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Accounting Terminology Guide - Over 1,000 Accounting and Finance Terms

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4

401(k) Plan

Employee benefit plan authorized by Internal Revenue Code section 401(k), whereby an employer establishes an account for each participating employee and each participant elects to deposit a portion of his or her salary into the account. The amount deposited is not subject to income tax. This is the most common type of salary reduction plans.

A

A Misstatement is Inconsequential

If a reasonable person would conclude after considering the possibility of further undetected misstatements that the misstatement either individually or when aggregated with other misstatements would clearly be immaterial to the [FINANCIAL STATEMENTS](#). If a reasonable person could not reach such a conclusion regarding a particular misstatement, that misstatement is more than inconsequential.

Abatement

Complete removal of an amount due, (usually referring to a [tax ABATEMENT](#) a [penalty](#) abatement or an [INTEREST](#) abatement within a governing agency).

Absorption Costing

An approach to product costing that assigns a representative portion of all types of manufacturing costs--direct materials, direct [labor](#), variable factory [overhead](#), and fixed factory overhead--to individual products.

Accelerated Depreciation

Method that records greater [DEPRECIATION](#) than [STRAIGHT-LINE DEPRECIATION](#) in the early years and less depreciation than straight-line in the later years of an [ASSET'S HOLDING PERIOD](#).

Account

Formal record that represents, in words, money or other [unit](#) of measurement, certain resources, claims to such resources, transactions or other events that result in changes to those resources and claims.

Account Payable

Amount owed to a [CREDITOR](#) for delivered goods or completed services.

Account Receivable

Claim against a [DEBTOR](#) for an uncollected amount, generally from a completed [transaction](#) of sales or services rendered.

Accountable Plan

Any reimbursement or other [expense](#) allowance arrangement of an employer that meets all of the following requirements (therefore excluding it from gross w-2 [EARNED INCOME](#) and [tax](#)): (1) it provides reimbursements advances or allowances including per diem and meals, to employees for any job related deductible business expense; (2) employees must be able to substantiate expenses covered in the plan; (3) employee must [return](#) any excess advances or payments.

Accountant

Person skilled in the recording and reporting of financial transactions.

Accountants' Report

Formal document that communicates an independent [accountant's](#): (1) expression of limited assurance on [FINANCIAL STATEMENTS](#) as a result of performing [inquiry](#) and analytic procedures ([REVIEW REPORT](#)); (2) results of procedures performed (AGREED-UPON PROCEDURES REPORT); (3) non-expression of opinion or any form of assurance on a presentation in the form of financial statements information that is the representation of [management](#) ([COMPILATION REPORT](#)); or (4) an opinion on an [assertion](#) made by management in accordance with the Statements on Standards for Attestation Engagements (ATTESTATION REPORT). An [accountants' report](#) does not result from the performance of an [AUDIT](#).

Accounting

Recording and reporting of financial transactions, including the origination of the transaction, its recognition, processing, and summarization in the [FINANCIAL STATEMENTS](#).

Accounting Change

Change in (1) an [accounting](#) principle; (2) an accounting estimate; or (3) the reporting entity that necessitates [DISCLOSURE](#) and explanation in published financial reports.

Accounting Cycle

The sequence of steps followed in the [accounting](#) process to measure business transactions and transform the measurements into [FINANCIAL STATEMENTS](#) for a specific [period](#).

Accounting Principles Board (APB)

Senior technical committee of the [AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS \(AICPA\)](#) which issued pronouncements on [accounting](#) principles from 1959-1973. The [APB](#) was replaced by the [FINANCIAL ACCOUNTING STANDARDS BOARD \(FASB\)](#).

Accounts Payable Subsidiary Ledger

A financial record of an individual [ACCOUNT PAYABLE](#) in which entries can be made daily.

Accounts Receivable Turnover

Used to measure a company's ability to collect [cash](#) from [credit](#) customers. Found by dividing [net sales](#) by average [net ACCOUNT RECEIVABLE](#).

Accrual

The recognition of an [expense](#) or revenue that has occurred but has not yet been recorded.

Accrual Accounting

The attempt to record the financial effects of transactions and other events in the periods in which those transactions or events occur rather than only in the periods in which [cash](#) is received or paid by the business, using all the techniques developed by accountants to apply the [MATCHING PRINCIPLE](#).

Accrual Basis

Method of [ACCOUNTING](#) that recognizes REVENUE when earned, rather than when collected. Expenses are recognized when incurred rather than when paid.

Accrued Expense

An [expense](#) that has occurred but is not recognized in the accounts.

Accrued Interest

[INTEREST](#) that has accumulated between the most recent payment and the [sale](#) of a [BOND](#) or other fixed-[income security](#).

Accumulated Depreciation

Total [DEPRECIATION](#) pertaining to an [ASSET](#) or group of assets from the time the assets were placed in services until the date of the [FINANCIAL STATEMENT](#) or [tax return](#). This total is the [CONTRA ACCOUNT](#) to the related asset account.

Accumulation

Profits that are not paid out as [DIVIDENDS](#) but are instead added to the company's capital base.

Acid-Test Ratio

The relationship of a company's current assets that can be converted into [cash](#) to its current liabilities. It is determined by dividing [QUICK ASSETS](#) by current liabilities.

Acquisition

One [company](#) taking over controlling interest in another company.

Actuary

Mathematician employed by an [insurance company](#) to calculate PREMIUMS, RESERVES, [DIVIDENDS](#), and insurance, [PENSION](#), and [ANNUITY](#) rates, using [risk](#) factors obtained from experience tables.

Additional Paid in Capital

Amounts paid for stock in excess of its [PAR VALUE](#) or [STATED VALUE](#). Also, other amounts paid by stockholders and charged to EQUITY ACCOUNTS other than [CAPITAL STOCK](#).

Adjusted Basis

After a taxpayer's basis in property is determined, it must be adjusted upward to include any additions of capital to the property and reduced by any returns of capital to the taxpayer. Additions might include improvements to the property and subtractions may include [depreciation](#) or [depletion](#). A taxpayer's [adjusted basis](#) in property is deducted from the amount realized to find the [gain](#) or [loss](#) on [sale](#) or disposition.

Adjusted Gross Income

[Gross income](#) reduced by business and other specified expenses of individual taxpayers. The amount of [adjusted gross income](#) affects the extent to which medical expenses, non business casualty and theft losses and charitable contributions may be deductible. It is also an important figure in the basis of many other individual planning issues as well as a key line item on the [IRS](#) form 1040 and required state forms.

Adjusted Trial Balance

A [trial balance](#) prepared after all adjusting entries have been recorded and posted to the accounts. Should have equal [credit](#) and [debit](#) totals.

Adjusting Journal Entry

An [accounting](#) entry made into a [subsidiary ledger](#) called the [General journal](#) to [account](#) for a periods changes, omissions or other financial data required to be reported "in the books" but not usually posted to the journals used for typical period transactions (the [cash receipts journal](#), [cash disbursements journal](#), the payroll journal, sales journal and so on) the entry is posted to the [general ledger](#) accounts directly and usually will be numbered itself, dated and have an explanation. Example: AJE# 1 12-31-2003, [debit](#) Cash in bank \$1,000. [Credit interest income](#) \$1,000, to record interest income on business bank account at year end, not recorded in cash receipts journal but credited by the bank. (Cross-reference [bank reconciliation](#) and account where it was found)

ADR

Receipts for shares of foreign [company](#) stock maintained by an intermediary indicating ownership.

Adverse Opinion

Expression of an opinion in an [AUDITORS' REPORT](#) which states that [FINANCIAL STATEMENTS](#) do not fairly present the financial position, results of operations and [cash flows](#) in conformity with [GENERALLY ACCEPTED ACCOUNTING PRINCIPLES \(GAAP\)](#).

Affiliated Company

[Company](#), or other [organization](#) related through common ownership, common control of [management](#) or owners, or through some other control mechanism, such as a long-[term LEASE](#).

Agency Fund

Fund consisting of ASSETS where the holder agrees to remit the assets, [income](#) from the assets, or both, to a specified beneficiary in due course or at a specified time.

AICPA

National professional membership [organization](#) that represents practicing CERTIFIED PUBLIC ACCOUNTANTS (CPAs). The [AICPA](#) establishes ethical and [auditing standards](#) as well as standards for other services performed by its members. Through committees, it develops guidance for specialized industries. It participates with the [FINANCIAL ACCOUNTING STANDARDS BOARD \(FASB\)](#) and the GOVERNMENT ACCOUNTING STANDARDS BOARD ([GASB](#)) in establishing accounting principles.

Allocate

To set aside for a specific reason.

Allowance for Doubtful Accounts

A contra-[asset account](#) used to reduce ACCOUNTS RECEIVABLE to the amount that is expected to be collected in [cash](#).

Alternative Dispute Resolution

An alternative to formal litigation which includes techniques such as arbitration, mediation, and a non-binding summary jury trial.

Alternative Minimum Tax (AMT)

[Tax](#) imposed to back up the regular [income](#) tax imposed on [CORPORATION](#) and individuals to assure that taxpayers with economically measured income exceeding certain thresholds pay at least some income tax.

American Depository Receipt (ADR)

Receipts for shares of foreign [company](#) stock maintained by an intermediary indicating ownership.

American Institute of Certified Public Accountants (AICPA)

National professional membership [organization](#) that represents practicing CERTIFIED PUBLIC ACCOUNTANTS (CPAs). The [AICPA](#) establishes ethical and [auditing standards](#) as well as standards for other services performed by its members. Through committees, it develops guidance for specialized industries. It participates with the [FINANCIAL ACCOUNTING STANDARDS BOARD \(FASB\)](#) and the GOVERNMENT ACCOUNTING STANDARDS BOARD ([GASB](#)) in establishing accounting principles.

Amortization

Gradual and periodic reduction of any amount, such as the periodic writedown of a [BOND premium](#), the cost of an [intangible ASSET](#) or periodic payment Of MORTGAGES or other [DEBT](#).

AMT

Tax imposed to back up the regular income tax imposed on CORPORATION and individuals to assure that taxpayers with economically measured income exceeding certain thresholds pay at least some income tax.

Analyst

Person in a brokerage house, bank trust dept., or mutual fund group who studies a number of companies and makes buy or sell recommendations on the securities of particular companies and industry groups.

Analytical Procedures

Substantive tests of financial information which examine relationships among data as a means of obtaining evidence. Such procedures include: (1) comparison of financial information with information of comparable prior periods; (2) comparison of financial information with anticipated results (e.g., forecasts); (3) study of relationships between elements of financial information that should conform to predictable patterns based on the entity's experience; (4) comparison of financial information with industry norms.

Annual Report

Report to the stockholders of a company which includes the company's annual, audited BALANCE SHEET and related statements of earnings, stockholders' or owners' equity and cash flows, as well as other financial and business information.

Annuity

Series of payments, usually payable at specified time intervals.

Anti-Dilution

Condition that may increase the computation of EARNINGS PER SHARE (EPS) or decrease loss per share solely because of the inclusion of COMMON STOCK equivalents, such as STOCK OPTIONS, WARRANTS, convertible DEBT or convertible PREFERRED STOCK, nomination or selection of the independent AUDITORS.

APB

Senior technical committee of the AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) which issued pronouncements on accounting principles from 1959-1973. The APB was replaced by the FINANCIAL ACCOUNTING STANDARDS BOARD (FASB).

Appreciation

Increase in the value of an ASSET such as a stock, BOND, commodity, or real estate.

Assembly of Financial Statements

The providing of various accounting or data-processing services by an accountant, the output of which is in the form of financial statements ostensibly to be used solely for internal management purposes.

Assertion

Explicit or implicit representations by an entity's management that are embodied in financial statement components and for which the AUDITOR obtains and evaluates evidential matter when forming his or her opinion on the entity's financial statements.

Asset

An economic resource that is expected to be of benefit in the future. Probable future economic benefits obtained as a result of past transactions or events. Anything of value to which the firm has a legal claim. Any owned tangible or intangible object having economic value useful to the owner.

Asset Turnover

A way of measuring how profitably and efficiently assets are being used to produce sales. This is determined by dividing net sales by average total assets.

At Par

At a price equal to the face, or nominal, value of a security.

Audit

A professional examination of a company's financial statement by a professional accountant or group to determine that the statement has been presented fairly and prepared using GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP).

Audit Documentation

The written record of the basis for the AUDITOR's conclusions that provides the support for the auditor's representations, whether those representations are contained in the auditor's report or otherwise. (May be referred to as work papers or working papers).

Audit Engagement

Agreement between a [CPA firm](#) and its client to perform an [AUDIT](#).

Audit Risk

The [risk](#) that the [AUDITOR](#) may unknowingly fail to modify appropriately his or her opinion on [financial statements](#) that are materially misstated.

Audit Sampling

Application of an [AUDIT](#) procedure to less than 100% of the items within an [account BALANCE](#) or class of transactions for the purpose of evaluating some characteristic of the balance or class.

Auditing Standards

Guidelines to which an [AUDITOR](#) adheres. [Auditing standards](#) encompass the auditor's professional qualities, as well as his or her judgment in performing an [AUDIT](#) and in preparing the [AUDITORS' REPORT](#). Audits conducted by independent [CERTIFIED PUBLIC ACCOUNTANT \(CPA\)](#) usually in accordance with [GENERALLY ACCEPTED AUDITING STANDARDS \(GAAS\)](#), which consist of standards approved and adopted by the membership of the [AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS \(AICPA\)](#).

Auditor

Person who [AUDITS](#) financial accounts and records kept by others. Includes both public [accounting](#) firms registered with the [PCAOB](#) and associated persons thereof.

Auditors' Report

Written communication issued by an independent [CERTIFIED PUBLIC ACCOUNTANT \(CPA\)](#) describing the character of his or her work and the degree of responsibility taken. An [auditors' report](#) includes a [statement](#) that the [AUDIT](#) was conducted in accordance with [GENERALLY ACCEPTED AUDITING STANDARDS \(GAAS\)](#), which require that the [AUDITOR](#) plan and perform the audit to obtain [reasonable assurance](#) about whether the [FINANCIAL STATEMENTS](#) are free of [material](#) misstatement, as well as a statement that the auditor believes the audit provides a reasonable basis for his or her opinion.

Authorized Shares

Maximum number of shares of any class a [company](#) may legally create under the terms of its articles of [incorporation](#).

Average Days' Inventory On-Hand

The average number of days required to sell the current [inventory](#) of products available for [sale](#). It is found by dividing the number of days in a year by [inventory turnover](#).

Average Days' Sales Uncollected

A ratio that shows the average length of time it takes a [company](#) to receive payment for [credit](#) sales.

Average-Cost Method

A way of arriving at the cost of [inventory](#) that computes the average cost of all [goods available for sale](#) during a fixed [period](#) in order to determine the [value](#) of inventory.

B

Backup Withholding

Payers of interest, dividends and other reportable payments must withhold income tax equal at a rate equal to the fourth lowest rate applicable to single filers if they fail to supply a federal id # or if they fail to certify that they are not subject to it.

Bad Debt

All or portion of an [ACCOUNT](#), loan, or note receivable considered to be uncollectible.

Balance

Basic [FINANCIAL STATEMENT](#), usually accompanied by appropriate [DISCLOSURES](#) that describe the basis of [ACCOUNTING](#) used in its preparation and presentation of a specified date the entity's [ASSETS](#), [LIABILITIES](#) and the [EQUITY](#) of its owners. Also known as a [STATEMENT OF FINANCIAL CONDITION](#).

Bank Reconciliation

A process by which an [accountant](#) determines whether and why there is a difference between the [balance](#) shown on the [bank statement](#) and the balance of the [cash account](#) in the firm's [GENERAL LEDGER](#).

Bank Statement

A periodic statement, usually monthly, that a bank sends to the holder of a checking account showing the balance in the account at the beginning of the month, during, and at the end of the month.

Bankruptcy

Legal process, governed by federal statute, whereby the DEBTS of an insolvent person are liquidated after being satisfied to the greatest extent possible by the DEBTOR'S ASSETS. During bankruptcy, the debtor's assets are held and managed by a court appointed TRUSTEE.

Base Market Value

Average market price of a group of securities at a given time.

Beginning Inventory

The quantity of merchandise available for sale at the beginning of an ACCOUNTING period.

Bequest

Legal process, governed by federal statute, whereby the DEBTS of an insolvent person are liquidated after being satisfied to the greatest extent possible by the DEBTOR'S ASSETS. During bankruptcy, the debtor's assets are held and managed by a court appointed TRUSTEE.

Beta Coefficient

Measure of a stock's relative volatility. The beta is the covariance of a stock in relation to the rest of the stock market.

Bid and Asked

Bid is the highest price a prospective buyer is prepared to pay at a particular time for a trading unit of a given SECURITY; asked is the lowest price acceptable to a prospective seller of the same security. The difference between the prices is the SPREAD.

Blue Sky Laws

State laws that regulate the ISSUANCE of SECURITIES. These laws are coordinated with federal acts.

Board of Directors

Individuals responsible for overseeing the affairs of an entity, including the election of its officers. The board of a CORPORATION that issues stock is elected by stockholders.

Bond

One type of long-term PROMISSORY NOTE, frequently issued to the public as a SECURITY regulated under federal securities laws or state BLUE SKY LAWS. Bonds can either be registered in the owner's name or are issued as bearer instruments.

Bond Discount

The amount below PAR VALUE that a BOND sells for.

Bond Indenture

An additional agreement to a BOND issue that defines the rights, privileges, and limitations of BONDHOLDERS.

Bondholder

A person who owns a BOND certificate issued by a government or CORPORATION.

Book Value

Amount, net or CONTRA ACCOUNT balances, that an ASSET or LIABILITY shows on the BALANCE SHEET of a company. Also known as CARRYING VALUE.

Bookkeeping

The process of recording financial transactions and keeping financial records.

Boot

The non technical term used by some to describe any cash or other property that is received in exchange of property that would be otherwise nontaxable.

Bottom Line

The line in a FINANCIAL STATEMENT that shows NET INCOME or LOSS.

Break-Even Point

The point at which TOTAL REVENUES equals TOTAL COSTS.

Break-Even Units

The number of units of a product that must be sold before a company makes enough money to pay for direct and indirect costs of making the product.

Budget

Financial plan that serves as an estimate of future cost, REVENUES or both.

Burden Rate

Standard rate multiplied by a level of activity to determine the OVERHEAD cost of that activity. Activity measures include LABOR or machine hours.

Business Combinations

Combining of two entities. Under the PURCHASE METHOD OF ACCOUNTING, one entity is deemed to acquire another and there is a new basis of accounting for the ASSETS and LIABILITIES of the acquired company. In a POOLING OF INTERESTS, two entities merge through an exchange of COMMON STOCK and there is no change in the CARRYING VALUE of the assets or liabilities.

Business Segment

Any division of an organization authorized to operate, within prescribed or otherwise established limitations, under substantial control by its own management.

Buyout

Purchase of at least a controlling percentage of a company's stock to take over its ASSETS and operations.

Bylaws

Collection of formal, written rules governing the conduct of a CORPORATION'S affairs (such as what officers it will have, what their responsibilities are, and how they are to be chosen). Bylaws are approved by a corporation's stockholders, if a stock corporation, or other owners, if a non-stock corporation.

C

Cafeteria Plan

A benefit plan maintained by an employer for the benefit of the employees under which each participant has the opportunity to select the benefits they desire. Certain minimum choices and nondiscriminatory rules apply.

Call Loan

Loan repayable on demand. Also known as DEMAND LOAN.

Call Price

A specified price, usually above face value, at which a CORPORATION may, at its option, buy back and retire BONDS before maturity.

Callable

Redeemable by the issuer before the scheduled maturity.

Callable Instrument

BOND which accords an issuer the right to redemption before it is due.

Capital Asset Pricing Model (CAPM)

Sophisticated model of the relationship between expected risk and expected return.

Capital Expenditure

Outlay of money to acquire or improve capital assets such as buildings and machinery.

Capital Gain

Portion of the total GAIN recognized on the sale or exchange of a noninventory asset which is not taxed as ORDINARY INCOME. Capital gains have historically been taxed at a lower rate than ordinary income.

Capital Projects Funds

Funds used by a [not-for-profit organization](#) to [account](#) for all resources used for the development of a [land improvement](#) or building addition or renovation.

Capital Stock

Ownership shares of a [CORPORATION](#) authorized by its ARTICLES OF [INCORPORATION](#). The money [value](#) (<http://www.nysscpa.org/glossary/term/1161>) [due](#) (<http://www.nysscpa.org/glossary/term/1161>) assigned to a corporation's issued shares. The [BALANCE SHEET account](#) with the aggregate amount of the [PAR VALUE](#) or [STATED VALUE](#) of all stock issued by a corporation.

Capitalize

Convert a schedule of [INCOME](#) into a [principal](#) amount, called capitalized [value](#), by dividing by a rate of [INTEREST](#).

Capitalized Cost

[Expenditure](#) identified with goods or services acquired and measured by the amount of [cash](#) paid or the [market value](#) of other property, [CAPITAL STOCK](#), or services surrendered. Expenditures that are written off during two or more [accounting](#) periods.

Capitalized Interest

[INTEREST](#) cost incurred during the time necessary to bring an [ASSET](#) to the condition and location for its intended use and included as part of the [HISTORICAL COST](#) of acquiring the asset.

Capitalized Lease

[LEASE](#) recorded as an [ASSET acquisition](#) accompanied by a corresponding [LIABILITY](#) by the [LESSEE](#).

CAPM

Sophisticated model of the relationship between expected [risk](#) and expected [return](#).

Carrying Value

Amount, [net](#) or [CONTRA ACCOUNT](#) balances, that an [ASSET](#) or [LIABILITY](#) shows on the BALANCE SHEET of a [company](#). Also known as [BOOK VALUE](#).

Carryovers

Provision of [tax](#) law that allows current losses or certain tax credits to be utilized in the tax returns of future periods..

Cash

[ASSET account](#) on a [balance](#) sheet representing paper currency and coins, [negotiable](#) money orders and checks, bank balances, and certain [short-term](#) government securities.

Cash Account

Brokerage [firm account](#) whose transactions are settled on a [cash basis](#).

Cash Basis

Method of [bookkeeping](#) by which [REVENUES](#) and EXPENDITURES are recorded when they are received and paid.

Cash Dividend

Distribution of a CORPORATION's earnings to stockholders in the form of [CASH](#).

Cash Equivalents

[Short-term](#) (generally less than three months), highly liquid INVESTMENTS that are convertible to known amounts of [cash](#).

Cash Flow to Assets

Used to measure the ability of ASSETS to generate operating [CASH FLOWS](#).

Cash Flow to Sales

A way of measuring the ability of sales to generate operating [CASH FLOWS](#).

Cash Flows

[Net](#) of [cash](#) receipts and cash disbursements relating to a particular activity during a specified [accounting period](#).

Cash Payments Journal

A multicolumn [journal](#) used to record sums of [cash](#) paid out for expenses.

Cash Ratio

Ratio of [CASH](#) and [MARKETABLE SECURITIES](#) to CURRENT LIABILITIES.

Cash Receipts Journal

A multicolumn [journal](#) used to record business transactions involving the receipt of [CASH](#) from other individuals or businesses.

Casualty Loss

Any [loss](#) of an [asset](#) due to fire storm act of nature causing asset damage from unexpected or accidental force. Generally it is deductible regardless of whether it is business or personal.

CD

Formal [instrument](#) issued by a bank upon the deposit of funds which may not be withdrawn for a specified time [period](#). Typically, an early withdrawal will incur a [penalty](#).

CEO

Officer of a [firm](#) principally responsible for the activities of a [COMPANY](#).

Certificate of Deposit (CD)

Formal [instrument](#) issued by a bank upon the deposit of funds which may not be withdrawn for a specified time [period](#). Typically, an early withdrawal will incur a [penalty](#).

Certified Financial Planner (CFP)

Individual who is trained to develop and implement financial plans for individuals, businesses, and organizations, utilizing knowledge of [income](#) and [estate tax](#), investments, [risk management](#) analysis and retirement planning. CFPs are certified after completing a series of requirements that include education, experience, ethics and an exam. CFPs are not regulated by a governmental authority.

Certified Internal Auditor (CIA)

Internal [AUDITOR](#) who has satisfied the examination requirements of the Institute of Internal Auditors.

Certified Management Accountant (CMA)

An accreditation conferred by the Institute of [Management](#) Accountants that indicates the designee has passed an examination and attained certain levels of education and experience in the practice of [accounting](#) in the private sector.

Certified Public Accountant (CPA)

[ACCOUNTANT](#) who has satisfied the education, experience, and examination requirements of his or her jurisdiction necessary to be certified as a public accountant.

CFO

Executive officer who is responsible for handling funds, signing CHECKS, keeping financial records, and financial planning for a [CORPORATION](#).

CFP

Individual who is trained to develop and implement financial plans for individuals, businesses, and organizations, utilizing knowledge of [income](#) and [estate tax](#), investments, [risk management](#) analysis and retirement planning. CFPs are certified after completing a series of requirements that include education, experience, ethics and an exam. CFPs are not regulated by a governmental authority.

Chief Executive Officer (CEO)

Officer of a [firm](#) principally responsible for the activities of a [COMPANY](#).

Chief Financial Officer (CFO)

Executive officer who is responsible for handling funds, signing CHECKS, keeping financial records, and financial planning for a [CORPORATION](#).

CIA

Internal [AUDITOR](#) who has satisfied the examination requirements of the Institute of Internal Auditors.

Claim for Refund

A refund is not automatically mailed if one is due. A taxpayer, whether business or individual, must file a request on a form. It must also be filed within the timeframe allotted or the refund may be lost. An individual can claim a refund back to whatever year it was due but it will only be paid three years back or less.

Clean Opinion

AUDIT opinion not qualified for any material scope restrictions nor departures from GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP). Also known as UNQUALIFIED OPINION.

Close

To clear the BALANCES of temporary accounts in order to be ready for the next accounting period.

Closed-End Mutual Fund

MUTUAL FUND with a fixed number of shares outstanding that may be bought or sold. CMO - See COLLATERALIZED MORTGAGE OBLIGATION.

Closing Entry

A journal entry made at the end of an accounting period in order to prepare for the next accounting period by clearing the BALANCES of temporary accounts and summarizing the period's REVENUES and expenses.

CMA

An accreditation conferred by the Institute of Management Accountants that indicates the designee has passed an examination and attained certain levels of education and experience in the practice of accounting in the private sector.

CMO

SECURITY whose cash flows equal the difference between the cash flows of the collateralizing ASSETS and the collateralized obligations of a securitized TRUST. Characteristics of CMO residuals vary greatly and can be extremely complex in nature.

Co-Mingling

Mixing ASSETS, e.g. customer-owned SECURITIES, with those owned by a firm in its proprietary accounts.

Collateral

ASSET provided to a CREDITOR as security for a loan.

Collateralized Mortgage Obligation (CMO)

SECURITY whose cash flows equal the difference between the cash flows of the collateralizing ASSETS and the collateralized obligations of a securitized TRUST. Characteristics of CMO residuals vary greatly and can be extremely complex in nature.

Combined Financial Statement

FINANCIAL STATEMENT comprising the accounts of two or more entities.

Comfort Letter

Letter provided by a company's independent public accountant to an underwriter when the underwriter has a DUE DILIGENCE responsibility under Section 11 of the Securities Act of 1933 regarding financial information included in an offering statement.

Commercial Paper

A way of borrowing money by using unsecured short-term loans sold directly to the public, usually through professionally managed investments firms.

Commission

Percentage of the selling price of the property, paid by the seller.

Committee of Sponsoring Organizations of the Treadway Commission (COSO)

An alliance of five professional organizations dedicated to disseminating appropriate internal control standards.

Commodities

Bulk goods such as grains, metals, and foods traded on a commodities exchange or on the SPOT MARKET.

Common Stock

CAPITAL STOCK having no preferences generally in terms of dividends, voting rights or distributions.

Company

Organization engaged in business as a PROPRIETORSHIP, PARTNERSHIP, CORPORATION, or other form of enterprise.

Company Level Controls

Controls that exist at the company level that have an impact on controls at the process, transaction, or application level.

Comparative Financial Statement

FINANCIAL STATEMENT presentation in which the current amounts and the corresponding amounts for previous periods or dates also are shown.

Compensate

To pay or make payment for something.

Compensatory Balance

Funds that a borrower must keep on deposit as required by a bank.

Compilation

Presentation of financial statement data without the ACCOUNTANT'S assurance as to conformity with GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP).

Compilation Engagement

Agreement between a CPA firm and its client to issue a COMPILATION REPORT.

Compilation Report

See ACCOUNTANTS' REPORT.

Complex Trust

A trust that is to be distinguished from a simple trust in the fact that it permits accumulation or distribution of current income during the tax year and provides for charitable contributions.

Compliance Audit

Review of financial records to determine whether the entity is complying with specific procedures or rules.

Compound Interest Principles

Interest computed on principal plus interest earned in previous periods.

Comprehensive Income

Change in EQUITY of a business enterprise during a period from transactions and other events and circumstances from sources not shown in the income statement. The period includes all changes in equity except those resulting from INVESTMENTS by owners and distributions to owners.

Condensed Financial Statement

A FINANCIAL STATEMENT for external reporting that presents only the major categories of information.

Confirmation

AUDITOR'S receipt of a written or oral response from an independent third party verifying the accuracy of information requested.

Conservatism

An investment strategy aimed at long-term capital appreciation with low risk; moderate; cautious; opposite of aggressive behavior; show possible losses but wait for actual profits. Concept which directs the least favorable effect on net income.

Consistency

ACCOUNTING postulate which stipulates that, except as otherwise noted in the FINANCIAL STATEMENT, the same accounting policies and procedures have been followed from period to period by an organization in the preparation and presentation of its financial statements.

Consolidated Financial Statements

Combined [FINANCIAL STATEMENTS](#) of a [parent company](#) and one or more of its subsidiaries as one economic [unit](#)

Consolidation

BUSINESS COMBINATION of two or more entities that occurs when the entities [transfer](#) all of their [NET ASSETS](#) to a new entity created for that purpose.

Constructive Receipt

A taxpayer is considered to have received the [income](#) even though the monies are not in hand, it may have been set aside or otherwise made available. An example is [interest](#) on a bank [account](#).

Consumer Goods

Goods bought for personal or household use, as distinguished from capital goods or producer's goods, which are used to produce other goods.

Contingency

An event that might happen but that is not likely or planned.

Contingent Liability

Potential [LIABILITY](#) arising from a past [transaction](#) or a [subsequent event](#).

Continuing Operations

Portion of a business entity expected to remain active.

Continuing Professional Education (CPE)

Educational programs for CERTIFIED PUBLIC ACCOUNTANTS (CPAs) to keep informed on changes that occur within the profession. State Boards for Public Accountancy and the [AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS \(AICPA\)](#) each have separate [CPE](#) requirements.

Contra Account

[ACCOUNT](#) considered to be an offset to another account. Generally established to reduce the other account to amounts that can be realized or collected.

Contra-Liability Account

A deduction from a [LIABILITY](#), such as discounts on [notes payable](#), which is a deduction from the [balance](#) of notes payable.

Contract

In general, agreement by which rights or acts are exchanged for lawful consideration.

Contributed Capital

The stockholders' [investment](#) in a [CORPORATION](#).

Contribution Margin

The excess of [REVENUES](#) over all [variable costs](#) related to a particular sales [volume](#).

Control Deficiency

This exists when the design or operation of a control does not allow [management](#) or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Control Risk

Measure of [risk](#) that errors exceeding a tolerable amount will not be prevented or detected by an entity's internal controls.

Controls Tests

Tests directed toward the design or operation of an [internal control](#) structure policy or procedure to assess its effectiveness in preventing or detecting [material](#) misstatements in a financial [report](#).

Conversion

Exchange of a convertible [security](#) such as a [BOND](#) into another security such as a fixed number of shares of the issuing CORPORATION's [COMMON STOCK](#).

Convertible Stock

Stock that may be exchanged for other SECURITIES of the [issuer](#).

Copyright

An exclusive right granted by the federal government to the possessor to publish and sell literary, musical, or other artistic materials for a [period](#) of the author's life plus 50 years, including computer programs.

Corporate Bond

[DEBT instrument](#) issued by a private [CORPORATION](#), as distinct from one issued by a government agency or a municipality.

Corporate Income Tax

The [TAX](#) that an incorporated business must pay to the federal government and, often, to state and city governments as well.

Corporation

Form of doing business pursuant to a charter granted by a state or federal government. Corporations typically are characterized by the issuance of freely transferable [CAPITAL STOCK](#), perpetual life, centralized [MANAGEMENT](#), and limitation of owners' [LIABILITY](#) to the amount they [INVEST](#) in the business.

COSO

An alliance of five professional organizations dedicated to disseminating appropriate [internal control](#) standards.

Cost Accounting

Procedures used for rationally classifying, recording, and allocating current or predicted costs that relate to a certain product or [production](#) process.

Cost Basis

Original price of an [ASSET](#), used in determining [CAPITAL GAIN](#).

Cost of Capital

[Rate of return](#) that a business could earn if it chose another [investment](#) with equivalent [risk](#).

Cost of Goods Sold

Figure representing the cost of buying raw materials and producing [finished goods](#).

Cost Recovery Method

METHOD OF [REVENUE RECOGNITION](#) which recognizes profits after costs are completely recovered. Generally used only when the total amount of collections is highly uncertain. In [tax](#) (<http://www.nysscpa.org/glossary/term/613>), the [ACCOUNTING](#) METHOD used to depreciate ASSETS.

Coupon

[INTEREST rate](#) on a [DEBT SECURITY](#) the [ISSUER](#) promises to pay to the holder until [maturity](#), expressed as an annual percentage of [FACE VALUE](#).

Coupon Bond

A [BOND](#) that is usually not registered with the issuing [CORPORATION](#) but instead bears [interest](#) coupons stating the amount of INTEREST due and the payment date.

Coverdell Education Savings Account (Education IRA)

A [tax](#) exempt [trust](#) exclusively for the purpose of paying qualified higher education costs of the trusts designated beneficiary.

CPA

[ACCOUNTANT](#) who has satisfied the education, experience, and examination requirements of his or her jurisdiction necessary to be certified as a public accountant.

CPE

Educational programs for CERTIFIED PUBLIC ACCOUNTANTS (CPAs) to keep informed on changes that occur within the profession. State Boards for Public Accountancy and the [AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS \(AICPA\)](#) each have separate [CPE](#) requirements.

Credit

Entry on the right side of a DOUBLE-ENTRY BOOKKEEPING system that represents the reduction of an ASSET or expense or the addition to a LIABILITY or REVENUE.

Credit Agreement

Arrangement in which one party borrows or takes possession in the present by promising to pay in the future.

Credit Balance

BALANCE remaining after one of a series of bookkeeping entries. This amount represents a LIABILITY or income to the entity.

Creditor

Party that loans money or other ASSETS to another party.

Current Asset

ASSET that one can reasonably expect to convert into cash, sell, or consume in operations within a single operating cycle, or within a year if more than one cycle is completed each year.

Current Liability

Obligation whose LIQUIDATION is expected to require the use of existing resources classified as CURRENT ASSETS, or the creation of other current liabilities.

Current Ratio

Used as an indicator of a COMPANY's liquidity and ability to pay short-term debts. This is found by dividing CURRENT ASSETS by CURRENT LIABILITIES.

Current Value

1) Value of an ASSET at the present time as compared with the asset's HISTORICAL COST. (2) In finance, the amount determined by discounting the future revenue stream of an asset using COMPOUND INTEREST PRINCIPLES.

Current Yield

Annual INTEREST on a BOND divided by the market price.

D

Date of Auditors'/Accountants' Report

Last day the AUDITORS perform fieldwork and the last day of responsibility relating to significant events subsequent to the financial statement date.

DDB

Method of ACCELERATED DEPRECIATION, approved by the INTERNAL REVENUE SERVICE (IRS), permitting twice the rate of annual DEPRECIATION as the STRAIGHT-LINE DEPRECIATION method.

Dealer

Individual or firm acting as a principal in a securities transaction.

Death Benefit

Amounts received under a life insurance contract and paid by reason of the death of the insured. (Although most death benefits are paid at termination of life, certain plans now pay accelerated death benefits while the insured is still alive, i.e.: an AIDS patient might possibly receive accelerated death benefit)

Debenture

General DEBT obligation backed only by the integrity of the borrower and documented by an agreement called and INDENTURE.

Debenture Stock

Stock issued under a contract providing for fixed payments at scheduled intervals and more like preferred stock than a DEBENTURE, since their status in liquidation is EQUITY and not DEBT.

Debit

Entry on the left side of a [DOUBLE-ENTRY BOOKKEEPING](#) system that represents the addition of an [ASSET](#) or [expense](#) or the reduction to a [LIABILITY](#) or REVENUE.

Debit Balance

[BALANCE](#) remaining after one or a series of [bookkeeping](#) entries. This amount represents an [ASSET](#) or an [expense](#) of the entity.

Debt

General name for money, notes, BONDS, goods or services which represent amounts owed.

Debt Instrument

Written promise to repay a [DEBT](#).

Debt Retirement

Repayment of [DEBT](#).

Debt Security

Document which is evidence of an obligation or [LIABILITY](#).

Debt Service Fund

Fund whose [PRINCIPAL](#) or [INTEREST](#) is set aside and accumulated to [retire DEBT](#).

Debt-to-Equity Ratio

A way of measuring the relationship of [DEBT](#) financing to [EQUITY FINANCING](#), or the extent to which a [company](#) is leveraged.

Debtor

Party owing money or other ASSETS to a [CREDITOR](#).

Decedent

Individual who has died.

Declare

Authorize the payment of DIVIDEND on a specified date, an act of the [BOARD OF DIRECTORS](#) of a [CORPORATION](#).

Declining-Balance Method

An accelerated method of depreciating a tangible long-lived [ASSET](#) by applying a fixed-rate based on some multiple of the [STRAIGHT-LINE DEPRECIATION](#) rate to its [CARRYING VALUE](#).

Defalcation

To misuse or embezzle funds.

Default

Failure to meet any financial obligation. [Default](#) triggers a [CREDITOR'S](#) rights and remedies identified in the agreement and under the law.

Defeasance

Annulment of a [contract](#) or deed; a clause within a contract or deed that provides for annulment.

Deferral

The postponement of the date that an [expense](#) already paid or incurred, or of a REVENUE already received, is entered in the [LEDGER](#).

Deferred Charge

[Income](#) received but not earned until all events have occurred. Deferred income is reflected as a [LIABILITY](#).

Deferred Income Taxes

ASSETS or LIABILITIES that arise from timing or measurement differences between [tax](#) and [accounting](#) principles.

Deferred Interest Bond

[BOND](#) that pays [INTEREST](#) at a later date.

Deferred Payment Annuity

[ANNUITY](#) whose [contract](#) provides that payments to the annuitant be postponed until a number of periods have elapsed.

Deficiency in Design

This exists when a control necessary to meet the control objective is missing or an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met.

Deficiency in Operation

This exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Deficit

Financial shortage that occurs when [LIABILITIES](#) exceed [ASSETS](#).

Defined Benefit Plan

See [EMPLOYEE BENEFIT PLAN](#).

Defined Contribution Plan

See [EMPLOYEE BENEFIT PLAN](#).

Deflation

Decline in the prices of goods and services.

Demand Loan

[Loan](#) repayable on demand. Also known as a [CALL LOAN](#).

Dependent Care Expenses

Qualified child care expenses will allow a taxpayer this computed [credit](#) against tax. The amounts can be found on the individual forms as the limitations and computation may change each [tax year](#).

Depletion

Method of computing a deduction to [ACCOUNT](#) for a reduction in [value](#) of extractable natural resources.

Deposit Method

[Expense](#) allowance made for wear and tear on an [ASSET](#) over its estimated useful life.

Depreciation

[Expense](#) allowance made for wear and tear on an [ASSET](#) over its estimated useful life.

Derivatives

Financial instruments whose [value](#) varies with the value of an underlying [asset](#) (such as a stock, [BOND](#), commodity or currency) or [index](#) such as interest rates. Financial instruments whose characteristics and value depend on the characterization of an underlying instrument or asset.

Detailed Income Statement

A complete and explicit [statement](#) of an economic entity's financial activities and holdings.

Detection Risk

[Risk](#) that the [AUDITOR](#) will not detect a [material](#) misstatement.

Detective Controls

These have the objective of detecting errors or [fraud](#) that have already occurred that could result in a misstatement of the [financial statements](#).

Direct Labor Costs

The [labor](#) cost is for specific work that can be easily and economically traced to an end product.

Direct Material

A [material](#) that will become part of a finished product and can be easily and economically traced to specific product units.

Direct Overhead

Portion of [OVERHEAD](#) costs allocated to manufacturing, by the application of a [standard](#) factor termed a [BURDEN RATE](#) or [OVERHEAD APPLICATION RATE](#).

Disbursement

Payment by [cash](#) or check.

Disclaimer of Opinion

[Statement](#) by an [AUDITOR](#) indicating inability to express an opinion on the fairness of the [FINANCIAL STATEMENTS](#) provided and the reason for the inability. The auditor is required to disclaim depending on the limitation in scope.

Disclosure

Process of divulging [accounting](#) information so that the content of [FINANCIAL STATEMENTS](#) is understood.

Discontinued Operations

Portion of a business that is planned to be or is discontinued.

Discount

Reduction from the full amount of a price or [DEBT](#).

Discount Bond

[BOND](#) selling below its [REDEMPTION VALUE](#).

Discount Rate

Rate at which [INTEREST](#) is deducted in advance of the issuance, purchasing, selling, or lending of a financial [instrument](#). Also, the rate used to determine the [CURRENT VALUE](#), or [present value](#), of an [ASSET](#) or [income](#) (<http://www.nysscpa.org/glossary/term/353>)stream.

Discount Yield

[Yield](#) on a [SECURITY](#) sold at a [DISCOUNT](#).

Discounted Cash Flow

[Present value](#) of future [cash](#) estimated to be generated.

Discretionary Trust

Arrangement in which the [TRUSTEE](#) has the authority to make [INVESTMENT](#) decisions and has control over investments within the framework of the [TRUST instrument](#).

Disposable Income

Personal [INCOME](#) remaining after personal taxes and noncommercial government fees have been paid.

Dissolution

Termination of a [CORPORATION](#).

Distribution Expense

[Expense](#) of selling, advertising, and delivery of goods and services.

Distributions

Payment by a business entity to its owners of items such as [cash](#) ASSETS, stocks, or earnings.

Dividend Payout Ratio

Percentage of earnings paid to shareholders in [CASH](#).

Dividends

Distribution of earnings to owners of a [CORPORATION](#) in [CASH](#), other ASSETS of the corporation, or the corporation's [CAPITAL STOCK](#).

Dividends in Arrears

[DIVIDENDS](#) on cumulative [PREFERRED STOCK](#) that remain unpaid in the year they are due.

Dividends Payable

A [LIABILITY](#) for payment of a COMPANY's earnings to its shareholders.

Dividends Yield

Used to measure the current [return](#) to an investor in a stock.

Documentation Completion Date

A complete and final set of [audit documentation](#) should be assembled for retention as of a date not more than 45 days after the [report release date](#).

Double Taxation

The act of taxing corporate earnings twice, once as the [NET INCOME](#) of the [CORPORATION](#) and once as the [DIVIDENDS](#) distributed to stockholders.

Double-Declining-Balance Depreciation Method (DDB)

Method of [ACCELERATED DEPRECIATION](#), approved by the [INTERNAL REVENUE SERVICE \(IRS\)](#), permitting twice the rate of annual DEPRECIATION as the [STRAIGHT-LINE DEPRECIATION](#) method.

Double-Entry Bookkeeping

Method of recording financial transactions in which each transaction is entered in two or more accounts and involves two-way, self-balancing posting. Total DEBITS must equal total CREDITS.

Draft

Signed, written order by which one party (drawer) instructs another party (drawee) to pay a specified sum to a third party (payee).

Dual Dating

Dating of the ACCCOUNTANTS' or [AUDITORS' REPORT](#) when a [subsequent event](#) disclosed in the [FINANCIAL STATEMENTS](#) occurs after completion of the field work but before issuance of the report. For example, "January 3, 19xx, except for [Note x](#), as to which the date is March 10, 19xx."

Due Date

Each governing agency and its forms scheduled reporting and most importantly payments have a required [due date](#). It is this date that if most files timely may result in a [penalty](#), fine, and commence [interest](#) charges.

Due Diligence

(1) Procedures performed by underwriters in connection with the issuance of a SECURITIES EXCHANGE [COMMISSION \(SEC\)](#) registration [statement](#). These procedures involve questions concerning the [company](#) and its business, products, competitive position, recent financial and other developments and prospects. Also performed by others in connection with acquisitions and other transactions. (2) Requirement found in ethical codes that the person governed by the ethical rules exercise professional care in conducting his or her activities.

Dutch Auction

Auction system in which the price of an item is gradually lowered until it meets a responsive bid and is sold.

E

Earned Income

Wages, salaries, professional fees, and other amounts received as compensation for services rendered.

Earned Income Tax Credit (EITC)

A refundable [tax credit](#) for eligible low [income](#) workers, subject to computations based on qualifying children and phase in and phase out income levels.

Earnings Per Share (EPS)

Measure of performance calculated by dividing the [net](#) earnings of a [company](#) by the average number of [shares outstanding](#) during a [period](#).

Earnings Price Ratio

Relationship of EARNINGS PER SHARE (EPS) to current stock price.

Econometrics

Use of computer analysis and modeling techniques to describe in mathematical terms the relationship between key economic forces such as labor, capital, interest rates, and government policies, the test the effects of changes in economic scenarios.

Economic Growth Rate

Rate of change in the gross national product, as expressed in an annual percentage.

Economics

The study of the ways goods and services are produced, transported, sold, and used.

Effective Interest Method

A way of AMORTIZING BOND DISCOUNTS or PREMIUMS by applying a constant interest rate to the CARRYING VALUE of the BONDS at the beginning of each interest period.

Effective Interest Rate

The rate of INTEREST actually paid or earned.

Effective Tax Rate

Total income taxes expressed as a percentage of NET INCOME before taxes.

EITC

A refundable tax credit for eligible low income workers, subject to computations based on qualifying children and phase in and phase out income levels.

EITF

Assists the FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) and provides guidance on early identification of emerging issues affecting financial reporting and problems in implementing authoritative pronouncements.

Emerging Issues Task Force (EITF)

Assists the FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) and provides guidance on early identification of emerging issues affecting financial reporting and problems in implementing authoritative pronouncements.

Employee Benefit Plan

Compensation arrangement, generally in writing, used by employers in addition to salary or wages. Some plans such as group term life insurance, medical insurance and qualified retirement plans are treated favorably under the tax law. Most common qualified retirement plans are: (1) defined benefit plans - a promise to pay participants specified benefits that are determinable and based on such factors as age, years of service, and compensation; or (2) defined contribution plans - provide an individual account for each participant and benefits based on items such as amounts contributed to the account by the employer and employee and investment experience. This type includes PROFIT-SHARING PLANS, EMPLOYEE STOCK OWNERSHIP PLANS and 401(k) PLANS.

Employee Stock Ownership Plan (ESOP)

Stock bonus plan of an employer that acquires SECURITIES issued by the plan sponsor.

Encumbrance

(1) MORTGAGE or other lien on the entity's ASSETS; (2) Anticipated EXPENDITURE; (3) Uncompleted or undelivered portion of a purchase commitment.

Ending Inventory

Merchandise on hand at the end of an accounting period

Endorsement

The process by which the payee transfers ownership of a CHECK to a bank or another party by writing his or her name on the back of it.

Engagement Completion Document

A document whereby the [AUDITOR](#) identifies all [significant findings or issues](#). The document should be as specific as necessary in the circumstances for a reviewer to [gain](#) a thorough understanding of the significant findings or issues.

Entrepreneur

Person who takes on the risks of starting a new business.

EPS

Measure of performance calculated by dividing the [net](#) earnings of a [company](#) by the average number of [shares outstanding](#) during a [period](#).

Equilibrium Price

Price when the supply of goods in a particular [market](#) matches demand.

Equity

Residual [INTEREST](#) in the ASSETS of an entity that remains after deducting its LIABILITIES. Also, the amount of a business' total assets less total liabilities. Also, the third section of a [BALANCE SHEET](#), the other two being assets and liabilities.

Equity Account

[ACCOUNT](#) in the [EQUITY](#) section of the [BALANCE SHEET](#). Includes [CAPITAL STOCK](#), ADDITIONAL [PAID IN CAPITAL](#) and [RETAINED EARNINGS](#).

Equity Financing

Raising the money by issuing shares of [COMMON STOCK](#) or [PREFERRED STOCK](#).

Equity Method of Accounting

Investors [cost basis](#) is adjusted up or down (in proportion to the % of stock ownership) as the investee's [retained earnings](#) fluctuation; used for long-[term](#) investments in [equity securities](#) of affiliate where holder can exert significant influence; 20% ownership or greater is arbitrarily presumed to have significant influence over the investee.

Equity Securities

[CAPITAL STOCK](#) and other SECURITIES that represent ownership shares, or the legal rights to purchase or acquire CAPITAL STOCK.

Error

Act that departs from what should be done; imprudent deviation, unintentional mistake or omission.

Escrow

Money or property put into the custody of a third party for delivery to a [GRANTEE](#), only after fulfillment of specified conditions.

ESOP

Stock bonus plan of an employer that acquires SECURITIES issued by the plan sponsor.

Estate Tax

[Tax](#) on the [value](#) of a DECEDENT'S taxable estate, typically defined as the [decedent's](#) ASSETS less LIABILITIES and certain expenses which may include funeral and administrative expenses.

Estimated Tax

Amount of [tax LIABILITY](#) a taxpayer may expect to pay for the current tax [period](#). Usually paid through quarterly installments.

Estimation Transactions

Activities that involve [management](#) judgments or assumptions in formulating [account](#) balances in the absence of a precise means of measurement.

Evidential Matter

Underlying [ACCOUNTING](#) data and other corroborating information that support the [FINANCIAL STATEMENTS](#).

Exchanges

[Transfer](#) of money, property or services in exchange for any combination of these items.

Excise Tax

[Tax](#) or duty on the [manufacture, sale](#), or consumption of [commodities](#).

Excluded Income

See [EXCLUSIONS](#).

Exclusions

[Income](#) item which is excluded from a taxpayer's [gross income](#) by the [INTERNAL REVENUE CODE](#) or an administrative action. Common [exclusions](#) include gifts, inheritances, and death proceeds paid under a life [insurance contract](#). Also known as [excluded income](#).

Executor

Person appointed by a will to manage a DECEDENT'S estate.

Exempt Organization

[Organization](#) which is generally exempt from paying federal [income tax](#). Exempt organizations include religious organizations, charitable organizations, social clubs, and others.

Exemption

Amount of a taxpayer's [income](#) that is not subject to tax. All individuals, TRUSTS, and estates qualify for an [exemption](#) unless they are claimed as a dependent on another individual's tax [return](#). Exemptions also are granted to taxpayers for their dependents.

Expatriation Tax

Individuals that loose or terminate their residency within the 10 year [period](#) immediately preceding the [close](#) of a [tax year](#), if the termination or [loss](#) is for the sole purpose of avoiding [tax](#).

Expectation Gap

The difference in perception between the public and the [CPA](#) as a result of [accounting](#) and [audit](#) service.

Expenditure

Payment, either in [CASH](#), by assuming a [LIABILITY](#), or by surrendering [ASSET](#).

Expense

Something spent on a specific item or for a particular purpose.

Expense Ratio

Amount, expressed as a percentage of total [investment](#), that shareholders pay for [MUTUAL FUND](#) operating expenses and [management](#) fees.

Experienced Auditor

An [AUDITOR](#) that has a reasonable understanding of [audit](#) activities and has studied the [company's](#) industry as well as the [accounting](#) and auditing issues relevant to the industry.

Exploration Expenditures

An [AUDITOR](#) that has a reasonable understanding of [audit](#) activities and has studied the [company's](#) industry as well as the [accounting](#) and auditing issues relevant to the industry.

Exposure Draft

Document issued by the [AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS \(AICPA\)](#), [FINANCIAL ACCOUNTING STANDARDS BOARD \(FASB\)](#), [GOVERNMENTAL ACCOUNTING STANDARDS BOARD \(GASB\)](#) or other standards setting authorities to invite public comment before a final pronouncement is issued.

Extension

Time granted by a taxing authority, such as the [INTERNAL REVENUE SERVICE \(IRS\)](#), a state or city, which allows the taxpayer to file tax returns later than the original [due date](#).

Extent of Tests of Control

Each year the [AUDITOR](#) must obtain sufficient evidence about whether the [company's internal control over financial reporting](#), including the controls for all [internal control](#) components, is operating effectively.

External Reporting

Reporting to stockholders and the public, as opposed to internal reporting for [management's](#) benefit.

Extinguishment of Debt

To get rid of the [liability](#) by payment; to bring to an end.

Extraordinary Items

Events and transactions distinguished by their unusual nature and by the infrequency of their occurrence. [Extraordinary items](#) are reported separately, less applicable [income](#) taxes, in the entity's [statement](#) of income or operations.

F

Face Value

Amount due at [maturity](#) from a [BOND](#) or [note](#).

Factoring

Selling a RECEIVABLE at a discounted [value](#) to a third party for [cash](#).

Factoring: Over-Advances

Circumstance where a business receives more money from a factor than the [value](#) of the RECEIVABLES, which is a [loan](#) against [inventory](#) in anticipation of future sales.

Factory Overhead Costs

Various [production](#)-related costs that cannot be practically or conveniently traced to an end product.

Fair Credit Reporting Act

Federal law enacted in 1971 giving persons the right to see their [credit](#) records at credit reporting bureaus.

Fair Market Value

Price at which property would change hands between a buyer and a seller without any compulsion to buy or sell, and both having reasonable knowledge of the relevant facts.

FASB

Independent, private, non-governmental authority for the establishment of [ACCOUNTING](#) principles in the United States.

Favorable Variance

Excess of actual REVENUE over projected revenue, or actual costs over projected costs.

Federal Income Taxes

Taxes on [NET INCOME](#) that must be paid to the federal government by individuals and businesses.

Federal Reserve Bank

One of the 12 banks that, with their branches, make up the [FEDERAL RESERVE SYSTEM](#).

Federal Reserve System

System established by the Federal [Reserve](#) Act of 1913 to regulate the U.S. monetary and banking system.

Fiduciary

Person who is responsible for the administration of property owned by others. Corporate [management](#) is a [FIDUCIARY](#) with respect to corporate ASSETS which are beneficially owned by the stockholders and CREDITORS. Similarly, a [TRUSTEE](#) is the fiduciary of a [TRUST](#) and partners owe fiduciary responsibility to each other and to their creditors.

FIFO

ACCOUNTING method of valuing INVENTORY under which the costs of the first goods acquired are the first costs charged to expense. Commonly known as FIFO.

Filing of Returns

Taxpayers meeting statutory requirements MUST file various returns on the prescribed forms. And they must be filed timely or they may not be considered as filed.

Finance

The science of the management of money and other financial ASSETS.

Financial Accounting Standards

Official promulgations, known as STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS, by the FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) which are part of GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) in the United States.

Financial Accounting Standards Board (FASB)

Independent, private, non-governmental authority for the establishment of ACCOUNTING principles in the United States.

Financial Institution

Organization engaged in any of the many aspects of finance including commercial banks, thrift institutions, investment banks, securities brokers and dealers, credit unions, investment companies, insurance companies, and REAL ESTATE INVESTMENT TRUSTS.

Financial Leverage

The ability to increase earnings for stockholders by earning more on ASSETS than is paid in INTEREST on DEBT incurred to finance the assets.

Financial Statements

Presentation of financial data including BALANCE SHEETS, INCOME STATEMENTS and STATEMENTS OF CASH FLOW, or any supporting statement that is intended to communicate an entity's financial position at a point in time and its results of operations for a period then ended.

Finished Goods

The products that have been made and are ready for sale.

Finished Goods Inventory

An inventory account unique to manufacturing operations.

Firm

A business partnership, especially when it is unincorporated.

First In, First Out (FIFO)

ACCOUNTING method of valuing INVENTORY under which the costs of the first goods acquired are the first costs charged to expense. Commonly known as FIFO.

Fiscal Year

Period of 12 consecutive months chosen by an entity as its ACCOUNTING period which may or may not be a calendar year. Fixed Asset - Any tangible ASSET with a life of more than one year used in an entity's operations.

Fixed Annuity

Investment contract sold by an insurance company that guarantees fixed payments, either for life or for a specified period, to an annuitant.

Fixed Assets

Tangible LONG TERM ASSETS used in the continuing operation of a business that are unlikely to change for a long time.

Fixed Costs

Costs that remain constant within a defined range of activity, volume, or time period.

Fixed Price

In a public offering of new SECURITIES, price at which investment bankers in the underwriting syndicate agree to sell the issue to the public.

Fixture

Attachment to [real property](#) that is not intended to be moved and would create damage to the property if it were moved.

Floor

[Term](#) used when discussing INVENTORIES. [Inventory](#) cannot be valued lower than the "floor" which is the [net](#)realizable value of the inventory less an allowance for a normal [profit margin](#).

Flotation Cost

Cost of issuing new stocks or BONDS.

FOB

Indicates the point at which [title](#) to goods passes.

FOB Destination

A shipping [term](#) that means that the seller bears transportation costs to the place of delivery.

FOB Shipping Point

A shipping [term](#) that means that the buyer bears transportation costs from the point of origin.

Forecast

Prospective [FINANCIAL STATEMENTS](#) that are an entity's expected financial position, results of operations, and [cash flows](#).

Forecasted Balance Sheet

A [balance](#) sheet that projects the financial position of a business for a future [period](#).

Forecasted Income Statement

An [INCOME STATEMENT](#) that projects the [NET INCOME](#) of a business for a future [period](#).

Forecasting of Cash Flow

Projecting the [cash](#) receipts and the cash payments for a future [period](#).

Foreclosure

Seizure of [COLLATERAL](#) by a [CREDITOR](#) when [DEFAULT](#) under a [loan](#) agreement occurs.

Foreign Corporation

A [corporation](#) which is not organized under the laws of ones territories or states. Taxing of foreign corporations depends on whether the corporation has Nexus or effectively connected [income](#) in that state.

Foreign Currency Translation

Restating foreign currency in equivalent dollars; unrealized gains or losses are postponed and carried in [Stockholder's Equity](#) until the foreign operation is substantially liquidated.

Foreign Exchange

Instruments employed in making payments between countries.

Foreign Tax Credit

A U.S. taxpayer that pays or accrues [income](#) tax to a foreign country may elect to [credit](#) or deduct these taxes in a determinable us dollar amount. This is usually done on the annual individual tax [return](#) and there is s specific form provided for this.

Form 10-K

[SEC](#) filing which is the [ANNUAL REPORT](#) due 90 days after the registrant's [BALANCE](#) SHEET date.

Form 10-Q

[SEC](#) filing which is the quarterly [report](#) due 45 days after each of the first three quarter.ends of each [fiscal year](#).

Form 8-K

[SEC](#) filing which is a filing that must be made on the occurrence of an event that is deemed to be of significant importance to [SECURITY](#) holders.

Form W-4

A form that specifies the number of EXEMPTIONS claimed by each employee and that gives the employer the authority to withhold money for an employee's [FEDERAL INCOME TAXES](#) and Federal [Insurance](#) Contributions Act (FICA) taxes.

Franchise

Legal arrangement whereby the owner of a [trade](#) name, franchisor, contracts with a party that wants to use the name on a non-exclusive basis to sell goods or services, franchisee. Frequently, the franchise agreement grants strict supervisory powers to the franchisor over the franchisee which, nevertheless, is an independent business.

Franchise Tax

State [tax](#) which is imposed on a state-chartered [CORPORATION](#) for the right to do business under its corporate name.

Fraud

Willful misrepresentation by one person of a fact inflicting damage on another person.

Free Cash Flow

The amount of [cash](#) that remains after deducting the funds a [COMPANY](#) must commit to continue operating at its planned level.

Free On Board (FOB)

Indicates the point at which [title](#) to goods passes.

Freight In

Transportation charges on [merchandise](#) purchased for resale.

Freight Out

Transportation charges on [merchandise](#) sold; an [operating expense](#).

Full Disclosure

Requirement to disclose all [material](#) facts relevant to a [transaction](#).

Fund Accounting

Method of ACCOUNTING and presentation whereby ASSETS and LIABILITIES are grouped according to the purpose for which they are to be used. Generally used by government entities and not-for-profits.

Fundamental Analysis

Research of such factors as interest rates, gross national product, [inflation](#), unemployment, and inventories as tools to predict the direction of the economy.

Funding

Refinancing a [DEBT](#) on or before its [MATURITY](#); also called [REFUNDING](#) and, in certain instances, pre-refunding.

Future Contract

Transferable agreement to deliver or receive during a specific future month a standardized amount of a commodity.

Future Value

The amount that an [investment](#) will be worth at a future date if it is invested at compound [interest](#).

G

GAAP

Conventions, rules, and procedures necessary to define accepted [accounting](#) practice at a particular time. The highest level of such principles are set by the [FINANCIAL ACCOUNTING STANDARDS BOARD \(FASB\)](#).

GAAS

See GENERALLY ACCEPTED [AUDITING STANDARDS](#).

Gain

Excess of [REVENUES](#) received over costs relating to a specific [transaction](#).

GAO

[Accounting](#) and auditing office of the United States government. An independent agency that reviews federal financial transactions and reports directly to Congress.

GASB

Group that has authority to establish standards of financial reporting for all units of state and local government.

General Journal

The simple and most flexible type of [journal](#).

General Ledger

Collection of all [ASSET](#), [LIABILITY](#), owners [EQUITY](#), REVENUE, and [expense](#) accounts.

General Partnership

[PARTNERSHIP](#) with no limited partners.

Generally Accepted Accounting Principles (GAAP)

Conventions, rules, and procedures necessary to define accepted [accounting](#) practice at a particular time. The highest level of such principles are set by the [FINANCIAL ACCOUNTING STANDARDS BOARD \(FASB\)](#).

Generally Accepted Auditing Standards (GAAS)

Standards set by the [AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS \(AICPA\)](#) which concern the [AUDITOR'S](#) professional qualities and judgment in the performance of his or her [AUDIT](#) and in the actual [report](#).

Gift

A valid [transfer](#) of property from one taxpayer to another without consideration or compensation. A [gift](#) may be subject to the unified estate and gift [transfer tax](#).

Going Concern

Assumption that a business can remain in operation long enough for all of its current plans to be carried out.

Going Private

Movement from public ownership to private ownership of a COMPANY's shares either by the company's repurchase of shares or through [purchases](#) by an outside private investor.

Going Public

Activities that relate to offering a private [company's](#) shares to the general [investing](#) public including registering with the [SEC](#).

Goods Available for Sale

The sum of [beginning inventory](#) and the [net](#) cost of [purchases](#) during a [period](#); the total [goods available for sale](#) to customers during an [accounting](#) period.

Goodwill

[Premium](#) paid in the [acquisition](#) of an entity over the fair [value](#) of its identifiable tangible and intangible ASSETS less LIABILITIES assumed.

Governing Documents

Official legal documents that dictate how an entity is operated. The [governing documents](#) of a [CORPORATION](#) include ARTICLES OF [INCORPORATION](#) and [BYLAWS](#); a [PARTNERSHIP](#) includes the partnership agreement; a [TRUST](#) includes the trust agreement or trust [indenture](#); and an [LLC](#) includes the ARTICLES OF [ORGANIZATION](#) and [OPERATING AGREEMENT](#).

Government Accountability Office (GAO)

[Accounting](#) and auditing office of the United States government. An independent agency that reviews federal financial transactions and reports directly to Congress.

Governmental Accounting Standards Board (GASB)

Group that has authority to establish standards of financial reporting for all units of state and local government.

Grantee

Person to whom property is transferred.

Grantor

(1) Person who transfers property. (2) Person who creates a [trust](#).

Greenmail

Any amount a [corporation](#) pays to a [shareholder](#) to directly or indirectly buy back its stock.

Gross Income

The beginning point for the determination of [income](#), including income from whatever sources derived.

Gross Margin

The difference between [NET SALES](#) and [COST OF GOODS SOLD](#).

Gross Sales

The total amount of sales for [cash](#) and on [credit](#) accumulated during a specific [accounting period](#).

Guaranty

Legal arrangement involving a promise by one person to perform the [obligations](#) of a second person to a third person, in the event the second person fails to perform.

H

Half-Life

Point in time at which half the [PRINCIPAL](#) has been repaid in a [mortgage](#)-backed [security](#) guaranteed or issued by the Government National Mortgage Association, the Federal National Mortgage Association, or the Federal Home [Loan](#) Mortgage [Corporation](#).

Head of Household

An individual entitled to special [tax](#) rates that fall midway between single rates and married filing joint rates, if they fit the qualifying profile.

Hedge

A financial [term](#) for a specific type of [commodities](#) planning and trading.

Held-to-Maturity Security

A [DEBT SECURITY](#) that [management](#) intends to hold to its [MATURITY](#) or payment date and whose [cash value](#) is not needed until that date.

High-Low Method

A common, simple way of separating [VARIABLE COSTS](#) from [FIXED COSTS](#).

High-Premium Convertible Debenture

[BOND](#) with a long [term](#), high [premium](#), [COMMON STOCK](#) [conversion](#) feature and also offering a fairly competitive [interest rate](#).

Historical Cost

[Original cost](#) of an [asset](#) to an entity.

Holding Period

The time in which a taxpayer acquires property and the date on which it is sold.

Hope Scholarship Credit

A maximum allowable [credit](#) of \$1,500 per student for each of the first 2 years of post-secondary education. It is allowable after all additional requirements are met.

Horizontal Analysis

A technique for analyzing [FINANCIAL STATEMENTS](#) that involves the computation of changes in both dollar amounts and percentages from the previous year to the current year.

IASC

An independent private sector body, formed in 1973, with the objective of harmonizing the [accounting](#) principles which are used in businesses and other organizations for financial reporting around the world. Its members are 143 professional accounting bodies in 104 countries.

IMA

A professional [organization](#) made up primarily of [management](#) accountants.

Improvement

[EXPENDITURE](#) directed to a particular [ASSET](#) to improve its performance or useful life.

Imputed Interest

If no [interest](#) or an unrealistic amount of interest is charged in a sale involving certain kinds of deferred payments, then the [transaction](#) will be treated as if the realistic rate of interest had been used. The difference between the realistic interest and the interest actually used is referred to as [imputed interest](#).

In Arrears

Not paid at the time originally agreed to and overdue.

Income

Inflow of REVENUE during a [period](#) of time.

Income from Operation

[Gross margin](#) with operating expenses subtracted.

Income Statement

Summary of the effect of [REVENUES](#) and expenses over a [period](#) of time.

Income Summary

A temporary [account](#) used during the closing process that holds a summary of all [REVENUES](#) and EXPENSES before the [NET INCOME](#) or [loss](#) is transferred to the capital account.

Income Tax Basis

- (1) For [tax](#) purposes, the concept of basis determines the proper amount of [gain to report](#) when an [ASSET](#) is sold. Basis is generally the cost paid for an asset plus the amounts paid to improve the asset less deductions taken against the asset, such as [DEPRECIATION](#) and [AMORTIZATION](#).
- (2) For [accounting](#) purposes, a consistent basis of accounting that uses [income](#) tax accounting rules while [GENERALLY ACCEPTED ACCOUNTING PRINCIPLES \(GAAP\)](#) does not.

Incorporation

Process by which a [COMPANY](#) receives a state charter allowing it to operate as a [CORPORATION](#).

Incremental Cash Flow

[Net of cash](#) outflows and inflows attributable to a corporate [investment](#) project.

Indenture

Formal agreement, also called a deed of [trust](#), between an [issuer](#) of bonds and the [BONDHOLDER](#) covering certain considerations such as form of the BOND for example.

Independence Standard Board (ISB)

This is the private sector [standard](#)-setting body governing the independence of AUDITORS from their public [company](#) clients. It came about from discussions between the [AICPA](#), other [accounting](#) representatives and the SEC.

Independent Broker

New York [Stock Exchange](#) member who executes orders for other [floor](#) brokers who have more [volume](#) than they can handle, or for firms whose exchange members are not on the floor.

Index

Statistical composite that measures changes in the economy or in financial markets, often expressed in percentage changes from a base year or from the previous month.

Indirect Cost

Any cost that cannot be conveniently and economically traced to a specific department; a manufacturing cost that is not easily traced to a specific product and must be assigned using an allocation method.

Indirect Labor Costs

Labor costs for production-related activities that cannot be connected with or conveniently and economically traced to a specific end product.

Indirect Manufacturing Costs

Various production-related costs that cannot be practically or conveniently traced to an end product.

Indirect Materials

Minor materials and other production supplies that cannot be conveniently and economically traced to specific products.

Indirect Method

The procedure for converting the INCOME STATEMENT from an ACCRUAL to a CASH BASIS.

Individual Retirement Account (IRA)

A personal savings plan that allows an individual to make cash contributions per year dependent on the individual's adjusted gross income and participation in an employer's retirement plan. Under a traditional IRA these earnings are not taxable until the time of withdrawal from the plan.

Inflation

Rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market.

Inflation Rate

Rate of change in prices.

Inheritance

As distinguished from a BEQUEST or devise, an inheritance is property acquired through laws of descent and distribution from a person who dies without leaving a will. The value of property inherited is excluded from a taxpayer's gross income, but if the property inherited produces income it is included in gross income. A taxpayer's basis in inherited property is the fair market value at the time of death.

Initial Public Offering (IPO)

When a private company goes public for the first time.

Inquiry

A procedure that consists of seeking information, both financial and non financial, of knowledgeable persons throughout the company. It is used extensively throughout the audit and often is complementary to performing other procedures. Inquiries may range from formal written inquiries to informal oral inquiries.

Inside Information

Corporate affairs that have not yet been made public.

Insolvency

Inability to pay DEBTS when due.

Insolvent

When an entity's LIABILITIES exceed its ASSETS.

Installment Method

Tax ACCOUNTING method of reporting GAIN on the sale of an ASSET exchanged for a RECEIVABLE. In general, the gain is reported as the note is paid off.

Institute of Management Accounts (IMA)

A professional organization made up primarily of management accountants.

Instrument

A legal document used for a specific purpose, such as paying for goods received.

Insurance

System whereby individuals and companies that are concerned about potential hazards pay premiums to an [insurance company](#), which reimburses them in the event of [loss](#).

Insured Account

[Account](#) at a bank, savings and [loan](#) association, [credit](#) union, or brokerage [firm](#) that belongs to a federal or private [insurance organization](#).

Intangible Asset

[Asset](#) having no physical existence such as trademarks and patents.

Interest

Payment for the use or forbearance of money.

Interest Coverage Ratio

A way of measuring the degree of protection that a [CREDITOR](#) has from a DEBTOR's [DEFAULT](#) on [interest](#) payments.

Interest Rate

An amount of money charged for borrowing money or paid for the use of somebody else's money.

Interim Dividend

DIVIDEND declared and paid before annual earnings have been determined, generally quarterly.

Interim Financial Statements

[FINANCIAL STATEMENTS](#) that [report](#) the operations of an entity for less than one year.

Internal Audit

[AUDIT](#) performed within an entity by its staff rather than an independent certified public [accountant](#).

Internal Control

Process designed to provide [reasonable assurance](#) regarding achievement of various [management](#) objectives such as the reliability of financial reports.

Internal Control Over Financial Reporting

A process designed by, or under the supervision of the company's principal executive and principal financial officers or persons performing similar functions and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GENERALLY ACCEPTED ACCOUNTING PRINCIPLES and includes those policies and procedures that:

1. Pertain to the maintenance of records that accurately and fairly reflect the transactions and dispositions of the assets of the company.
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the company.
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Internal Rate of Return

Method that determines the [discount rate](#) at which the [present value](#) of the future [CASH FLOWS](#) will exactly equal [investment](#) outlay.

Internal Revenue Code

Collection of [tax](#) rules of the federal government. Also referred to as [Title](#) 26 of the United States Code.

Internal Revenue Service (IRS)

Federal agency that administers the [INTERNAL REVENUE CODE](#). The [IRS](#) is part of the United States [Treasury](#) Department.

International Accounting Standards Committee (IASC)

An independent private sector body, formed in 1973, with the objective of harmonizing the [accounting](#) principles which are used in businesses and other organizations for financial reporting around the world. Its members are 143 professional accounting bodies in 104 countries.

International Mutual Fund

[MUTUAL FUND](#) that invests in [SECURITIES](#) markets throughout the world so that if one market is in a slump, money can still be made in others.

Intrinsic Value

[Valuation](#) determined by applying data inputs to a valuation theory or model.

Inventory

Tangible property held for [sale](#), or materials used in a [production](#) process to make a product.

Inventory Financing

Circumstance where loans in excess of [ACCOUNTS RECEIVABLE](#) are made against [inventory](#) in anticipation of future sales. Sometimes used as a synonym for [OVER-ADVANCES IN FACTORING](#).

Inventory Turnover

A ratio used to indicate the number of times a [COMPANY](#)'s average [inventory](#) is sold during an [accounting period](#).

Invest

To put money into something such as property, stocks, or a business, in order to earn [INTEREST](#) or make a [profit](#).

Investing

The practice of putting money into something, such as property, in order to earn [INTEREST](#) or make a [profit](#).

Investment

[EXPENDITURE](#) used to purchase goods or services that could produce a [return](#) to the investor.

Investment Banker

[Firm](#), acting as underwriter or agent, that serves as intermediary between an [issuer](#) of [SECURITIES](#) and the [investing](#) public.

Investment Income

[Income](#) from [SECURITIES](#) and other non-business investments; such as [DIVIDENDS](#) (<http://www.nysscpa.org/glossary/term/250>), [INTEREST](#), etc.

Investment Tax Credit

This is a component of the general business credit and consists of the following:

1. The energy credit;
2. The rehabilitation credit; and
3. The reforestation credit.

Invoice

Bill prepared by a seller of goods or services and submitted to the purchaser.

Involuntary Conversions

This is a [conversion](#) of property where it is in whole or part destroyed, stolen, seized, requisitioned or condemned (or where there is a threat or imminence of requisition or condemnation).

IPO

When a private [company](#) goes public for the first time.

IRA

A personal savings plan that allows an individual to make [cash](#) contributions per year dependent on the individual's [adjusted gross income](#) and participation in an employer's retirement plan. Under a traditional [IRA](#) these earnings are not taxable until the time of withdrawal from the plan.

IRS

Federal agency that administers the [INTERNAL REVENUE CODE](#). The [IRS](#) is part of the United States [Treasury](#) Department.

ISB

This is the private sector [standard](#)-setting body governing the independence of AUDITORS from their public [company](#) clients. It came about from discussions between the [AICPA](#), other [accounting](#) representatives and the SEC.

Issue

Stock or BONDS sold by a [CORPORATION](#) or a government entity at a particular time.

Issued and Outstanding

Shares of a [CORPORATION](#), authorized in the corporate charter, which have been issued and are [outstanding](#).

Issuer

This [term](#) means an [issuer](#), the securities of which are registered under Section 12 of the Securities Exchange Act of 1934, or that is required to file reports under Section 15(d) of that Act, or that files or has filed a registration [statement](#) with the SEC that has not yet become effective under the Securities Act of 1933 and that it has not withdrawn.

J

Jeopardy

If the [IRS](#) believes that collection of [tax](#) appears to be in [jeopardy](#) (danger of being uncollected), it may immediately assess and collect such tax. The intermediate steps are bypassed.

Job Order

A customer order for a specific number of specially designed, made-to-order products.

Joint Return

A [return](#) filed by [married taxpayers](#) or surviving spouses.

Joint Venture

When two or more persons or organizations gather CAPITAL to provide a product or service. Often carried out as a [PARTNERSHIP](#).

Journal

Any book containing original entries of daily financial transactions.

Journal Entry

A notation in the [GENERAL JOURNAL](#). It records a single [transaction](#).

Junk Bonds

[DEBT](#) SECURITIES issued by companies with higher than normal [credit risk](#). Considered "non-[investment](#) grade" bonds, these SECURITIES ordinarily [yield](#) a higher rate of [interest](#) to [compensate](#) for the additional risk.

Just-In-Time

An overall operating philosophy of [INVENTORY management](#) in which all resources, including materials, personnel, and facilities, are used only as needed.

K

Keogh Plan

Also known as an HR 10, this is a qualified retirement plan for self employed who do not incorporate their business. If qualifications are met the taxpayer may receive a deduction for contributions made.

Key Employee

For purposes of rules that apply to top heavy plans, a key employee:

1. An officer of the employer earning more than \$130,000;
2. An individual who owns more than 5 percent of the employer;
3. An individual who owns more than 1 percent of the employer and compensation greater than \$150,000.

Key Industry

Industry of primary importance to a nation's economy.

Key Person Insurance

Business-owned life [insurance contract](#) typically on the lives of [principal](#) officers that normally provides for guaranteed death benefits to the [company](#) and the [accumulation](#) of a [cash surrender value](#).

Kiting

Writing checks against a bank [account](#) with insufficient funds to cover them, hoping that the bank will receive deposits before the checks arrive for clearance.

L

Labor

Physical or mental effort; work.

Laissez-Faire

Doctrine that interference of government in business and economic affairs should be minimal.

Land

Property; [real estate](#).

Last In, First Out (LIFO)

[ACCOUNTING](#) method of valuing [inventory](#) under which the costs of the last goods acquired are the first costs charged to [expense](#). Commonly known as [LIFO](#).

Lay Off

Reduce the [risk](#) in standby commitment, under which the bankers agree to purchase and resell to the public any portion of a stock [issue](#) not subscribed to by shareowners who hold rights.

Lease

Conveyance of [land](#), buildings, equipment or other ASSETS from one person ([LESSOR](#)) to another ([LESSEE](#)) for a specific [period](#) of time for monetary or other consideration, usually in the form of rent.

Lease Acquisition Cost

Price paid by a [real estate limited partnership](#), when acquiring a [lease](#), including legal fees and related expenses.

Lease-Purchase Agreement

Agreement providing that portions of [lease](#) payments may be applied toward the purchase of the property under lease.

Leasehold

Property [INTEREST](#) a [LESSEE](#) owns in the leased property.

Ledger

Any book of accounts containing the summaries of [debit](#) and [credit](#) entries.

Ledger Account

A complete record of the transactions recorded in each individual [account](#).

Lender

Individual or [firm](#) that extends money to a borrower with the expectation of being repaid, usually with [INTEREST](#).

Lending Securities

SECURITIES borrowed from a broker's [INVENTORY](#), other [MARGIN](#) accounts, or from other brokers, when a customer makes a [short sale](#) and the securities must be delivered to the buying customer's broker.

Lessee

Person or entity that has the right to use property under the terms of a [LEASE](#).

Lessor

Owner of property, the temporary use of which is transferred to another ([LESSEE](#)) under the terms of a [LEASE](#).

Letter of Credit

Conditional bank commitment issued on behalf of a customer to pay a third party in accordance with certain terms and conditions. The two primary types are commercial letters of [credit](#) and standby letters of credit.

Letter of Intent

Any letter expressing an intention to take an action, sometimes subject to other action being taken.

Leverage

The use of borrowed funds to increase the [profit](#) from an [investment](#).

Leveraged Buy Out

[Acquisition](#) of a controlling [INTEREST](#) in a [company](#) in a [transaction](#) financed by the issuance of DEBT instruments by the acquired entity.

Leveraged Lease

[Transaction](#) under which the [LESSOR](#) borrows funds to acquire property which is leased to a third party. The property and lease rentals are [security](#) for the LESSOR'S indebtedness.

Liability

DEBTS or [OBLIGATIONS](#) owed by one entity ([DEBTOR](#)) to another entity ([CREDITOR](#)) payable in money, goods, or services.

Lien

CREDITOR's claim against property. For example a [MORTGAGE](#) is a [lien](#) against a house.

Life Expectancy

Age to which an average person can be expected to live, as calculated by an [ACTUARY](#).

Lifetime Learning Credit

This allows a [credit](#) for 20 percent of qualified tuition and fees paid by the taxpayer with respect to one or more students for any year that the HOPE SCHOLARSHIP CREDIT is not claimed.

LIFO

[ACCOUNTING](#) method of valuing [inventory](#) under which the costs of the last goods acquired are the first costs charged to [expense](#).

LIFO Liquidation

The reduction of [INVENTORY](#) levels at year's end below beginning-of-the-year levels for businesses using the LAST IN, FIRST OUT ([LIFO](#)) inventory method.

Limited Company

A [COMPANY](#), usually registered in the United Kingdom, that is organized to protect its owners from financial responsibility.

Limited Liability

The obligation of owners of a [CORPORATION](#), who are liable only for the amount of their [INVESTMENT](#) and are not liable for the corporation's DEBTS.

Limited Liability Company (LLC)

Form of doing business combining [LIMITED LIABILITY](#) for all owners (called members) with taxation as a [PARTNERSHIP](#). An [LLC](#) is formed by filing ARTICLES OF [ORGANIZATION](#) with an appropriate state official. Rules governing LLCs vary significantly from state to state.

Limited Liability Partnership (LLP)

[GENERAL PARTNERSHIP](#) which, via registration with an appropriate state authority, is able to enshroud all its partners in [LIMITED LIABILITY](#). Rules governing LLPs vary significantly from state to state.

Limited Partnership

[PARTNERSHIP](#) in which one or more partners, but not all, have [LIMITED LIABILITY](#) to CREDITORS of the partnership.

Liquid Assets

[Cash](#), cash equivalents, and [marketable SECURITIES](#).

Liquidation

Winding up an activity by distributing its ASSETS to the appropriate parties and settling its DEBTS.

Liquidity

Available money on hand to pay bills when they are due and to take care of unexpected needs for CASH.

Liquidity Ratio

Measure of a firm's ability to meet maturing SHORT-TERM OBLIGATIONS.

Listed Property

Limits are imposed on the DEPRECIATION deduction a taxpayer may claim on certain listed property as follows:

1. A passenger car;
2. Other property used as transportation;
3. Property used for purposes of entertainment, recreation, or amusement;
4. A computer and peripheral equipment; and
5. Cellular telephone.

Litigation Support/Dispute Resolution

A service that CPAs often provide to attorneys - e.g., expert testimony about the value of a business or other asset, forensic accounting (a partner stealing from his other partners, or a spouse understating his income in a matrimonial action). The lawyer hires the CPA to do the investigation and determine the amount of money stolen or understated.

LLC

Form of doing business combining LIMITED LIABILITY for all owners (called members) with taxation as a PARTNERSHIP. An LLC is formed by filing ARTICLES OF ORGANIZATION with an appropriate state official. Rules governing LLCs vary significantly from state to state.

LLP

GENERAL PARTNERSHIP which, via registration with an appropriate state authority, is able to enshroud all its partners in LIMITED LIABILITY. Rules governing LLPs vary significantly from state to state.

Loan

Transaction wherein an owner of property, called the LENDER allows another party, the borrower, to use the property.

Loan Value

Amount a LENDER is willing to LOAN against COLLATERAL.

Long Bond

BOND that matures in more than 10 years.

Long Term

HOLDING PERIOD of six months or longer, according to the Tax Reform Act of 1984 and applicable in calculating the CAPITAL GAINS tax until 1988.

Long-Term Asset

An ASSET that has the following characteristics: (1) it has a useful life of more than one year; (2) it is acquired for use in the operation of a business; and (3) it is not intended for resale to customers.

Long-Term Debt

DEBT with a maturity of more than one year from the current date.

Long-Term Gain

Subsequent to the Tax Reform Act of 1984 and prior to provisions of the Tax Reform Act of 1986 effective in 1988, a gain on the sale of a capital asset where the HOLDING PERIOD was six months or more and the profit was subject to the LONG-TERM CAPITAL GAINS tax.

Long-Term Investment

An INVESTMENT that management plans to hold for more than one year.

Long-Term Liability

A DEBT that falls due more than one year in the future or beyond the normal OPERATING CYCLE, or that is to be paid out of noncurrent assets.

Long-Term Loss

Negative counterpart to LONG-TERM GAIN as defined by the same legislation.

Loss

Excess of EXPENDITURES over REVENUE for a period or activity. Also, for tax purposes, an excess of basis over the amount realized in a transaction.

Loss on Disposal of Plant and Equipment

The account in which a LOSS is recorded when a firm sells or trades in an ASSET and receives an amount less than the BOOK VALUE for that asset.

Lower of Cost or Market

Valuing ASSETS for financial reporting purposes. Ordinarily, "cost" is the purchase price of the asset and "market" refers to its current replacement cost. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) requires that certain assets (e.g., INVENTORIES) be carried at the lower of cost or market.

Lump-Sum Distribution

Single payment to a beneficiary covering the entire amount of an agreement.

M

Macroeconomics

Analysis of a nation's economy as a whole, using such aggregate data as price levels, unemployment, INFLATION, and industrial production.

Management

Combined fields of policy and administration and the people who provide the decisions and supervision necessary to implement the owner's business objectives and achieve stability and growth.

Management Accounting

Reporting designed to assist management in decision-making, planning, and control. Also known as MANAGERIAL ACCOUNTING.

Management Discussion and Analysis (MD&A)

SEC requirement in financial reporting for an explanation by management of significant changes in operations, ASSETS, and LIQUIDITY.

Management's Report

Management is required to include in its annual report its assessment of the effectiveness of the company's internal control over financial reporting in addition to its audited financial statements as of the end of the most recent fiscal year.

Managerial Accounting

Reporting designed to assist management in decision-making, planning, and control.

Manipulation

Buying or selling a SECURITY to create a false appearance of active trading and thus influence other investors to buy or sell shares.

Manufacture

To make or process (a product), especially by using machines.

Manufacturing Overhead

Another term for FACTORY OVERHEAD COSTS.

Margin

Excess of selling price over the unit cost.

Margin of Profit

Relationship of gross profits to net sales.

Marginal Cost

Increase or decrease in the TOTAL COSTS of a business firm as the result of one more or one less unit of output.

Marginal Tax Rate

Amount of tax imposed on an additional dollar of income.

Mark-to-Market

Method of valuing ASSETS that results in adjustment of an asset's carrying amount to its market value.

Markdown

Amount subtracted from the selling price, when a customer sells SECURITIES to a DEALER in the OVER-THE-COUNTER market.

Market

Public place where products or services are bought and sold, directly or through intermediaries.

Market Capitalization

Value of a CORPORATION as determined by the MARKET PRICE of its ISSUED AND OUTSTANDING COMMON STOCK.

Market Index

Numbers representing weighted values of the components that make up the INDEX.

Market Interest Rate

The rate of interest paid in the MARKET on BONDS of similar risk.

Market Price

Last reported price at which a SECURITY was sold on an exchange.

Market Share

Percentage of industry sales of a particular COMPANY or product.

Market Value

The price investors are willing to pay for a share of stock on the open market.

Marketable Securities

Stocks and other negotiable instruments which can be easily bought and sold on either listed exchanges or over-the-counter markets.

Marketing

Moving goods and services from the provider to consumer.

Markup

The amount added to the price of a product by a retailer to arrive at a selling price.

Married Taxpayers

Taxpayers that are married may file a JOINT RETURN, therefore combining their INCOME and expenses. Individuals will be considered married if:

1. They are living as husband and wife;
 2. They are recognized living as common law marriage; or
 3. Legally married but separated and living apart but not legally divorced.
- Marriage is determined as of the last day of the tax year.

Matching Principle

A fundamental concept of basic accounting. In any one given accounting period, you should try to match the revenue you are reporting with the expenses it took to generate that revenue in the same time period, or over the periods in which you will be receiving benefits from that expenditure. A simple example is depreciation expense. If you buy a building that will last for many years, you don't write off the cost of that building all at once. Instead, you take depreciation deductions over the building's estimated useful life. Thus, you've "matched" the expense, or cost, of the building with the benefits it produces, over the course of the years it will be in service.

Material

The substance or substances from which something is made.

Material Weakness

A significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Materiality

Magnitude of an omission or misstatements of ACCOUNTING information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would change or be influenced.

Materials Inventory Account

An INVENTORY account made up of the balances of materials, parts, and supplies on hand at a given time.

Maturity

The time at which payment of a loan or BOND becomes due.

Maturity Date

Date on which the principal amount of a NOTE, DRAFT, acceptance, BOND, or other DEBT INSTRUMENT becomes due and payable.

MD&A

SEC requirement in financial reporting for an explanation by management of significant changes in operations, ASSETS, and LIQUIDITY.

Merchandise

Items that can be bought or sold; commercial goods.

Merchandise Inventory

The goods on hand at any one time that are available for sale to customers in the regular course of business.

Merger

BUSINESS COMBINATION that occurs when one entity directly acquires the ASSETS and LIABILITIES of one or more entities and no new corporation or entity is created.

Microeconomic Pricing Model

An accounting model that is based on the economic theory that profit will be greater when the difference between total revenue and TOTAL COST is the greatest.

Microeconomics

Study of the behavior of basic economic units such as companies, industries, or households.

Mixed Costs

Costs that result when both VARIABLE COSTS and FIXED COSTS are charged to the same GENERAL LEDGER account.

Modeling

Designing and manipulating a mathematical representation of an economic system or corporate financial application so that the effect of changes can be studied and forecast.

Modified Accelerated Cost Recovery System

A mandatory system of DEPRECIATION for income tax purposes, enacted by Congress in 1986.

Monetary Items

Definite fixed amounts stated in terms of dollars, either by law or by contract agreement.

Money Laundering

The use of an intermediate agent, such as a bank, to disguise the source of money received from illegal activities.

Money Market

MARKET for SHORT-TERM DEBT instruments.

Monopoly

Control of the production and distribution of a product or service by one firm or a group of firms acting in concert.

Mortgage

Legal instrument evidencing a security interest in ASSETS, usually real estate. Mortgages serve as COLLATERAL for PROMISSORY NOTES.

Moving Average

Average of SECURITY or COMMODITY prices constructed on a period as short as a few days or as long as several years and showing trends for the latest interval.

Moving Average Method

A modified version of the WEIGHTED-AVERAGE-COST METHOD. It is used to compute the average cost of a PERPETUAL INVENTORY.

Municipal Bond

BOND issued by a government or public body, the INTEREST on which is typically exempt from federal taxation.

Mutual Agency

The ability of each partner in a COMPANY to act as an agent of the company.

Mutual Fund

Investment company which generally offers its shares to the general public and invests the proceeds in a diversified portfolio of SECURITIES.

N

NASBA

Serves as a forum for the 54 State Boards of Accountancy, which administer the uniform CPA examination, license Certified Public Accountants and regulate the practice of public accountancy in the United States.

NASDAQ

National Association of Securities Dealers Automated Quotations system, which is owned and operated by the National Association of Securities Dealers; a computerized system that provides brokers and dealers with price quotations for securities traded OVER-THE-COUNTER as well as for many NEW YORK STOCK EXCHANGE (NYSE) listed securities.

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National Association of State Boards of Accountancy (NASBA)

Serves as a forum for the 54 State Boards of Accountancy, which administer the uniform CPA examination, license Certified Public Accountants and regulate the practice of public accountancy in the United States.

Nationalization

Takeover of a private company's assets or operations by a government.

NAV

In mutual funds, the MARKET VALUE of a fund share, synonymous with bid price; BOOK VALUE of a company's different classes of securities, usually stated as NET ASSET value per BOND, net asset value per share of PREFERRED STOCK, and net book value per common share of COMMON STOCK. (<http://nysscpa.org/glossary/term/571>)

Negative Assurance

Report issued by an ACCOUNTANT based on limited procedures that states that nothing has come to the accountant's attention to indicate that the financial information is not fairly presented.

Negligence

The omission to do something which a reasonable man, guided by those ordinary considerations which ordinarily regulate human affairs, would do, or the doing of something which a reasonable and prudent man would not do. Negligence is the failure to use such care as a reasonably prudent and careful person would use under similar circumstances; it is the doing of some act which a person of ordinary prudence would not have done under similar circumstances or failure to do what a person of ordinary prudence would have done under similar circumstances. The term refers only to that legal delinquency which results whenever a man fails to exhibit the care which he ought to exhibit, whether it be slight, ordinary, or great. It is characterized chiefly by inadvertence, thoughtlessness, inattention, and the like, while "wantonness" or "recklessness" is characterized by willfulness. The law of negligence is founded on reasonable conduct or reasonable care under all circumstances of particular care. Doctrine of negligence rests on duty of every person to exercise due care in his conduct toward others from which injury may result.

Negotiable

Something that can be sold or transferred to another party in exchange for money or as settlement of an obligation.

Net

Figure remaining after all relevant deductions have been made from the gross amount.

Net Asset Value (NAV)

In mutual funds, the MARKET VALUE of a fund share, synonymous with bid price; BOOK VALUE of a company's different classes of securities, usually stated as NET ASSET value per BOND, net asset value per share of PREFERRED STOCK, and net book value per common share of COMMON STOCK.

Net Assets

Excess of the value of SECURITIES owned, cash, receivables, and other ASSETS over the LIABILITIES of the company.

Net Current Assets

Difference between current assets and current liabilities; another name for WORKING CAPITAL.

Net Income

Excess or DEFICIT of total REVENUES and GAINS compared with total expenses and losses for an ACCOUNTING period.

Net Leas

In addition to the rental payment, the LESSEE assumes all property charges such as taxes, insurance, and maintenance.

Net Loss

The difference between expenses and REVENUES when expenses exceed revenues over a period of time.

Net Present Value (NPV)

Method used in evaluating investments whereby the net present value of all CASH outflows and cash inflows is calculated using a given DISCOUNT RATE, usually required rate of return.

Net Present Value Method

A capital INVESTMENT evaluation method that discounts future CASH FLOWS to their PRESENT VALUE.

Net Proceeds

Amount received from the sale or disposition of property, from a LOAN, or from the sale or issuance of securities after deduction of all costs incurred in the transaction.

Net Sales

Sales at gross invoice amounts less any adjustments for returns, allowances, or discounts taken.

Net Worth

Similar to EQUITY, the excess of ASSETS over LIABILITIES.

New York Stock Exchange (NYSE)

Oldest and largest [stock exchange](#) in the United States, located at 11 Wall Street in New York City; also known as the Big Board and The Exchange.

No-Par Stock

Stock authorized to be issued but for which no [PAR VALUE](#) is set in the ARTICLES OF [INCORPORATION](#). A [STATED VALUE](#) is set by the [BOARD OF DIRECTORS](#) on the issuance of this type of stock.

No-Par Value

Stock or [bond](#) that does not have a specific [value](#) indicated.

Non Routine Transactions

Activities that occur only periodically, the data involved are generally not part of the routine flow of transactions.

Non-Callable

[PREFERRED STOCK](#) or [BOND](#) that cannot be redeemed at the [OPTION](#) of the [ISSUER](#).

Non-for-Profit Organization/Tax-Exempt Organization

An incorporated [organization](#) which exists for educational or charitable purposes, and from which its shareholders or trustees do not benefit financially. Also called [NOT-FOR-PROFIT](#) organization.

Non-Sufficient Funds (NSF) Check

A CHECK drawn against an [ACCOUNT](#) in which there is not enough money to honor it.

Nonresident Alien

Any citizen that is not a resident or citizen of the United States. [Income](#) of such individuals is subject to taxation if it is effectively connected with a United States [trade](#) or business.

Not-for-Profit

Type of incorporated [organization](#) in which no [stockholder](#) or [TRUSTEE](#) shares in profits or losses and which usually exists to accomplish some charitable, humanitarian, or educational purpose.

Note

Written promise to pay a specified amount to a certain entity on demand or on a specified date.

Notes Payable

Collective [term](#) for written promissory notes that are due in less than one year.

Notes Receivable

Collective [term](#) for written promissory notes that are due in less than one year and are held by the entity to whom payment is promised.

Notional

[Value](#) assigned to ASSETS or LIABILITIES that is not based on cost or [market](#) (e.g., the value of a service not yet rendered).

NPV

Method used in evaluating investments whereby the [net present value](#) of all [CASH](#) outflows and cash inflows is calculated using a given [DISCOUNT RATE](#), usually [required rate of return](#).

NSF Check

A CHECK drawn against an [ACCOUNT](#) in which there is not enough money to honor it.

NYSE

Oldest and largest [stock exchange](#) in the United States, located at 11 Wall Street in New York City; also known as the Big Board and The Exchange.

O

Objectivity

Emphasizing or expressing the nature of reality as it is apart from personal reflection or feelings; independence of mind.

Obligations

Any amount which may require payment by an entity at a future time.

Obsolescence

The process of becoming out-of-date.

OCBOA

Consistent [accounting](#) basis other than [GENERALLY ACCEPTED ACCOUNTING PRINCIPLES \(GAAP\)](#) used for financial reporting. Examples include an [INCOME TAX BASIS](#) or a [CASH BASIS](#).

Offer

Price at which someone who owns a [SECURITY](#) offers to sell it.

Offering Price

Price per [share](#) at which a new or secondary distribution of securities is offered for [sale](#) to the public.

OPEB

All [post-retirement benefits](#) other than pensions, provided by employers to employees.

Open-End Mutual Fund

[MUTUAL FUND](#) that does not have a fixed number of [shares outstanding](#), offers new shares to the public, and buys back outstanding shares at [market value](#).

Operating Agreement

Agreement, usually a written document, that sets out the rules by which a [LIMITED LIABILITY COMPANY \(LLC\)](#) is to be operated. It is the LLC equivalent of corporate [BYLAWS](#) or a [PARTNERSHIP](#) agreement.

Operating Cycle

[Period](#) of time between the [acquisition](#) of goods and services involved in the manufacturing process and the final [cash realization](#) resulting from sales and subsequent collections.

Operating Expense

An [EXPENSE](#) other than [COST OF GOODS SOLD](#) that is incurred in running a business.

Operating Lease

Type of [LEASE](#), normally involving equipment, whereby the [CONTRACT](#) is written for considerably less than the life of the equipment and the lesser handles all maintenance and servicing.

Operating Profit (or Loss)

The difference between the [REVENUES](#) of a business and the related costs and expenses, excluding [INCOME](#) derived from a sources other than its regular activities and before income deductions.

Opportunity Cose

Highest price or [rate of return](#) an alternative course of action would provide.

Option

Right to buy or sell something at a specified price during a specified time [period](#).

Ordinary Annuity

A series of equal payments made at the end of equal intervals of time, with compound [interest](#) on these payments.

Ordinary Income

One of two classes of [income](#) (the other being CAPITAL GAINS) taxed under the [INTERNAL REVENUE CODE](#). Historically, [ordinary income](#) is taxed at a higher rate than capital gains.

Organization

The act of arranging something in an orderly way.

Organization Expenditures

The costs of organizing a [trade](#) or business or for [profit](#) activity before it begins active business. A taxpayer may elect to amortize such expenses for a term no less than 60 months. If the election is not made then the expenses are not deductible and may only be recovered when the business ceases operation or is sold.

Original Cost

In [ACCOUNTING](#), all costs associated with the [acquisition](#) of an [ASSET](#).

Other Comprehensive Basis of Accounting (OCBOA)

Consistent [accounting](#) basis other than [GENERALLY ACCEPTED ACCOUNTING PRINCIPLES \(GAAP\)](#) used for financial reporting. Examples include an [INCOME TAX BASIS](#) or a [CASH BASIS](#).

Other Post-Retirement Employee Benefit (OPEB)

All [post-retirement benefits](#) other than pensions, provided by employers to employees.

Output

An amount of something produced, especially during a given [period](#) of time.

Outsourcing

The act or an instance of purchasing essential products or services from another [COMPANY](#).

Outstanding

Not settled or paid.

Outstanding Check

A CHECK that has been written by the drawer and deducted on his or her records but has not reached the bank for payment and is not deducted from the bank [BALANCE](#) by the time the bank issues its [statement](#).

Over-the-Counter

Sold to customers at retail and without any special restrictions.

Overhead

Costs of a business that are not directly associated with the [production](#) or [sale](#) of goods or services.

Overhead Application Rate

[Standard](#) rate used to calculate the [OVERHEAD](#) cost of a given activity. Activity often measured in [LABOR](#) or machine hours.

Owner's Equity

The residual [INTEREST](#) in the assets of a business entity that remains after deducting the entity's liabilities.

P

P/E Ratio

A ratio that is used as a way of measuring investor confidence in a [COMPANY](#) and comparing stocks for [profitability](#). It is found by dividing [MARKET PRICE](#) per [share](#) by [EARNINGS PER SHARE \(EPS\)](#).

Paid in Capital

Portion of the stockholders' [EQUITY](#) which was paid in by the stockholders, as opposed to CAPITAL arising from profitable operations.

Par

Equal to the nominal or [face value](#) of a [SECURITY](#).

Par Value

Amount per [share](#) set in the ARTICLES OF [INCORPORATION](#) of a CORPORATION to be entered in the CAPITAL STOCKS [account](#) where it is left permanently and signifies a cushion of [EQUITY](#) capital for the protection of CREDITORS.

Parent Company

[Company](#) that has a controlling [interest](#) in the [COMMON STOCK](#) of another.

Partnership

Relationship between two or more persons based on a written, oral, or implied agreement whereby they agree to carry on a [trade](#) or business for [profit](#) and [share](#) the resulting profits. Unlike a [CORPORATION'S](#) shareholders, the [partnership's](#) general partners are liable for the DEBTS of the partnership.

Passive Activity Loss

[LOSS](#) generated from activities involved in the conduct of a [trade](#) or business in which the taxpayer does not materially participate.

Passive Income

Includes [income](#) derived from such sources as [dividends](#), [interest](#), royalties, rents, amounts received from personal service contracts, and income received as a beneficiary of an estate or [trust](#).

Patronage Dividends

These [dividends](#) are amounts paid by a cooperative to its members and customers based on the [quantity](#) or [value](#) of business conducted with or for the members during the [tax year](#).

Payback Period

In capital budgeting; the length of time needed to recoup the [cost of capital investment](#).

Payback Period Method

A way of judging capital investments that bases the decision to [invest](#) in capital equipment on the minimum length of time it will take to earn back in [CASH](#) the amount of the initial INVESTMENT.

Payout Ratio

Percentage of a firm's profits that is paid out to shareholders in the form of [DIVIDENDS](#).

PCAOB

A private-sector, non-[profit corporation](#), created by the Sarbanes-Oxley Act of 2002, to oversee the AUDITORS of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent [audit](#) reports.

Peer Review

Process by which an [accounting firm's](#) practice is evaluated for compliance with professional standards. The objective is achieved through the performance of an independent [review](#) by one's peers.

Penalty

The various government codes contain numerous provisions which impose penalties on a taxpayer (any type of taxpayer) for failure to perform a specific act or omitting vital information on a [return](#).

Pension

Retirement plan offered by an employer for the benefit of an employee, usually at retirement, through a [TRUSTEE](#) who controls the plan ASSETS.

Period

An interval of time with a specified length or characterized by certain conditions.

Periodic Inventory System

A system for determining [INVENTORY](#) on hand by a physical count that is taken at the end of an [accounting period](#).

Periodicity

The recognition that [NET INCOME](#) for any [PERIOD](#) less than the life of the business, although tentative, is still a useful estimate of [net](#) income for that period.

Perpetual Inventory

System that requires a continuous record of all receipts and withdrawals of each item of [INVENTORY](#).

Personal Financial Planning

Process for arriving at a comprehensive plan to solve an individual's personal, business, and financial problems and concerns.

Personal Financial Specialist (PFS)

CERTIFIED PUBLIC [ACCOUNTANT](#) who specializes in [PERSONAL FINANCIAL PLANNING](#) and completes a series of requirements that include education, experience, ethics and an exam.

Personal Financial Statements

[FINANCIAL STATEMENTS](#) prepared for an individual or family to show financial status.

Personal Property

Movable property that is not affixed to the [land \(REAL PROPERTY\)](#). [Personal property](#) includes tangible items such as [cash](#), cars and computers, as well as intangible items, such as royalties, patents and copyrights.

Petty Cash

A small amount of [CASH](#) that a [company](#) keeps on hand to pay for minor expenses in an office.

PFS

CERTIFIED PUBLIC [ACCOUNTANT](#) who specializes in [PERSONAL FINANCIAL PLANNING](#) and completes a series of requirements that include education, experience, ethics and an exam.

Phantom Income

[Income](#) reported on a [TAX BASIS](#) for which no [cash](#) or financial benefit is realized.

Physical Inventory

An actual count of all [MERCHANDISE](#) on hand at the end of an [accounting period](#).

Plant

A building or group of buildings where something is made or processed; factory.

Pledged

[ASSET](#) placed in a [TRUST](#) and used as [COLLATERAL](#) for a [DEBT](#).

POB

The [POB](#) is an independent oversight board, composed of public members, which monitors and evaluates peer reviews conducted by the [SEC](#) Practice Section (SECPS) of the [AICPA](#)'s Division for CPA Firms as well as other activities of the SECPS.

Pooling of Interest

Used to [account](#) for the [acquisition](#) of another [company](#) when the acquiring company [exchanges](#) its voting [COMMON STOCK](#) for the voting common stock of the acquired company when certain criteria are met.

Portfolio

Combined holding of more than one stock, [BOND](#), commodity, [real estate investment](#), [cash](#) equivalent, or other [ASSET](#) by an individual or institutional investor

Post-Closing Trial Balance

A [trial BALANCE](#) prepared at the end of an [accounting period](#) after all adjusting and closing entries have been posted; a final check on the balance of the [LEDGER](#).

Post-Retirement Benefits

PENSIONS, health care, life [insurance](#) and other benefits that are provided by an employer to retirees, their dependents, or survivors.

Predetermined Overhead Rate

A rate that is used as a way of estimating and assigning [OVERHEAD](#) costs to products or jobs for each department or operating [unit](#) before the end of an [accounting period](#).

Preemptive Right

Right giving existing stockholders the opportunity to purchase shares of a new [ISSUE](#) before it is offered to others.

Preferred Stock

Type of [CAPITAL STOCK](#) that carries certain preferences over [COMMON STOCK](#), such as a prior claim on [DIVIDENDS](#) and ASSETS.

Premium

(1) Excess amount paid for a [BOND](#) over its face amount. (2) In [insurance](#), the cost of specified coverage for a designated [period](#) of time.

Premium Bond

[BOND](#) with a selling price above face or [REDEMPTION VALUE](#).

Preuptial Contract

Agreement between a future husband and wife that details how the couple's financial affairs are to be handled both during the marriage and in the event of divorce.

Prepaid Expense

Cost incurred to acquire economically useful goods or services that are expected to be consumed in the revenue-earning process within the [operating cycle](#).

Present Value

[CURRENT VALUE](#) of a given future [CASH](#) flow stream, discounted at a given rate.

Preventive Controls

These have the objective of preventing errors or [fraud](#) from occurring in the first place that could result in a misstatement of the [financial statements](#).

Price Range

High/low range in which a stock has traded over a particular [period](#) of time.

Price/Earnings (P/E) Ratio

A ratio that is used as a way of measuring investor confidence in a [COMPANY](#) and comparing stocks for [profitability](#). It is found by dividing [MARKET PRICE](#) per [share](#) by [EARNINGS PER SHARE \(EPS\)](#).

Primary Earnings Per Share

Earnings available to [COMMON STOCK](#) divided by the number of common [shares OUTSTANDING](#).

Prime Rate

Rate of [INTEREST](#) charged by major U.S. banks on loans made to their preferred customers.

Principal

Face amount of a [SECURITY](#), exclusive of any [PREMIUM](#) or [INTEREST](#). The basis for INTEREST computations.

Private Placement

Sales of SECURITIES not involving a [PUBLIC OFFERING](#) and exempt from registration pursuant to certain EXEMPTIONS.

Privilege

A right or immunity granted as a peculiar benefit advantage.

Privity

An [interest](#) in a [transaction, contract](#) or legal action to which one is not a party, arising out of a relationship to one of the parties.

Pro Forma

Presentation of financial information that gives effect to an assumed event (e.g., [MERGER](#)).

Pro Rata

Distribution of an [expense](#), fund, or DIVIDEND proportionate with ownership.

Product Line

The place in a factory where products are made.

Production

The act or process of creating something.

Profit

Positive difference that results from selling products and services for more than the cost of producing these goods.

Profit Margin

Used to measure the percentage of each sales dollar that results in [NET INCOME](#).

Profit Margin Pricing

An approach to cost-based pricing in which price is computed using a percentage of a product's total costs and expenses.

Profit Sharing Plan

[DEFINED CONTRIBUTION PLAN](#) characterized by the setting aside of a portion of an entity's profits in participant's accounts.

Profitability

The ability to earn enough [INCOME](#) to attract and hold [INVESTMENT](#) capital.

Projection

Prospective [FINANCIAL STATEMENTS](#) that include one or more hypothetical assumptions.

Promissory Note

Evidence of a [DEBT](#) with specific amount due and [interest rate](#). The [note](#) may specify a [maturity date](#) or it may be payable on demand. The [promissory note](#) may or may not accompany other instruments such as a [MORTGAGE](#) providing [security](#) for the payment thereof.

Property, Plant, and Equipment

Long-[term](#) tangible assets used in the continuing operation of a business for a long time.

Proprietorship

Business owned by an individual without the [limited liability](#) protection of a [CORPORATION](#) or a [LIMITED LIABILITY COMPANY \(LLC\)](#). Also known as SOLE [PROPRIETORSHIP](#).

Prospective Financial Information (Forecast and Projection)

[Forecast](#): Prospective [financial statements](#) that present, to the best of the responsible party's knowledge and belief, an entity's expected financial position, results of operations, and changes in financial position. A financial forecast is based on the responsible party's assumptions reflecting conditions it expects to exist and the course of action it expects to take. [Projection](#): Prospective financial statements that present, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and changes in financial position.

Prospectus

Major part of the registration [statement](#) filed with the [SECURITIES AND EXCHANGE COMMISSION \(SEC\)](#) for PUBLIC OFFERINGS. A [prospectus](#) generally describes SECURITIES or [partnership](#) interests to be issued and sold.

Proxy

Document authorizing someone other than the [shareholder](#) to exercise the right to vote the stock owned by the shareholder.

Public Company Accounting Oversight Board (PCAOB)

A private-sector, non-[profit corporation](#), created by the Sarbanes-Oxley Act of 2002, to oversee the AUDITORS of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent [audit](#) reports.

Public Offering

Offering shares to the public. Generally done through [SEC filings](#).

Public Oversight Board (POB)

The [POB](#) is an independent oversight board, composed of public members, which monitors and evaluates peer reviews conducted by the [SEC](#) Practice Section (SECPS) of the [AICPA](#)'s Division for CPA Firms as well as other activities of the SECPS.

Purchase Method of Accounting

[ACCOUNTING](#) for a [MERGER](#) by adding the acquired [company](#)'s ASSETS at the price paid for them to the acquiring company's assets.

Purchase Order

Written authorization to a [vendor](#) to deliver specified goods or services at a stipulated price.

Purchases

A temporary [ACCOUNT](#) used under the [PERIODIC INVENTORY SYSTEM](#) to record the [TOTAL COST](#) of all [MERCHANDISE](#) purchased for resale during an [accounting period](#).

Purchases Discounts

Discounts taken by merchants in [return](#) for prompt payment for [MERCHANDISE](#) purchased for resale.

Purchases Returns and Allowances

A [CONTRA ACCOUNT](#) used under the [PERIODIC INVENTORY SYSTEM](#) to accumulate [CASH](#) refunds, credits on ACCOUNT, and other allowances made by suppliers for unsatisfactory or incorrect [MERCHANDISE](#) that was originally purchased for resale.

Push-Down Accounting

Method of [ACCOUNTING](#) in which the values that arise from an [acquisition](#) are transferred or "pushed down" to the accounts of an acquired [company](#).

Puts

A put is an [option](#) to sell a certain number of shares of stock at a stated price within a certain [period](#). The [gain](#) or [loss](#) on a put is short or [long term](#) depending on the [holding period](#) of the stock involved.

Q

Qualified Opinion

[AUDIT](#) opinion that states, except for the effect of a matter to which a qualification relates, the [FINANCIAL STATEMENTS](#) are fairly presented in accordance with [GENERALLY ACCEPTED ACCOUNTING PRINCIPLES \(GAAP\)](#). The [AUDITOR](#) is required to qualify when there is a scope limitation.

Qualitative

Relating to [quality](#), especially as distinguished from [quantity](#) or amount.

Qualitative Analysis

Analysis that evaluates important factors that cannot be precisely measured.

Quality

An operating environment in which a company's product or service meets a customer's specifications the first time it is produced or delivered.

Quantitative Analysis

Analysis dealing with measurable factors as distinguished from such [QUALITATIVE](#) considerations as the character of [management](#) or the state of employee morale.

Quantity

An amount or number.

Quarter

Three-month intervals of the year.

Quarterly Reports

Another [term](#) for [INTERIM FINANCIAL STATEMENTS](#).

Quasi-Reorganization

Type of [reorganization](#) in which, with [shareholder](#) approval, the [management](#) revalues ASSETS and eliminates the [DEFICIT](#) (increased by asset devaluations if any) by charging it to other EQUITY accounts without the creation of a new corporate entity or without court intervention.

Quick Assets

Assets that are or are expected to be converted into [CASH](#) in the near [term](#): cash, accounts receivable, SHORT-TERM INVESTMENTS.

Quick Ratio

The relationship of a company's [QUICK ASSETS](#) to its current liabilities.

R

R&D

Research is a planned activity aimed at discovery of new knowledge with the hope of developing new or improved products and services. Development is the translation of research findings into a plan or design of new or improved products and services.

Rate of Return

The amount of [PROFIT](#) or [INTEREST](#) earned on an [INVESTMENT](#), usually expressed as a percentage, such as an interest; the [COST OF CAPITAL](#); the cost of money.

Ratio Analysis

Comparison of actual or projected data for a particular [company](#) to other data for that company or industry in order to analyze trends or relationships.

Raw Material

Something in its natural state that will be used in a manufacturing process.

Raw Materials Inventory Account

Another [term](#) for [MATERIALS INVENTORY ACCOUNT](#).

Real Estate

Piece of [land](#) and all physical property related to it, including houses, fences, landscaping, and all rights to the air above and earth below the property.

Real Estate Investment Trust (REIT)

Investor-owned [TRUST](#) which invests in [real estate](#) and, instead of paying [income tax](#) on its income, reports to each of its owners his or her [pro rata share](#) of its income for inclusion on their income tax returns. This unique trust arrangement is specifically provided for in the [INTERNAL REVENUE CODE](#).

Real Estate Mortgage Investment Conduit (REMIC)

An entity that holds a fixed pool of mortgages and issues multiple classes of [interests](#) in itself to investors. A qualified [REMIC](#) is generally taxed like a [partnership](#), unless it takes contributions after its start up day or engages in a prohibited [transaction](#).

Real Income

[Income](#) of an individual, group, or country adjusted for changes in purchasing power caused by [INFLATION](#).

Real Interest Rate

Current INTEREST RATE minus INFLATION RATE.

Real Property

LAND and improvements, including buildings and PERSONAL PROPERTY, that is permanently attached to the land or customarily transferred with the land.

Real Rate of Return

RETURN on an INVESTMENT adjusted for INFLATION.

Realization

Conversion into CASH, as happens in the sale of asset.

Realized Profit (or Loss)

PROFIT or LOSS resulting from the sale or other disposal of a SECURITY.

Reasonable Assurance

Management's assessment of the effectiveness of internal control over financial reporting is expressed at the level of reasonable assurance. It includes the understanding that there is a remote likelihood that material misstatements will not be prevented or detected on a timely basis. It is a high level of assurance.

Rebate

In lending, UNEARNED INTEREST refunded to a borrower if the LOAN is paid off before MATURITY.

Recapitalization

An internal reorganization of a corporation including a rearrangement of the capital structure by changing the kind of stock or the number of shares outstanding or issuing stock instead of bonds. It is distinguished from most other types of reorganization because it involves only one corporation and is usually accomplished by the surrender by shareholders of their securities for other stock or securities of a different type.

Receivable Turnover

A ratio for measuring the relative size of a company's accounts receivable and the success of its CREDIT and collection policies during an accounting period.

Receivables

Amounts of money due from customers or other DEBTORS.

Recession

Downturn in economic activity, defined by many economists as at least two consecutive quarters of decline in a country's gross national product.

Reconcile

To resolve.

Reconciliation

Comparison of two numbers to demonstrate the basis for the difference between them.

Recovery

Period in a business cycle when economic activity picks up and the gross national product grows, leading into the expansion phase of the cycle.

Red Herring

"Pre-release" PROSPECTUS offering. An announcement of a future issuance of SECURITIES, given restricted circulation during the waiting period of 20 days or other specified period between the filing of a registration statement with the SEC and the effective date of the statement. A red herring is not an offer to sell or the solicitation of an offer to buy.

Redemption Value

Price to be paid by an ENTITY to retire its BONDS or PREFERRED STOCK.

Refinancing Agreement

Arrangement to provide [funding](#) to replace existing financing, the most common being a refinance of a home [MORTGAGE](#).

Refunding

Replacing an old [DEBT](#) with a new one, often in order to lower the [INTEREST](#) costs of the [issuer](#).

Registrar

Agency responsible for keeping track of the owners of bonds and the issuance of stock.

Regression Analysis

Statistical technique used to establish the relationship of a dependent variable, such as the sales of a [COMPANY](#), and one or more independent variables, such as family formations, gross national product, per capita [income](#), and other economic indicators.

Regressive Rate

Rate that decreases as the calculation base increases. Often used to describe taxes where the TAX rate paid decreases as the [TAXABLE INCOME](#) increases.

Regulated Investment Company (RIC)

Commonly called a [MUTUAL FUND](#), this is a domestic [corporation](#) that acts as an [investment](#) agent for its shareholders by typically [investing](#) in government and corporate securities and distributing the [DIVIDENDS](#) and [INTEREST income](#) earned from such investments. In order to be considered a [RIC](#) a CORPORATION must make an irrevocable election [tax](#) election in order to be treated as one.

Reinsurance

Process by which an [insurance company](#) obtains insurance on its insurance claims with other insurers in order to [spread](#) the [risk](#).

Reinvestment Rate

[RATE OF RETURN](#) resulting from the reinvestment of the [INTEREST](#) from a [BOND](#) or other fixed-[income SECURITY](#).

REIT

Investor-owned [TRUST](#) which invests in [real estate](#) and, instead of paying [income tax](#) on its income, reports to each of its owners his or her [pro rata share](#) of its income for inclusion on their income tax returns. This unique trust arrangement is specifically provided for in the [INTERNAL REVENUE CODE](#).

Related Party Transaction

Business or other [transaction](#) between persons who do not have an arm's-length relationship (e.g., a relationship with independent, competing interests). The most common is between family members or controlled entities. For [tax](#) purposes, these types of transactions are generally subject to a greater level of scrutiny.

Relevant Assertions

Assertions that have a meaningful bearing on whether the [account](#) is fairly stated.

REMIC

An entity that holds a fixed pool of mortgages and issues multiple classes of [interests](#) in itself to investors. A qualified [REMIC](#) is generally taxed like a [partnership](#), unless it takes contributions after its start up day or engages in a prohibited [transaction](#).

Reorganization

This is a change in the businesses capital arrangements. If for a [CORPORATION](#) there are seven statutory options for [reorganization](#) that would cause the corporation and shareholders to not recognize any [GAIN](#) or [LOSS](#) on the exchange of stock.

Repairs

EXPENDITURES made in order to keep property in good condition but that do not appreciably prolong the life or increase the [value](#) of the property.

Replacements

EXPENDITURES for making good or whole the portions of property that have deteriorated through use or have been destroyed through accident.

Report

An oral or written description of something, such as a book, event, or situation.

Report Release Date

The date the [company's financial statements](#) are issued.

Repos

Agreement whereby an institution [purchases](#) SECURITIES under a stipulation that the seller will repurchase the securities within a certain time [period](#) at a certain price.

Repurchase Agreement (Repos)

Agreement whereby an institution [purchases](#) SECURITIES under a stipulation that the seller will repurchase the securities within a certain time [period](#) at a certain price.

Required Rate of Return

[RETURN](#) required by investors before they will commit money to an [INVESTMENT](#) at a given level of [risk](#).

Rescind

Cancel a [CONTRACT](#) agreement.

Research and Development (R&D)

Research is a planned activity aimed at discovery of new knowledge with the hope of developing new or improved products and services. Development is the translation of research findings into a plan or design of new or improved products and services.

Research and Development Costs

The [EXPENSE](#) of [FUNDING](#) (<http://www.nysscpa.org/glossary/term/822>) [RESEARCH AND DEVELOPMENT \(R&D\)](#).

Reserve

[ACCOUNT](#) used to earmark a portion of [EQUITY](#) or fund [balance](#) to indicate that it is not available for [expenditure](#). An obsolete [term](#) in the United States. More commonly used in Europe.

Resident Alien

This is an individual that is not a citizen, but who has a residence in the United States. They are taxed on all of their [INCOME](#) worldwide in the same manner a citizen of the United States is.

Residual Value

The estimated [NET](#) scrap, salvage, or [trade-in value](#) of a TANGIBLE [ASSET](#) at the estimated date of disposal.

Restricted Assets

[Cash](#) or other ASSETS whose use in whole or in part is restricted for specific purposes bound by virtue of contracted agreements.

Restricted Fund

Fund established to [account](#) for assets whose [income](#) must be used for purposes established by donors or grantors of such ASSETS.

Restructuring

[Reorganization](#) within an entity. [Restructuring](#) may occur in the form of changing the components of CAPITAL, renegotiating the terms of [DEBT](#) agreements, etc.

Retail Method

A way of estimating [INVENTORY](#), used in retail business.

Retained Earnings

Accumulated undistributed earnings of a [company](#) retained for future needs or for future distribution to its owners.

Retained Earnings Account

The [ACCOUNT](#) that reflects the stockholders' claim to the assets earned from operations and reinvested in corporate operations.

Retire

To take something, such as a [BOND](#), out of circulation.

Return

[PROFIT](#) on a securities or capital [INVESTMENT](#), usually expressed as an annual percentage rate.

Return on Assets

A measurement of a company's [PROFITABILITY](#) or overall earning power, that is, how efficiently a company uses its assets to produce [INCOME](#). It is found by dividing [INCOME](#) by average total assets.

Return on Equity

A measurement of [PROFITABILITY](#) that relates the amount earned by a business to the stockholders' investments in the business. It is found by dividing [NET INCOME](#) by average [OWNER'S EQUITY](#).

Return on Investment (ROI)

Ratio measure of the profits achieved by a [firm](#) through its basic operations. An indicator of [management's](#) general effectiveness and efficiency. The simplest version is the ratio of [NET INCOME](#) to total [ASSETS](#).

Return on Sales

[NET](#) pretax profits as a percentage of [NET SALES](#). A useful measure of overall operational efficiency when compared with the prior periods or with other companies in the same line of business.

Revenue Recognition

Method of determining whether or not [income](#) has met the conditions of being earned and realized or is realizable.

Revenues

Sales of products, [merchandise](#), and services; and earnings from [INTEREST](#), [DIVIDEND](#), rents.

Review

[Accounting](#) service that provides some assurance as to the reliability of financial information. In a [review](#), a [CERTIFIED PUBLIC ACCOUNTANT \(CPA\)](#) does not conduct an examination under [GENERALLY ACCEPTED AUDITING STANDARDS \(GAAS\)](#).

Review Engagement

Agreement between a [CERTIFIED PUBLIC ACCOUNTANT \(CPA\)](#) and his or her client to perform a [review](#).

Review Report

See Accountants' Report

RIC

Commonly called a [MUTUAL FUND](#), this is a domestic [corporation](#) that acts as an [investment](#) agent for its shareholders by typically [investing](#) in government and corporate securities and distributing the [DIVIDENDS](#) and [INTEREST income](#) earned from such investments. In order to be considered a [RIC](#) a CORPORATION must make an irrevocable election [tax](#) election in order to be treated as one.

Right of Rescission

Right granted by the Federal Consumer [Credit](#) Protection Act of 1968 to void a [CONTRACT](#) within three business days with full refund of any down payment and without [penalty](#).

Right to Setoff

[DEBTOR'S](#) legal right, to discharge all or a portion of the [DEBT](#) owed to another party by applying against the debt an amount that the other party owes to the debtor.

Risk

Measurable possibility of losing or not gaining [value](#).

Risk Averse

[Term](#) referring to the assumption that, given the same [RETURN](#) and different [RISK](#) alternatives, a rational investor will seek the [SECURITY](#) offering the least risk.

Risk Management

Process of identifying and monitoring business risks in a manner that offers a RISK / [RETURN](#) relationship that is acceptable to an entity's operating philosophy.

Risk-Adjusted Discount Rate

In [portfolio](#) theory and capital [budget](#) analysis, the rate necessary to determine the [PRESENT VALUE](#) of an uncertain or risky stream of [INCOME](#); it is the RISK-free rate plus a risk [premium](#) that is based on an analysis of the risk characteristics of the particular [INVESTMENT](#) or project.

ROI

Ratio measure of the profits achieved by a [firm](#) through its basic operations. An indicator of [management](#)'s general effectiveness and efficiency. The simplest version is the ratio of [NET INCOME](#) to total ASSETS.

Routine Transactions

Recurring financial activities reflected in the [accounting](#) (<http://www.nysscpa.org/glossary/term/96>) records in the normal course of business.

S

S Corporation

A [CORPORATION](#) which, under the [INTERNAL REVENUE CODE](#), is generally not subject to [federal income taxes](#). Instead, [taxable income](#) of the corporation is passed through to its stockholders in a manner similar to that of a [PARTNERSHIP](#).

Safe Harbor Rule

Concept in statutes and regulations whereby a person who meets listed requirements will be preserved from adverse legal action. Frequently, safe harbors are used where a legal requirement is somewhat ambiguous and carries a [risk](#) of punishment for an unintended violation.

Sale

Any exchange of goods or services for money.

Sale-Leaseback Transaction

[Sale](#) of property by a seller who simultaneously leases the property back from the purchaser.

Sales Discount

A [discount](#) that is given to a buyer for early payment for a [sale](#) made on [CREDIT](#).

Sales Tax

A [TAX](#) that is levied by a state or city government on the retail [sale](#) of goods and services.

Salvage Value

Selling price assigned to retired [FIXED ASSETS](#) or [merchandise](#) unsalable through usual channels.

SAS

Statements issued by the [Accounting](#) Standards Board of the [AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS \(AICPA\)](#).

Savings Bond

U.S. government [BOND](#) issued in [face value](#) denominations ranging from \$50 to \$10,000.

Seasonality

Variations in business or economic activity that recur with regularity as the result of changes in climate, holidays, and vacations.

SEC

Agency authorized by the United States Congress to regulate the financial reporting practices of most public corporations.

SEC Filings

Financial and informational DISCLOSURES required by the [SEC](#) in order to comply with certain sections of the Securities Act of 1933 and the Securities and Exchange Act of 1934. Some of the more common filings that publicly owned companies must submit are the [FORM 10-K](#), [FORM 10-Q](#) and [FORM 8-K](#).

SEC Registration Statement

[DISCLOSURE](#) document that must be filed with the [SEC](#) in connection with a [public offering](#) of SECURITIES, unless the offering is exempt.

Secondary Market

[EXCHANGES](#) and [OVER-THE-COUNTER](#) markets where securities are bought and sold subsequent to original issuance, which took place in the primary MARKET.

Secured Bond

A [BOND](#) that gives the bondholders a pledge of certain [company](#) assets as a guarantee of repayment.

Secured Debt

[DEBT](#) guaranteed by the pledge of assets or other [COLLATERAL](#).

Securities and Commodities Exchanges

Organized, national [EXCHANGES](#) where securities, options, and futures contracts are traded by members for their own accounts and for the accounts of customers.

Securities and Exchange Commission (SEC)

Agency authorized by the United States Congress to regulate the financial reporting practices of most public corporations.

Securities Industry Association (SIA)

[Trade](#) group that represents broker-dealers.

Securitization

Source of financing whereby an entity's ASSETS (typically [mortgage](#) loans, [lease obligations](#) or other types of RECEIVABLES) are placed in a special purpose vehicle that issues SECURITIES collateralized by such assets.

Security

Any kind of transferable certificate of ownership including [EQUITY SECURITIES](#) and [DEBT](#) SECURITIES.

Security Interest

Legal [interest](#) of one person in the property of another to assure performance of a second person under a [contract](#).

Self Employment Tax

Most individuals that are in business for themselves, such as SOLE PROPRIETORS, PARTNERS or independent contractor, are subject to self employment taxes. The taxes provide coverage for the self employed individual for [social security](#) (OASDI) and Medicare benefits (HI) similar to the taxes withheld by employers from wages it pays the employees.

Sell Out

[LIQUIDATION](#) of a [MARGIN ACCOUNT](#) by a broker after a margin call has failed to produce additional [EQUITY](#) to bring the margin to the required level.

Selling, General, and Administrative (SG&A) Expenses

Grouping of expenses reported on a company's [PROFIT](#) and [LOSS statement](#) between [COST OF GOODS SOLD](#) and [INCOME](#) deductions.

Sensitivity Analysis

Study measuring the effect of a change in a variable on the [RISK](#) or [PROFITABILITY](#) of an [INVESTMENT](#).

SEP Plan

[PENSION](#) plan in which both the employee and the employer contribute to an [INDIVIDUAL RETIREMENT ACCOUNT \(IRA\)](#).

Separate Entity

A business that is treated as distinct from its creditors, customers, and owners.

Serial Bond

[BOND ISSUE](#), usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Settlement Method

Method of [ACCOUNTING](#) for SECURITIES whereby transactions are recorded on the date the securities settle by the delivery or receipt of securities and the receipt or payment of [cash](#).

SFAS

Statements issued by the [FINANCIAL ACCOUNTING STANDARDS BOARD \(FASB\)](#).

Share

Unit of [EQUITY](#) in a [CORPORATION](#).

Shareholder

Owner of one or more shares of stock in a [CORPORATION](#).

Shares Authorized

Number of shares of stock provided for in the articles of [INCORPORATION](#) of a [COMPANY](#).

Shares Outstanding

The number of shares in a [COMPANY](#) that have been issued and remain in circulation.

Short Bond

[BOND](#) with a short [MATURITY](#); a somewhat subjective concept, but generally meaning two years or less.

Short Coupon

[BOND INTEREST](#) payment covering less than the conventional six-month [period](#).

Short Interest

Total amount of shares of stock that have been sold short and have not yet been repurchased to [close](#) out short positions.

Short Sale

[Sale](#) of an item before it is purchased. A person entering into a [short sale](#) believes the price of the item will decline between the date of the short sale and the date he or she must purchase the item to deliver the item under the terms of the short sale.

Short-Term

Current; ordinarily due within one year.

Short-Term Debt

All [DEBT obligations](#) coming due within one year; show on a [balance](#) sheet as CURRENT LIABILITIES.

Short-Term Gain or Loss

For [TAX](#) purposes, the [PROFIT](#) or [LOSS](#) realized from the [sale](#) of securities or other capital assets held six months or less.

Short-Term Investment

The temporary [INVESTMENT](#) of excess [CASH](#), intended to be held until needed to pay current [OBLIGATIONS](#).

SIA

[Trade](#) group that represents broker-dealers.

Significant Accounts

An [account](#) is significant if there is more than a remote likelihood that the account could contain misstatements that individually or when aggregated with others, could have a [material](#) effect on the [financial statements](#), considering the risks of both overstatement and understatement.

Significant Deficiency

A [control deficiency](#) or combination of control deficiencies, that adversely affects the [company's](#) ability to initiate, authorize, record, process or [report](#) external financial data reliably in accordance with [GAAP](#) such that there is more than a remote likelihood that a misstatement of the company's annual or [interim financial statements](#) that is more than inconsequential will not be prevented or detected.

Significant Findings or Issues

Substantive matters that are important to the procedures performed, evidence obtained, or conclusions reached and include but are not limited to:

1. significant matters;
2. results of auditing procedures indicating a need for significant modification of planned auditing procedures;
3. audit adjustments;
4. disagreements among members of the engagement team;
5. circumstances that cause difficulty in applying auditing procedures;
6. significant changes in the assessed level of AUDIT RISK;
7. matters that could result in modification of the AUDITORS' REPORT.

Simple Interest

INTEREST calculation based only on the original PRINCIPAL amount.

Simple Plans

An employer may adopt a simplified retirement plan called a SIMPLE Plan (Savings incentive match plan for employees) if it has fewer than 100 employees that received at least \$5,000 in compensation in the preceding year.

Simple Trust

This type of TRUST is required to distribute all its income currently, whether or not the TRUSTEE actually does so, and it has no provision in the trust instrument for charitable contributions. It is to be distinguished from a COMPLEX TRUST. A trust may be a simple trust in one year and a complex trust in another year. In the year in which the trust distributes its corpus, it loses its classification as a simple trust.

Simplified Employee Pension (SEP) Plan

PENSION plan in which both the employee and the employer contribute to an INDIVIDUAL RETIREMENT ACCOUNT (IRA).

Single Audit Act

The Single Audit Act of 1984 and the Single Audit Act Amendments of 1996 establish requirements for audits of states, local governments, and nonprofit organizations that administer federal financial assistance programs above a certain threshold.

Single-Premium Deferred Annuity (SPDA)

TAX-deferred INVESTMENT similar to an INDIVIDUAL RETIREMENT ACCOUNT (IRA), without many of the IRA restrictions.

Sinking Fund

Money accumulated on a regular basis in a separate custodial ACCOUNT that is used to redeem DEBT securities or PREFERRED STOCK issues.

Small Business Stock

Noncorporate investors may exclude up to 50 percent of the GAIN they realize on the disposition of qualified small business stock issued after Aug. 10, 1993, and held for more than five years. The amount of gain eligible for the 50 percent exclusion is subject to per-issuer limits. In order to qualify for the EXCLUSION, the CORPORATION issuing the stock must be a C Corporation (but excluding certain investment corporations) and it must use at least 80 percent of its assets in active conduct of one or more qualified trade or businesses. In addition, its gross assets cannot exceed \$50 million.

Sole Proprietorship

See Proprietorship.

Solvency

State of being able to meet maturing OBLIGATIONS as they come due.

Solvent

Capable of paying one's financial obligations.

SPDA

TAX-deferred INVESTMENT similar to an INDIVIDUAL RETIREMENT ACCOUNT (IRA), without many of the IRA restrictions.

Special Assessment

Charge made by a local government for the cost of an improvement or service. It is usually levied on those who will benefit from the service.

Special Report

A term applied to AUDITORS' REPORTS issued in connection with various types of financial presentations, including: FINANCIAL STATEMENTS that are prepared in conformity with a comprehensive basis of accounting other than generally accepted accounting principles. Specified elements, accounts or items of a financial statement. Compliance with aspects of contractual agreements or regulatory requirements

related to audited financial statements. Financial presentations to comply with contractual agreements or regulatory provisions. Financial information presented in prescribed forms or schedules that require a prescribed form of [auditor's](#) reports.

Specialist

Member of a [stock exchange](#) who maintains a fair and orderly [MARKET](#) in one or more securities.

Specialized Mutual Fund

Fund that limits its investments to a particular sector of the marketplace.

Specific Identification Method

A way of pricing the cost of [INVENTORY](#) as coming from a specific purchase.

Speculation

Assumption of [RISK](#) in anticipation of [gain](#) but recognizing a higher than average possibility of [LOSS](#).

Spinoff

[Transfer](#) of all, or a portion of, a [subsidiary's](#) stock or other ASSETS to the stockholders of its [PARENT COMPANY](#) on a [PRO RATA](#) basis.

Split Offering

New [MUNICIPAL BOND ISSUE](#), part of which is represented by serial bonds and part by [TERM MATURITY](#) bonds.

Spot Market

[MARKET](#) for buying and selling [COMMODITIES](#) or financial instruments for immediate delivery and payment based on the settlement conventions of the particular market.

Spread

Difference between two prices, usually a buying and selling price.

Spreadsheet

An [ACCOUNTING](#) or [BOOKKEEPING](#) application for use on a computer.

SSARS

Statements issued by the [AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS \(AICPA\)](#) that specifically relate to [REVIEWS](#) and [COMPILATIONS](#).

Standard

A widely known and accepted measurement or weight used as a basis for a system of measurements.

Standard Cost

Realistic costs for direct materials, direct [labor](#), and factory [overhead](#) that have been determined before they occur.

Standard Deduction

Individual taxpayers who do not itemize their deductions are entitled to a [standard deduction](#) amount by which to reduce [ADJUSTED GROSS INCOME](#) in arriving at [taxable income](#). The amount of the [standard](#) deduction varies by the type of the taxpayer and changes each year. A schedule of standard deductions is easily found in the instructions for the federal form 1040. Each state may also use a standard deduction format, but the amounts and computations differ from the federal and from state to state. Certain taxpayers may not be entitled to use the standard deduction. An example of this would be a married filing separate taxpayer. If one taxpayer itemizes then the other is required to by law even if the married filing separate taxpayer is unknowing of what is included on the spouses separate [return](#). A reason for this might be the prevention of pooling and duplication of deductions.

Standard Deviation

Statistical measure of the degree to which an individual [value](#) in a probability distribution tends to vary from the mean of the distribution.

Start-Up Costs

(1) Costs, excluding [acquisition](#) costs, incurred to bring a new [unit](#) into [production](#). (2) Costs incurred to begin a business.

Stated Value

Per [share](#) amount set by the [BOARD OF DIRECTORS](#) to be placed in the [CAPITAL STOCK account](#) upon issuance of [NO-PAR VALUE](#).

Statement

Summary for customers of the transactions that occurred over the preceding month.

Statement of Cash Flows

One of the basic [FINANCIAL STATEMENTS](#) that is [GENERALLY ACCEPTED ACCOUNTING PRINCIPLES \(GAAP\)](#) required as part of a complete set of financial statements prepared in conformity with . It categorizes [net cash](#) provided or used during a [period](#) as operating, [investing](#) and financing activities, and reconciles beginning and ending cash and cash equivalents.

Statement of Cost of Goods Manufactured

A formal [STATEMENT](#) summarizing the flow of all manufacturing costs incurred during an [accounting period](#).

Statement of Financial Accounting Standards (SFAS)

Statements issued by the [FINANCIAL ACCOUNTING STANDARDS BOARD \(FASB\)](#).

Statement of Financial Condition

Basic [FINANCIAL STATEMENT](#), usually accompanied by appropriate [DISCLOSURES](#) that describe the basis of [ACCOUNTING](#) used in its preparation and presentation as of a specified date, the entity's [ASSETS](#), [LIABILITIES](#) and the [EQUITY](#) of its owners. Also known as [BALANCE SHEET](#).

Statement of Owner's Equity

The financial [STATEMENT](#) that shows how and why an [OWNER'S EQUITY](#), or capital, [ACCOUNT](#) has changed over a specific financial [PERIOD](#).

Statements on Auditing Standards (SAS)

Statements issued by the [Accounting](#) Standards Board of the [AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS \(AICPA\)](#).

Statements on Standards for Accounting and Review Services (SSARS)

Statements issued by the [AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS \(AICPA\)](#) that specifically relate to [REVIEWS](#) and [COMPILATIONS](#).

Statute of Limitations

This sets out the [period](#) within which actions may be brought upon claims or within which rights may be enforced. As it pertains to [tax](#) returns, the [statute of limitations](#) is generally three years from the date a return is due or filed.

Stepped Up Basis

Generally, the basis of property acquired by [INHERITENCE](#), [BEQUEST](#) or device from a [DECEDANT](#) is the [FAIR MARKET VALUE](#) of the property on the date of the decedant's death. Thus if the fair [market](#) value is more than the [decedent's](#) basis, a taxpayer's basis in the property received is stepped-up.

Stock Compensation Plan

[FRINGE BENEFIT](#) that gives employees the [option](#) to purchase the employer's stock at a specified price during a specified [period](#).

Stock Exchange

Organized marketplace in which stocks, [COMMON STOCK](#) equivalents, and bonds are traded by members of the exchange, acting both as agents and principals.

Stock Market

General [term](#) referring to the organized trading of securities through the various [EXCHANGES](#) and the [OVER-THE-COUNTER MARKET](#).

Stock Options

Right to purchase or sell a specified number of shares of stock at specified prices and times.

1) Terminology

a) 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. The employer becomes contingently obligated on the grant date to [issue](#) (<http://www.nysscpa.org/glossary/term/871>) [equity](#) (<http://www.nysscpa.org/glossary/term/266>) instruments or [transfer](#) (<http://www.nysscpa.org/glossary/term/1136>) assets to an employee who renders the requisite service. Awards made under an arrangement that is subject to [shareholder](#) (<http://www.nysscpa.org/glossary/term/1078>) approval are not deemed to be granted until that approval is obtained unless approval is essentially a formality (or perfunctory), for example, if [management](#) (<http://www.nysscpa.org/glossary/term/906>) and the members of the [board of directors](#)

(<http://www.nysscpa.org/glossary/term/135>) control enough votes to approve the arrangement. Similarly, individual awards that are subject to approval by the board of directors, management, or both are not deemed to be granted until all such approvals are obtained. The grant date for an award of equity instruments is the date that an employee begins to benefit from, or be adversely affected by, subsequent changes in the price of the employer's equity shares.

b) Measurement Date – The date at which the equity share price and other pertinent factors, such as expected [volatility](http://www.nysscpa.org/glossary/term/1172) (<http://www.nysscpa.org/glossary/term/1172>), that enter into measurement of the total recognized amount of compensation cost for an award of share-based payment are fixed

c) Fair [value](http://www.nysscpa.org/glossary/term/1161) (<http://www.nysscpa.org/glossary/term/1161>) - The amount at which an asset (or [liability](http://www.nysscpa.org/glossary/term/410) (<http://www.nysscpa.org/glossary/term/410>)) could be bought (or incurred) or sold (or settled) in a current [transaction](http://www.nysscpa.org/glossary/term/1135) (<http://www.nysscpa.org/glossary/term/1135>) between willing parties, that is, other than in a forced or [liquidation](http://www.nysscpa.org/glossary/term/417) (<http://www.nysscpa.org/glossary/term/417>) [sale](http://www.nysscpa.org/glossary/term/1061) (<http://www.nysscpa.org/glossary/term/1061>).

d) In the Money [option](http://www.nysscpa.org/glossary/term/465) (<http://www.nysscpa.org/glossary/term/465>) - Option granted with an exercise price below the [market price](http://www.nysscpa.org/glossary/term/918) (<http://www.nysscpa.org/glossary/term/918>) on the grant date

e) Out of the Money option – Option granted with an exercise price above the [market](http://www.nysscpa.org/glossary/term/916) (<http://www.nysscpa.org/glossary/term/916>) price.

f) Backdating

i) Exercise price is based on a lower share price prior to the option grant date. The practice of marking a document with a date that precedes the actual date.

ii) Example – Option is approved by the board permits the stock to be priced based upon the lowest price in the past 30 days-permits options to be in the money when issued. Options are suppose to be issued at option price that is neutral at time of issuance.

iii) May not be illegal if

(1) Clearly communicated to shareholders

(2) No documents forged

(3) Reflected in earnings of the [company](http://www.nysscpa.org/glossary/term/728) (<http://www.nysscpa.org/glossary/term/728>)

(a) If under A PB 25 –the granting of in the money options resulted in recognition of compensation [expense](http://www.nysscpa.org/glossary/term/787) (<http://www.nysscpa.org/glossary/term/787>) in earnings. If options were neutral or out of the money then. no compensation would be recognized

(b) If under 123R expense is based upon fair value at grant date. and compensation is recognized it the earnings [statement](http://www.nysscpa.org/glossary/term/1104) (<http://www.nysscpa.org/glossary/term/1104>)

g) Spring loading - Timing of option grants to take place before good news or after bad news is released

i) Concerns about insider trading

h) Forward loading – Term used for setting the option grant date to occur after predicted fall in stock price or before predicted stock price increase

i) Terms might involve option to be issued with price to be determined based upon the lowest price as of the issue date or for the next 30 days after the issuance. Grant date does not occur until the conclusion of the 30 day [period](http://www.nysscpa.org/glossary/term/990) (<http://www.nysscpa.org/glossary/term/990>) when the price is known. To determine the price the company needs to look back at the stock price for the last 30 days to determine what the exercise price should be. This is another version of backdating.

i) Discounted options – options that have an exercise price that is less than fair value on the date of grant.

2) [Accounting](http://www.nysscpa.org/glossary/term/96) (<http://www.nysscpa.org/glossary/term/96>) and [Tax](http://www.nysscpa.org/glossary/term/613) (<http://www.nysscpa.org/glossary/term/613>) Ramifications

a) Accounting ramifications

i) Restatement

ii) Unable to file on timely basis while go back and determine what periods are effected

iii) Calls into questions company's internal controls and governance

iv) Will be unable to file shelf registration

v) May be delisted from exchange

b) [SEC](http://www.nysscpa.org/glossary/term/400) (<http://www.nysscpa.org/glossary/term/400>) reporting implications

i) Potentially inaccurate reporting of executive compensation in [proxy](http://www.nysscpa.org/glossary/term/509) (<http://www.nysscpa.org/glossary/term/509>) statements and annual reports

ii) Potential violation of securities and Law for executive officers and directors with Section 16 (a) of the Securities and exchange Act of 1934. required to report on form 4

iii) Potential false or misleading disclosures about the company's [stock option](http://www.nysscpa.org/glossary/term/604) (<http://www.nysscpa.org/glossary/term/604>) plan in periodic reports filed with the SEC – Failure to disclose the practice of backdating may violate securities and laws against false or misleading disclosures

iv) Potential false Section 302 certifications – [Principal](http://www.nysscpa.org/glossary/term/497) (<http://www.nysscpa.org/glossary/term/497>) and financial executives are required to sign certifications in quarterly and annual reports certifying that among other things that the report filed with the SEC does not include any false statements of amaterial fact or state material facts necessary in order to make the disclosures not misleading.

c) Tax Ramifications

i) Exercise price effects capital gains of the individual and effects compensation expense used by [corporation](http://www.nysscpa.org/glossary/term/199) (<http://www.nysscpa.org/glossary/term/199>) for calculating company's compensation expense for tax purposes,

ii) Tax ramifications – company

(1) Discounted options that become vested on or after January 1, 2005 are subject to non qualifying deferred compensation rules -

Holder is required to select a fixed exercise date no later than December 31, 2006 or be subject to immediate taxation on [vesting](http://www.nysscpa.org/glossary/term/649) (<http://www.nysscpa.org/glossary/term/649>) , a 20 percent [penalty](http://www.nysscpa.org/glossary/term/649) (<http://www.nysscpa.org/glossary/term/649>)

(<http://www.nysscpa.org/glossary/term/479>) and an [interest](http://www.nysscpa.org/glossary/term/364) (<http://www.nysscpa.org/glossary/term/364>) assessment. (2) May cause the [loss](http://www.nysscpa.org/glossary/term/423) (<http://www.nysscpa.org/glossary/term/423>) of tax deductions under Section 162 (m), the deduction that public companies take for compensation to chief executive officer and next four highest compensated officers is limited to \$1 million each. The deduction for stock options is not usually limited. However, discounted options do not qualify as performance based compensation and therefore the deduction that the company would get may be partially or completely lost. In addition discounted stock options do not qualify for Incentive Stock option (ISO) treatment. (ISO there is no payroll tax or [withholding](http://www.nysscpa.org/glossary/term/653) (<http://www.nysscpa.org/glossary/term/653>) requirements for ISO's) – If company mistakenly treats backdated stock as an ISO the company may fail to meet payroll tax and [income](http://www.nysscpa.org/glossary/term/353) (<http://www.nysscpa.org/glossary/term/353>) tax withholding requirements.

d) New Rules SEC

- i) Effective for years after December 15, 2006
- ii) New Disclosures mandated

- (1) Fairvalue of options on grant date
- (2) Value of grant per 123R
- (3) Closing price market price on the date of grant if it is greater than the exercise price of the award
- (4) The date the compensation committee or board took action to grant an award if that date is different than the actual grant date.
- (5) Also if the exercise price of an option grant differs from the closing market price per share on the grant date companies must include a description of the method for determining the exercise price.

Stock Rights

Stock rights are rights issued to stockholders of a [CORPORATION](#) that entitle them to purchase new shares of stock in the corporation for a stated price that is often substantially less than the [FAIR MARKET VALUE](#) of the stock. These rights may be exercised by paying the stated price, may be sold, or may be allowed to expire or lapse. Stock rights are generally treated as stock [DIVIDENDS](#).

Stock Split

Increase in the number of shares of a company's [COMMON STOCK outstanding](#) that result from the issuance of additional shares proportionally to existing stockholders without additional capital [investment](#). The [PAR VALUE](#) of each share is reduced proportionally.

Stockholder

A person who owns shares of STOCK in a [COMPANY](#).

Stockholders' Equity

The OWNER'S [EQUITY](#) in a [CORPORATION](#).

Straight-Line Depreciation

[ACCOUNTING](#) method that reflects an equal amount of wear and tear during each [period](#) of an [ASSET'S](#) useful life. For instance, the annual [STRAIGHT-LINE DEPRECIATION](#) of a \$2,500 asset expected to last five years is \$500.

Straight-Line Percentage

A percentage used to determine the amount of [DEPRECIATION](#) to be recorded each [ACCOUNTING period](#) for the straight-line method.

Strike Price

Price of a financial [instrument](#) at which [conversion](#) or exercise occurs.

Subsequent Event

[Material](#) event that occurs after the end of the [accounting period](#) and before the publication of an entity's [FINANCIAL STATEMENTS](#). Such events are disclosed in the notes to the financial statements.

Subsidiary

[COMPANY](#) of which more than 50% of the voting shares are owned by another [CORPORATION](#), called the [PARENT COMPANY](#).

Sum-of-the-Years-Digits Method

An accelerated method of [DEPRECIATION](#) in which the depreciable [value](#) of an [ASSET](#) is multiplied by a decreasing fraction each year of the asset's useful life.

Surplus

Not needed; extra.

Surviving Spouse

This is a person whose husband or wife died during the tax year. A surviving spouse may file a JOINT RETURN for the year in which the death occurred. In addition a joint return may be filed for the two succeeding tax years if during that time the surviving spouse:

1. Remains unmarried; and
2. Maintains as his home a household that is the principal place of abode during the entire TAX YEAR for a child for whom a dependency exemption may be claimed.

Swap

Financial contract in which two parties agree to exchange net streams of payments over a specified period. The payments are usually determined by applying different indices (e.g., interest rates, foreign exchange rates, equity indices) to a NOTIONAL amount. The term notional is used because swap contracts generally do not involve exchanges of PRINCIPAL.

T

T Account

The simplest form of an ACCOUNT, shaped like the letter T, in which increases and decreases in the account can be recorded.

Takeover

The act or an instance of taking control of something, especially by force.

Tangible Asset

ASSETS having a physical existence, such as cash, land, buildings, machinery, or claims on property, investments or goods in process.

Target Costing

A pricing method that (1) identifies the price at which a product will be competitive in the marketplace, (2) identifies the minimum desired PROFIT to be made on the product, and (3) computes a target cost for the product by subtracting the desired profit from the competitive MARKET PRICE.

Tax

Charge levied by a governmental unit on income, consumption, wealth, or other basis.

Tax Basis

Original cost of an ASSET, less ACCUMULATED DEPRECIATION, that goes into the calculation of a GAIN or LOSS for TAX purposes.

Tax Court

The U.S. Tax Court is a legislative court functioning to adjudicate controversies between taxpayers and the IRS arising out of deficiencies assessed by the IRS for INCOME, GIFT, ESTATE, windfall profit and certain EXCISE TAXES. It has no jurisdiction over other taxes such as employment taxes. Various sales taxes and certain excise taxes.

Tax Credit for the Elderly and Disabled

Taxpayers age 65 or older or those under 65 who are retired with permanent and total disability are eligible to claim a credit to reduce the amount of their tax liability. It is designed primarily to benefit those individuals who receive small amounts of retirement INCOME. Each taxpayer is allocated an initial base amount based on his or her filing status determining the credit. The base amount is then reduced by the amount of nontaxable income, or is phased out for taxpayers whose ADJUSTED GROSS INCOME exceeds certain levels.

Tax Lien

ENCUMBRANCE placed on property as security for unpaid taxes.

Tax Shelter

Arrangement in which allowable tax deductions or EXCLUSIONS result in the deferral of tax on INCOME that would otherwise be payable currently.

Tax Year

The period used to compute a taxpayer's TAXABLE INCOME is tax year. It is an annual period that is either a calendar year, FISCAL YEAR or fractional part of a year for which the return is made.

Taxable Earnings

The amount of an employee's earnings subject to a TAX.

Taxable Income

Taxable income is generally equal to a taxpayer's **ADJUSTED GROSS INCOME** during the **TAX YEAR** less any allowable EXEMPTIONS and deductions.

Taxable Municipal Bond

Taxable **DEBT** obligation of a state or local government entity, an outgrowth of the Tax Reform Act of 1986.

Taxpayer Identification Number (TIN)

Any individual or other taxable entity that is required to file a **return, statement** or any other document with the **IRS** must indicate his (or its) taxpayer identification number. For an individual, the **social security** number is used, and if you do not have a social security number, the IRS will assign you a **TIN**. A federal or employer ID number is assigned to other types of entities and will use that as their TIN.

Tenancy-in-Common

Co-ownership of property. In a valid **tenancy-in-common**, a deceased co-owner's **title** passes to his or her heirs without being included in the estate of the deceased co-owner.

Term

Period of time during which the conditions of a **CONTRACT** will be carried out.

Term Loan

Loan for a specified time **period**.

Test

Criterion used to measure compliance with financial ratio requirements of indentures and other **LOAN** agreements.

Time Value

Price put on the time an investor has to wait until an **INVESTMENT** matures, as determined by calculating the **PRESENT VALUE** of the investment at **MATURITY**.

Time Value of Money

The concept that **CASH FLOWS** of equal dollar amounts separated by a time interval have different present values because of the effect of compound **INTEREST**.

Timing of Tests of Control

The **AUDITOR** must perform tests of controls over a **period** of time that is adequate to determine whether, as of the date specified in **management's report**, the controls necessary for achieving the objectives of the control criteria are operating effectively.

TIN

Any individual or other taxable entity that is required to file a **return, statement** or any other document with the **IRS** must indicate his (or its) taxpayer identification number. For an individual, the **social security** number is used, and if you do not have a social security number, the IRS will assign you a **TIN**. A federal or employer ID number is assigned to other types of entities and will use that as their TIN.

Tip

Information passed by one person to another as a basis for buy or sell action in a **SECURITY**.

Title

The written evidence, such as a deed, that proves legal right of possession or control.

Ton

BOND traders' jargon for \$100 million.

Total Capitalization

Capital structure of a **COMPANY**, including **LONG-TERM DEBT** and all forms of **EQUITY**.

Total Cost

Sum of **FIXED COSTS**, **semi-variable costs**, and **VARIABLE COSTS**.

Total Direct Labor Cost Variance

The difference between the actual **LABOR** costs incurred and the **standard** labor costs for the good units produced.

Total Direct Materials Cost Variance

The difference between the actual materials costs incurred and the standard costs of those items.

Total Gain

Excess of the proceeds realized on the sale of either INVENTORY or noninventory goods.

Total Inventory Method

A lower-of-cost-or-market method of valuing INVENTORY.

Total Quality Management

An organizational environment in which all business functions work together to build quality into the firm's products or services.

Trade

Buying or selling goods and services among companies, states, or countries, called commerce.

Trade Date

Date when a SECURITY transaction is entered into, to be settled on at a later date. Transactions involving financial instruments are generally accounted for on the trade date.

Trademark

Distinctive name, symbol, motto, or emblem that identifies a product, service, or firm.

Trader

Anyone who buys and sells goods or services for PROFIT; a DEALER or merchant.

Transaction

The act of transacting, especially a business agreement or exchange; event or condition recognized by an entry in the book ACCOUNT.

Transfer

To move or cause to go from one place, person, or thing to another.

Transfer Agent

Agent, usually a commercial bank, appointed by a CORPORATION, to maintain records of stock and BOND owners, to cancel and issue certificates, and to resolve problems arising from lost, destroyed, or stolen certificates.

Transfer Price

Price charged by individual entities in a multi-entity CORPORATION on transactions among themselves; also termed transfer cost.

Transfer Tax

Combined federal TAX on gifts and estates.

Transferee Liability

A person may be held LIABLE for another taxpayer's delinquent taxes if:

1. The transferee received assets of the transferor-taxpayer; and
2. The transferor was INSOLVENT at the time or was rendered insolvent by that transfer or related series of transfers.

However the insolvency requirement does not apply to GIFT taxes. The transferee is only liable to the extent of the value of the property received from the transferor. Thus, transferee liability merely provides a means for the IRS to recover any assets the transferor-taxpayer attempts to transfer to avoid paying taxes.

Transferred Basis

A transferred basis is the basis of property in the hands of a transferor, donor or GRANTOR. In this sense a prior owner's basis in the property is transferred to the taxpayer. Transferred basis occurs in the following transactions: GIFTS, transfers in trusts, certain transfers to controlled CORPORATIONS, contributions to PARTNERSHIPS and LIQUIDATING distributions from a corporation.

Treasurer

COMPANY officer responsible for the receipt, custody, INVESTMENT, and DISBURSEMENT of funds, for borrowings, and, if it is a public company, for the maintenance of a MARKET for its securities.

Treasury

A place where private or public funds are controlled.

Treasury Bill

Short-term obligation that bears no INTEREST and is sold at a discount.

Treasury Bond

Long-term obligation that matures more than five years from issuance and bears INTEREST.

Treasury Instruments

Direct financial obligations of the United States government.

Treasury Note

Intermediate-term obligation that matures one to five years from issuance and bears INTEREST.

Treasury Stock

Stock reacquired by the issuing company. It may be held indefinitely, retired, issued upon exercise of STOCK OPTIONS or resold.

Trend

Long-term price or trading volume movements either up, down, or sideways, which characterize a particular MARKET, commodity or SECURITY.

Trend Analysis

A type of horizontal analysis in which percentage changes are calculated for related items for several successive years instead of for two years.

Trial Balance

A comparison of the total of DEBIT and CREDIT balances in the LEDGER to check that they are equal.

Troubled Debt Restructuring

Agreement between DEBTOR and CREDITOR which amends the terms of a DEBT that has little chance of being paid in accordance with its contractual terms. The agreement may involve the transfer of ASSETS in full or partial satisfaction of the debt.

Trust

Ancient legal practice where one person (the GRANTOR) transfers the legal title to an ASSET, called the principal or corpus, to another person (the TRUSTEE), with specific instructions about how the corpus is to be managed and disposed.

Trustee

Person who is given legal title to, and management authority over, the property placed in a TRUST.

Turnover

The number of times a particular product is sold and restocked during a fixed period of time.

U

UAA

The proposal for a new regulatory framework for the public accounting profession which was developed jointly by the AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) and the NATIONAL ASSOCIATION of STATE BOARDS of ACCOUNTANCY (NASBA). The new framework is intended to enhance interstate reciprocity and practice across state lines by CPAs, meet the future needs of the profession, respond to the marketplace and protect the public that the profession serves.

Unamortized Bond Discount

Difference between the FACE VALUE of a BOND and the proceeds received from the sale of the bond by the issuing COMPANY, less whatever portion has been amortized, that is, written off to EXPENSE as recorded periodically on the PROFIT and LOSS statement.

Unamortized Premiums on Investments

Unexpensed portion of the amount by which the price paid for a SECURITY exceeded its PAR VALUE.

Unaudited Financial Statements

FINANCIAL STATEMENTS which have not undergone a detailed AUDIT examination by an independent CERTIFIED PUBLIC ACCOUNTANT (CPA).

Underlying Debt

MUNICIPAL BOND term referring to the debt of government entities within the jurisdiction of larger government entities and for which the larger entity has partial CREDIT responsibility.

Underlying Security

SECURITY that must be delivered if a put OPTIONS or call option contract is exercised.

Undervalued

SECURITY selling below its LIQUIDATION value or the MARKET VALUE analysts believe it deserves.

Underwrite

To assume the RISK of buying a new ISSUE of securities from the issuing CORPORATION or government entity and reselling them to the public, either directly or through dealers.

Unearned Discount

ACCOUNT on the books of a lending institution recognizing INTEREST deducted in advance and which will be taken into INCOME as earned over the life of the LOAN.

Unearned Income

Payments received for services which have not yet been performed.

Unearned Interest

INTEREST that has already been collected on a LOAN by a FINANCIAL INSTITUTION, but that cannot yet be counted as part of earnings because the PRINCIPAL of the loan has not been OUTSTANDING long enough.

Unequal Cash Flows

Cash flow from an ASSET that may vary from one year to the next.

Uniform Accountancy Act (UAA)

The proposal for a new regulatory framework for the public accounting profession which was developed jointly by the AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) and the NATIONAL ASSOCIATION of STATE BOARDS of ACCOUNTANCY (NASBA). The new framework is intended to enhance interstate reciprocity and practice across state lines by CPAs, meet the future needs of the profession, respond to the marketplace and protect the public that the profession serves.

Uniform Capitalization Rules

These are a set of rules intended to be a single comprehensive set of rules to govern the capitalization, or inclusion in INVENTORY of direct and indirect cost of producing, acquiring and holding property. Under the rules, taxpayers are required to capitalize the direct costs and an allocable portion of the indirect costs attributable to real and tangible personal property produced or acquired for resale. The obvious effect of the uniform capitalization rules is that taxpayers may not take current deductions for these costs but instead must be recovered through DEPRECIATION or AMORTIZATION.

Unissued Stock

Shares of a corporation's stock authorized in its charter but not issued.

Unit

Any division of quantity accepted as a standard of measurement or of exchange.

Unlimited Liability

The responsibility of all the partners in a COMPANY for its DEBT.

Unqualified Opinion

AUDIT opinion not qualified for any material scope restrictions nor departures from GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP). The AUDITOR may issue an unqualified opinion only when there are no identified material weaknesses and when there have been no restrictions on the scope of the auditor's work. Also known as CLEAN OPINION.

Unrealized Loss or Gain on Long-Term Investments

A BALANCE sheet ACCOUNT for entering increases or decreases in the value of long-term investments.

Unrealized Profit (or Loss)

PROFIT or LOSS that has not become actual.

Unrestricted Funds

Resources of a not-for-profit entity that have no restrictions as to use or purpose.

Unsecured Bond

A BOND issued on the general CREDIT of a COMPANY.

Use of Professional Skepticism when Evaluating the Results of Testing

The AUDITOR must conduct the audit of internal control over financial reporting and the audit of the financial statements with professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of audit evidence.

V

Valuation

The process of determining the PRESENT VALUE of a BOND based on the current MARKET INTEREST RATE.

Valuation Allowance

Method of lowering or raising an object's CURRENT VALUE by adjusting its acquisition cost to reflect its market value by use of a CONTRA ACCOUNT.

Value

How much money something is worth.

Value-Added Tax (VAT)

Consumption TAX levied on the VALUE added to a product at each stage of its manufacturing cycle as well as at the time of purchase by the ultimate consumer

Variable Annuity

Life insurance ANNUITY CONTRACT whose VALUE fluctuates with that of an underlying securities PORTFOLIO or other INDEX of performance.

Variable Costs

Total costs that change in direct proportion to changes in productive output or any other measure of volume.

Variable Manufacturing Costs

Costs that increase or decrease in direct proportion to the number of units produced.

Variable Overhead

The portion of mixed or semi-variable overhead costs that changes proportionately with some measure of activity or output.

Variable Rate Loan

Loan whose interest rate changes over its life in relation to the level of an index.

Variance

Deviation or difference between an estimated value and the actual value.

VAT

Consumption TAX levied on the VALUE added to a product at each stage of its manufacturing cycle as well as at the time of purchase by the ultimate consumer.

Velocity

Rate of spending, or turnover of money- in other words, how many times a dollar is spent in a given period of time.

Vendor

Supplier of goods or services of a commercial nature; may be a manufacturer, importer, or [wholesale](#) distributor.

Venture Capital

[Investment company](#) whose primary objective is capital growth. New ASSETS invested largely in companies that are developing new ideas, products, or processes.

Vertical Analysis

A technique for analyzing [FINANCIAL STATEMENTS](#) that uses percentages to show the relationships of each stated item to the total, which is 100 percent of the figure in a single statement.

Vesting

Point at which certain benefits available to an employee are no longer contingent on the employee continuing to work for the employer.

Voidable

[CONTRACT](#) that can be annulled by either party after it is signed because [FRAUD](#), incompetence, or another illegality exists or because a [right of rescission](#) applies.

Volatile

Tending to rapid and extreme fluctuations.

Volatility

Characteristic of a [SECURITY](#), commodity, or [MARKET](#) to rise or fall sharply in price within a [SHORT-TERM period](#).

Volume

Total number of stock shares, bonds, or [COMMODITIES](#) futures contracts traded in a particular [period](#).

W

Wage

Payment for services of employees at an hourly rate.

Walkthroughs

The most effective means for an AUDITOR to confirm his understanding how internal control over financial reporting is designed and operates to evaluate and test its effectiveness. It includes making inquiries of and observing the personnel who actually perform the controls; reviewing documents that are used in, and that result from, the application of the controls; and comparing supporting documentation to the accounting records. In a walkthrough, the auditor traces a transaction from origination through the company's information systems to the point where it is reflected in the company's financial reports. Walkthroughs provide the auditor with evidence to:

1. Confirm the auditor's understanding of the process flow of transactions.
2. Confirm the auditor's understanding of the design of controls identified for all five components of internal control over financial reporting, including those related to the prevention or detection of fraud.
3. Confirm that the auditor's understanding of the process is complete by determining whether all points in the process at which misstatements related to each relevant financial statement assertion that could occur have been identified.
4. Evaluate the effectiveness of the design of controls.
5. Confirm whether controls have been placed in operation.

Warrant

[Option](#) to purchase additional SECURITIES from the [issuer](#).

Wash Sale

A [wash sale](#) occurs if stock or securities are sold at a [LOSS](#) and the seller acquires substantially identical stock or SECURITIES 30 days before or after the sale. Stock or securities for this purpose includes contracts or operations to acquire or sell stock or securities. Losses incurred in a wash sale cannot be deducted. It does not matter if the total 60 day [period](#) begins in one [tax year](#) and ends in another. However, the disallowed loss is not permanently lost. Instead, the basis in the newly acquired stock or securities is the same basis as of the stock or securities sold, adjusted by the difference in price of the stock or securities.

Weighted-Average-Cost Method

An [AVERAGE-COST METHOD](#) procedure for determining the cost of [ENDING INVENTORY](#) under the [PERIODIC INVENTORY SYSTEM](#)

Wholesale

The sale of goods in large quantities, especially to a person or COMPANY that plans to sell them at retail.

Wholesaler

Middleman or distributor who sells mainly to retailers, jobbers, other merchants, and industrial, commercial, and institutional users as distinguished from consumers.

With Recourse

Able to collect losses on uncollectible accounts from the seller.

Withholding

Amount withheld or deducted from employee salaries by the employer and paid by the employer, for the employee, to the proper authority.

Withholding Allowance

Each taxpayer is allowed to claim a withholding allowance, which exempts a certain amount of wages from being subject to WITHHOLDING. The allowance is designed to prevent too much taxes being withheld from a taxpayers wages and a person can compute this by completing form W-4 and submitting it to their employer.

Without Recourse

Obligated to bear losses from uncollectible accounts.

Work in Progress

INVENTORY account consisting of partially completed goods awaiting completion and transfer to finished inventory.

Working Capital

Excess of CURRENT ASSETS over CURRENT LIABILITIES.

Working Interest

Direct participation with UNLIMITED LIABILITY, as distinguished from passive LIMITED PARTNERSHIP shares.

Working Papers

(1) Records kept by the AUDITOR of the procedures applied, the tests performed, the information obtained, and the pertinent conclusions reached in the course of the AUDIT. (2) Any records developed by a CERTIFIED PUBLIC ACCOUNTANT (CPA) during an audit.

Worksheet

A type of working paper used as a preliminary step in the preparation of FINANCIAL STATEMENTS.

Wrap-Around Mortgage

Second MORTGAGE which conveniently expands the total amount of borrowing by the mortgagor without disturbing the original mortgage.

Write Off

Charging an ASSET ACCOUNT to EXPENSE or LOSS.

Y

Yellow Book

Written by the GENERAL ACCOUNTABILITY OFFICE, the yellow book sets forth standards to be followed in auditing the FINANCIAL STATEMENTS of entities that receive federal financial assistance. "Yellow Book" is the name given to "Government Auditing Standards" issued by the Comptroller General of the United States which contains standards for audits of government organizations, programs, activities and functions, and of government assistance received by contractors, nonprofit organizations and other nongovernment organizations.

Yield

Return on an INVESTMENT an investor receives from DIVIDENDS or INTEREST expressed as a percentage of the cost of the SECURITY.

Yield Curve

Graph showing the TERM structure of interest rates by plotting the yields of all bonds of the same quality with maturities ranging from the shortest to the longest available.

Yield to Call

YIELD on a BOND assuming the bond will be redeemed by the ISSUER at the first call date specified in the INDENTURE agreement.

Yield to Maturity

Rate of return on a SECURITY to its maturity, giving effect to the stated interest rate, accrual of discount, or AMORTIZATION of PREMIUM.

Z

Zero-Coupon Bond

BOND on which the holder receives only one payment at maturity which includes both PRINCIPAL and INTEREST from issuance to maturity.

Zero-Coupon Convertible Security

ZERO-COUPON BOND convertible into the COMMON STOCK of the issuing COMPANY when the stock reaches a predetermined price.

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