposed to its legal form.
EDGAR system	The SEC's electronic data gathering analysis and retrieval system.
Effective rate of interest	The yield or true rate of interest.
Efficient market hypothesis	A theory to explain the functioning of capital markets in which share prices reflect all publicly available information.
Emerging Issues Task Force (EITF)	A task force of representatives from the accounting profession created by the FASB to deal with emerging issues of financial reporting.

Employee Retirement Income Security Act (ERISA)	A legislative act passed by Congress in 1974 that made significant changes in requirements for employer pension plans. This act has been amended several times since 1974.
Employee Stock Ownership Plans (ESOPS)	A qualified stock-bonus, or combination stock-bonus and money purchase, pension plan designed to invest in primarily the employer's securities.
Enterprise funds (governmental accounting)	Funds used to report any activity for which a fee is charged to external users for goods or services.
Entity assumption	Accounting records are kept for the business entity as distinct from the entity's owners.
Equipment	Assets used in the production of goods or in providing services.
Equity	Equity is the residual interest in the assets of an entity that remains after deducting its liabilities. Synonymous with the expression shareholders' equity.
Equity in earnings of nonconsolidated subsidiaries	When a firm has investments in stocks, uses the equity method of accounting, and the investment is not consolidated, then the investor firm reports equity earnings (the proportionate share of the earnings of the investee).
Equity method	A method to value intercorporate equity investments by adjusting the investor's cost basis for the percentage ownership in the investee's earnings (or losses) and for any dividends paid by the investee.
Equity securities	Securities issued by corporations as a form of ownership in the business.
Equity-oriented deferred compensation	The amount of compensation cost deferred and amortized to future periods as the services are provided.
ERISA	The acronym for the Employee Retirement Income Security Act of 1974.
Estimated economic life of leased property	The useful life of leased property estimated at inception under conditions of normal maintenance and repairs.
Estimated liability	An obligation of the entity whose exact amount cannot be determined until a later date.
Estimated residual value of leased property	The expected fair or market value of leased property at the end of the lease term.
Estimated useful life	The period of time that a company establishes in order to depreciate a fixed asset.
Ethics	A set of principles referring to ideals of character and conduct.
Event	A happening of consequence to an entity.
Exchange rate	The rate at which one unit of currency may be purchased by another unit of currency.
Executory costs	Insurance, maintenance, and local and property taxes on leased property.
Expectations gap	The disparity between users' and CPAs' perceptions of professional services, especially audit services.
Expenses	Outflows or uses of assets or incurrences of liabilities (or a combination of both) during the process of an entity's revenue-generating operations.
Exposure Draft (ED)	A proposed Statement of Financial Accounting Standards.
External expansion	Occurs as firms take over, or merge with, other existing firms.
Extraordinary items	Material events and transactions distinguished by their unusual nature and infrequent occurrence.

Face amount, maturity value	The amount that will be paid on a bond (note) at the maturity date.
Face rate of interest	The rate of interest on the bond certificate.
Factor	Selling accounts receivable for cash.
Fair value	The amount at which an asset (liability) could be bought (incurred) or sold (settled) in a current transaction between willing parties.
Feedback value	An ingredient of relevant accounting information.
Fiduciary duty	Management's obligation to protect the interests of equity investors.
Fiduciary funds (governmental accounting)	Funds used to report assets held in a trustee or agency capacity for others.
FIFO method	An inventory costing method that assigns the most recent costs to ending inventory.
Financial accounting	Recording and communication of financial information under GAAP.
Financial Accounting Standards Board (FASB)	A body that has responsibility for developing and issuing rules on accounting practice in the United States (http://www.fasb.org).
Financial analysis	Describes the process of studying a company's financial report.
Financial leverage	The amount of debt financing in relation to equity financing.
Financial news	For a wealth of information about the economy and specific companies and industries (The Wall Street Journal, http://www.wsj.com ; New York Times, http://www.nyt.com ; Financial Times, http://www.news.ft.com ; Investors Business Daily, http://www.investors.com).
Financial portals	These sites have financial news, information about companies, and other financial information. There are many such sites. Some popular sites are Microsoft's Money Central (http://www.moneycentral.msn.com), Yahoo (http://finance.yahoo.com), and The Street.com (http://www.thestreet.com).
Financial Reporting Release (FRR)	SEC statement dealing with reporting and disclosure requirements in documents filed with the SEC.
Financial statement (report) analysis	The process of reviewing, analyzing, and interpreting the basic financial reports.
Financial statements	Generally considered to be the balance sheet, income statement, and statement of cash flows.
Financial summary	A section of the annual report which provides a 5-, 10-, or 11-year summary of selected financial data.
Financing activities	Activities concerned with the raising and repayment of funds in the form of debt and equity.
Finished goods	A manufacturer's inventory that is complete and ready for sale.
First-in, first-out (FIFO) (inventory)	The flow pattern assumes that the first unit purchased is the first sold.
Fiscal year	Any 12-month accounting period used by an economic entity, which closes at the end of a month other than December.
Fixed assets	Tangible, long-lived assets, primarily property, plant, and equipment. They are expected to provide service benefit for more than one year.
Fixed cost	Cost that remains unchanged in total for a given time period, despite wide changes in the related level of total activity or volume.

Forecasted transaction	A transaction that is expected to occur for which there is no firm commitment.
Foreign Corrupt Practices Act	Legislation intended to increase the accountability of management for accurate records and reliable financial statements.
Foreign currency	A currency other than the entity's functional currency.
Foreign currency transactions	Transactions that are settled with a nondomestic currency.
Foreign exchange rate	Specifies the number of U.S. dollars (from a U.S. perspective) that are needed to obtain one unit of a specific foreign currency.
Foreign operations	Operational activities that take place in a foreign country.
Form 10-K	An SEC form required to be filed within 90 days of a company's fiscal year-end. It is like an annual report but with more detail.
Form 10-Q	An SEC form required to be filed within 45 days of the end of a company's first, second, and third fiscal year quarters. It contains interim information on a company's operations and financial position.
Form 20-F	The annual financial report filing with the SEC required of all foreign companies whose debt or equity capital is available for purchase/sale on a U.S. exchange.
Form 8-K	A special SEC filing required when a material event or transaction occurs between Form 10-Q filing dates.
Form S-1	Form filed with the Securities and Exchange Commission listing securities to be traded on a national stock market.
Form S-4	Form filed with the Securities and Exchange Commission that registers securities used to effect a business combination.
Form versus substance	Form refers to the legal nature of a transaction or event; substance refers to the economic aspects of the transaction or event.
Forward contract	Agreement to purchase or sell commodities, securities, or currencies on a specified future date at a specified price.
Forward exchange rate	A rate quoted currently for the exchange of currency at some future specified date.
Franchise	A contractual privilege granted by one person to another permitting the sale of a product, use of trade name, or provision of a service within a specified territory and/or in a specified manner.
Fraud	Intent to deceive.
Fraudulent transfer	A transfer of an interest or an obligation incurred by the debtor within one year prior to the date of filing a bankruptcy petition with the intent to defraud creditors.
Full disclosure	Accounting reports must disclose all facts that may influence the judgment of an informed reader.
Full-costing method	The method of accounting that capitalizes all costs of exploring for and developing oil and gas reserves within a defined area subject only to the limitation that costs attributable to developed reserves should not exceed their estimated present value.
Functional currency	The currency a company uses to conduct its business.
Fund accounting	Accounting procedures in which a self-balancing group of accounts is provided for each accounting entity established by legal, contractual, or voluntary action.
Fund financial	Consist of a series of statements that focus on information about the

statements (governmental accounting)	government's major governmental and enterprise funds, including its blended component units.
Funding payment	A payment made by the employer to the pension fund on its trustee.
Future contract	Exchange-traded contract for future acceptance or delivery of a standardized quantity of a commodity or financial instrument on a specified future date at a specified price.
Future value of an annuity	Amount accumulated in the future when a series of payments is invested and accrues interest.
Gain or loss on redemption	The difference between the carrying value and the redemption price at the time bonds are redeemed.
Gains	Profits realized from activities that are incidental to a firm's primary operating activities.
General fund (governmental accounting)	This fund is used to account for all financial resources not accounted for in another fund.
General journal	A journal used to record transactions not maintained in special journals.
General ledger	A record of all accounts used by a company.
General partnership	An association in which each partner has unlimited liability.
Generally Accepted Accounting Principles (GAAP)	Accounting principles that have substantial authoritative support.
Generally Accepted Auditing Standards (GAAS)	GAAS are the standards governing the conduct of independent audits of nonpublic companies by CPAs, as determined by the Auditing Standards Board (ASB) of the AICPA.
Going concern or continuity	Assumes that the entity being accounted for will remain in business for an indefinite period of time.
Goodwill	An intangible asset representing the unrecorded assets of a firm. It appears in the accounting records only if the firm is acquired for a price in excess of the fair market value of its net assets.
Government-wide financial statements	These financial statements consist of a statement of net assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government.
Governmental Accounting Standards Board (GASB)	The standards-setting body for governmental accounting and financial reporting.
Governmental funds	General, special revenue, project, debt service, and special assessment funds; each designed for a specific purpose and used by a state or local government to account for its normal operations.
Grant date	The date at which an employer and an employee reach a mutual understanding of the key terms and conditions of a share-based payment award.
Gross profit margin	Gross profit margin equals the difference between net sales revenue and the cost of goods sold.
Group depreciation	A depreciation method which groups like assets together and computes depreciation for the group rather than for individual assets.
Guarantee Of Employee Stock Ownership Plan	An employee stock bonus plan used as a financing vehicle for an employer which borrows money to purchase its own stock. The stock is security for the loan, and the ESOP repays the loan from employer contributions.

(ESOPs)

Guaranteed residual value	A guarantee by lessee of a minimum value for the residual value of a leased asset. If the residual value is less than the guarantee, the lessee must pay the difference to the lessor.
Harmonization of accounting principles	The attempt by various organizations (e.g., the FASB, IASB) to establish a common set of international accounting and reporting standards.
Hedge	A process of buying or selling commodities, forward contracts, or options for the explicit purpose of reducing or eliminating foreign exchange risk.
Hedging contract	A contract to buy or sell foreign currencies in the forward market to protect against the risks of foreign exchange rate fluctuations.
Held-to-maturity securities	Investments in bonds of other companies in which the investor has the positive intent and the ability to hold the securities to maturity.
Historical cost	The cash equivalent price of goods or services at the date of acquisition.
Horizontal analysis	A comparison of financial statement items over a period of time.
Human resource accounting	Attempts to account for the services of employees.
Hybrid securities	A security that is neither clearly debt nor clearly equity.
Impairment	A temporary or permanent reduction in asset value.
Implicit interest rate	The interest rate that would discount the minimum lease payments to the fair market value of the leased asset at the lease signing date.
Imputed interest rate	A rate of interest applied to a note when the effective rate was either not evident or determinable by other factors involved in the exchange.
In-substance defeasance of debt	The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying the payments of both interest and principal on a specific debt obligation.
Income smoothing	An accounting practice that attempts to present a stable measure of income (usually an increasing amount).
Income statement (statement of earnings)	A statement that summarizes revenues and expenses.
Income taxes	Taxes levied by federal, state, and local governments on reported accounting profit. Income tax expense includes both tax paid and deferred.
Inconsistency	A change in accounting principle from one period to the next, requiring an explanatory paragraph following the opinion paragraph of the auditor's report.
Incorporation by reference	Direction of the reader's attention to information included in the annual report to shareholders, rather than reporting such information in Form 10-K.
Incremental borrowing rate	The interest rate at which the lessee could borrow the amount of money necessary to purchase the leased asset, taking into consideration the lessee's financial situation and the current conditions in the marketplace.
Indentures	Provisions and restrictions attached to a bond that make the bond more attractive for investors.
Indirect method	For preparing the operating activities section of the statement of cash flows, the approach in which net income is reconciled to net cash flow from operations.
Industry practices	Practices leading to accounting reports that do not conform to the general theory that underlies accounting.
Industry segment	A component of an organization providing a product or related products

(or services) to outside parties.

Inflation	An increase in the general price level of goods and services.
Information overload	Amount of data that unnecessarily complicates analysis.
Initial direct costs	Costs such as commissions, legal fees, and preparation of documents that are incurred by the lessor or negotiating and completing a lease transaction.
Initial Public Offering (IPO)	The first or initial sale of voting stock to the general market by a previously privately held concern.
Insolvent	A condition in which a company is unable to pay its debts.
Installment method	The method in which revenue is recognized at the time cash is collected.
Installment sales	A type of sale which requires periodic payments over an extended length of time.
Institute of Management Accountants (IMA)	An organization of management accountants concerned with the internal use of accounting data.
Intangibles	Nonphysical assets, such as legal rights, recorded at historical cost, then reduced by systematic amortization.
Intercompany profit	The profit resulting when one related company sells to another related company.
Intercompany receivables and payables	Receivables and payables among a parent company and its subsidiary(ies).
Interest	The cost for the use of money. It is a cost to the borrower and revenue to the lender.
Interest rate risk	Uncertainty about future interest rates and their impact on future cash flows as well as on the fair value of existing assets and liabilities.
Interest rate swaps	An agreement to exchange variable rate interest payments based on a specific index for a fixed rate or a variable rate stream of payments based on another index.
Interest-bearing note	A debt instrument (note) that pays interest at a stated rate for a stated period.
Interim reports	Financial reports that cover fiscal periods of less than one year.
Internal auditing	The department responsible in a company for the review and appraisal of its accounting and administrative controls.
Internal control	The process effected by an entity to provide reasonable assurance regarding the achievement of objectives. It consists of three parts—operations controls, financial reporting controls, and compliance controls.
Internal event	An event occurring entirely within an entity.
Internal financing	Financing provided from cash generated from business operations.
Internal Revenue Service (IRS)	U.S. government agency responsible for administering U.S. income tax rules.
International Accounting Standards (IAS)	The accounting standards adopted by the IASC and later by the IASB.
International Accounting Standards Board (IASB)	Established in January 2001 to replace the IASC. The new structure has characteristics similar to that of the FASB. The IASB sets global financial accounting and reporting standards (http://www.iasb.org).

International Accounting Standards Committee (IASC)	An organization established in 1973 by the leading professional groups of the major industrial countries.
International Federation of Accountants (IFAC)	An association of professional accounting organizations founded in 1977.
Interperiod	Of or related to more than one reporting period.
Interperiod tax allocation	The process of allocating the taxes paid by a company over the periods in which the taxes are recognized for accounting purposes.
Intraperiod	Of or related to one reporting period.
Intrinsic value method	Method of accounting for stock-based compensation in which the difference between the exercise price and the market price per share at the grant date is used to measure compensation expense.
Introductory paragraph	The first paragraph of the standard audit report, which identifies the financial statements covered by the audit report and clearly differentiates management's responsibility for preparing the financial statements from the auditor's responsibility for expressing an opinion on them.
Inventories	The balance of goods on hand.
Inventory-lower-of-cost-or-market (LCM) rule	An inventory pricing method which prices the inventory at an amount below cost if the replacement (market) value is less than cost.
Investing activities	Describes a firm's uses of cash to acquire other assets. A category shown on the cash flow statement.
Investments	Usually stocks and bonds of other companies held for the purpose of maintaining a business relationship or exercising control. To be classified as long term, it must be the intent of management to hold these assets as such. Long-term investments are differentiated from marketable securities, where the intent is to hold the assets for short-term profits and to achieve liquidity.
Investors	Owners and potential owners of a company.
Invoice	Form sent by the seller to the buyer as evidence of a sale.
Issued stock	The shares of stock sold or otherwise transferred to stockholders.
Joint venture	An association of two or more businesses established for a special purpose; some in the form of partnerships and unincorporated joint ventures; others in the form of corporations jointly owned by two or more other firms.
Journalizing	The act of recording journal entries.
Journals	Initial recordings of a company's transactions.
Junk bonds	High-risk, high-yield bonds issued by companies in a weak financial condition.
Kiting	A type of misrepresentation fraud used to conceal bank overdrafts or cash misappropriations.
Labor intensive	Activities, companies, and industries that are dominated by human effort.
Land	Realty used for business purposes. It is shown at acquisition cost and not depreciated. Land containing resources that will be used up, however, such as mineral deposits and timberlands, is subject to depletion.
Land improvements	Expenditures incurred in the process of putting land into a usable condition, e.g., clearing, grading, paving, etc.

Lapping	A form of concealment that involves crediting current customer remittances to the accounts of customers who have remitted previously.
Last-in, first-out (LIFO) (inventory)	The flow pattern assumes that those units purchased last are sold first.
Lease	An agreement conveying the right to use property, plant, or equipment (land and/or depreciable assets) for a stated period of time.
Lease improvement	An improvement to leased property that becomes the property of the lessor at the end of the lease.
Lease term	The noncancelable period of a lease designated in the lease contract plus the period of any bargain renewal periods over which the lease is likely to be renewed.
Leasehold	A payment made to secure the right to a lease.
Ledger	Summarizes the effects of transactions upon individual accounts.
Lessee	The party to a lease who acquires the right to use the property, plant, and equipment.
Lessor	The party to a lease giving up the right to use the property, plant, and equipment.
Letter to the shareholders	A section of the annual report that presents a message from the company's chairman of the board or president.
Leverage	The degree to which a company uses borrowed funds instead of invested funds. By adding borrowed funds to their own capital, owners are said to "leverage" their investment.
Leveraged Buy-Out (LBO)	A purchase of a company where a substantial amount of the purchase price is debt financed.
Liabilities	Future sacrifices of economic benefits arising from present obligations to other entities.
License	Rights to engage in a particular activity.
Life cycle	Progression of a product, company, or industry from inception, through growth, to maturity, and into decline.
LIFO conformity rule	A federal tax regulation that requires the use of LIFO for financial reporting purposes if LIFO is used for income tax purposes.
LIFO inventory pool	A group of inventory items having common characteristics and assumed to be the same when applying LIFO.
LIFO layer	An incremental group of LIFO inventory items created in any year in which the number of units purchased or produced exceeds the number sold.
LIFO liquidation	The reduction or elimination of old LIFO layers because total purchases or production in the current period is less than sales.
LIFO method	An inventory method that assigns the most recent costs to the cost of goods sold.
LIFO reserves (LIFO valuation adjustment)	The amount that would need to be added back to the LIFO inventory in order for the inventory account to approximate current cost.
Limited liability	The concept that stockholders in a corporation are not held personally liable.
Line of credit	A prearranged loan allowing borrowing up to a certain maximum amount.
Liquid assets	Current assets that either are in cash or can be readily converted to cash.
Liquidating dividend	A dividend that exceeds the balance in retained earnings.

Liquidation	The process of selling off the assets of a business, paying any outstanding debts, and distributing any remaining cash to the owners.
Liquidity	The nearness to cash of the assets and liabilities.
Listed company	A company whose shares or bonds have been accepted for trading on a securities exchange.
Loan (mortgage) amortization	The process by which payments on a loan are allocated between principal and interest components.
Loan covenant	Provision of a loan contract restricting the actions of the borrower or allowing for some monitoring of the borrower's actions.
Loan defaults	Violations of loan agreements that could result in loan principal and interest becoming immediately due.
Loan restructuring	Revision of loan terms in a manner mutually acceptable to the lender and borrower.
Long-term liabilities	Long-term liabilities are those due in a period exceeding one year or one operating cycle, whichever is longer.
Loss on sale of asset	The amount by which selling price is less than book value.
Losses	Losses realized from activities that are incidental to a firm's primary activities.
Lower of cost or market	A method to value inventories and marketable securities.
Machinery	An asset listed at historical cost, including delivery and installation, plus any material improvements that extend its life or increase the quantity or quality of service; depreciated over its estimated useful life.
Maintenance	Expenditures made to maintain plant assets in good operating condition.
Management's discussion and analysis (MD&A)	Part of the annual report package required by the Securities and Exchange Commission. Management comments on the results of operations, liquidity, and capital resources for the years under review in the financial statements.
Management accounting	The branch of accounting concerned with providing management with information to facilitate planning and control.
Management report	Management statements to shareholders that acknowledge management's responsibility for the preparation and integrity of financial statements.
Market capitalization	Total value of an entity's outstanding shares at a point in time which reflects the value investors place on a company. It is computed by multiplying the number of common shares outstanding by the share price.
Market value (stock)	The price investors are willing to pay for a share of stock.
Marketable securities	Ownership and debt instruments of the government and other companies that can be readily converted into cash.
Matching	The concept that determines the revenue and then matches the appropriate cost incurred in generating this revenue.
Materiality	The concept that exempts immaterial items from the concepts and principles that bind the accountant, and allows these items to be handled in the most economical and expedient manner possible.
Maturity date	Date on which the principal of a note becomes due.
Maturity value	The amount of cash the maker is to pay the payee on the maturity of the note.
Merchandise inventory	The account wholesalers and retailers use to report inventory held for sale.

Merger	A combination of one or more companies into a single corporate entity.
Minimum lease payments	The lease payments required over the lease term plus any amount to be paid for the residual value either through a bargain purchase option or a guarantee of residual value.
Minority interest (balance sheet account)	The ownership of minority shareholders in the equity of consolidated subsidiaries that are less than wholly owned.
Minority share of earnings	The portion of income that belongs to the minority owners of a firm that has been consolidated.
Misappropriation	The fraudulent transfer of assets from the firm to one or more employees.
Modified Accelerated Cost Recovery System (MACRS)	The accelerated cost recovery system as revised by The Tax Reform Act of 1986.
Monetary assets	Cash and other assets that represent the right to receive a specific amount of cash.
Monetary liabilities	Accounts payable and other liabilities that represent the obligation to pay a specific amount of cash.
Monetary unit	The unit used to measure financial transactions.
Mortgage	A loan backed by an asset with the asset title pledged to the lender.
Mortgage payable	A liability secured by real property.
Moving average	The name given to an average cost method when it is used with a perpetual inventory system.
Multinational enterprise	Entity engages in transnational business activities.
Multiple-step income statement	Form of the income statement that arrives at net income in steps.
Municipal debt	Debt securities issued by state, county, and local governments and their agencies.
NASDAQ (OTC)	The National Association of Securities Dealers Automated Quotations. Represents a computerized communication network that handles the securities transactions of the over-the-counter market (http://www.nasdaq.com).
Natural business year	A 12-month period ending on a date that coincides with the end of an operating cycle.
Natural resources	Assets produced by nature such as petroleum, minerals, and timber.
Negative goodwill	Term used to describe the amount paid for another company that is less than the fair value of the company's net identifiable assets.
Negotiable notes	Notes that are legally transferable by endorsement and delivery.
Net assets	Total assets less total liabilities (equivalent to shareowners' equity).
Net income	Amount by which total revenues exceed total expenses. The bottom line on the income statement.
Net of tax	Indicates that expected tax effects have already been considered as part of a particular calculation or figure. Indicates that taxes have been deducted from a particular financial component.
Net operating loss carryback	When tax-deductible expenses exceed taxable revenues, a company may carry the net operating loss back three years and receive refunds for income taxes paid in those years.
Net operating loss	When tax-deductible expenses exceed taxable revenues, a company may

carryforward	carry an operating loss forward and offset future taxable income.
Net periodic pension expense	The amount recognized in an employer's financial statements as an expense of a pension plan for a period.
Net realizable value	The nondiscounted amount of cash, or its equivalent, into which an asset is expected to be converted less direct costs necessary to make that conversion.
Net sales	Gross sales revenue less any allowances or discounts.
Net worth	Synonymous with shareholders' equity.
Neutrality	A qualitative characteristic of accounting information that involves the faithful reporting of business activity without bias to one or another view.
New York Stock Exchange (NYSE)	The New York Stock Exchange is the world's largest securities exchange (http://www.nyse.com).
Nominal accounts	The name given to revenue, expense, and dividend accounts because they are temporary and are closed at the end of the period.
Noncancelable	A lease contract that can be cancelled only under very unlikely circumstances or with extremely expensive penalties to the lessee.
Noncash investing and financing activities	A category of investing and financing activities that does not involve cash flows.
Noncontributory pension plans	Plans in which the employer bears the total cost of the plan.
Noncumulative preferred stock	Preferred stock that has no claim on any prior year dividends that may have been "passed."
Noncurrent or long-term assets	Assets that do not qualify as current assets. In general they take longer than a year to be converted to cash or to conserve cash in the long run.
Nondetachable warrants	Stock warrants that cannot be traded separately from the security with which they were originally issued.
Nonrecurring	Earnings that do not represent the normal, recurring earnings from operations.
Nontrade notes payable	Notes issued to nontrade creditors for purposes other than to purchase goods or services.
Nontrade receivables	Any receivables arising from transactions that are not directly associated with the normal operating activities of a business.
Not Sufficient Funds (NSF) Check	A check that is not honored by a bank because of insufficient cash in the marker's account.
Note	A written promise to pay signed by the debtor.
Note payable	Payables in the form of a written promissory note.
Note receivable	An asset resulting from the acceptance of a promissory note from another company.
Notes	Present additional information on items included in the financial statements and additional financial information.
Notes to the financial statements	Information that clarifies and extends the material presented in the financial statements with narrative and detail.
Objective acceleration clause	A clause in a debt agreement that identifies specific conditions that will cause the debt to be callable immediately.
Off-balance-sheet financing	Refers to a company taking advantage of debt-like resources without these obligations appearing as debt on the face of the balance sheet.
On account	Purchases or sales on credit.

Operating activities	One of three major categories included in a statement of cash flows; includes transactions and events that normally enter into the determination of net income, including interest and taxes.
Operating cycle	The period of time elapsing between the acquisition of goods and the final cash realization resulting from sales and subsequent collections.
Operating expenses	Consist of two types: selling and administrative. Selling expenses result from the company's effort to create sales. Administrative expenses relate to the general administration of the company's operation.
Operating lease (lessee)	Periodic payment for the right to use an asset, recorded in a manner similar to the recording of rent expense payments.
Option	A financial instrument that conveys to its owner the right, but not the obligation, to buy or sell a security, commodity, or currency at a specific price over a specified time period or at a specific date.
Organization costs	The costs of forming a corporation.
Organizational costs	The legal costs incurred when organizing a business; carried as an asset and usually written off over a period of five years or longer.
Other income and expenses	Income and expenses from secondary activities of the firm not directly related to the operations.
Outstanding shares	The number of authorized shares of capital stock sold to stockholders that are currently in the possession of stockholders (issues shares less treasury shares).
Owners' equity (stockholders' equity, shareholders' equity)	The residual ownership interest in the assets of an entity that remains after deducting its liabilities.
Paid-in capital in excess of par value (or stated value)	The proceeds from the sale of capital stock in excess of the par value (or stated value) of the capital stock.
Par value	An amount set by the firm's board of directors and approved by the state. (The par value does not relate to the market value.)
Parent	Tax term applied to the buyer company in a business combination.
Parent company	A company that owns a controlling interest in another company.
Participating preferred stock	Preferred stock that provides for additional dividends to be paid to preferred stockholders after dividends of a specified amount are paid to common stockholders.
Partnership	An unincorporated business owned by two or more individuals.
Patent	Exclusive legal rights granted to an inventor for a period of 17 years.
Payables (trade)	Short-term obligations created by the acquisition of goods and services, such as accounts payable, wages payable, and taxes payable.
Payee	The party that will receive the money from a promissory note at some future date.
Pension Benefit Guaranty Corporation	A United States government agency that insures the pension benefits of workers.
Pension fund	A fund established through contributions from an employer and sometimes from employees that pays pension benefits to employees after retirement.
Pension plan	An arrangement whereby an employer provides benefits (payments) to employees after they retire for services they provided while they were working.

Pension plan—contributory	A pension plan where the employees bear part of the cost of the stated benefits or voluntarily make payments to increase their benefits.
Pension plan—funded	A pension plan where the employer sets funds aside for future pension benefits by making payments to a funding agency that is responsible for accumulating the assets of the pension fund and for making payments to the recipients as the benefits become due.
Pension plan—noncontributory	A pension plan in which the employer bears the entire cost.
Pension plan—qualified	A pension plan in accord with federal income tax requirements that permit deductibility of the employer's contributions to the pension fund and tax-free status of earnings from pension fund assets.
Percentage-of-completion method	A revenue recognition method which recognizes profit each period during the life of the contract in proportion to the amount of the contract completed during the period.
Period cost	Cost that is recognized as an expense during the period in which it is incurred.
Periodic inventory method	A method of accounting for inventory that determines inventory at the end of the period.
Permanent accounts	All balance sheet accounts.
Permanent differences	Nondeductible expenses or nontaxable revenues that are recognized for financial reporting purposes but that are never part of taxable income.
Perpetual inventory method	A method of accounting for inventory that records continuously the sales and purchases of individual items of inventory.
Personal financial statements	Financial statements of individuals, husband and wife, or a larger family group.
Petty cash (fund)	Small quantity of funds kept on hand for incidental expenditures requiring quick cash.
Pledging	Using assets as collateral for a bank loan.
Pooling of interest	A method of accounting for a business combination that combines all asset, liability, and stockholders' equity accounts.
Post balance sheet event	Event occurring between the balance sheet date and the date financial statements are issued and made available to external users (also called subsequent event).
Posting	Transcribing the amounts from journal entries into the general ledger.
Postretirement benefits other than pensions	Benefits other than pensions that accrue to employees upon retirement, such as medical insurance and life insurance contracts.
Predictive value	Helps a decision maker predict future consequences based on information about past transactions and events.
Preferred stock	Stock that has some preference over common stock.
Premium	An amount paid in excess of the face value of a security (stock or bond).
Prepaid	An expenditure made in advance of the use of the service or goods.
Present value consideration	The characteristic that money to be received or paid out in the future is not worth as much as money available today. Accountants consider the time value of money when preparing the financial statements for such areas as long-term leases, pensions, and other long-term situations where the future payments or receipts are not indicative of the present value of the asset or the obligation.
Present value factor	Using multiplication, converts a future value to its present value.

Present value of an annuity	The amount at a present time that is equivalent to a series of payments and interest in the future.
Primary earnings per share	Net income applicable to common stock divided by the sum of the weighted-average common stock and common stock equivalents.
Principal	The original or base amount of a loan or investment.
Prior service cost	When a defined pension plan is adopted or amended, credit is often given to employees for years of service provided before the date of adoption or amendment. The cost of taking on this added commitment is called the prior service cost.
Prior-period adjustments	Reported as restatements of retained earnings. They include corrections of errors of prior periods, a change in accounting entity, certain changes in accounting principles, and adjustments that result from the realization of income tax benefits of preacquisition operating loss carryforwards of purchased subsidiaries.
Privatization	The sale of all or part of a previously government-controlled entity to the general public.
Pro forma amount	Hypothetical or projected amount. Synonymous with “what if” analyses. Pro forma statements indicate what would have happened under specified circumstances.
Productive-output depreciation	A depreciation method in which the depreciable cost is divided by the total estimated output to determine the depreciation rate per unit of output.
Profitability	The relative success of a company’s operations.
Projected Benefit Obligation (PBO)	The present value of pension benefits earned to date based on past service and an estimate of future compensation levels for pay-related plans.
Promissory note	A formal written promise to pay a certain amount of money at a specified future date.
Property dividend	A dividend in a form of asset other than cash.
Property, plant, and equipment	Tangible assets of a long-term nature used in the continuing operation of the business.
Proportionate consolidation	A method of consolidating the financial results of a parent company and its subsidiary in which only the proportion of net assets owned by the parent are consolidated.
Proprietary funds (governmental accounting)	Funds used to report assets held in a trustee or agency capacity for others.
Proprietorship	A business owned by one person. The owner and business are not separate legal entities but are separate accounting entities.
Prospectus	A document describing the nature of a business and its recent financial history.
Proxy	A legal document granting another party the right to vote for a shareholder on matters involving a shareholder vote.
Proxy statement	Information provided in a formal written form to shareholders prior to a company’s regular annual meeting.
Public company	A company whose voting shares are listed for trading on a recognized securities exchange or are otherwise available for purchase by public investors.
Public Company Accounting Oversight Board (PCAOB)	The PCAOB is a regulatory body created by the Sarbanes-Oxley Act of 2002. It regulates audits of SEC registrants. The PCAOB operates under the U.S. Securities and Exchange Commission. It has the authority for

	registration, inspection, and discipline of firms auditing SEC registrants and sets standards for public company audits (http://www.pcaobus.org).
Purchase accounting	The assets and liabilities of an acquired company accounted for on the books of the acquiring company at their relative fair market values to the acquiring company at the date of acquisition.
Put option	Contract giving the owner the right, but not the obligation, to sell an asset at a specified price.
Qualified opinion	An audit opinion rendered under circumstances of one or more material scope restrictions or departures from GAAP.
Qualitative characteristics	Standards for judging the information accountants provide to decision makers; the primary criteria are relevance and reliability.
Quarterly statements	Interim financial statements on a quarterly basis.
Quasi-reorganization	An accounting procedure equivalent to an accounting fresh start. A company with a deficit balance in retained earnings “starts over” with a zero balance rather than a deficit. A quasi-reorganization may also include a restatement of the carrying values of assets and liabilities to reflect current values.
Ratio analysis	A comparison of relationships among account balances.
Raw materials	Goods purchased for direct use in manufacturing that become part of the product.
Real accounts	The name given to balance sheet accounts because they are permanent and are not closed at the end of the period.
Realization (revenue recognition)	A concept that generally recognizes revenue when (1) the earning process is virtually complete and (2) the exchange value can be objectively determined.
Receivables	Claims arising from the selling of merchandise or services on account to customers are referred to as trade receivables. Other claims may be from sources such as loans to employees or a federal tax refund.
Recognition	Recording a transaction on the accounting records.
Recourse	The right of one company to collect money from another company in the event that a third party fails to pay its obligation to the first company.
Redeemable preferred stock	Preferred stock subject to mandatory redemption requirements, or with a redemption feature that is outside the control of the issuer.
Registrar	An independent agent that maintains a record of the number of a company’s shares of capital stock that have been issued and to whom.
Relevance	Qualitative characteristic requiring that accounting information bear directly on the economic decision for which it is to be used; one of the primary qualitative characteristics of accounting information.
Reliability	Qualitative characteristic requiring that accounting information be faithful to the original data and that it be neutral and verifiable; one of the primary qualitative characteristics of accounting information.
Repairs	Expenditures made to restore assets to good operating condition upon their breakdown or to restore and replace broken parts.
Replacement cost	The cost to reproduce or replace an asset.
Report form of balance sheet	A balance sheet presentation which presents assets, liabilities, and stockholders’ equity in a vertical format.
Reporting currency	The currency used to measure and report.
Representational	The agreement of information with what it is supposed to represent.

faithfulness

Research and Development (R&D)

Funds spent to improve existing products and develop new ones.

Reserves

Accounts classified under liabilities resulting from an expense to the income statement and an equal increase in the reserve account on the balance sheet. These reserve accounts do not represent definite commitments to pay out funds in the future, but they do represent an estimate of funds that will be paid out in the future.

Residual value (salvage value)

The estimated net scrap or trade-in value of a tangible asset at the date of disposal.

Restrictive covenants

Limitations imposed by a creditor on a debtor's actions. Covenants are often based on accounting measurements of assets, liabilities, and/or income.

Restructure

The term used to describe corporate downsizing and refocus of operations.

Retail inventory method

An inventory method that converts the retail value of inventory to an estimated cost.

Retained earnings

The undistributed earnings of a corporation consisting of the net income for all past periods minus the dividends that have been declared.

Retained earnings restricted

The amount of retained earnings that has been restricted for specific purposes.

Retroactively

The method of accounting for accounting principle changes whereby past years' financial statements are restated to reflect the use of the new method.

Revenue recognition

A basic accounting concept that is applied to determine when revenue should be recognized (recorded). Generally, under this principle, revenues are recognized when two criteria are met; the earnings process is substantially complete, and the revenues are realized, or realizable.

Revenues

Inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

Risk

The uncertainty surrounding estimates of future cash flows.

Royalties

Payment for a right over some natural resource or payment to an author or composer.

Sale and leaseback

Sale of an asset with the purchaser concurrently leasing the asset to the seller.

Sales discounts

Contra-revenue account used to record discounts given customers for early payment of their accounts.

Sales or revenues

Income from the sale of goods or services and lease or royalty payments.

Sales returns and allowances

Contra-revenue account used to record both refunds to customers and reduction of their accounts.

Sales-type lease

A capital lease that generates two income streams. One from the sale of the asset and a second from the financing of the asset.

Salvage value (residual value)

The estimated net scrap or trade-in value of a tangible asset at the date of disposal.

Scope paragraph

That paragraph of the audit report that tells what the auditor did. Specifically, it states whether or not the audit was conducted in accordance with GAAS.

SEC EDGAR database

Contains electronic copies of SEC filings by publicly traded companies

(<http://www.edgar-online.com> and <http://www.tenkwizard.com>).

Secured bonds	Bonds for which assets are pledged to guarantee repayment.
Secured loan	A loan backed by certain assets as collateral.
Securities Act of 1933	A federal statute governing the registration of new securities issues traded in interstate commerce.
Securities Act of 1934	A federal statute establishing recurring reporting requirements for public companies once their securities have been registered with the SEC.
Securities and Exchange Commission (SEC)	An agency of the federal government that has the legal power to set and enforce accounting practices (http://www.sec.gov).
Segment reporting (product segment information)	When operations are diversified, the firm may report results on a segmented basis.
Selling expenses	Result from the company's effort to create sales.
Senior debt	Debt obligations that would have a prior claim over junior debt and equity holders on the assets of a company in liquidation.
Serial bonds	Bonds that do not all have the same due date; a portion of the bonds comes due each time period.
Service cost	A component of net periodic pension expense representing the actuarial present value of benefits accruing to employees for services rendered during that period.
Service lives	Working years of employees prior to retirement, as used in accounting for postretirement benefit obligations.
Shrinkage	The amount of inventory that is lost, stolen, or spoiled.
Simple capital structure	A corporate structure that includes only common and nonconvertible preferred stock and has no convertible securities, stock options, warrants, or other rights outstanding.
Simple interest	Interest computed on the principal amount only.
Single-employer pension plans	Pension plans established for a single employer.
Single-step income statement	Form of the income statement that arrives at net income in a single step.
Sinking fund	An accumulation of cash or securities in a special fund dedicated to paying, or redeeming, an issue of bonds or preferred stock.
Social accounting	Attempts to account for the benefits to the social environment within which the firm operates.
Sole proprietorship	A business with a single owner.
Solvency	The ability of a company to remain in business over the long term.
Special journal	An accounting record used to list a particular type of frequently recurring transaction.
Specific identification (inventory)	Identifies the items in inventory as coming from specific purchases.
Staff Accounting Bulletin (SAB)	Accounting interpretations made by the staff of the SEC. SABs do not necessarily represent official positions of the SEC.
Stakeholders	All parties interested in the performance of a company.
Standard audit report	The form of audit report recommended by the Auditing Standards Board of the AICPA. This report is rendered at the conclusion of an audit in

	which the auditor encountered no material scope limitations, and the financial statements conform to GAAP in all material respects.
Stated (contract) rate	The rate of interest printed on the bond.
Stated value	A value assigned by the board of directors to no-par stock.
Statement of cash flows	Provides detailed information on cash flows resulting from operating, investing, and financing activities.
Statement of owners' equity (statement of shareholders' equity)	An accounting statement describing transactions affecting the owners' equity.
Statement of retained earnings	A summary of the changes to retained earnings for an accounting period.
Statements of Financial Accounting Concepts (SFACs)	Issued by the Financial Accounting Standards Board and provide the Board with a common foundation and basic reasons for considering the merits of various alternative accounting principles.
Statements of Financial Accounting Standards (SFAS)	These statements establish generally accepted accounting principles (GAAP) for specific accounting issues.
Statements of Position (SOPs)	Issued by the Accounting Standards Division of the AICPA to influence the development of accounting standards.
Stock appreciation rights	Give the holder the right to receive compensation at some future date based on the market price of the stock at the date of exercise over a pre-established price.
Stock certificate	A document issued to a stockholder indicating the number of shares of stock owned.
Stock dividend	A dividend in the form of additional shares of a company's stock.
Stock options	Allow the holder to purchase a company's stock at favorable terms.
Stock rights	Rights issued to existing shareholders to buy shares of stock in order to maintain their proportionate ownership interests.
Stock split	Increase in the number of shares of a class of capital stock, with no change in the total dollar amount of the class, but with a converse reduction in the par or stated value of the shares.
Stockholder (shareholder)	The owner of one or more shares of stock in an incorporated business.
Stockholders' (shareholders') equity	Total owners' equity of a corporation.
Straight-line amortization of bonds	Writes off an equal amount of bond premium or discount each period.
Straight-line method	A method of depreciation that allocates the cost of a tangible asset in a constant over the life of the asset.
Subordinated debt	A form of long-term debt which is "junior," or in a secondary position vis-à-vis the claim on a company's assets for the payment of its other debt obligations.
Subscription	A contract between the purchaser of stock and the issuer in which the purchaser promises to buy shares of the issuing company's stock.
Subsequent events	Events that occur after the balance sheet date, but before the statements are issued.
Subsidiary	An entity economically controlled by another company, despite its independent legal status.

Subsidiary ledger	Provides detailed information regarding a particular general ledger account.
Successful-efforts method	The method of accounting which capitalizes only the costs that result in the discovery of oil and gas reserves.
Sum-of-the-years'-digits method	This method of depreciation takes a fraction each year times the cost less salvage value. The numerator of the fraction is the remaining number of years of life. The denominator remains constant and is the sum of the digits of the years of life.
Summary annual report	A simplified annual report in which data required by the SEC is supplied in the proxy statement and the Form 10-K.
Summary of significant accounting policies	A description of all significant accounting policies of the company. An integral part of the financial statements, this information is typically presented as the first footnote.
Supplies	Items used indirectly in the production of goods or services.
T-Account	A form of ledger page used to record (or illustrate) the entry of debits and credits into ledger accounts.
Take-or-pay contract	An executory contract by which one party agrees to pay for the product regardless of whether the product is physically received or not.
Tangible assets	The physical facilities used in the operation of the business.
Tax benefit	A reduction in taxes, or a tax credit or refund, due to a particular action or expense incurred by a taxable entity.
Taxable income	Income determined in accordance with income tax regulation.
Taxes payable	Represents unpaid taxes that are owed to a governmental unit.
Temporal method of translation	A method of translating foreign financial statements in which cash, receivables, and payables are translated at the exchange rate in effect at the balance sheet date. Other assets and liabilities are translated at historical rates while revenues and expenses are translated at the weighted-average rate for the period.
Temporary accounts	Accounts closed at the end of an accounting period: includes all income statement accounts and the dividends account.
Temporary differences	Revenue and expense recognized in one period for financial reporting but recognized in an earlier or later period for income tax purposes.
Term bonds	Bonds that mature in one lump sum at a specified future date.
Time period	Assumes that the entity can be accounted for with reasonable accuracy for a particular period of time.
Time value of money	The concept that money earns interest over time. This implies that a dollar to be received a year from now is worth less than a dollar received today.
Timeliness	The qualitative characteristic indicating that accounting information should reach the user in time to help in making a decision.
Trademarks	Rights to use distinctive names or symbols granted to the holder for 28 years with option for renewal.
Trading securities	Securities held by firms for brief periods of time that are intended to generate profits from short-term differences in price.
Transaction approach	The recording of events that affect the financial position of the entity and that can be reasonably determined in monetary terms.
Translation adjustments (foreign currency translation)	An account classified under stockholders' equity that represents foreign currency translation gains and losses that have not been charged to the income statement.

adjustment)	
Translation gains and losses	Gains and losses due to fluctuations in exchange rates.
Treadway Commission	Popular name for the National Commission on Fraudulent Reporting that has issued a number of recommendations for the prevention of fraud in financial reports, ethics, and effective internal controls.
Treasurer	The officer responsible in a firm for the safeguarding and efficient use of a company's liquid assets.
Treasury stock	Capital stock of a company, either common or preferred, that has been issued and reacquired by the issuing company but has not been reissued or retired. It reduces stockholders' equity.
Trend analysis	Analysis over more than one accounting period to identify the trend of a company's results.
Trial balance	A listing of all general ledger accounts and their balances for the purpose of verifying that total debits equal total credits.
Troubled debt restructuring	A concession by creditors to allow debtors to eliminate or modify debt obligations.
Unappropriated retained earnings	The unrestricted retained earnings.
Unaudited	A term applied to information in the annual or quarterly reports, which is outside the audit conducted by the auditors.
Unconsolidated subsidiaries	Subsidiaries whose financial statements are not combined with the parent company.
Understandability	A user-specific quality directing that accounting information be understandable to users who have a reasonable knowledge of business and economic activities and who are willing to study the information with reasonable diligence.
Unearned income	A liability, either current or long-term, for income received prior to the delivery of goods or the rendering of services (also described as deferred income).
Unexpended industrial revenue bond proceeds	An asset account, classified under other assets, representing funds that have not yet been used for the purpose indicated when the bonds were issued.
Unit-of-production method	Relates depreciation to the output capacity of the asset, estimated for the life of the asset.
Unlimited liability	Each partner is liable for all partnership debts. Limited partners in a limited partnership, which is allowed in some states, do not have unlimited liability.
Unlisted securities	Securities which are not listed on an organized stock exchange.
Unqualified opinion	An audit opinion not qualified for any material scope restrictions or departures from GAAP.
Unrealized (gain) loss	A (gain) loss recognized in the financial statements but not associated with an asset sale.
Unrealized decline in market value of noncurrent equity investments	A stockholders' equity account that results from adjusting long-term equity securities to the lower of cost or market value.
Unsecured (debenture) bonds	Bonds for which no specific collateral has been pledged.

Unusual or infrequent item	Certain income statement items that are unusual or occur infrequently, but not both.
Useful life	Length of time over which a long-term asset is forecasted to provide economic benefits.
Valuation	A process of estimating the value of a firm or some component of a firm.
Venture capital	Funding by investment firms that specialize in financing unproven but potentially profitable businesses.
Verifiability	The qualitative characteristic indicating that accounting information can be confirmed or duplicated by independent parties using the same measurement technique.
Vertical analysis	A comparison of various financial statements items within a single period with the use of common-size statements.
Vertical integration	The combination of firms with operations in different but successive stages of production and/or distribution.
Vested Benefit Obligation (VBO)	The portion of the pension benefit obligation that does not depend on future employee service.
Vesting	The accrual to an employee of pension rights, arising from employer contributions, not contingent upon the employee's continuing service with the employer.
Warrant	A security that gives the holder the right to purchase shares of common stock in accordance with the terms of the instrument, usually upon payment of a specified amount.
Warranties	Obligations of a company to provide free service on units failing to perform satisfactorily or to replace defective goods.
Warranty obligations	Estimated obligations arising out of product warranties.
Weighted average cost method	An inventory costing method that assigns the same unit cost to all units available for sale during the period.
Weighted average of outstanding common stock	Gives the proportional shares outstanding in their fraction of the fiscal year.
Work in process	Goods started, but not ready for sale.
Working capital	The excess of current assets over current liabilities.
Write-off	A write-off recognizes that the asset no longer has any value to the firm.
Z-score	Statistically derived combination of weighted ratios to predict the likelihood of bankruptcy.
Zero coupon bond	A bond that does not pay periodic interest, but promises to pay a fixed amount at the maturity date.