### Consolidated Statements of Cash Flows

Three years ended December 25, 1999

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>$2,038</td>
<td>$4,102</td>
<td>$4,165</td>
</tr>
<tr>
<td><strong>Cash flows provided by (used for) operations:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>7,314</td>
<td>6,068</td>
<td>6,945</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,186</td>
<td>2,807</td>
<td>2,192</td>
</tr>
<tr>
<td>Amortization of goodwill and other acquisition-related intangibles</td>
<td>411</td>
<td>56</td>
<td>---</td>
</tr>
<tr>
<td>Purchased in-process research and development</td>
<td>392</td>
<td>165</td>
<td>---</td>
</tr>
<tr>
<td>Gains on sales of marketable strategic equity securities</td>
<td>(883)</td>
<td>(185)</td>
<td>(106)</td>
</tr>
<tr>
<td>Net loss on retirements of property, plant, and equipment</td>
<td>193</td>
<td>282</td>
<td>130</td>
</tr>
<tr>
<td>Deferred taxes</td>
<td>(219)</td>
<td>77</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total adjustments</strong></td>
<td><strong>4,021</strong></td>
<td><strong>2,994</strong></td>
<td><strong>2,957</strong></td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>11,335</strong></td>
<td><strong>9,062</strong></td>
<td><strong>9,902</strong></td>
</tr>
<tr>
<td><strong>Cash flows provided by (used for) investing activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to property, plant, and equipment</td>
<td>(3,403)</td>
<td>(3,557)</td>
<td>(4,501)</td>
</tr>
<tr>
<td>Acquisitions, net of cash received</td>
<td>(2,979)</td>
<td>(906)</td>
<td>---</td>
</tr>
<tr>
<td>Purchases of available-for-sale investments</td>
<td>(7,055)</td>
<td>(10,925)</td>
<td>(9,224)</td>
</tr>
<tr>
<td>Sales of available for sale investments</td>
<td>831</td>
<td>201</td>
<td>153</td>
</tr>
<tr>
<td>Maturities and other changes in available-for-sale investments</td>
<td>7,156</td>
<td>8,681</td>
<td>6,713</td>
</tr>
<tr>
<td><strong>Net cash (used for) investing activities</strong></td>
<td><strong>(5,450)</strong></td>
<td><strong>(6,506)</strong></td>
<td><strong>(6,859)</strong></td>
</tr>
</tbody>
</table>
Account  Storage area used to store and aggregate accounting measures recorded during reporting periods.

Account sign  Represents the account’s impact on its primary balance-sheet class (+/-).

Accounting cycle  Process of recording entries during a reporting period and, thereafter, of recording adjusting and closing entries during a closing period to prepare financial statements and set up for the next reporting period.

Accounts payable  See Trade payables.

Accounts receivable  Amounts owed by customers for goods or services purchased on account rather than cash. Can also reflect amounts owed by other debtors who were loaned money. Also called Trade receivables. Gross accounts receivable is the total amount owed by customers (and possibly others). Net accounts receivable is the portion of gross accounts receivable the company expects to collect: gross accounts receivable less the allowance for doubtful accounts.

Accrual basis accounting system  Accounting method where transactions that affect cash as well as those that don’t affect cash are recorded, in contrast to the cash basis accounting system. Accrual basis is required by IFRS and U.S. GAAP. When the accrual basis of accounting is used, an entity recognizes items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements.

Accrual entries  Entries where income elements (revenues, expenses, gains, or losses) are recognized before related cash flows occur.

Accruals  Can refer to assets or liabilities. Asset accruals arise from recognizing income or revenue before it is realized. For example, recognizing interest income before it is collected. Under IFRS, liability accruals are obligations to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. Also under IFRS, liability accruals are distinct from trade payables, which are defined to be liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier, and liability accruals are distinct from provisions, which are liabilities that involve uncertain future payments (such as warranty provisions) and must be presented separately on balance sheets. These distinctions are often blurred in practice by IFRS companies: footnote disclosures frequently include liability accruals in trades payable, other liabilities, accrued liabilities, or provisions.

Accrue  Process of recording an accrual. An asset example is recording interest receivable (an accrual asset) when interest income is recognized before it is collected. A liability example is recording an accrued liability when wages that have been earned but not paid are recognized as an expense. Also see Accruals.

Accrued liabilities  Generally refers to liabilities to pay for goods or services that have been received but not invoiced. They can arise from recognizing expenses through adjusting entries. They can also arise from recognizing assets through adjusting entries. For example, recognizing inventory when received but not yet invoiced. Accrued liabilities are widely reported by US GAAP companies. Under IFRS, provisions, which are liabilities for which there is uncertainty regarding the timing or amount of the future expenditure that will be required at settlement, are reported separately from accrued liabilities. By contrast, these uncertain obligations are generally included in accrued liabilities by US GAAP companies.

Accumulated depreciation  Total depreciation recorded during an assets use. See Depreciation.

Accumulated other comprehensive income  See Reserves.

Acquisition  When one company purchases or takes control of another company.

Active market  High volume market. The more active the market, the more accurately the price approximates the fair value on that date.

Adjusted historical cost  Asset’s historical cost less accumulated depreciation, amortization, depletion (where relevant) and accumulated impairment losses. Depreciation and amortization measure the portion of the historical cost allocated to usage or the passage of time during an asset’s useful life. Depletion refers to using up natural resources, such as mining land. Impairment losses occur when the current value is no longer expected to be fully realized due to market forces.

Adjusting entries  Entries to recognize events and circumstances that occurred during the reporting period that were not yet recognized during the period. These entries never involve cash or more generally transactions with outsiders.

Adverse selection  Market process in which “bad” results occur when buyers and sellers have asymmetric information (i.e., access to different information): the “bad” products or customers are more likely to be selected.

Aggregate  Sum of two or more recognized measures. Thus, users cannot see the separate measures.

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1 IAS 1 §28.
2 IAS 37 §11.
3 IAS 37 §11.
Allowance for bad debt  See Allowance for doubtful accounts.

Allowance for doubtful accounts  Estimates amount of accounts receivable not expected to be collected from customers or other debtors. Also called allowance for bad debt.

Amortization  Measures the portion of historical cost allocated to usage or the passage of time during an asset’s useful life. In some countries, amortization is a synonym for depreciation. In others, depreciation refers to using up tangible assets and amortization refers to using up intangible assets.

Asset  Resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.\(^5\)

Asset impairment  To reduce the carrying amount (book value) of an asset to its lower fair value.

Asset reconciliation adjustment  Operating cash-flow adjustment. Amount that helps reconcile income to cash from operations on statement of cash flows. It represents the opposite effect of the period’s operating entries on the related asset.

Asset risk  When some of the possible future benefits associated with an asset could result in losses, meaning the realized values of the future benefits are less than the asset’s current value.\(^6\)

Asset uncertainty  See Asset risk.

Available-for-sale investment  Classification of investments purchased for liquidity.

Balance sheet  Financial statement that reports a company’s financial position at a reporting date. Balance sheets “balance” because assets and claims (liabilities and owners’ equity) are equal. Also called statement of financial position.

Balance-sheet equation (BSE)  Assets = Liabilities + Owners’ equity. This basic equation is the foundation of accounting.

Balance-sheet-equation model  Record-keeping approach using a matrix to aggregate the effects of accounting entries where columns are accounts organized by the balance sheet equation and rows are entries or balances. Also referred to as BSE model.

Basis Point  Unit of measure to describe the percentage change in a value. One basis point is equal to 0.01% (1/100th of a percent). Often used to express differences in interest rates or a percentage change. For example, if gross margin percent increased from 10.55% to 10.85%, it increased 30 basis points.

Benchmark data  Information providing a basis for comparison, such as market prices.

Board of directors  Small group of individuals who are the common stock shareholders’ elected representatives. Ultimately the board has authority over all of the company’s decision rights and responsibilities.

Book value  Value of assets, liabilities, and owners’ equities recognized on balance sheets. Book values often differ significantly from fair values, which are amounts an unrelated party would be expected to pay. Also called carrying value.

BSE  See Balance-sheet equation.

Burn rate  Measure that estimates how long it would take for a company to use (burn) all its cash to run the business, assuming no change in its current business activities and no funding events like issuing new stock or new debt.

Capital gain  Increase in an asset’s value beyond its historical cost.

Capital in excess of par value  Portion of owners’ equity attributable to resources contributed in exchange for stock beyond the stated par value of the stock.

Capital lease  Lease classification where an asset and liability equal to the present value of the future lease payments are recognized at the time the lease commences. Also called finance lease.

Capital loss  Decrease in share price below historical cost.

Capital stock  See Paid-in capital.

Capitalized cost  Cost recognized as an asset rather than an expense.

Carrying value  See Book value.

Cash  Money or any liquid currency. Also short for “cash equivalents.”

Cash basis accounting system  Accounting method where only transactions that affect cash are recorded. Sometimes used by small businesses. Not consistent with IFRS or U.S. GAAP. See Accrual basis accounting system.

Cash equivalents  Short-term investments readily convertible to known amounts of cash and not affected significantly by interest rate fluctuations.

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\(^5\) IASB Framework, ¶ 49(a)

**Cash-flow statement** Financial statement that explains the changes in a company’s cash balance from the beginning of the year to the end of the year. The explanation is presented in terms of operating, investing, and financing business activities. Also called statement of cash flows.

**Chart of accounts** List of all accounts used in a company’s accounting records.

**Classification decisions** Determine where items that meet recognition criteria are located in financial statements and, in some situations, whether or when they are recognized and how they are measured.

**Closing entries** Entries to transfer income account balances to permanent owners’ equity accounts, leaving income account balances at zero at the end of the reporting period. For example, entries to transfer net income account balances to retained earnings.

**Collateral** Personal or real property in which a security interest has been given. Assets pledged to secure debt. In the event the debt obligations are not met, the lender can seize the assets.

**Common stock** Basic class of owners’ equity and subordinate to any preferred stock issued by the company.

**Comparable market prices** Fair-value estimates of assets with similar characteristics.

**Comprehensive income** Change in equity (net assets) of a business entity during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income is net income plus other comprehensive income. It’s a broad performance measure. Also see Income and Other comprehensive income (OCI).

**Conflict of interest** When an individual or organization is involved in multiple interests, one of which could possibly corrupt the motivation for an act in the other. Conflicts of interest can be any situation in which an individual or corporation (either private or governmental) is in a position to exploit a professional or official capacity in some way for their personal or corporate benefit. The presence of a conflict of interest is independent from the execution of impropriety. Therefore, a conflict of interest can be discovered and voluntarily defused before any corruption occurs.

**Conservatism** Prudence in financial accounting and reporting not to overstate net income and net assets. IFRS’s Conceptual Framework, or elsewhere, does not mention conservatism. Under U.S. GAAP, “Conservatism in financial reporting should no longer connote deliberate, consistent understatement of net assets and profits. The Board emphasizes that point because conservatism has long been identified with the idea that deliberate understatement is a virtue. That notion became deeply ingrained and is still in evidence despite efforts over the past 40 years to change it.”

**Contra-account** An account associated with another primary account and offsets the effect of the primary account.

**Contra-asset** Contra-account associated with an asset. For example, accumulated depreciation is a contra-asset account deducted from gross property, plant, and equipment.

**Contributed capital** See Paid-in capital.

**Convertible debt** Type of debt that can be converted to shares of common stock and thus has debt and equity like features.

**Cost method** When the investor does not exert significant influence over the investee, the investor recognizes the cost basis of the investment independent from changes in investee’s owners’ equity.

**Cost of capital** Expected future cost to current shareholders to raise an additional dollar’s worth of resources from prospective new creditors or shareholders.

**Cost of goods sold** See Cost of sales.

**Cost of sales** Expenses directly tied to sold products, except costs for sales commissions. This includes the cost to acquire or manufacture products, store them, and ship them to customers. When a sale is recognized as revenue, cost of sales is recognized as an expense. Also called cost of goods sold, cost of products sold, and cost of services sold.

**Credit** As an adjective in accounting, it refers to accounts that increase liabilities or owners’ equity or decreases assets (e.g., accounts payable is a debit account). As a verb, it refers to increases in credit accounts or decreases in debit accounts (e.g., the entry credits the cash account). Credit also means the right side in the journal entry or T-account.

**Credit risk** Risk an entity will not collect amounts owed by its customers or other debtors.

**Current assets** Assets where the benefits are expected to be realized within one year by converting them to cash or otherwise using them under normal operating conditions.

**Current liabilities** Liabilities representing obligations that must be paid or otherwise fulfilled within one year.

**Current ratio** Liquidity ratio. It is computed as current assets divided by current liabilities. Everything else equal, if a company’s current ratio is less than one, it may not meet

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7 FASB Master Glossary
8 FASB Master Glossary
9 “Conflict of interest,” Wikipedia. 20 July 2010.
10 FASB Concepts Statement Number 2, ¶93.
its obligations in the short term.

**Current tax expense** Portion of the tax expense owed based on the taxable income recognized on the current year’s income tax forms. Also referred to as current tax provision under U.S. GAAP.

**Debit** As an adjective in accounting, it refers to accounts that increase assets or decrease liabilities and owner’s equity (e.g., cash is a debit account). As a verb, it refers to increases in debit accounts or decreases in credit accounts (e.g., the entry debits the cash account). Debit also means the left side in the journal entry or T-account.

**Debit/Credit model** See Journal-entry model.

**Debt** Amount owned for funds borrowed, typically with a promise to repay with interest.

**Debt security** Security representing a creditor relationship with an entity.¹¹ Examples include U.S. Treasury securities, corporate bonds and municipal securities.

**Debt-to-equity ratio** Financial leverage computed as liabilities divided by owners’ equity. Measures the degree to which a company’s assets are funded with liabilities versus owners’ equity.

**Declare** Approve dividend prior to distribution.

**Default** Failure to meet loan obligations.

**Defer** To recognize an asset or liability for amounts paid or received (or the equivalent) before or after recognition of income, such as prepaid expense (asset) and deferred revenue (liability).

**Deferral entries** Entries where income elements (revenues, expenses, gains, or losses) are recognized after related cash flows occur — when cash flows occur, income recognition is deferred until a later date.

**Deferred tax assets** Deferred tax consequences attributable to deductible temporary differences and carryforwards.¹² Expected future tax benefits, usually future tax deductions, that arise from timing differences between financial and tax reporting.

**Deferred tax expense (benefit)** Change during the year in an entity’s deferred tax liabilities and assets.¹³ Portion of the tax expense that is not currently owed due to timing differences between financial reporting and tax reporting. Also called deferred tax provision under U.S. GAAP.

**Deferred tax liabilities** Deferred tax consequences attributable to taxable temporary differences.¹⁴ Expected future tax costs that arise from timing differences between financial and tax reporting.

**Deferred taxes** See Deferred tax assets, deferred tax liabilities and deferred tax expense.

**Depletion** Allocation of costs for using up natural resources, such as mining land.

**Depreciation** Measures the portion of historical cost allocated to usage or the passage of time during an asset’s useful life.

**Diluted earnings per share** Net income (or earnings) divided by the diluted average daily shares outstanding during the year. This adjusts shares outstanding for the possible effect of stock options, warrants, and other convertible securities by increasing the shares outstanding and thus diluting (decreasing) earnings per share.

**Disclosure** Information made available to outsiders. Companies disclose (make visible) information as required by law for compliance or voluntarily to help outsiders better interpret their financial statements.

**Disclosure decisions** Determine whether items recognized in financial statements or other information is visible to users. Measures can be recognized without being disclosed. Recognition without disclosure occurs when two or more recognized measures are aggregated.

**Divestitures** Sale of assets associated with all or a portion of a business segment, division, or subsidiary.

**Dividend** Distribution (usually cash) of a company’s retained earnings to its shareholders.

**Earnings per share (EPS)** Net income (or earnings) divided by the average daily shares outstanding during the year.

**Earnings power** Financial value of human capital and ability to convert it into cash in the future.

**Entrepreneur** Person that starts a new business either on their own or with others.

**Entry** To record financial measures associated with events or circumstances into accounts.

**Entry sign** Represents the entry’s affect on the account, either increase or decrease (+/-).

**EPS** See Earnings per share.

**Equity** Residual interest in the assets of the entity after deducting all its liabilities.¹⁵ See Owners’ equity.
Equity method  When the investor has significant influence over, but does not control, the investee, the investor recognizes their proportionate share of the investee’s financial performance.

Equity security  Any security representing an ownership interest in an entity (for example, common, preferred, or other capital stock) or the right to acquire (for example, warrants, rights, and call options) or dispose of (for example, put options) an ownership interest in an entity at fixed or determinable prices.16

Event  Something that occurs. Events may be internal (within the company), external with another party (a transaction), or a combination thereof.

Excess tax benefit  Additional tax deduction (benefit) a company received for share-based compensation costs for tax reporting beyond that previously recognized in net income for financial reporting.

Executory contract  Status of a contract in which neither party has performed their obligations specified under the agreement. Generally, accounting entries are not recorded for executory contracts until the contracts become partially or fully executed when the parties satisfy part or all of their performance obligations.

Expenses  Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to contributions from equity participants.21 For example, decreases in net assets (assets - liabilities) associated with inventing, developing, producing, and delivering goods and services, or performing other activities central to the company’s operations.

Fair value  Amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.18 Price that would be received for in an orderly transaction between market participants on a specific date.

FASB  Financial Accounting Standards Board.

FIFO  See First-In-First-Out.

Finance lease  See Capital lease.

Financial Accounting Standards Board (FASB)  U.S. private-sector standards setting body composed of academicians, practitioners, and users of financial reports.

Financial flexibility  Company’s capacity to raise cash under terms acceptable to its existing investors by selling assets or issuing debt, shares, or other ownership interests.

Financial leverage  Measures the degree to which a company’s assets are funded through owners’ equity versus liabilities. Also, extent to which owners can amplify their expected returns by issuing debt rather than issuing stock.19

Financing activities  Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.20 Financing cash flows primarily result from transactions with owners (e.g., dividend distributions, stock issues, and stock repurchases), issuing debt, and repaying debt principal. (Interest payments are not financing cash flows under U.S. GAAP; they are operating cash flows. Under IFRS, companies may report interest payments as operating or financing cash flows.)

First-In-First-Out (FIFO)  Accounting method where the first costs assigned to inventory are the first assigned to cost of sales.

Fiscal year  Twelve month period ending on the reporting date for financial reports. Company’s fiscal year may or may not be the calendar year.

Fixed operating costs  Ongoing normal costs of running the business that do not vary with sales or production volumes.

Free cash flow  Measure that estimates the net cash a company generates from normal business activities less capital expenditures to maintain the business. The excess net cash is “free” to be used for other purposes, such as paying dividends, etc.21

GAAP  See Generally Accepted Accounting Principles.

Gains  Increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners.22 Under IFRS, gains are items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an entity.23

Generally Accepted Accounting Principles (GAAP)  Broad set of authoritative guidance for preparing financial reports.

16  FASB Master Glossary
17  IASB Framework, ¶ 70
18  IAS 32, ¶ 11
19  There is no universally accepted measure for financial leverage. Typically, it’s measured using one of the following: liabilities/assets; assets/owners’ equity; or liabilities/owners’ equity, also called debt-to-equity ratio. The numbers will differ for the formulas, but the conclusions will be the same when comparing leverage across companies (or over time for the same company), providing the same formula is used for all computations.
20  IASB 7, ¶ 6
21  There is no universally accepted measure for Free Cash Flow. However, it’s frequently measured as: Net cash provided by (used for) operations - capital expenditures (i.e., payments for property, plant, and equipment).
22  FASB Statement of Financial Accounting Concepts Number 6 ¶ 78-83
23  IASB Framework, ¶ 74-75

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**Goodwill** The excess amount paid when acquiring another company for more than the fair value of the net assets acquired. Goodwill is an intangible asset.

**Gross accounts receivable** Total amount owed by customers (and possibly others) at the reporting date, where net accounts receivable is the portion expected to be collected (gross accounts receivable less an allowance for bad debt).

**Gross margin** Net revenues less cost of sales. Also known as gross profit.

**Gross margin percent** Gross margin divided by net revenues. Also known as gross profit ratio.

**Gross profit** See **Gross margin**.

**Gross profit ratio** See **Gross margin percent**.

**Gross revenues** Value of the cash or other economic benefits that would have been received from customers if there were no discounts, product returns, rebates, or other sales incentives. This is usually the price of the products multiplied by the quantities sold.

**Guarantee** Promise to meet a debtor’s obligations in the event the debtor fails to do so.

**Held for sale** Assets the company has committed to sell in the near future.

**Historical cost** Cash or other consideration given to acquire an asset and ensure it’s ready to use. Liability’s historical cost is the amount recorded when the liability is recognized.

**Human capital** Knowledge and skills, including interpersonal skills, accumulated through experience and education.

**IAS** International Accounting Standard.

**IASB** International Accounting Standards Board.

**Identified intangible asset** Intangible asset that meets either of two criteria: Either the asset must be separable from other assets (capable of being sold, transferred, licensed, rented, or exchanged) or arise from contractual or other legal rights. See **Intangible assets**.

**IFRS** International Financial Reporting Standards.

**Impairment** To reduce the carrying amount (book value) to its lower fair value.

**Impairment losses** When the current value is no longer expected to be fully realized due to market forces.

**Income** Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

**Income statement** Financial statement that reports a company’s financial performance during a reporting period: revenues - expenses + gains - losses +/- other income.

**Intangible asset** Non-monetary asset that does not have physical, tangible substance.

**Intangibles** See **Intangible asset**.

**Intellectual property** Intangible assets such human capital, patents and copyrights.

**Interest bearing long-term borrowings** See **Long-term debt**.

**Internal rate of return** The discount rate that would make a current cash flow value equal to its present value.

**International Accounting Standards Board (IASB)** Independent standard-setting body of the International Accounting Standards Committee Foundation.

**International Financial Reporting Standards (IFRS)** Accounting standards and interpretations developed by the International Accounting Standards Board (IASB).

**Inventory** Assets purchased or produced with the intent to sell them to customers as products. Includes materials, parts, other costs, and partially completed products that will end up in products sold to customers.

**Investing activities** Activities related to the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

**Investing cash flows** Are primarily associated with buying or selling property, plant, and equipment, intangibles, and most types of investment securities. They also include cash flows associated with buying or selling complete companies.

**Investment-grade** Credit rating for relatively safe investment with relatively low risk.

**Issue** Transaction where either stock or debt is offered in exchange for cash (or other consideration). For example, borrowers issue debt when they receive cash and promise

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24 FASB Master Glossary

25 IASB Framework, ¶ 70

26 IASB 7, ¶ 6
future payments to pay off the loan.

**Issued capital**  See *Paid-in capital*.

**Journal entry**  To record financial measures associated with events or circumstances into accounts using the Journal-entry or Debits/Credits model.

**Journal-entry model**  Record-keeping approach using debits and credits in journal entries and T-accounts. This approach dates to the fifteenth century, before there were negative numbers. Also called Debits/Credits model.

**Last-In-First-Out (LIFO)**  Accounting method where the last costs assigned to inventory are the first assigned to cost of sales.

**Lease**  Contract between lessees and lessors. Lessees acquire the right to use property owned by lessors in exchange for lease/rent payments or other consideration.

**Leverage**  See *Financial leverage*.

**Liability**  Present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Liabilities are creditors’ claims on entity’s assets. Companies incur liabilities when they do something today, or discover they did something in the past that indicates they are obligated to sacrifice economic benefits in the future to other entities (creditors) to meet an obligation.

**Liability reconciliation adjustment**  Operating cash-flow adjustment. Amount that helps reconcile income to cash from operations on statement of cash flows. It represents the same effect of the period’s operating entries on the related liability.

**LIFO**  See *Last-In-First-Out*.

**Limited liability**  Type of legal structure or investment where the risk of loss can not exceed the amount invested. Corporation’s shareholders’ have limited liability.

**Liquidity**  Ease of which assets can be converted to cash through a market or negotiated sale. Also refers to the cash a company has to support its strategy (or cover unanticipated downturns).

**Long-term**  More than one year or one operating cycle. See *Operating cycle*.

**Long-term assets**  Assets where benefits are expected to be realized over one or more years.

**Long-term borrowings**  See *Long-term debt*.

**Long-term debt**  Amount owed on loans or obligations for a fixed amount (principal) required to be paid by a maturity date one or more years from the date the loan was issued. Also called Long-term borrowings or Interest bearing long-term borrowings.

**Long-term liabilities**  Long-term debt and other obligations due in more than one year.

**Losses**  Decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners. Under IFRS, losses represent other items that meet the definition of expenses and may, or may not, arise in the course of ordinary activities of the entity.

**Market value**  Price that would be received for in an orderly transaction between market participants on a specific date.

**Marketable securities**  Debt or equity instruments listed on exchanges and thus can be readily bought or sold. Highly liquid investments.

**Matching principle**  Resource costs should be matched (and recognized as expenses) in the period the resources’ benefits are realized, whenever the matching is reliable.

**Maturity**  Date debt becomes due for payment.

**Measure**  Quantitative value or amount assigned to an asset or other financial statement element.

**Measurement**  Process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement.

**Measurement attributes**  Qualitative features or dimensions of an asset or other financial-statement element to be measured.

**Measurement decisions**  Determine the monetary amounts recognized in financial statements by specifying measurement objectives, techniques, and inputs. Fair value, value in use, net realizable value, and adjusted historical costs are very different measurement objectives that are measured using very different measurement techniques and inputs.

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27 IASB Framework, ¶ 49(b)

28 FASB Statement of Financial Accounting Concepts Number 6 ¶78-83

29 IASB Framework, ¶ 74-75

30 Framework, ¶ 99

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Measurement objective To specify the qualitative features or dimensions of an asset or other financial-statement element to be measured.

Measuring asset risk Quantifying the probabilities and losses associated with asset uncertainty. Also see Asset risk.

Mini-BSE matrix Derived from the full balance-sheet-equation matrix by eliminating rows and columns that do not pertain to a specific entry.

N

Net accounts receivable Portion of gross accounts receivable expected to be collected: gross accounts receivable less the allowance for doubtful accounts.

Net assets Total assets less total liabilities. Net assets equals owners’ equity.

Net current assets See Working capital.

Net earnings See Net profit (loss).

Net income See Net profit(loss).

Net profit (loss) Revenues less expenses (including tax expense) plus gains less losses plus other income (expense). Also called net income or net earnings.

Net realizable (settlement) value Cash or other proceeds an entity would receive from disposing of an asset in an orderly transaction, net of the costs to prepare for and execute the disposal. The net realizable value of a liability is the cash or cash equivalents an entity would surrender to satisfy a liability in an orderly transaction.

Net revenues Gross revenues net of discounts, product returns, rebates, and other sales incentives. Also called revenues or turnover. See Revenues.

Net worth Value of total assets less the value of total liabilities.

Noncontrolling interest Portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent [company]. A noncontrolling interest is sometimes called a minority interest.

Non-marketable security Debt or equity instrument not listed on exchanges, such as private or restricted stock, and thus difficult to buy or sell. Highly illiquid investment.

Non-operating activities Activities that are investing or financing; but not operating. See Operating activities, Investing activities, Financing activities.

Notes payable Contracts specifying principal amount owed and possibly the interest rate and maturity (due) date. Also called promissory note.

O

Obsolescence risk The risk that demand for an asset will decrease because of competition from superior assets.

On account Purchases (sales) made with a promise to pay in the future.

Operating activities Activities related to the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. Operating cash flows mostly pertain to ongoing activities in a company’s primary business including events associated with research and development, purchasing, manufacturing, sales, marketing, distribution, customer collections, and support. See Investing activities and Financing activities.

Operating cycle Time it takes to acquire or produce products, sell and deliver them, and collect cash from customers. When the normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

Operating expense Costs pertaining to ongoing activities that support a company’s primary business purpose, for example, research and development, marketing, general, and administrative expenses.

Operating income Gross margin less operating expenses.

Operating lease Lease classification where there are no financial statement consequences at the time the lease commences.

Other comprehensive income (OCI) Revenues, expenses, gains, and losses that under generally accepted accounting principles (GAAP) are included in comprehensive income but excluded from net income. Thus, OCI is comprehensive income standard setters decided not to include in net income. OCI typically arises from changes in market prices.

Other income Change in owners’ equity that arises from increase in net assets (assets - liabilities) during a reporting period that are not associated with revenues or gains, but rather from such activities as dividends or interest received from investments.

Owners’ equity Owners’ claims on entity’s assets. Total owners’ equity is the accounting or book value of the owners’ claims, which generally differs from fair values. Also called stockholders’ equity or shareholders’ equity.

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32 FASB Master Glossary

33 IASB 7, ¶ 6

34 FASB Master Glossary
Paid-in capital  Historical value of stock or other equity claims issued to owners in exchange for cash or other contributed resources. Also called Share capital, Issued capital, Contributed capital, or Capital stock.

Permanent accounts  Accounts that carry balances forward to the next reporting period.

PP&E  See Property, plant, and equipment.

Preferred stock  Class of owners’ equity that has priority over common stockholders’ claims.

Primary balance-sheet classes  Assets, liabilities, and owners’ equity.

Principal  Amount owed on loans or other obligations for a fixed amount, not including interest.

Proceeds  Cash received, such as from a sale of investments.

Promissory note  See Notes payable.

Property, plant, and equipment (PP&E)  Assets purchased or created to support day-to-day operations. For example, land, buildings, office furniture and equipment, store fixtures, factories and machinery.

Provision  IFRS companies’ provisions relate to balance sheets and US GAAP companies’ provisions relate to income statements. Under IFRS, provisions are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, and for which there is uncertainty regarding the timing or amount of the future expenditure that will be required at settlement.\(^35\) Examples include liabilities for warranties and pensions. Provisions must be reported separately from other liabilities on IFRS balance sheets. In contrast, in the U.S., a provision typically refers to an expense, such as provision for taxes. Thus, provision refers to a balance at a point in time under IFRS; but to a change over a period in the U.S. Thus, the interpretation of ‘provision’ must be in context.

Provision for taxes  See Tax provision.

Realize  Convert into cash or claims to cash. For example, revenue is realized when cash is collected.

Realized gain (loss)  Gain (loss) from selling net assets for more (less) than their book value, their adjusted historical costs, in transactions that do not occur in the course of ordinary activities. Realized liability gain (loss) arises when liabilities are settled for less (more) than the amounts originally recognized, adjusted for outstanding accrued interest and/or principal payments in transactions that do not occur in the course of ordinary activities.

Receivable  See Accounts receivable.

Recognition  Process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition.\(^36\)

Recognition criteria  An item that meets the definition of an element should be recognized if: a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and b) the item has a cost or value that can be measured with reliability.\(^37\)

Recognition decisions  Determine whether and when an item satisfies the definition and recognition criteria for a financial-statement element. Items that meet the definitions for assets or liabilities are recognized when their future benefits or settlement costs are probable and can be measured reliably.

Recognize  To record an entry that affects the financial statements. For example, to recognize an expense on the income statement.

Reconciliation adjustment  A line item in the operating section of an indirect method cash flow statement that partially explains why net income differs from net cash from operating activities.

Redundant SCF reconciliation entry effects  An operating entry’s reconciliation effects are redundant when they have offsetting effects on two or more reconciliation adjustment line items on a statement of cash flow (SCF), but don’t affect net income or net cash from operations. The effects are redundant because no adjustment is needed to reconcile the entry’s income and cash effects when they are the same. An operating entry’s effects are not considered redundant when they offset within a single reconciliation adjustment line item because they have no effect on the numbers reported in the reconciliation. By contrast, redundant effects do affect reported numbers.

Reporting date  Date of the end of the reporting period reflected in the financial report. Also know as fiscal year end for annual reports.

Reserves  Other comprehensive income the company has accumulated since it started. Also called surplus, accumulated other comprehensive income, and other comprehensive income.

Residual claim  Subordinate right to claim an entity’s net assets that remain after more senior claims have been settled.

Restricted stock  Company shares for which sale is contractually or governmentally prohibited for a specified period of

\(^{35}\) IAS 37 §10.

\(^{36}\) IASB Framework, § 82

\(^{37}\) IASB Framework, § 83
time. Also called restricted stock units or restricted shares.

**Restructuring** Often pertains to major changes in the business such as plant closings and layoffs.

**Retained earnings** Net profits and losses (earnings) the company has accumulated since it started less the accumulated distributions of earnings to owners in the form of dividends or share repurchases. Also called Retained losses.

**Retained losses** See Retained earnings.

**Retirement of assets** When assets are permanently removed from service (sold, abandoned, recycled, or disposed of in some manner).

**Return of capital** Distributions paying back some or all of an investment, but not in excess of the original amount invested. Any such distribution reduces the value of the investment.

**Return on capital** Distributions in excess of the original amount invested, such as dividends or realized gains from selling an investment.

**Return on equity (ROE)** Performance ratio defined as net income divided by the book value of owners’ equity. The higher ROE, the more net income the company is generating per dollar of owners’ equity, that is per dollar of net assets.

**Revenues** Income that arises in the course of the ordinary activities of an entity. Inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity’s ongoing major or central operations. The IFRS definition of income encompasses both revenues and gains.

**Risk** Uncertainty about the outcome under assumptions about future conditions. Typically refers to potential for negative outcomes, where an upside risk is the potential for positive outcomes.

**Risk and return** Finance concept where investors expect a higher return (such as more interest) when there is more risk.

**ROE** See Return on equity.

**SEC** See Securities and Exchange Commission.

**Secured** Backed by pledged, collateralized assets. For example, debt can be secured by specific assets called collateral.

**Securities** Class of financial investment instruments, such as stocks or bonds, issued by corporations or governments.

**Securities and Exchange Commission (SEC)** The pinnacle U.S. government agency responsible for establishing and enforcing financial reporting standards for publicly traded securities in the U.S.

**Security investments** See Securities.

**Selling, general, and administrative expenses (SG&A)** Expenses that typically include, among other things, commissions and other selling expenses, research and development expenses, marketing expenses, rental expenses, and depreciation expenses.

**Seniority** Higher order ranking over junior or subordinated debt used to prioritize payments in the event of bankruptcy.

**SG&A** See Selling, general, and administrative expenses. Also called Marketing, general and administrative.

**Share capital** See Paid-in capital.

**Share-based compensation** Awards employees and possibly others with equity shares, options, or other equity instruments in lieu of cash payments. Also called stock-based compensation.

**Shareholders’ equity** See Owners’ equity.

**Short-term** Less than one year or one operating cycle. See Operating cycle.

**Short-term debt** Amounts owed to financial institutions and other creditors that must be paid within one year of the date the debt was incurred.

**Short-term investments** Investments, such as stocks or bonds, expected to be held up to one year and classified as current assets.

**Statement of cash flows** See Cash-flow statement.

**Statement of changes in equity** See Statement of owners’ equity.

**Statement of comprehensive income** Financial statement that reports a company’s comprehensive income for the reporting period: income (profit or loss) and the components of other comprehensive income.

**Statement of financial position** See Balance sheet.

**Statement of owners’ equity** Financial statement that

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38 FASB Master Glossary
39 IASB Framework, ¶ 74-75
40 FASB Statement of Financial Accounting Concepts Number 6, ¶78-83
41 IASB Framework, ¶ 74-75
explains the changes in a company’s owners’ equity as reported on balance sheets. Also called statement of shareholders’ equity, statements of stockholders’ equity or statement of changes in equity.

**Statement of shareholders’ equity** See Statement of owners’ equity.

**Statements of stockholders’ equity** See Statement of owners’ equity.

**Stock dividend** A distribution of the company’s stock to shareholders. See Dividend.

**Stock-based compensation** See Share-based compensation.

**Stockholders’ equity** See Owners’ equity.

**Subordinate** Lower order ranking below senior debt used to prioritize payments in the event of bankruptcy.

**Surplus** See Reserves.

**T**

**T-account** Record-keeping device (shaped like a T) used to summarize account balances for a reporting period by posting the effects of debits and credits recorded in journal entries.

**Tangible asset** Asset that has physical, tangible substance.

**Tax expense** See Tax provision.

**Tax provision** Under U.S. GAAP, expense associated with state, federal, and foreign income taxes only and does not include other taxes such as real estate taxes or sales taxes.

**Temporary account** Account that does not carry balances forward to the next reporting period. It starts each reporting period with a zero balance and accumulates one period’s activities only.

**Temporary equity** Equity instruments for which redemption could be required at the option of the holder or upon the occurrence of events not solely within the control of the issuer.\(^ {42} \) Reclassifying equity from permanent owner’s equity to temporary equity signals to investors that factors outside the company’s control will determine whether the company continues to recognize this equity on its balance sheet. These financial instruments do not meet the definition of assets or liabilities and are classified outside of permanent owners’ equity, often called the “mezzanine” between liabilities and owners’ equity. This is a very unusual item.

**Trade payables** Under IFRS, trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier.\(^ {43} \) US GAAP is silent as to whether formally agreed obligations that have not yet been invoiced are reported as trade payables or accrued liabilities. Accounts payable is a synonym for trade payables.

**Trade receivables** See Accounts receivable.

**Trading asset** Classification of investment purchased with the intent to generate profits on short-term price changes. Also called trading securities.

**Trading securities** See Trading asset.

**Transaction** Event or circumstance with external parties involving an exchange.

**Treasury stock** Stock repurchased from shareholders and held by the company. Treasury stock are issued, but not outstanding.

**U**

**Unit of measure** Basis used for presenting numbers in the financial statements, commonly in thousands or millions.

**Unrealized gain (loss)** Gain (loss) associated with an increase (decreased) in the fair value of net assets that have not been sold.

**Unrecognized** Not recorded. Does not affect the financial statements.

**Unsecured** Not backed by pledged, collateralized assets. For example, credit-card debt is unsecured.

**V**

**Value-in-use** Current value of an asset’s expected future benefits, assuming the entity will use the asset. Often the value in use of an asset can’t be measured separately from the value in use of the entity’s other assets because of interdependencies.

**W**

**Work-in-Process (WIP)** Inventory account for aggregating costs for raw materials, labor, and related overhead costs incurred for products during the manufacturing production process, prior to the products’ completion as finished goods.

**Working capital** Measures a company’s short-term financial health. It is computed as current assets less current liabilities. Everything else equal, if a company’s current liabilities exceed its current assets, it may not meet its obligations in the short term. Also called Net current assets.

**Working capital adjustments** Reconciliation adjustments on indirect cash-flow statements associated with changes in non-cash current assets and current liabilities.

\(^ {42} \) FASB 480-10-S99

\(^ {43} \) IAS 37 ¶11.