**Banking Terminology**

**Account**: (1) Credit established under a particular name, usually by deposit, against which withdrawals may be made. (2) A record of the financial transactions affecting a particular phase of business. The financial transactions are dated and entered in the account as debits or credits. (3) As used in the Electronic Fund Transfer Act, account means a demand deposit, savings deposit, or other asset account established primarily for personal, family or household purposes.

**Account Activity**: A summary of activity on an account. Includes: previous balance, payments, credits, new credit extended, finance charges, late charges, and new balance owing.

**Account Analysis**: Determination of the profitability of a checking account.

**Account History**: The payment history of an account over a specified period of time, including the number of times the account was past due or over limit.

**Available Balance**: The portion of a customer's account balance on which the bank has placed no restrictions, making it available for immediate withdrawals.

**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.

**Accounting** - Recording and reporting of financial transactions, including the origination of the transaction, its recognition, processing, and summarization in the FINANCIAL STATEMENTS.

**Accrual Basis** - Method of ACCOUNTING that recognizes REVENUE when earned, rather than when collected. Expenses are recognized when incurred rather than when paid.

**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.

**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.

**B**

**Bad Debt** - All or portion of an ACCOUNT, loan, or note receivable considered to be uncollectible.

**Balance** - Sum of DEBIT entries minus the SUM of CREDIT entries in an ACCOUNT. If positive, the difference is called a DEBIT BALANCE; if negative, a CREDIT BALANCE.

**Balance Sheet** - Basic FINANCIAL STATEMENT is presentation the entity’s ASSETS, LIABILITIES and the EQUITY of its owners on a specified date. Also known as a STATEMENT OF FINANCIAL CONDITION. It is usually accompanied by appropriate DISCLOSURES that describe the basis of ACCOUNTING used in its preparation

**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.

**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.

**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.

**C**

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

**Capital Stock** - Ownership shares of a CORPORATION authorized by its ARTICLES OF INCORPORATION. The money value 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.

**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.

**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.

**Cash Basis** - Method of bookkeeping by which REVENUES and EXPENDITURES are recorded when they are received and paid. (See OTHER COMPREHENSIVE BASIS OF ACCOUNTING.)

**Cash Equivalents** - Short-term (generally less than three months), highly liquid INVESTMENTS that are convertible to known amounts of cash.

**Cash Flows** - Net of cash receipts and cash disbursements relating to a particular activity during a specified accounting period.

**Closed-End Mutual Fund** - MUTUAL FUND with a fixed number of shares outstanding that may be bought or sold.

**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.

**Combined Financial Statement** - FINANCIAL STATEMENT comprising the accounts of two or more entities.

**Common Stock** - CAPITAL STOCK having no preferences generally in terms of dividends, voting rights or distributions

**Comparative Financial Statement** - FINANCIAL STATEMENT presentation in which the current amounts and the corresponding amounts for previous periods or dates also are shown.

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

**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.

**Consolidated Financial Statements** - Combined FINANCIAL STATEMENTS of a parent company and one or more of its subsidiaries as one economic unit.

**Cost Accounting** - Procedures used for rationally classifying, recording, and allocating current or predicted costs that relate to a certain product or production process.

**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, the ACCOUNTING METHOD used to depreciate ASSETS.

**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 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.

**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.

**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 Service Fund** - Fund whose PRINCIPAL or INTEREST is set aside and accumulated to retire DEBT.

**Debtor** - Party owing money or other assets to a creditor.

**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.

**Deferred Charge** - Cost incurred for subsequent periods which are reflected as assets.

**Deferred Income** - Income received but not earned until all events have occurred. Deferred income is reflected as a liability.

**Deficit** - Financial shortage that occurs when LIABILITIES exceed ASSETS.

**Depletion** - Method of computing a deduction to account for a reduction in value of extractable natural resources.

**Deposit Method** - Related to the sales of real estate, under this method the seller does not recognize any profits, does not record a note receivable, and continues to reflect the property and related debt in the seller's financial statements, recording the buyer's initial investment and subsequent payments as a deposit.

**Depreciation** - Expense allowance made for wear and tear on an ASSET over its estimated useful life. Two types include ACCELERATED DEPRECIATION and STRAIGHT-LINE DEPRECIATION.

**Detection Risk** - Risk that the AUDITOR will not detect a material misstatement.

**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 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 stream.

**Discounted Cash Flow** - Present value of future cash estimated to be generated.

**Dissolution** - Termination of a CORPORATION

**Distribution Expense** - Expense of selling, advertising, and delivery of goods and services.

**Dividends** - Distribution of earnings to owners of a CORPORATION in cash, other assets of the corporation, or the corporation's capital stock.

**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.

**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."

**E**

**Earned Income** - Wages, salaries, professional fees, and other amounts received as compensation for services rendered.

**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.

**Effective Tax Rate** - Total income taxes expressed as a percentage of NET INCOME before taxes.

**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 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.

**Escrow** - Money or property put into the custody of a third party for delivery to a Recipient of a legal transfer, only after fulfillment of specified conditions.

**Exchanges** - Transfer of money, property or services in exchange for any combination of these items.

**Expatriation Tax** - Individuals that loose or terminate their residency within the 10 year period immediately are preceding the close of a tax year, if the termination or loss is for the sole purpose of avoiding tax.

**Expenditure** - Payment either in cash, by assuming a LIABILITY, or by surrendering ASSET

**External Reporting** - Reporting to stockholders and the public, as opposed to internal reporting for management's benefit.

**F**

**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.

**Financial Accounting Standards** - Official promulgations, known as STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS, by the FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) which is 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 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

**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 Rate Loan** - Loan whose interest rate do not over its life

**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.

**Forecast** - Prospective FINANCIAL STATEMENTS that are an entity's expected financial position, results of operations, and cash flows.

**Foreclosure** - Seizure of COLLATERAL by a CREDITOR when DEFAULT under a loan agreement occurs.

**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 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.

**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.

**G**

**Gain** - A profit, or pecuniary benefit as opposed to a loss. Excess of REVENUES received over costs relating to a specific transaction

**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 levels 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.

**Going Public** - Activities that relate to offering a private company's shares to the general investing public including registering with the SEC.

**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.

**Gross Income** - The beginning point for the determination of income, including income from whatever sources derived.

**H**

**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.

**I**

**Imputed Interest -** If no interest or an unrealistic amount of interest is charged in a soothing kind of situation to save from losses, 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.

**Income** - Inflow of REVENUE during a period of time.

**Income Statement** - Summary of the effect of revenues and expenses over a period of time.

**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. (See OTHER COMPREHENSIVE BASIS OF ACCOUNTING.)

**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 tax payers 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.

**Insolvent** - The state of being unable to pay one's debt obligations when they come due. When an entity's LIABILITIES exceed its ASSETS

**Installment** - Partial payment.

**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.

**Intangible Asset** - Asset having no physical existence such as trademarks and patents.

**Interest** - Payment for the use or forbearance of money.

**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.

**Inventory** - Tangible property held for sale, or materials used in a production process to make a product.

**Investment** - Expenditure used to purchase goods or services that could produce a return to the investor.

**Involuntary Conversions -** This is a conversion of property where it is in whole or part destroyed, stolen, seized, requisitioned or condemned

**J**

**Joint Venture** - When two or more persons or organizations gather capital to provide a product or service. Often carried out as a partnership

**Journal** - A book containing original entries of daily financial transactions. A book in which original entries concerning transactions are recorded before being transferred to the appropriate ledger accounts.

**Joint Ownership**: The common ownership of real or personal property by two or more persons. The persons involved are either joint tenants or tenants in common.

**L**

**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.

**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.

**Leasehold** - Property interest a lessee owns in the leased property.

**Ledger** - Any book of accounts containing the summaries of debit and credit entries.

**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. The person, Corporation, or other legal entity that leases property to a lessee.

**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.

**Limited Liability Company:** a company whose owners and managers enjoy limited liability and some tax benefits, but avoid some restrictions associated with corporations

**Liquid Assets –** Assets that easily encashable, e.g.: Cash**,** cash equivalents, and marketable securities

**Liquidation** - Winding up an activity by distributing its assets to the appropriate parties and settling its debts.

**Long-Term Debt** - Debt with a maturity of more than one year from the current date.

**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

**M**

**Management Accounting** - Reporting designed to assist management in decision-making, planning, and control. Also known as Managerial Accounting

**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.

**Mark-to-Market** - Method of valuing ASSETS that result in adjustment of an asset's carrying amount to its market value.

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

**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.

**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.

**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.

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

**Mortgage** - An agreement by which somebody borrows money from an organization and gives that organization the right to take possession of property given as security if the loan is not repaid. It is a legal instrument evidencing a security interest in assets, usually real estate. Mortgages serve as collateral for promissory notes.

**Municipal Bond** - BOND issued by a government or public body, the interest on which is typically exempt from federal taxation.

**N**

**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.

**Net Assets** - Excess of the value of securities owned, cash, receivables, and other assets over the liabilities of the company.

**Net Income** - Excess or deficit of total revenues and gains compared with total expenses and losses for an accounting period.

**Net Lease** - In addition to the rental payment, the LESSEE assumes all property charges such as taxes, insurance, and maintenance

**Net Sales** - Sales at gross invoice amounts minus any adjustments for returns, allowances, or discounts taken.

**Net Worth** - Similar to EQUITY, the excess of assets over liabilities

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

**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.

**Notional Value** - Value assigned to assets or liabilities that is not based on cost or market (e.g., the value of a service not yet rendered).

**O**

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

**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.

**Option** - Right to buy or sell something at a specified price during a specified time period.

**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 tern 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

**P**

**Paid in Capital** - Portion of the stockholders' EQUITY which was paid in by the stockholders, as opposed to CAPITAL arising from profitable operations.

**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. The partnership's general partners are liable for the DEBTS of the partnership.

**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

**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.

**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 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 estate) Personal property includes tangible items such as cash, cars and computers, as well as intangible items, such as royalties, patents and copyrights

**Phantom Income** - Income reported on a TAX BASIS for which no cash or financial benefit is realized.

**Pledged Asset** - asset placed in a trust and used as collateral for a debt

**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.

**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.

**Private Placement** - Sales of SECURITIES not involving a PUBLIC OFFERING and exempt from registration pursuant to certain exemptions.

**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).

**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. (See DEMAND LOAN.)

**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

**Pro Rata** - Distribution of an expense, fund, or DIVIDEND proportionate with ownership.

**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 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.

**Proxy** - Document authorizing someone other than the shareholder to exercise the right to vote the stock owned by the shareholder.

**Public Offering** - Offering shares to the public. Generally done through SEC filings

**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.

**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.

**R**

**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.

**Real Property** - Land and improvements, including buildings and personal property that is permanently attached to the land or customarily transferred with the land.

**Receivables** - Amounts of money due from customers or other DEBTORS.

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

**Redemption Value** - Price to be paid by an ENTITY to retire its BONDS or PREFERRED STOCK.

**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.

**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

**Return on Investment (ROI)** - Ratio or measure of the profits achieved by a firm through its basic operations. An indicator of management's general effectiveness and efficiency, E.g: Ratio of net income to total assets.

**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).

**S**

**Salvage Value** - Selling price assigned to retired fixed assets or merchandise unsalable through usual channels.

**Securities and Exchange Commission (SEC)** - Agency authorized by the United States Congress to regulate the financial reporting practices of most public corporations

**Special Report** - Special report is 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.

**Statement of Cash Flows** - A statement of cash flows is one of the basic financial statements that is required as part of a complete set of financial statements prepared in conformity with generally accepted accounting principles. 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 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

**T**

**Tangible Asset** - ASSETS having a physical existence, such as cash, land, buildings, machinery, or claims on property, investments or goods in process

**Tax** - Charge levied by a governmental unit on income, consumption, wealth, or other basis.

**U**

**Unaudited Financial Statements** - FINANCIAL STATEMENTS which have not undergone a detailed AUDIT examination by an independent CERTIFIED PUBLIC ACCOUNTANT (CPA).

**Unearned Income** - Payments received for services which have not yet been performed.

**Unrestricted Funds** - Resources of a not-for-profit entity that have no restrictions as to use or purpose.

**V**

**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.

**Venture Capital** - Investment Company whose primary objective is capital growth. New ASSETS invested largely in companies that are developing new ideas, products, or processes.

**W**

**Working Capital** - Excess of CURRENT ASSETS over CURRENT LIABILITIES.

**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.

**Work in Progress** - INVENTORY account consisting of partially completed goods awaiting completion and transfer to finished inventory.