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**A**

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**Account** a record summarizing all the information pertaining to a single item in the accounting equation. (p. 9)

**Account balance** the amount in an account. (p. 9)

**Account number** the number assigned to an account. (p. 97)

**Account title** the name given to an account. (p. 9)

**Accounting** planning, recording, analyzing, and interpreting financial information. (p. 4)

**Accounting cycle** the series of accounting activities included in recording financial information for a fiscal period. (p. 208)

**Accounting equation** an equation showing the relationship among assets, liabilities, and owner's equity. (p. 7)

**Accounting period** see *fiscal period*.

**Accounting records** organized summaries of a business's financial activities. (p. 4)

**Accounting system** a planned process for providing financial information that will be useful to management. (p. 4)

**Accounts payable ledger** a subsidiary ledger containing only accounts for vendors from whom items are purchased or bought on account. (p. 272)

**Accounts receivable ledger** a subsidiary ledger containing only accounts for charge customers. (p. 272)

**Accrued expenses** expenses incurred in one fiscal period but not paid until a later fiscal period. (p. 623)

**Accrued interest expense** interest incurred but not yet paid. (p. 623)

**Accrued interest income** interest earned but not yet received. (p. 618)

**Accrued revenue** revenue earned in one fiscal period but not received until a later fiscal period. (p. 616)

**Accumulated depreciation** the total amount of depreciation expense that has been recorded since

the purchase of a plant asset. (p. 553)

**Adjusting entries** journal entries recorded to update general ledger accounts at the end of a fiscal period. (p. 192)

**Adjustments** changes recorded on a work sheet to update general ledger accounts at the end of a fiscal period. (p. 154)

**Allowance method of recording losses from uncollectible accounts** crediting the estimated value of uncollectible accounts to a contra account. (p. 528)

**Assessed value** the value of an asset determined by tax authorities for the purpose of calculating taxes (p. 549)

**Asset** anything of value that is owned. (p. 7)

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**B**

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**Bad debts** see *uncollectible accounts*.

**Balance sheet** a financial statement that reports assets, liabilities, and owner's equity on a specific date. (p. 13)

**Bank statement** a report of deposits, withdrawals, and bank balances sent to a depositor by a bank. (p. 125)

**Bill of exchange** see *draft*.

**Bill of lading** a receipt signed by the authorized agent of a transportation company for merchandise received that also serves as a contract for the delivery of the merchandise. (p. 507)

**Blank endorsement** an endorsement consisting only of the endorser's signature. (p. 121)

**Board of directors** a group of persons elected by the stockholders to manage a corporation. (p. 639)

**Book inventory** see *perpetual inventory*.

**Book value** the difference between an asset's account balance and its related contra account balance. (p. 528)

**Book value of a plant asset** the original cost of a plant asset minus accumulated depreciation. (p. 553)

**Book value of accounts receivable** the difference between the balance of Accounts Receivable and its contra account, Allowance for Uncollectible Accounts. (p. 528)

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**C**

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**Capital** the account used to summarize the owner's equity in a business. (p. 9)

**Capital stock** total shares of ownership in a corporation. (p. 462)

**Cash discount** a deduction from the invoice amount, allowed by a vendor to encourage early payment. (p. 467)

**Cash over** a petty cash on hand amount that is more than a recorded amount. (p. 470)

**Cash payments journal** a special journal used to record only cash payment transactions. (p. 229)

**Cash receipts journal** a special journal used to record only cash receipt transactions. (p. 259)

**Cash sale** a sale in which cash is received for the total amount of the sale at the time of the transaction. (p. 259)

**Cash short** a petty cash on hand amount that is less than a recorded amount. (p. 470)

**Charge sale** see *sale on account*.

**Chart of accounts** a list of accounts used by a business. (p. 45)

**Check** a business form ordering a bank to pay cash from a bank account. (p. 67)

**Checking account** a bank account from which payments can be ordered by a depositor. (p. 120)

**Closing entries** journal entries used to prepare temporary accounts for a new fiscal period. (p. 197)

**Commercial invoice** a statement prepared by the seller of merchandise addressed to the buyer, showing a detailed listing and description of merchandise sold, including prices and terms. (p. 507)

**Component percentage** the percentage relationship between one financial statement item and the total that includes that item. (p. 178)

**Contra account** an account that reduces a related account on a financial statement. (p. 467)

**Contract of sale** a document that details all the terms agreed to by seller and buyer for a sales transaction. (p. 507)

**Controlling account** an account in a general ledger that summarizes all accounts in a subsidiary ledger. (p. 272)

**Corporation** an organization with the legal rights of a person and which may be owned by many persons. (p. 462)

**Correcting entry** a journal entry made to correct an error in the ledger. (p. 109)

**Cost of goods sold** see *cost of merchandise sold*.

**Cost of merchandise** the price a business pays for goods it purchases to sell. (p. 223)

**Cost of merchandise sold** the total original price of all merchandise sold during a fiscal period. (p. 400)

**Credit** an amount recorded on the right side of a T account. (p. 42)

**Credit card sale** a sale in which a credit card is used for the total amount of the sale at the time of the transaction. (p. 259)

**Credit memorandum** a form prepared by the vendor showing the amount deducted for returns and allowances. (p. 501)

**Creditor** a person or organization to whom a liability is owed. (p. 596)

**Current assets** cash and other assets expected to be exchanged for cash or consumed within a year. (p. 546)

**Current liabilities** liabilities due within a short time, usually within a year. (p. 600)

**Current ratio** a ratio that shows the numeric relationship of current assets to current liabilities. (p. 675)

**Customer** a person or business to whom merchandise or services are sold. (p. 252)

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## D

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**Date of a note** the day a note is signed. (p. 596)

**Debit** an amount recorded on the left side of a T account. (p. 42)

**Debit card** a bank card that, when making purchases, automatically deducts the amount of the purchase from the checking account of the cardholder. (p. 133)

**Debit memorandum** a form prepared by the customer showing the price deduction taken by the customer for returns and allowances. (p. 475)

**Declaring a dividend** action by a board of directors to distribute corporate earnings to stockholders. (p. 639)

**Declining-balance method of depreciation** multiplying the book value by a constant depreciation rate at the end of each fiscal period. (p. 564)

**Depreciation expense** the portion of a plant asset's cost that is transferred to an expense account in each fiscal period during a plant asset's useful life. (p. 551)

**Dishonored check** a check that a bank refuses to pay. (p. 130)

**Dishonored note** a note that is not paid when due. (p. 607)

**Distribution of net income statement** a partnership financial statement showing net income or loss distribution to partners. (p. 410)

**Dividends** earnings distributed to stockholders. (p. 638)

**Double-entry accounting** the recording of debit and credit parts of a transaction. (p. 66)

**Doubtful accounts** see *uncollectible accounts*.

**Draft** a written, signed, and dated order from one party ordering another party, usually a bank, to pay money to a third party. (p. 507)

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## E

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**Electronic funds transfer** a computerized cash payments system that uses electronic impulses to transfer funds. (p. 132)

**Employee earnings record** a business form used to record details affecting payments made to an employee. (p. 324)

**Endorsement** a signature or stamp on the back of a check transferring ownership. (p. 121)

**Endorsement in full** see *special endorsement*.

**Entry** information for each transaction recorded in a journal. (p. 66)

**Equities** financial rights to the assets of a business. (p. 7)

**Estimated salvage value** the amount an owner expects to receive when a plant asset is removed from use (p. 551)

**Exhibit** see *supporting schedule*.

**Expense** a decrease in owner's equity resulting from the operation of a business. (p. 27)

**Exports** goods or services shipped out of a seller's home country to a foreign country. (p. 506)

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## F

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**Face amount** see *principal of a note*.

**Federal unemployment tax** a federal tax used for state and federal administrative expenses of the unemployment program. (p. 346)

**Fifo** see *first-in, first-out inventory costing method*.

**File maintenance** the procedure for arranging accounts in a general ledger, assigning account numbers, and keeping records current. (p. 98)

**First-in, first-out inventory costing method** using the price of merchandise purchased first to calculate the cost of merchandise sold first. (p. 580)

**Fiscal period** the length of time for which a business summarizes and reports financial information. (p. 150)

**G**

**Gain on plant assets** revenue that results when a plant asset is sold for more than book value. (p. 561)

**General amount column** a journal amount column that is not headed with an account title. (p. 229)

**General journal** a journal with two amount columns in which all kinds of entries can be recorded. (p. 66)

**General ledger** a ledger that contains all accounts needed to prepare financial statements. (p. 97)

**Gross earnings** see *total earnings*.

**Gross pay** see *total earnings*.

**Gross profit method of estimating inventory** estimating inventory by using the previous year's percentage of gross profit on operations. (p. 585)

**Gross profit on sales** the revenue remaining after cost of merchandise sold has been deducted. (p. 402)

**I**

**Imports** goods or services bought from a foreign country and brought into a buyer's home country. (p. 506)

**Income statement** a financial statement showing the revenue and expenses for a fiscal period. (p. 160)

**Interest** an amount paid for the use of money for a period of time. (p. 597)

**Interest expense** the interest accrued on money borrowed. (p. 601)

**Interest income** the interest earned on money loaned. (p. 606)

**Interest rate of a note** the percentage of the principal that is paid for use of the money. (p. 596)

**Inventory** the amount of goods on hand. (p. 376)

**Inventory record** a form used during a periodic inventory to record information about each item of merchandise on hand. (p. 577)

**Invoice** a form describing the goods or services sold, the quantity, and the price. (p. 67)

**J**

**Journal** a form for recording transactions in chronological order. (p. 64)

**Journalizing** recording transactions in a journal. (p. 64)

**L**

**Last-in, first-out inventory costing method** using the price of merchandise purchased last to calculate the cost of merchandise sold first. (p. 581)

**Ledger** a group of accounts. (p. 97)

**Letter of credit** a letter issued by a bank guaranteeing that a named individual or business will be paid a specified amount, provided stated conditions are met. (p. 507)

**Liability** an amount owed by a business (p. 7)

**Lifo** see *last-in, first-out inventory costing method*.

**List price** a business's printed or catalog price. (p. 466)

**Long-term liabilities** liabilities owed for more than a year. (p. 672)

**Loss on plant assets** the loss that results when a plant asset is sold for less than book value. (p. 562)

**M**

**Maker of a note** the person or business who signs a note and thus promises to make payment. (p. 596)

**Markup** the amount added to the cost of merchandise to establish the selling price. (p. 223)

**Maturity date of a note** the date a note is due. (p. 596)

**Maturity value** the amount that is due on the maturity date of a note. (p. 597)

**Medicare tax** a federal tax paid for hospital insurance. (p. 320)

**Memorandum** a form on which a brief message is written describing a transaction. (p. 68)

**Merchandise** goods that a merchandising business purchases to sell. (p. 222)

**Merchandise inventory** the amount of goods on hand for sale to customers. (p. 376)

**Merchandising business** a business that purchases and sells goods. (p. 222)

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## N

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**Net income** the difference between total revenue and total expenses when total revenue is greater. (p. 161)

**Net loss** the difference between total revenue and total expenses when total expenses is greater. (p. 162)

**Net pay** the total earnings paid to an employee after payroll taxes and other deductions. (p. 323)

**Net purchases** total purchases less purchases discount and purchases returns and allowances. (p. 665)

**Net sales** total sales less sales discount and sales returns and allowances. (p. 665)

**Nominal account** see *temporary accounts*.

**Normal balance** the side of the account that is increased. (p. 42)

**Note** see *notes payable*.

**Notes payable** promissory notes signed by a business and given to a creditor. (p. 596)

**Notes receivable** promissory notes that a business accepts from customers. (p. 605)

**Number of a note** the number assigned to identify a specific note. (p. 596)

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## O

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**Opening an account** writing an account title and number on the heading of an account. (p. 99)

**Owner's equity** the amount remaining after the value of all liabilities is subtracted from the value of all assets. (p. 7)

**Owners' equity statement** a financial statement that summarizes the changes in owners' equity during a fiscal period. (p. 412)

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## P

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**Par value** a value assigned to a share of stock and printed on the stock certificate. (p. 668)

**Partner** each member of a partnership. (p. 220)

**Partnership** a business in which two or more persons combine their assets and skills. (p. 220)

**Pay period** the period covered by a salary payment. (p. 310)

**Payee of a note** the person or business to whom the amount of a note is payable. (p. 596)

**Payroll** the total amount earned by all employees for a pay period. (p. 310)

**Payroll register** a business form used to record payroll information. (p. 322)

**Payroll taxes** taxes based on the payroll of a business. (p. 316)

**Periodic inventory** a merchandise inventory determined by counting, weighing, or measuring items of merchandise on hand. (p. 576)



**Permanent accounts** accounts used to accumulate information from one fiscal period to the next. (p. 197)

**Perpetual inventory** a merchandise inventory determined by keeping a continuous record of increases, decreases, and balance on hand. (p. 576)

**Personal property** all property not classified as real property. (p. 549)

**Petty cash** an amount of cash kept on hand and used for making small payments. (p. 135)

**Petty cash slip** a form showing proof of a petty cash payment. (p. 136)

**Physical inventory** see *periodic inventory*.

**Plant asset record** an accounting form on which a business records information about each plant asset. (p. 555)

**Plant assets** assets that will be used for a number of years in the operation of a business. (p. 546)

**Post-closing trial balance** a trial balance prepared after the closing entries are posted. (p. 207)

**Postdated check** a check with a future date on it. (p. 122)

**Posting** transferring information from a journal entry to a ledger account. (p. 101)

**Principal of a note** the original amount of a note; sometimes referred to as face amount of a note. (p. 596)

**Promissory note** a written and signed promise to pay a sum of money at a specified time. (p. 596)

**Proprietorship** a business owned by one person. (p. 6)

**Proving cash** determining that the amount of cash agrees with the balance of the cash account in the accounting records. (p. 109)

**Purchase invoice** an invoice used as a source document for recording a purchase on account transaction. (p. 225)

**Purchases allowance** credit allowed for part of the purchase price of merchandise that is not returned,

resulting in a decrease in the customer's accounts payable. (p. 475)

**Purchases discount** a cash discount on purchases taken by a customer. (p. 467)

**Purchases journal** a special journal used to record only purchases of merchandise on account. (p. 224)

**Purchases return** credit allowed for the purchase price of returned merchandise, resulting in a decrease in the customer's accounts payable. (p. 475)

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## R

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**Ratio** a comparison between two numbers showing how many times one number exceeds the other. (p. 675)

**Real accounts** see *permanent accounts*.

**Real estate** see *real property*.

**Real property** land and anything attached to the land. (p. 549)

**Receipt** a business form giving written acknowledgement for cash received. (p. 68)

**Residual value** see *estimated salvage value*.

**Restrictive endorsement** an endorsement restricting further transfer of a check's ownership. (p. 121)

**Retail merchandising business** a merchandising business that sells to those who use or consume the goods. (p. 222)

**Retained earnings** an amount earned by a corporation and not yet distributed to stockholders. (p. 638)

**Revenue** an increase in owner's equity resulting from the operation of a business. (p. 26)

**Reversing entry** an entry made at the beginning of one fiscal period to reverse an adjusting entry made in the previous fiscal period. (p. 620)

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## S

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- Salary** the money paid for employee services. (p. 310)
- Sale on account** a sale for which cash will be received at a later date. (p. 26)
- Sales allowance** credit allowed a customer for part of the sales price of merchandise that is not returned, resulting in a decrease in the vendor's accounts receivable. (p. 501)
- Sales discount** a cash discount on sales. (p. 496)
- Sales invoice** an invoice used as a source document for recording a sale on account. (p. 67)
- Sales journal** a special journal used to record only sales of merchandise on account. (p. 255)
- Sales return** credit allowed a customer for the sales price of returned merchandise, resulting in a decrease in the vendor's accounts receivable. (p. 501)
- Sales slip** see *sales invoice*.
- Sales tax** a tax on a sale of merchandise or services. (p. 252)
- Salvage value** see *estimated salvage value*.
- Schedule of accounts payable** a listing of vendor accounts, account balances, and total amount due all vendors. (p. 281)
- Schedule of accounts receivable** a listing of customer accounts, account balances, and total amount due from all customers. (p. 289)
- Scrap value** see *estimated salvage value*.
- Service business** a business that performs an activity for a fee. (p. 6)
- Share of stock** each unit of ownership in a corporation. (p. 462)
- Sight draft** a draft payable on sight when the holder presents it for payment. (p. 507)
- Social security tax** a federal tax paid for old-age, survivors, and disability insurance. (p. 320)
- Sole proprietorship** see *proprietorship*.
- Source document** a business paper from which

information is obtained for a journal entry. (p. 66)

**Special amount column** a journal amount column headed with an account title. (p. 224)

**Special endorsement** an endorsement indicating a new owner of a check. (p. 121)

**Special journal** a journal used to record only one kind of transaction. (p. 223)

**State unemployment tax** a state tax used to pay benefits to unemployed workers. (p. 346)

**Statement of stockholders' equity** a financial statement that shows changes in a corporation's ownership for a fiscal period. (p. 668)

**Stock ledger** a file of stock records for all merchandise on hand. (p. 578)

**Stock record** a form used to show the kind of merchandise, quantity received, quantity sold, and balance on hand. (p. 578)

**Stockholder** an owner or one of more shares of a corporation. (p. 638)

**Straight-line method of depreciation** charging an equal amount of depreciation expense for a plant asset in each year of useful life. (p. 552)

**Subsidiary ledger** a ledger that is summarized in a single general ledger account. (p. 272)

**Supplementary report** see *supporting schedule*.

**Supporting schedule** a report prepared to give details about an item on a principal financial statement. (p. 419)

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## T

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**T account** an accounting device used to analyze transactions. (p. 42)

**Tax base** the maximum amount of earnings on which a tax is calculated. (p. 320)

**Temporary accounts** accounts used to accumulate information until it is transferred to the owner's capital account. (p. 197)

**Terms of sale** an agreement between a buyer and a seller about payment for merchandise. (p. 225)



**Time draft** a draft that is payable at a fixed or determinable future time after it is accepted. (p. 509)

**Time of a note** the days, months, or years from the date of signing until a note is to be paid. (p. 596)

**Total earnings** the total pay due for a pay period before deductions. (p. 314)

**Trade acceptance** a form signed by a buyer at the time of a sale of merchandise in which the buyer promises to pay the seller a specified sum of money, usually at a stated time in the future. (p. 510)

**Trade discount** a reduction in the list price granted to customers. (p. 466)

**Transaction** a business activity that changes assets, liabilities, or owner's equity. (p. 9)

**Trial balance** a proof of the equality of debits and credits in a general ledger. (p. 151)

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**U**

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**Uncollectible accounts** accounts receivable that cannot be collected. (p. 526)

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**V**

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**Vendor** a business from which merchandise is purchased or supplies or other assets are bought. (p. 223)

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**W**

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**Weighted-average inventory costing method** using the average cost of beginning inventory plus merchandise purchased during a fiscal period to calculate the cost of merchandise sold. (p. 582)

**Wholesale merchandising business** a business that buys and resells merchandise to retail merchandising businesses. (p. 222)

**Withdrawals** assets taken out of a business for the owner's personal use. (p. 28)

**Withholding allowance** a deduction from total earnings for each person legally supported by a taxpayer, including the employee. (p. 317)

**Work sheet** a columnar accounting form used to summarize the general ledger information needed to prepare financial statements. (p. 150)

**Working capital** the amount of total current assets less total current liabilities. (p. 675)

**Writing off an account** canceling the balance of a customer account because the customer does not pay. (p. 533)