Accounting The information system that identifies, records, and communicates the economic events of an organization to interested users. (p. 4).
Assets Resources a business owns. (p. 12).
Balance sheet A financial statement that reports the assets, liabilities, and owner's equity at a specific date. (p. 21).
Basic accounting equation Assets 5 Liabilities 1 Owner's Equity. (p. 12).
Bookkeeping A part of accounting that involves only the recording of economic events. (p. 5).
Convergence The process of reducing the differences between GAAP and IFRS. (p. 9).
Corporation A business organized as a separate legal entity under state corporation law, having ownership divided into transferable shares of stock. (p. 11).
Cost principle An accounting principle that states that companies should record assets at their cost. (p. 9).
Drawings Withdrawal of cash or other assets from an unincorporated business for the personal use of the owner(s). (p. 13).
Economic entity assumption An assumption that requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities. (p. 10).
Ethics The standards of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or not fair. (p. 8).
Expanded accounting equation Assets 5 Liabilities 1 Owner's Capital 2 Owner's Drawings 1 Revenues 2 Expenses. (p. 14).
Expenses The cost of assets consumed or services used in the process of earning revenue. (p. 14).
Fair value principle An accounting principle stating that assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability).(p. 9).
Faithful representation Numbers and descriptions match what really existed or happened—it is factual. (p. 9).
Financial accounting The field of accounting that provides economic and financial information for investors, creditors, and other external users. (p. 7).
Financial Accounting Standards Board (FASB) A private organization that establishes generally accepted accounting principles (GAAP). (p. 9).
Generally accepted accounting principles (GAAP) Common standards that indicate how to report economic events. (p. 9).
Income statement financial statement that presents the revenues and expenses and resulting net income or net loss of a company for a specific period of time. (p. 21).
International Accounting Standards Board (IASB) An accounting standard-setting body that issues standards adopted by many countries outside of the United States. (p. 9).
Investments by owner The assets an owner puts into the business. (p. 13).
Liabilities Creditor claims on total assets. (p. 13).
Managerial accounting The field of accounting that provides internal reports to help users make decisions about their companies. (p. 6).
Monetary unit assumption An assumption stating that companies include in the accounting records only transaction data that can be expressed in terms of money. (p. 10).
Net income The amount by which revenues exceed expenses. (p. 23).
Net loss The amount by which expenses exceed revenues. (p. 23).
Owner's equity The ownership claim on total assets. (p. 13).
Owner's equity statement A financial statement that summarizes the changes in owner's equity for a specific period of time. (p. 21).
Partnership A business owned by two or more persons associated as partners. (p. 11).

Proprietorship A business owned by one person. (p. 10).
Relevance Financial information that is capable of making a difference in a decision. (p. 9).
Revenues The gross increase in owner's equity resulting from business activities entered into for the purpose of earning income. (p. 13).
Sarbanes-Oxley Act of 2002 (SOX) Law passed by Congress in 2002 intended to reduce unethical corporate behavior. (p. 8).
Securities and Exchange Commission (SEC) A governmental agency that oversees U.S. financial markets and accounting standard-setting bodies. (p. 9).
Statement of cash flows A financial statement that summarizes information about the cash inflows (receipts) and cash outflows (payments) for a specific period of time. (p. 21).
Transactions The economic events of a business that are recorded by accountants. (p. 14).

Auditing The examination of financial statements by a certified public accountant in order to express an opinion as to the fairness of presentation. (p. 29).
Forensic accounting An area of accounting that uses accounting, auditing, and investigative skills to conduct investigations into theft and fraud. (p. 30).
Management consulting An area of public accounting ranging from development of accounting and computer systems to support services for marketing projects and merger and acquisition activities. (p. 29).
Private (or managerial) accounting An area of accounting within a company that involves such activities as cost accounting, budgeting, design and support of accounting information systems, and tax planning and preparation. (p. 29).
Public accounting An area of accounting in which the accountant offers expert service to the general public. (p. 29).
Taxation An area of public accounting involving tax advice, tax planning, preparing tax returns, and representing clients before governmental agencies. (p. 29).

Account A record of increases and decreases in specific asset, liability, or owner's equity items. (p. 52).
Chart of accounts A list of accounts and the account numbers that identify their location in the ledger. (p. 63).
Compound entry A journal entry that involves three or more accounts. (p. 59).
Credit The right side of an account. (p. 52).
Debit The left side of an account. (p. 52).
Double-entry system A system that records in appropriate accounts the dual effect of each transaction. (p. 53).
General journal The most basic form of journal. (p. 58).
General ledger A ledger that contains all asset, liability, and owner's equity accounts. (p. 60).
Journal An accounting record in which transactions are initially recorded in chronological order. (p. 58).
Journalizing The entering of transaction data in the journal. (p. 58).
Ledger The entire group of accounts maintained by a company. (p. 60).
Normal balance An account balance on the side where an increase in the account is recorded. (p. 54).
Posting The procedure of transferring journal entries to the ledger accounts. (p. 61).
Simple entry A journal entry that involves only two accounts.(p. 59).
T account The basic form of an account. (p. 52).
Three-column form of account A form with columns for debit, credit, and balance amounts in an account. (p. 61).
Trial balance A list of accounts and their balances at a given time. (p. 70).

Accrual-basis accounting Accounting basis in which companies record transactions that change a company's financial statements in the periods in which the events occur. (p. 101).
Accruals Adjusting entries for either accrued revenues or accrued expenses. (p. 103).
Accrued expenses Expenses incurred but not yet paid in cash or recorded. (p. 113).
Accrued revenues Revenues earned but not yet received in cash or recorded. (p. 111).
Adjusted trial balance A list of accounts and their balances after the company has made all adjustments. (p. 119).
Adjusting entries Entries made at the end of an accounting period to ensure that companies follow the revenue recognition and expense recognition principles. (p. 103).
Book value The difference between the cost of a depreciable asset and its related accumulated depreciation. (p. 108).
Calendar year An accounting period that extends from January 1 to December 31. (p. 100).
Cash-basis accounting Accounting basis in which companies record revenue when they receive cash and an expense when they pay cash. (p. 101).
Contra asset account An account offset against an asset account on the balance sheet. (p. 107).
Deferrals Adjusting entries for either prepaid expenses or unearned revenues. (p. 103).
Depreciation The allocation of the cost of an asset to expense over its useful life in a rational and systematic manner. (p. 107).
Expense recognition principle (matching principle) The principle that companies match efforts (expenses) with accomplishments (revenues). (p. 101).
Fiscal year An accounting period that is one year in length. (p. 100).
Interim periods Monthly or quarterly accounting time periods. (p. 100).
Prepaid expenses (prepayments) Expenses paid in cash that benefit more than one accounting period and that are recorded as assets. (p. 104).
Revenue recognition principle The principle that companies recognize revenue in the accounting period in which it is earned. (p. 101).
Time period assumption An assumption that accountants can divide the economic life of a business into artificial time periods. (p. 100).
Unearned revenues Cash received and recorded as liabilities before revenue is earned. (p. 108).
Useful life The length of service of a long-lived asset. (p. 107).

Classified balance sheet A balance sheet that contains standard classifications or sections. (p. 170).
Closing entries Entries made at the end of an accounting period to transfer the balances of temporary accounts to a permanent owner's equity account, Owner's Capital. (p. 161).
Correcting entries Entries to correct errors made in recording transactions. (p. 168).
Current assets Assets that a company expects to convert to cash or use up within one year. (p. 172).
Current liabilities Obligations that a company expects to pay from existing current assets within the coming year. (p. 174).
Income Summary A temporary account used in closing revenue and expense accounts. (p. 161).
Intangible assets Noncurrent assets that do not have physical substance. (p. 173).
Liquidity The ability of a company to pay obligations expected to be due within the next year. (p. 175).
Long-term investments Generally, (1) investments in stocks and bonds of other companies that companies normally hold for many years, and (2) long-term assets, such as land and buildings, not currently being used in operations. (p. 172).
Long-term liabilities Obligations that a company expects to pay after one year. (p. 175).

Operating cycle The average time that it takes to go from cash to cash in producing revenues. (p. 172).
Permanent (real) accounts Accounts that relate to one or more accounting periods. Consist of all balance sheet accounts. Balances are carried forward to next accounting period. (p. 160).
Post-closing trial balance A list of permanent accounts and their balances after a company has journalized and posted closing entries. (p. 165).
Property, plant, and equipment Assets with relatively long useful lives and currently being used in operations. (p. 173).
Reversing entry An entry, made at the beginning of the next accounting period, that is the exact opposite of the adjusting entry made in the previous period. (p. 168).
Stockholders' equity The ownership claim of shareholders on total assets. It is to a corporation what owner's equity is to a proprietorship. (p. 176).
Temporary (nominal) accounts Accounts that relate only to a given accounting period. Consist of all income statement accounts and owner's drawings account. All temporary accounts are closed at end of the accounting period. (p. 160).
Worksheet A multiple-column form that may be used in making adjusting entries and in preparing financial statements. (p. 154).

Contra-revenue account An account that is offset against a revenue account on the income statement. (p. 220).
Cost of goods sold The total cost of merchandise sold during the period. (p. 210).
FOB destination Freight terms indicating that the seller places the goods free on board to the buyer's place of business, and the seller pays the freight. (p. 215).
FOB shipping point Freight terms indicating that the seller places goods free on board the carrier, and the buyer pays the freight costs. (p. 215).
Gross profit The excess of net sales over the cost of goods sold. (p. 225).
Gross profit rate Gross profit expressed as a percentage, by dividing the amount of gross profit by net sales. (p. 225).
Income from operations Income from a company's principal operating activity; determined by subtracting cost of goods sold and operating expenses from net sales. (p. 226).
Multiple-step income statement An income statement that shows several steps in determining net income. (p. 224).
Net sales Sales less sales returns and allowances and less sales discounts. (p. 224).
Nonoperating activities Various revenues, expenses, gains, and losses that are unrelated to a company's main line of operations. (p. 226).
Operating expenses Expenses incurred in the process of earning sales revenues. (p. 225).
Other expenses and losses A nonoperating-activities section of the income statement that shows expenses and losses unrelated to the company's main line of operations. (p. 226).
Other revenues and gains A nonoperating-activities section of the income statement that shows revenues and gains unrelated to the company's main line of operations. (p. 226).
Periodic inventory system An inventory system under which the company does not keep detailed inventory records throughout the accounting period but determines the cost of goods sold only at the end of an accounting period. (p. 212).
Perpetual inventory system An inventory system under which the company keeps detailed records of the cost of each inventory purchase and sale, and the records continuously show the inventory that should be on hand. (p. 211).
Purchase allowance A deduction made to the selling price of merchandise, granted by the seller so that the buyer will keep the merchandise. (p. 216).
Purchase discount A cash discount claimed by a buyer for prompt payment of a balance due. (p. 216).

Purchase invoice A document that supports each credit purchase. (p. 213).
Purchase return A return of goods from the buyer to the seller for a cash or credit refund. (p. 216).
Sales discount A reduction given by a seller for prompt payment of a credit sale. (p. 220).
Sales invoice A document that supports each credit sale. (p. 218).
Sales returns and allowances Purchase returns and allowances from the seller's perspective. See *Purchase return* and *Purchase allowance*, above. (p. 219).
Sales revenue (Sales) The primary source of revenue in a merchandising company. (p. 210).
Single-step income statement An income statement that shows only one step in determining net income. (p. 227).

Average-cost method Inventory costing method that uses the weighted-average unit cost to allocate to ending inventory and cost of goods sold the cost of goods available for sale. (p. 271).
Conservatism Concept that dictates that when in doubt, choose the method that will be least likely to overstate assets and net income. (p. 275).
Consigned goods Goods held for sale by one party although ownership of the goods is retained by another party. (p. 265).
Consistency principle Dictates that a company uses the same accounting principles and methods from year to year. (p. 274).
Current replacement cost The current cost to replace an inventory item. (p. 275).
Days in inventory Measure of the average number of days inventory is held; calculated as 365 divided by inventory turnover ratio. (p. 279).
Finished goods inventory Manufactured items that are completed and ready for sale. (p. 262).
First-in, first-out (FIFO) method Inventory costing method that assumes that the costs of the earliest goods purchased are the first to be recognized as cost of goods sold. (p. 268).
FOB (free on board) destination Freight terms indicating that ownership of the goods remains with the seller until the goods reach the buyer. (p. 264).
FOB (free on board) shipping point Freight terms indicating that ownership of the goods passes to the buyer when the public carrier accepts the goods from the seller. (p. 264).
Inventory turnover A ratio that measures the number of times on average the inventory sold during the period; computed by dividing cost of goods sold by the average inventory during the period. (p. 279).
Just-in-time (JIT) inventory method Inventory system in which companies manufacture or purchase goods just in time for use. (p. 262).
Last-in, first-out (LIFO) method Inventory costing method that assumes the costs of the latest units purchased are the first to be allocated to cost of goods sold. (p. 270).
Lower-of-cost-or-market (LCM) basis A basis whereby inventory is stated at the lower of either its cost or its market value as determined by current replacement cost. (p. 275).
Raw materials Basic goods that will be used in production but have not yet been placed into production. (p. 262).
Specific identification method An actual physical flow costing method in which items still in inventory are specifically costed to arrive at the total cost of the ending inventory. (p. 267).
Weighted-average unit cost Average cost that is weighted by the number of units purchased at each unit cost. (p. 271).
Work in process That portion of manufactured inventory that has been placed into the production process but is not yet complete. (p. 262).

Gross profit method A method for estimating the cost of the ending inventory by applying a gross profit rate to net sales and subtracting estimated cost of goods sold from cost of goods available for sale. (p. 287).

Retail inventory method A method for estimating the cost of the ending inventory by applying a cost-to-retail ratio to the ending inventory at retail. (p. 288).

Accounting information system A system that collects and processes transaction data, and communicates financial information to decision makers. (p. 316).
Accounts payable (creditors') subsidiary ledger A subsidiary ledger that collects transaction data of individual creditors. (p. 319).
Accounts receivable (customers') subsidiary ledger A subsidiary ledger that collects transaction data of individual customers. (p. 319).
Cash payments (disbursements) journal A special journal that records all disbursements of cash. (p. 331).
Cash receipts journal A special journal that records all cash received. (p. 325).
Control account An account in the general ledger that summarizes subsidiary ledger data. (p. 319).
Manual accounting system A system in which someone performs each of the steps in the accounting cycle by hand. (p. 319).
Purchases journal A special journal that records all purchases of merchandise on account. (p. 329).
Sales journal A special journal that records all sales of merchandise on account. (p. 323).
Special journal A journal that records similar types of transactions, such as all credit sales. (p. 322).
Subsidiary ledger A group of accounts with a common characteristic. (p. 319).

Bank reconciliation The process of comparing the bank's balance of an account with the company's balance and explaining any differences to make them agree. (p. 380).
Bank service charge A fee charged by a bank for the use of its services. (p. 383).
Bank statement A monthly statement from the bank that shows the depositor's bank transactions and balances.
(p. 382).
Bonding Obtaining insurance protection against misappropriation of assets by employees. (p. 370).
Cash Resources that consist of coins, currency, checks, money orders, and money on hand or on deposit in a bank or similar depository. (p. 388).
Cash equivalents Short-term, highly liquid investments that can be converted to a specific amount of cash. (p. 388).
Check A written order signed by a bank depositor, directing the bank to pay a specified sum of money to a designated recipient. (p. 380).
Deposits in transit Deposits recorded by the depositor but not yet been recorded by the bank. (p. 384).
Electronic funds transfer (EFT) A disbursement system that uses wire, telephone, or computers to transfer funds from one location to another. (p. 387).
Fraud A dishonest act by an employee that results in personal benefit to the employee at a cost to the employer. (p. 362).
Fraud triangle The three factors that contribute to fraudulent activity by employees: opportunity, financial pressure, and rationalization. (p. 362).
Internal auditors Company employees who continuously evaluate the effectiveness of the company's internal control system. (p. 370).
Internal control All of the related methods and activities adopted within an organization to safeguard its assets and enhance the accuracy and reliability of its accounting records. (p. 363).
NSF check A check that is not paid by a bank because of insufficient funds in a customer's bank account. (p. 383).

Outstanding checks Checks issued and recorded by a company but not yet paid by the bank. (p. 385).
Petty cash fund A cash fund used to pay relatively small amounts. (p. 377).
Restricted cash Cash that must be used for a special purpose. (p. 389).
Sarbanes-Oxley Act of 2002 (SOX) Regulations passed by Congress to try to reduce unethical corporate behavior. (p. 363).
Voucher An authorization form prepared for each payment in a voucher system. (p. 376).
Voucher system A network of approvals by authorized individuals acting independently to ensure that all disbursements by check are proper. (p. 375).

Accounts receivable Amounts owed by customers on account. (p. 416).
Accounts receivable turnover ratio A measure of the liquidity of accounts receivable; computed by dividing net credit sales by average net accounts receivable. (p. 433).
Aging the accounts receivable The analysis of customer balances by the length of time they have been unpaid. (p. 423).
Allowance method A method of accounting for bad debts that involves estimating uncollectible accounts at the end of each period. (p. 420).
Average collection period The average amount of time that a receivable is outstanding; calculated by dividing 365 days by the accounts receivables turnover ratio. (p. 434).
Bad Debts Expense An expense account to record uncollectible receivables. (p. 419).
Cash (net) realizable value The net amount a company expects to receive in cash. (p. 420).
Direct write-off method A method of accounting for bad debts that involves expensing accounts at the time they are determined to be uncollectible. (p. 419).
Dishonored note A note that is not paid in full at maturity. (p. 432).
Factor A finance company or bank that buys receivables from businesses and then collects the payments directly from the customers. (p. 425).
Maker The party in a promissory note who is making the promise to pay. (p. 428).
Notes receivable Claims for which formal instruments of credit are issued as proof of the debt. (p. 417).
Other receivables Various forms of nontrade receivables, such as interest receivable and income taxes refundable. (p. 417).
Payee The party to whom payment of a promissory note is to be made. (p. 428).
Percentage-of-receivables basis Management estimates what percentage of receivables will result in losses from uncollectible accounts. (p. 423).
Percentage-of-sales basis Management estimates what percentage of credit sales will be uncollectible. (p. 423).
Promissory note A written promise to pay a specified amount of money on demand or at a definite time. (p. 427).
Receivables Amounts due from individuals and other companies. (p. 416).
Trade receivables Notes and accounts receivable that result from sales transactions. (p. 417).

Accelerated-depreciation method Depreciation method that produces higher depreciation expense in the early years than in the later years. (p. 467).
Additions and improvements Costs incurred to increase the operating efficiency, productive capacity, or useful life of a plant asset. (p. 470).
Amortization The allocation of the cost of an intangible asset to expense over its useful life in a systematic and rational manner. (p. 475).
Asset turnover ratio A measure of how efficiently a company uses its assets to generate sales; calculated as net sales divided by average total assets. (p. 480).
Capital expenditures Expenditures that increase the company’s investment in productive facilities. (p. 470).

Copyrights Exclusive grant from the federal government that allows the owner to reproduce and sell an artistic or published work. (p. 476).
Declining-balance method Depreciation method that applies a constant rate to the declining book value of the asset and produces a decreasing annual depreciation expense over the useful life of the asset. (p. 466).
Depletion The allocation of the cost of a natural resource to expense in a rational and systematic manner over the resource's useful life. (p. 474).
Depreciation The process of allocating to expense the cost of a plant asset over its useful (service) life in a rational and systematic manner. (p. 462).
Depreciable cost The cost of a plant asset less its salvage value. (p. 464).
Franchise (license) A contractual arrangement under which the franchisor grants the franchisee the right to sell certain products, provide specific services, or use certain trademarks or trade names, usually within a designated geographical area. (p. 477).
Going-concern assumption States that the company will continue in operation for the foreseeable future. (p. 463).
Goodwill The value of all favorable attributes that relate to a company that is not attributable to any other specific asset. (p. 477).
Intangible assets Rights, privileges, and competitive advantages that result from the ownership of long-lived assets that do not possess physical substance. (p. 475).
Licenses Operating rights to use public property, granted to a business by a governmental agency. (p. 477).
Materiality principle If an item would not make a difference in decision making, a company does not have to follow GAAP in reporting it. (p. 470).
Natural resources Assets that consist of standing timber and underground deposits of oil, gas, or minerals. (p. 474).
Ordinary repairs Expenditures to maintain the operating efficiency and productive life of the unit. (p. 470).
Patent An exclusive right issued by the U.S. Patent Office that enables the recipient to manufacture, sell, or otherwise control an invention for a period of 20 years from the date of the grant. (p. 476).
Plant assets Tangible resources that are used in the operations of the business and are not intended for sale to customers. (p. 458).
Research and development (R&D) costs Expenditures that may lead to patents, copyrights, new processes, or new products. (p. 478).
Revenue expenditures Expenditures that are immediately charged against revenues as an expense. (p. 470).
Salvage value An estimate of an asset's value at the end of its useful life. (p. 463).
Straight-line method Depreciation method in which periodic depreciation is the same for each year of the asset's useful life. (p. 464).
Trademark (trade name) A word, phrase, jingle, or symbol that identifies a particular enterprise or product.
(p. 476).
Units-of-activity method Depreciation method in which useful life is expressed in terms of the total units of production or use expected from an asset. (p. 465).
Useful life An estimate of the expected productive life, also called service life, of an asset. (p. 463).

Bonus Compensation to management and other personnel, based on factors such as increased sales or the amount of net income. (p. 519).
Contingent liability A potential liability that may become an actual liability in the future. (p. 515).

Current ratio A measure of a company's liquidity; computed as current assets divided by current liabilities. (p. 515).
Employee earnings record A cumulative record of each employee's gross earnings, deductions, and net pay during the year. (p. 522).
Federal unemployment taxes Taxes imposed on the employer by the federal government that provide benefits for a limited time period to employees who lose their jobs through no fault of their own. (p. 526).
Fees Payments made for the services of professionals. (p. 519).
FICA taxes Taxes designed to provide workers with supplemental retirement, employment disability, and medical benefits. (p. 520).
Full-disclosure principle Requires that companies disclose all circumstances and events that would make a difference to financial statement users. (p. 517).
Gross earnings Total compensation earned by an employee. (p. 519).
Net pay Gross earnings less payroll deductions. (p. 522).
Notes payable Obligations in the form of written notes. (p. 510).
Payroll deductions Deductions from gross earnings to determine the amount of a paycheck. (p. 519).
Payroll register A payroll record that accumulates the gross earnings, deductions, and net pay by employee for each pay period. (p. 522).
Salaries Employee pay based on a specified amount rather than an hourly rate. (p. 518).
Statement of earnings A document attached to a paycheck that indicates the employee's gross earnings, payroll deductions, and net pay. (p. 524).
State unemployment taxes Taxes imposed on the employer by states that provide benefits to employees who lose their jobs. (p. 526).
Wage and Tax Statement (Form W-2) A form showing gross earnings, FICA taxes withheld, and income taxes withheld, prepared annually by an employer for each employee. (p. 528).
Wages Amounts paid to employees based on a rate per hour or on a piecework basis. (p. 518).
Working capital A measure of a company's liquidity; computed as current assets minus current liabilities. (p. 515).

Pension plan An agreement whereby an employer provides benefits to employees after they retire. (p. 533).
Post-retirement benefits Payments by employers to retired employees for health care, life insurance, and pensions. (p. 533).

Capital deficiency A debit balance in a partner's capital account after allocation of gain or loss. (p. 565).
General partners Partners who have unlimited liability for the debts of the fi rm. (p. 556).
Income ratio The basis for dividing net income and net loss in a partnership. (p. 560).
Limited liability company A form of business organization, usually classified as a partnership for tax purposes and usually with limited life, in which partners, who are called *members*, have limited liability. (p. 556).
Limited liability partnership A partnership of professionals in which partners are given limited liability and the public is protected from malpractice by insurance carried by the partnership. (p. 556).
Limited partners Partners whose liability for the debts of the fir m is limited to their investment in the firm. (p. 556).
Limited partnership A partnership in which one or more general partners have unlimited liability and one or more partners have limited liability for the obligations of the firm. (p. 555).

No capital deficiency All partners have credit balances after allocation of gain or loss. (p. 565).
Partners' capital statement The owners' equity statement for a partnership which shows the changes in each partner's capital account and in total partnership capital during the year. (p. 563).
Partnership An association of two or more persons to carry on as co-owners of a business for profit. (p. 554).
Partnership agreement A written contract expressing the voluntary agreement of two or more individuals in a partnership. (p. 558).
Partnership dissolution A change in partners due to withdrawal or admission, which does not necessarily terminate the business. (p. 555).
Partnership liquidation An event that ends both the legal and economic life of a partnership. (p. 564).
Schedule of cash payments A schedule showing the distribution of cash to the partners in a partnership liquidation. (p. 566).

Admission by investment Admission of a partner by investing assets in the partnership, causing both partnership net assets and total capital to increase. (p. 573).
Admission by purchase of an interest Admission of a partner in a personal transaction between one or more existing partners and the new partner; does not change total partnership assets or total capital. (p. 572).
Withdrawal by payment from partners' personal assets Withdrawal of a partner in a personal transaction between partners; does not change total partnership assets or total capital. (p. 576).
Withdrawal by payment from partnership assets Withdrawal of a partner in a transaction involving the partnership, causing both partnership net assets and total capital to decrease. (p. 576).

Authorized stock The amount of stock that a corporation is authorized to sell as indicated in its charter. (p. 598).
Charter A document that creates a corporation. (p. 597).
Corporation A business organized as a legal entity separate and distinct from its owners under state corporation
law. (p. 594).
Cumulative dividend A feature of preferred stock entitling the stockholder to receive current and unpaid prior-year dividends before common stockholders receive dividends. (p. 611).
No-par value stock Capital stock that has not been assigned a value in the corporate charter. (p. 601).
Organization costs Costs incurred in the formation of a corporation. (p. 597).
Outstanding stock Capital stock that has been issued and is being held by stockholders. (p. 608).
Paid-in capital Total amount of cash and other assets paid in to the corporation by stockholders in exchange for capital stock. (p. 602).
Par value stock Capital stock that has been assigned a value per share in the corporate charter. (p. 601).
Preferred stock Capital stock that has some preferences over common stock. (p. 610).
Privately held corporation A corporation that has only a few stockholders and whose stock is not available for sale to the general public. (p. 594).
Publicly held corporation A corporation that may have thousands of stockholders and whose stock is regularly traded on a national securities exchange. (p. 594).
Retained earnings Net income that is retained in the corporation for future use. (p. 602).

Stated value The amount per share assigned by the board of directors to no-par stock. (p. 601).
Treasury stock A corporation's own stock that has been issued and subsequently reacquired from shareholders by the corporation but not retired. (p. 606).

Cash dividend A pro rata distribution of cash to stockholders. (p. 634).
Declaration date The date the board of directors formally declares a dividend and announces it to stockholders. (p. 635).
Deficit A debit balance in retained earnings. (p. 643).
Dividend A corporation's distribution of cash or stock to its stockholders on a pro rata (proportional) basis. (p. 634).
Earnings per share The net income earned by each share of outstanding common stock. (p. 648).
Liquidating dividend A dividend declared out of paid-in capital. (p. 634).
Payment date The date dividend checks are mailed to stockholders. (p. 636).
Prior period adjustment The correction of an error in previously issued financial statements. (p. 644).
Record date The date when ownership of outstanding shares is determined for dividend purposes. (p. 635).
Retained earnings Net income that is retained in the business. (p. 642).
Retained earnings restrictions Circumstances that make a portion of retained earnings currently unavailable
for dividends. (p. 643).
Retained earnings statement A financial statement that shows the changes in retained earnings during the year. (p. 645).
Return on common stockholders' equity A measure of profitability that shows how many dollars of net income were earned for each dollar invested by the owners; computed as net income minus preferred dividends divided by average common stockholders' equity. (p. 647).
Stock dividend A pro rata distribution to stockholders of the corporation's own stock. (p. 638).
Stockholders' equity statement A statement that shows the changes in each stockholders' equity account and in total stockholders' equity during the year. (p. 647).
Stock split The issuance of additional shares of stock to stockholders according to their percentage ownership; is accompanied by a reduction in the par or stated value per share. (p. 640).

Bearer (coupon) bonds Bonds not registered in the name of the owner. (p. 672).
Bond certificate A legal document that indicates the name of the issuer, the face value of the bonds, the contractual interest rate and maturity date of the bonds. (p. 672).
Bond indenture A legal document that sets forth the terms of the bond issue. (p. 672).
Bonds A form of interest-bearing notes payable issued by corporations, universities, and governmental entities. (p. 670).
Callable bonds Bonds that are subject to retirement at a stated dollar amount prior to maturity at the option of the issuer. (p. 672).
Capital lease A contractual arrangement that transfers substantially all the benefits and risks of ownership to the lessee so that the lease is in effect a purchase of the property. (p. 683).
Contractual interest rate Rate used to determine the amount of cash interest the borrower pays and the investor receives. (p. 672).
Convertible bonds Bonds that permit bondholders to convert them into common stock at the bondholders' option. (p. 672).
Debenture bonds Bonds issued against the general credit of the borrower. Also called unsecured bonds. (p. 671).

Debt to total assets ratio A solvency measure that indicates the percentage of total assets provided by creditors; computed as total debt divided by total assets. (p. 685).
Discount (on a bond) The difference between the face value of a bond and its selling price, when the bond is sold for less than its face value. (p. 675).
Face value (par value) Amount of principal the issuer must pay at the maturity date of the bond. (p. 672).
Long-term liabilities Obligations expected to be paid after one year. (p. 670).
Market interest rate The rate investors demand for loaning
funds to the corporation. (p. 673).
Maturity date The date on which the final payment on the bond is due from the bond issuer to the investor. (p. 672).
Mortgage bond A bond secured by real estate. (p. 671).
Mortgage notes payable A long-term note secured by a mortgage that pledges title to specific assets as security for a loan. (p. 680).
Operating lease A contractual arrangement giving the lessee temporary use of the property, with continued ownership of the property by the lessor. (p. 683).
Premium (on a bond) The difference between the selling price and the face value of a bond, when the bond is sold for more than its face value. (p. 675).
Registered bonds Bonds issued in the name of the owner. (p. 672).
Secured bonds Bonds that have specific assets of the issuer pledged as collateral. (p. 671).
Serial bonds Bonds that mature in installments. (p. 672).
Sinking fund bonds Bonds secured by specific assets set aside to retire them. (p. 671).
Term bonds Bonds that mature at a single specified future date. (p. 672).
Times interest earned ratio A solvency measure that indicates a company's ability to meet interest payments; computed by dividing income before income taxes and interest expense by interest expense. (p. 685).
Time value of money The relationship between time and money. A dollar received today is worth more than a dollar promised at some time in the future. (p. 673).
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Unsecured bonds Bonds issued against the general credit of the borrower. Also called debenture bonds. (p. 671).
Effective-interest method of amortization A method of amortizing bond discount or bond premium that results in periodic interest expense equal to a constant percentage of the carrying value of the bonds. (p. 695).
Straight-line method of amortization. A method of amortizing bond discount or bond premium that results in allocating the same amount to interest expense in each interest period. (p. 699)

Available-for-sale securities Securities that are held with the intent of selling them sometime in the future.
(p. 733).
Consolidated financial statements Financial statements that present the assets and liabilities controlled by the parent company and the total revenues and expenses of the subsidiary companies. (p. 730).
Controlling interest Ownership of more than 50% of the common stock of another entity. (p. 730).
Cost method An accounting method in which the investment in common stock is recorded at cost, and revenue is recognized only when cash dividends are received. (p. 728).
Debt investments Investments in government and corporation bonds. (p. 725).
Equity method An accounting method in which the investment in common stock is initially recorded at cost, and the investment account is then adjusted annually to show the investor's equity in the investee. (p. 729).
Fair value Amount for which a security could be sold in a normal market. (p. 732).

Held-to-maturity securities Debt securities that the investor has the intent and ability to hold to their maturity date. (p. 733).
Investment portfolio A group of stocks and/or debt securities in different corporations held for investment purposes. (p. 727).
Long-term investments Investments that are not readily marketable or that management does not intend to convert into cash within the next year or operating cycle, whichever is longer. (p. 736).
Parent company A company that owns more than 50% of the common stock of another entity. (p. 730).
Short-term investments Investments that are readily marketable and intended to be converted into cash within the next year or operating cycle, whichever is longer. (p. 736).
Stock investments Investments in the capital stock of other corporations. (p. 727).
Subsidiary (affiliated) company A company in which more than 50% of its stock is owned by another company. (p. 730).
Trading securities Securities bought and held primarily for sale in the near term to generate income on short-term price differences. (p. 733).

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Direct method A method of determining net cash provided by operating activities by adjusting each item in the income statement from the accrual basis to the cash basis and which shows operating cash receipts and payments. (p. 767)
Financing activities Cash flow activities that include (a) obtaining cash from issuing debt and repaying the amounts borrowed and (b) obtaining cash from stockholders, repurchasing shares, and paying dividends. (p. 763).
Free cash fl ow Cash provided by operating activities adjusted for capital expenditures and dividends paid. (p. 779).
Indirect method A method of preparing a statement of cash flows in which net income is adjusted for items that do not affect cash, to determine net cash provided by operating activities. (pp. 767, 769).
Investing activities Cash flow activities that include (a) purchasing and disposing of investments and property, plant, and equipment using cash and (b) lending money and collecting the loans. (p. 763).
Operating activities Cash flow activities that include the cash effects of transactions that create revenues and expenses and thus enter into the determination of net income. (p. 763).
Statement of cash flows A basic financial statement that provides information about the cash receipts, cash payments, and net change in cash during a period, resulting from operating, investing, and financing
activities. (p. 762).
Direct method A method of determining net cash provided by operating activities by adjusting each item in the income statement from the accrual basis to the cash basis. (p. 790)

Acid-test (quick) ratio A measure of a company's immediate short-term liquidity; computed by dividing the sum of cash, short-term investments, and net receivables by current liabilities. (p. 835).
Asset turnover A measure of how efficiently a company uses its assets to generate sales; computed by dividing net sales by average assets. (p. 839).
Change in accounting principle The use of a principle in the current year that is different from the one used in the preceding year. (p. 848).
Comprehensive income Includes all changes in stockholders' equity during a period except those resulting from investments by stockholders and distributions to stockholders. (p. 849).
Current ratio A measure used to evaluate a company's liquidity and short-term debt-paying ability; computed by dividing current assets by current liabilities. (p. 835).
Debt to total assets ratio Measures the percentage of total assets provided by creditors; computed by dividing total debt by total assets. (p. 842).
Discontinued operations The disposal of a significant segment of a business. (p. 846).
Earnings per share (EPS) The net income earned on each share of common stock; computed by dividing net income minus preferred dividends (if any) by the number of weighted-average common shares outstanding. (p. 841).
Extraordinary items Events and transactions that are unusual in nature and infrequent in occurrence. (p. 847).
Horizontal analysis A technique for evaluating a series of financial statement data over a period of time, to determine the increase (decrease) that has taken place, expressed as either an amount or a percentage. (p. 827).
Inventory turnover A measure of the liquidity of inventory; computed by dividing cost of goods sold by average inventory. (p. 837).
Leveraging See *Trading on the equity*. (p. 840).
Liquidity ratios Measures of the short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash. (p. 835).
Payout ratio Measures the percentage of earnings distributed in the form of cash dividends; computed by dividing cash dividends by net income. (p. 842).
Price-earnings (P-E) ratio Measures the ratio of the market price of each share of common stock to the earnings per share; computed by dividing the market price of the stock by earnings per share. (p. 841).
Profit margin Measures the percentage of each dollar of sales that results in net income; computed by dividing net income by net sales. (p. 838).
Profitability ratios Measures of the income or operating success of a company for a given period of time. (p. 838).
Pro forma income A measure of income that usually excludes items that a company thinks are unusual or nonrecurring. (p. 850).
Quality of earnings Indicates the level of full and transparent information provided to users of the financial statements. (p. 850).
Ratio An expression of the mathematical relationship between one quantity and another. The relationship may be expressed either as a percentage, a rate, or a simple proportion. (p. 833).
Ratio analysis A technique for evaluating financial statements that expresses the relationship between selected financial statement data. (p. 833).
Receivables turnover A measure of the liquidity of receivables; computed by dividing net credit sales by average net receivables. (p. 837).
Return on assets An overall measure of profitability; computed by dividing net income by average assets. (p. 839).

Return on common stockholders' equity Measures the dollars of net income earned for each dollar invested by the owners; computed by dividing net income minus preferred dividends (if any) by average common stockholders' equity. (p. 840).
Solvency ratios Measures of the ability of the company to survive over a long period of time. (p. 842).
Times interest earned Measures a company's ability to meet interest payments as they come due; computed by dividing income before interest expense and income taxes by interest expense. (p. 843).
Trading on the equity Borrowing money at a lower rate of interest than can be earned by using the borrowed money. (p. 840).
Vertical analysis A technique for evaluating financial statement data that expresses each item within a financial statement as a percent of a base amount. (p. 831).

Activity-based costing (ABC) A method of allocating overhead based on each product's use of activities in making the product. (p. 896).
Balanced scorecard A performance-measurement approach that uses both financial and nonfinancial measures, tied to company objectives, to evaluate a company's operations in an integrated fashion. (p. 897).
Board of directors The group of officials elected by the stockholders of a corporation to formulate operating policies, select officers, and otherwise manage the company. (p. 881).
Chief executive officer (CEO) Corporate officer who has overall responsibility for managing the business and delegates responsibilities to other corporate officers. (p. 882).
Chief financial officer (CFO) Corporate officer who is responsible for all of the accounting and finance issues of the company. (p. 882).
Controller Financial officer responsible for a company's accounting records, system of internal control, and preparation of financial statements, tax returns, and internal reports. (p. 882).
Cost of goods manufactured Total cost of work in process less the cost of the ending work in process inventory. (p. 889).
Direct labor The work of factory employees that can be physically and directly associated with converting raw materials into finished goods. (p. 885).
Direct materials Raw materials that can be physically and directly associated with manufacturing the finished product. (p. 885).
Enterprise resource planning (ERP) system Software that provides a comprehensive, centralized, integrated source of information used to manage all major business processes. (p. 895).
Indirect labor Work of factory employees that has no physical association with the finished product, or for which it is impractical to trace the costs to the goods produced. (p. 885).
Indirect materials Raw materials that do not physically become part of the finished product or cannot be traced because their physical association with the finished product is too small. (p. 885).
Just-in-time (JIT) inventory Inventory system in which goods are manufactured or purchased just in time for use. (p. 895).
Line positions Jobs that are directly involved in a company's primary revenue-generating operating activities. (p. 882).
Managerial accounting A field of accounting that provides economic and fi nancial information for managers and other internal users. (p. 878).
Manufacturing overhead Manufacturing costs that are indirectly associated with the manufacture of the finished product. (p. 885).
Period costs Costs that are matched with the revenue of a specific time period and charged to expense as incurred. (p. 886).

Product costs Costs that are a necessary and integral part of producing the finished product. (p. 886).
Sarbanes-Oxley Act of 2002 (SOX) Law passed by Congress in 2002, intended to reduce unethical corporate behavior. (p. 883).
Staff positions Jobs that support the efforts of line employees. (p. 882).
Theory of constraints A specific approach used to identify and manage constraints in order to achieve the company's goals. (p. 896).
Total cost of work in process Cost of the beginning work in process plus total manufacturing costs for the current period. (p. 889).
Total manufacturing costs The sum of direct materials, direct labor, and manufacturing overhead incurred in the current period. (p. 889).
Total quality management (TQM) Systems implemented to reduce defects in finished products with the goal of achieving zero defects. (p. 896).
Treasurer Financial officer who has custody of the corporation's funds and is responsible for maintaining the company's cash position. (p. 882).
Value chain All activities associated with providing a product or service. (p. 894).

Cost accounting An area of accounting that involves measuring, recording, and reporting product costs. (p. 924).
Cost accounting system Manufacturing cost accounts that are fully integrated into the general ledger of a company. (p. 924).
Job cost sheet A form used to record the costs chargeable to a specifi c job and to determine the total and unit costs of the completed job. (p. 929).
Job order cost system A cost accounting system in which costs are assigned to each job or batch. (p. 924).
Materials requisition slip A document authorizing the issuance of raw materials from the storeroom to production. (p. 930).
Overapplied overhead A situation in which overhead assigned to work in process is greater than the overhead incurred. (p. 941).
Predetermined overhead rate A rate based on the relationship between estimated annual overhead costs and expected annual operating activity, expressed in terms of a common activity base. (p. 933).
Process cost system A system of accounting used when a large quantity of similar products are manufactured. (p. 925).
Summary entry A journal entry that summarizes the totals from multiple transactions. (p. 928).
Time ticket A document that indicates the employee, the hours worked, the account and job to be charged, and the total labor cost. (p. 931).
Underapplied overhead A situation in which overhead assigned to work in process is less than the overhead incurred. (p. 941).

Activity-based costing A cost accounting system that focuses on the activities performed in manufacturing a specific product. (p. 984).
Conversion costs The sum of labor costs and overhead costs. (p. 974).
Cost driver Any factor or activity that has a direct cause–effect relationship with the resources consumed. (p. 984).
Cost reconciliation schedule A schedule that shows that the total costs accounted for equal the total costs to be accounted for. (p. 979).
Equivalent units of production A measure of the work done during the period, expressed in fully completed units. (p. 973).
Just-in-time processing A processing system dedicated to producing the right products (or parts) as they are needed. (p. 982).

Operations costing A combination of a process cost and a job order cost system, in which products are manufactured primarily by standardized methods, with some customization. (p. 981).
Physical units Actual units to be accounted for during a period, irrespective of any work performed. (p. 977).
Process cost systems An accounting system used to apply costs to similar products that are mass-produced in a continuous fashion. (p. 966).
Production cost report An internal report for management that shows both production quantity and cost data for a production department. (p. 975).
Total units (costs) accounted for The sum of the units (costs) transferred out during the period plus the units (costs) in process at the end of the period. (pp. 977, 979).
Total units (costs) to be accounted for The sum of the units (costs) started (or transferred) into production during the period plus the units (costs) in process at the beginning of the period. (pp. 977, 979).
Unit production costs Costs expressed in terms of equivalent units of production. (p. 978).
Weighted-average method Method used to compute equivalent units of production which considers the degree of completion (weighting) of the units completed and transferred out and the ending work in process. (p. 973).

Activity index The activity that causes changes in the behavior of costs. (p. 1012).
Break-even point The level of activity at which total revenues equal total costs. (p. 1023).
Contribution margin (CM) The amount of revenue remaining after deducting variable costs. (p. 1020).
Contribution margin per unit The amount of revenue remaining per unit after deducting variable costs; calculated as unit selling price minus unit variable cost. (p. 1021).
Contribution margin ratio The percentage of each dollar of sales that is available to apply to fixed costs and contribute to net income; calculated as contribution margin per unit divided by unit selling price. (p. 1022).
Cost behavior analysis The study of how specific costs respond to changes in the level of business activity. (p. 1012).
Cost-volume-profit (CVP) analysis The study of the effects of changes in costs and volume on a company's profits. (p. 1020).
Cost-volume-profit (CVP) graph A graph showing the relationship between costs, volume, and profits. (p. 1024).
Cost-volume-profit (CVP) income statement A statement for internal use that classifies costs as fixed or variable and reports contribution margin in the body of the statement. (p. 1020).
Fixed costs Costs that remain the same in total regardless of changes in the activity level. (p. 1013).
High-low method A mathematical method that uses the total costs incurred at the high and low levels of activity to classify mixed costs into fixed and variable components. (p. 1017).
Margin of safety The difference between actual or expected sales and sales at the break-even point. (p. 1027).
Mixed costs Costs that contain both a variable and a fixed cost element and change in total but not proportionately with changes in the activity level. (p. 1015).
Relevant range The range of the activity index over which the company expects to operate during the year. (p. 1015).
Target net income The income objective set by management. (p. 1026).
Variable costs Costs that vary in total directly and proportionately with changes in the activity level. (p. 1012).

Absorption costing A costing approach in which all manufacturing costs are charged to the product. (p. 1034).
Variable costing A costing approach in which only variable manufacturing costs are product costs, and fixed manufacturing costs are period costs (expenses). (p. 1034).

Budget A formal written statement of management's plans for a specifi ed future time period, expressed in financial terms. (p. 1054).
Budget committee A group responsible for coordinating the preparation of the budget. (p. 1056).
Budgetary slack The amount by which a manager intentionally underestimates budgeted revenues or overestimates budgeted expenses in order to make it easier to achieve budgetary goals. (p. 1057).
Budgeted balance sheet A projection of financial position at the end of the budget period. (p. 1070).
Budgeted income statement An estimate of the expected profitability of operations for the budget period. (p. 1065).
Cash budget A projection of anticipated cash flows. (p. 1067).
Direct labor budget A projection of the quantity and cost of direct labor necessary to meet production requirements. (p. 1063).
Direct materials budget An estimate of the quantity and cost of direct materials to be purchased. (p. 1061).
Financial budgets Individual budgets that focus primarily on the cash resources needed to fund expected operations and planned capital expenditures. (p. 1058).
Long-range planning A formalized process of selecting strategies to achieve long-term goals and developing policies and plans to implement the strategies. (p. 1058).
Manufacturing overhead budget An estimate of expected manufacturing overhead costs for the budget period. (p. 1064).
Master budget A set of interrelated budgets that constitutes a plan of action for a specifi c time period. (p. 1058).
Merchandise purchases budget The estimated cost of goods to be purchased by a merchandiser to meet expected sales. (p. 1072).
Operating budgets Individual budgets that result in a budgeted income statement. (p. 1058).
Participative budgeting A budgetary approach that starts with input from lower-level managers and works upward so that managers at all levels participate. (p. 1056).
Production budget A projection of the units that must be produced to meet anticipated sales. (p. 1060).
Sales budget An estimate of expected sales revenue for the budget period. (p. 1059).
Sales forecast The projection of potential sales for the industry and the company's expected share of such sales. (p. 1056).
Selling and administrative expense budget A projection of anticipated selling and administrative expenses for the budget period. (p. 1065).

Budgetary control The use of budgets to control operations. (p. 1098).
Controllable cost A cost over which a manager has control. (p. 1111).
Controllable margin Contribution margin less controllable fixed costs. (p. 1115).
Cost center A responsibility center that incurs costs but does not directly generate revenues. (p. 1112).
Decentralization Control of operations is delegated to many managers throughout the organization. (p. 1109).
Direct fixed costs Costs that relate specifically to a responsibility center and are incurred for the sole benefit of
the center. (p. 1115).

Flexible budget A projection of budget data for various levels of activity. (p. 1101).
Indirect fixed costs Costs that are incurred for the benefit of more than one profit center. (p. 1115).
Investment center A responsibility center that incurs costs, generates revenues, and has control over decisions regarding the assets available for use. (p. 1112).
Management by exception The review of budget reports by top management focused entirely or primarily on differences between actual results and planned objectives. (p. 1108).
Noncontrollable costs Costs incurred indirectly and allocated to a responsibility center that are not controllable at that level. (p. 1111).
Profit center A responsibility center that incurs costs and also generates revenues. (p. 1112).
Responsibility accounting A part of management accounting that involves accumulating and reporting revenues and costs on the basis of the manager who has the authority to make the day-to-day decisions about the items. (p. 1109).
Responsibility reporting system The preparation of reports for each level of responsibility in the company's organization chart. (p. 1111).
Return on investment (ROI) A measure of management's effectiveness in utilizing assets at its disposal in an investment center. (p. 1117).
Segment An area of responsibility in decentralized operations. (p. 1110).
Static budget A projection of budget data at one level of activity. (p. 1099).
Balanced scorecard An approach that incorporates financial and nonfinancial measures in an integrated system that links performance measurement and a company's strategic goals. (p. 1163).
Customer perspective A viewpoint employed in the balanced scorecard to evaluate the company from the perspective of those people who buy and use its products or services. (p. 1163).
Direct labor price standard The rate per hour that should be incurred for direct labor. (p. 1151).
Direct labor quantity standard The time that should be required to make one unit of product. (p. 1152).
Direct materials price standard The cost per unit of direct materials that should be incurred. (p. 1151).
Direct materials quantity standard The quantity of direct materials that should be used per unit of finished goods. (p. 1151).
Financial perspective A viewpoint employed in the balanced scorecard to evaluate a company's performance using financial measures. (p. 1163).
Ideal standards Standards based on the optimum level of performance under perfect operating conditions. (p. 1150).
Internal process perspective A viewpoint employed in the balanced scorecard to evaluate the effectiveness and efficiency of a company's value chain, including product development, production, delivery, and after-sale service. (p. 1163).
Labor price variance The difference between the actual hours times the actual rate and the actual hours times the standard rate for labor. (p. 1157).
Labor quantity variance The difference between actual hours times the standard rate and standard hours times the standard rate for labor. (p. 1157).
Learning and growth perspective A viewpoint employed in the balanced scorecard to evaluate how well a company develops and retains its employees. (p. 1163).
Materials price variance The difference between the actual quantity times the actual price and the actual quantity times the standard price for materials. (p. 1155).
Materials quantity variance The difference between the actual quantity times the standard price and the standard quantity times the standard price for materials. (p. 1155).

Normal capacity The average activity output that a company should experience over the long run. (p. 1152).
Normal standards Standards based on an efficient level of performance that are attainable under expected operating conditions. (p. 1150).
Standard costs Predetermined unit costs which companies use as measures of performance. (p. 1148).
Standard hours allowed The hours that should have been worked for the units produced. (p. 1159).
Standard predetermined overhead rate An overhead rate determined by dividing budgeted overhead costs by an expected standard activity index. (p. 1152).
Total labor variance The difference between actual hours times the actual rate and standard hours times the standard rate for labor. (p. 1157).
Total materials variance The difference between the actual quantity times the actual price and the standard quantity times the standard price of materials. (p. 1155).
Total overhead variance The difference between actual overhead costs and overhead costs applied to work done. (p. 1159).
Variances The difference between total actual costs and total standard costs. (p. 1154).
Standard cost accounting system A double-entry system of accounting in which standard costs are used in making entries and variances are recognized in the accounts. (p. 1168).

Overhead controllable variance The difference between actual overhead incurred and overhead budgeted for the standard hours allowed. (p. 1171).
Overhead volume variance The difference between normal capacity hours and standard hours allowed times the fixed overhead rate. (p. 1172).

Annual rate of return technique Determines the profitability of a capital expenditure by dividing expected annual net income by the average investment. (p. 1207).
Capital budgeting The process of making capital expenditure decisions in business. (p. 1205).
Cash payback technique Identifies the time period required to recover the cost of a capital investment from the net annual cash flow produced by the investment. (p. 1208).
Cost of capital The rate of return that management expects to pay on all borrowed and equity funds. (p. 1207).
Discounted cash fl ow technique Considers both the estimated total net cash fl ows from the investment and the time value of money. (p. 1210).
Incremental analysis The process of identifying the financial data that change under alternative courses of action. (p. 1195).
Internal rate of return (IRR) The rate that will cause the present value of the proposed capital expenditure to equal the present value of the expected net annual cash flows. (p. 1212).
Internal rate of return method Finds the interest yield of the potential investment. (p. 1212).
Net present value (NPV) The difference that results when the original capital outlay is subtracted from the discounted net cash flows. (p. 1210).
Net present value (NPV) method Discounts net cash flows to their present value and then compares that present value to the capital outlay required by the investment. (p. 1210).
Opportunity cost The potential benefit that may be obtained from following an alternative course of action. (p. 1199).
Required rate of return The rate that is generally based on the company's cost of capital. (p. 1207).
Sunk cost A cost that cannot be changed by any present or future decision. (p. 1202).

Annuity A series of equal dollar amounts to be paid or received at evenly spaced time intervals (periodically). (p.D5).
Compound interest The interest computed on the principal and any interest earned that has not been paid or withdrawn. (p. D2).
Discounting the future amount(s) The process of determining present value. (p. D3).
Interest Payment for the use of another's money. (p. D1).
Present value The value now of a given amount to be paid or received in the future assuming compound interest. (p. D3).
Present value of an annuity The value now of a series of future receipts or payments, discounted assuming compound interest. (p. D5).
Principal The amount borrowed or invested. (p. D1).
Simple interest The interest computed on the principal only. (p. D1).