



Glossary

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A B C D E F G H I J L M

N O P R S T U V W



A

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.¹

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.² 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.³ 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.⁴

¹ IAS 1 ¶28.

² IAS 37 ¶11.

³ IAS 37 ¶11.

⁴ "Adverse selection," Wikipedia. 20 July 2010.

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

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.

B

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) $\text{Assets} = \text{Liabilities} + \text{Owners' equity}$. 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.

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.

C

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.

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.

⁵ IASB Framework, ¶ 49(a)

⁶ Based on more general definition: "Risk." Wikipedia: The Free Encyclopedia. 3 April 2009 <<http://en.wikipedia.org/wiki/Risk>>. Wikipedia attributes Douglas Hubbard "How to Measure Anything: Finding the Value of Intangibles in Business" pg. 46, John Wiley & Sons, 2007 and Douglas Hubbard "The Failure of Risk Management: Why It's Broken and How to Fix It, John Wiley & Sons, 2009.

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 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 Net income plus other comprehensive income. Broad performance measure that reflects the effects of all events and transactions that affect owners' equity, except those arising from transactions involving the owners and accounting changes and restatements. Also see Income.

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.⁷

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."⁸

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.

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 creditors face if debtors or others on their behalf fail to meet their obligations.

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 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.

D

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.

⁷ "Conflict of interest," Wikipedia. 20 July 2010.

⁸ FASB Concepts Statement Number 2 ¶93.

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 Expected future tax benefits, usually future tax deductions, that arise from timing differences between financial and tax reporting.

Deferred tax expense 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 Expected future tax costs that arise from timing differences between financial and tax reporting.

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.

E

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.⁹ 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.

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.¹⁰ 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.

⁹ IASB Framework, ¶ 49(c)

¹⁰ IASB Framework, ¶ 70

F

Fair value Amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.¹¹ 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 academics, practice, 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.

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.

G

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.¹² 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.¹³

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

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.

H

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.

I

IAS International Accounting Standard.

IASB International Accounting Standards Board.

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.¹⁴

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

¹¹ IAS 32, ¶ 11

¹² FASB Statement of Financial Accounting Concepts Number 6 ¶78-83

¹³ IASB Framework, ¶ 74-75

¹⁴ IASB Framework, ¶ 70

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

Intellectual property Intangible assets such as 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.

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 future payments to pay off the loan.

Issued capital See Paid-in capital.

J

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.

L

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.

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.¹⁵ Liabilities are creditors' claim 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 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.¹⁶ 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.¹⁷

M

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

Marketable security Debt or equity instrument listed on exchanges and thus can be readily bought or sold. Highly liquid investment.

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

¹⁵ IASB Framework, ¶ 49(b)

¹⁶ FASB Statement of Financial Accounting Concepts Number 6 ¶78-83

¹⁷ IASB Framework, ¶ 74-75

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.¹⁸

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.

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.¹⁹ 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.

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.

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

O

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

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 Comprehensive income standard setters decided not to include in net income. Typically arise 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.

P

¹⁸ Framework, ¶ 99

¹⁹ Based on more general definition: "Risk." Wikipedia: The Free Encyclopedia. 3 April 2009 <<http://en.wikipedia.org/wiki/Risk>>. Wikipedia attributes Douglas Hubbard "How to Measure Anything: Finding the Value of Intangibles in Business" pg. 46, John Wiley & Sons, 2007 and Douglas Hubbard "The Failure of Risk Management: Why It's Broken and How to Fix It, John Wiley & Sons, 2009.

Paid-in capital Net resources contributed in exchange for stock. Also called Share capital, Issued 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.²⁰ 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.

R

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.²¹

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.²²

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.

Reporting date Date of the end of the reporting period reflected in the financial report. Also known 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.

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.

²¹ IASB Framework, ¶ 82

²² IASB Framework, ¶ 83

²⁰ IAS 37 ¶10.

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.²³ 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.²⁴ The IFRS definition of income encompasses both revenues and gains.²⁵ Revenue is referred to by a variety of names including sales, fees, interest, dividends, royalties and rent. Generally revenues pertain to inflows from customer sales.

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.

S

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.

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.

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 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 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.

23 IASB Framework, ¶ 74-75

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

25 IASB Framework, ¶ 74-75

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.

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.²⁶ 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 (decrease) 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

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.

²⁶ IAS 37 §11.