

CHAPTER 1

Accounting The information system that communicates the economic events of an entity to interested users (p. 7).

Accounting entity assumption An assumption that economic events can be identified with a particular unit of accountability, such that financial statements are prepared from the perspective of the entity, not its owners or other parties (p. 11).

Accounts receivable The right to receive cash (p. 9).

Annual report A report prepared by corporate management that presents financial information including financial statements, notes and the directors' report (p. 22).

Assets Future economic benefits controlled by the entity as a result of a past transaction or other past event (p. 16).

Auditor's report A report prepared by an independent accountant expressing an opinion as to the fairness of the presentation of the financial position and results of operations of an entity and their conformance with accepted accounting standards (p. 25).

Australian Accounting Standards Board (AASB) The organisation with the authority to issue accounting standards in Australia (p. 6).

Balance date The last date of each reporting period (p. 11).

Balance sheet A statement that reports on the assets, liabilities and owners' equity of an entity at a specific date; now known as a statement of financial position (p. 16).

Basic accounting equation $\text{Assets} = \text{Liabilities} + \text{Owners' equity}$ (p. 18).

Cash debt coverage ratio A measure of solvency that is calculated as cash provided by operating activities divided by average total liabilities (p. 39).

Classified statement of financial position A statement of financial position that contains a number of standard classifications or sections, including current and non-current categories (p. 28).

Company A business organised as a separate legal entity having ownership divided into transferable shares (p. 4).

Comparability Ability to compare the accounting information of different companies or the same company over time because the same accounting principles are used (p. 13).

Comparative statements A presentation of the financial statements of a company for multiple years (p. 20).

Costs versus benefits A constraint on the pursuit of qualitative characteristics of financial reporting that the costs of preparing and reporting financial information should not exceed the benefits to users (p. 15).

Creditors Suppliers, bankers and others who grant credit or lend money (p. 8).

Current assets Cash and other assets that are reasonably expected to be converted to cash or used in the business within 1 year or the operating cycle, whichever is longer (p. 28).

Current cash debt coverage ratio A measure of liquidity that is calculated as cash provided by operating activities divided by average current liabilities (p. 37).

Current liabilities Obligations reasonably expected to be paid within the next year or operating cycle, whichever is longer (p. 30).

Current ratio A measure used to evaluate a company's liquidity and short-term debt-paying ability, calculated by dividing current assets by current liabilities (p. 36).

Debt to total assets ratio Measures the percentage of total financing provided by creditors; calculated by dividing total debt by total assets (p. 38).

Directors' report A section of the annual report that presents information that provides information about the directors and their views on the performance of the company (p. 24).

Dividends Distributions of cash or other assets from a company to its shareholders (p. 9).

Expenses The cost of assets consumed or services used in the process of generating revenues (p. 10).

Financial accounting The preparation and presentation of financial reports for external users (p. 4).

Full disclosure principle Accounting principle that dictates that circumstances and events that make a difference to financial statement users should be disclosed (p. 12).

Generally accepted accounting principles (GAAP) A set of rules and practices, having substantial authoritative support, that are recognised as a general guide for financial reporting purposes (p. 14).

General-purpose financial reports Published financial statements prepared in accordance with applicable Australian accounting standards (p. 9).

Going concern assumption The assumption that the business will continue in operation in the foreseeable future (p. 11).

Historical cost The amount paid for an asset (p. 11).

Intangible assets Non-current, non-monetary assets that do not have physical substance (p. 29).

Investors People who make decisions to buy, hold or sell shares (p. 8).

Liabilities The future sacrifices of economic benefits that the entity is currently obliged to make as a result of a past transaction or other past event (p. 16).

Liquidity The ability of a company to pay obligations that are expected to become due within the next year or operating cycle (p. 34).

Liquidity ratios Measures of the short-term ability of the enterprise to pay its maturing obligations and to meet unexpected needs for cash (p. 36).

Management accounting The provision of accounting information within the business entity (p. 4).

Materiality The condition on reporting all relevant and reliable information of whether an item is large enough to be likely to influence the decisions of users of financial statements (p. 13).

Monetary assumption An assumption stating that only transaction data that can be expressed in terms of money be included in the accounting records of the entity (p. 10).

Net loss the amount by which expenses exceed revenues (p. 10).

Net profit The amount by which revenues exceed expenses (p. 10).

Non-current assets Assets that are not expected to be consumed or sold within 1 year or the operating cycle (p. 29).

Non-current liabilities Liabilities that are not expected to be paid within 1 year or the operating cycle (p. 30).

Notes to the financial statements Notes that clarify information presented in the financial statements, as well as expand on information where additional detail is needed (p. 23).

Operating cycle The average time required to go from cash to cash in producing revenues (p. 28).

Ordinary shares Shares representing the main ownership interests in a company (p. 5).

Owners' equity The owners' claims on total assets of the entity; also known as shareholders' equity (p. 18).

Partnership A business owned and controlled by more than one person (p. 4).

Period assumption An accounting assumption that the economic life of an entity can be divided into discrete periods of time (p. 11).

Profit and loss statement A statement that reports on the revenues and expenses of an entity for a period, and the resulting net profit or net loss; also known as a statement of financial performance (p. 16).

Profit margin ratio Measures the percentage of each dollar of sales that results in net profit, calculated by dividing net profit by net sales (p. 33).

Profitability ratios Measures of the profit or operating success of a business for a given period of time (p. 33).

Property, plant and equipment Assets of a relatively permanent nature that are being used in the business and are not intended for resale (p. 29).

Ratio An expression of the mathematical relationship between one quantity and another; may be expressed as a percentage, a rate or a proportion (p. 31).

Ratio analysis A technique for evaluating financial statements that expresses the relationship among selected financial statement data (p. 31).

Relevance The quality of information that indicates the information makes a difference in a decision (p. 12).

Reliability The quality of information that gives assurance that it is unbiased, free of error and a faithful representation (p. 13).

Retained profits The accumulated profit from the current and previous accounting periods that has not been distributed to owners (p. 18).

Return on assets ratio An overall measure of profitability; calculated by dividing net profit by average assets (p. 33).

Revenues Sales and other increases in owners' equity other than contributions from owners (p. 10).

Share capital The total amount paid in by shareholders for shares in the company (p. 9).

Sole proprietorship A business owned by one person (p. 4).

Solvency The ability of a company to pay interest as it comes due and to repay the face value of debt at maturity (p. 38).

Solvency ratios Measures of the ability of the business to survive over a long period of time (p. 38).

Statement of cash flows A financial statement that provides information about the cash inflows (receipts) and cash outflows (payments) for a specific period of time (p. 16).

Statement of financial performance A statement that reports on the revenues and expenses of an entity for a period, and the resulting net profit or net loss; previously known as a profit and loss statement (p. 16).

Statement of financial position A statement that reports on the assets, liabilities and owners' equity of an entity at a specific date; previously known as a balance sheet (p. 16).

Timeliness Whether communication is in the time frame within which decisions are made (p. 15).

Understandability The extent to which information can be understood by proficient users (p. 14).

Users of accounting reports People within and outside the business who need financial information for decision making (p. 7).

Working capital The difference between the amounts of current assets and current liabilities (p. 35).

CHAPTER 2

Account An individual accounting record of increases and decreases in specific asset, liability and owners' equity items (p. 75).

Accounting information system The system of collecting and processing transaction data and communicating financial information to interested parties (p. 68).

Accounting transactions and events Occurrences which affect the assets, liabilities and owners' equity items in a business and must be recognised (recorded). A transaction is an external exchange of something of value between two or more entities. The allocation of the cost of an entity's long-lived assets over different accounting periods is an example of an event (p. 69).

Accounts payable Amounts owed to suppliers for the purchase of goods or services. Also called creditors or trade creditors (p. 73).

Accounts receivable Amounts due from customers for the sale of goods or services. Also called debtors or trade debtors (p. 72).

Chart of accounts A list of a company's ledger accounts (p. 84).

Credit The right side of an account (p. 75).

Debit The left side of an account (p. 75).

Dividend A distribution by a company to its shareholders in an amount proportional to each shareholder's percentage ownership. The most common form is a cash distribution (p. 78).

Double-entry system A system that records the dual effect of each transaction in appropriate accounts (p. 76).

General journal The most basic form of journal (p. 82).

General ledger A ledger that contains all asset, liability, and owners' equity accounts (p. 85).

Journal An accounting record in which transactions are initially recorded in chronological order (p. 82).

Journalising The procedure of entering transaction data in the journal (p. 82).

Narration A brief explanation of each transaction recorded in the general journal. The narration is generally found directly below the transaction it relates to (p. 83).

Posting The procedure of transferring journal entries to the ledger accounts (p. 85).

Source document A form that provides written evidence that a transaction has occurred, e.g. sales invoice, purchase order, cash register tape (p. 81).

T account The basic form of an account (p. 75).

Transaction analysis The process of identifying the specific effects of transactions and events on the accounting equation (assets \square liabilities, owners' equity) (p. 69).

Trial balance A list of accounts and their balances at a given time (p. 95).

CHAPTER 3

Accrual-based accounting Accounting basis in which transactions and events are recorded in the periods in which they occur, rather than in the periods in which the company receives or pays the related cash (p. 122).

Accrued expenses Amounts not yet paid and not yet recorded for which the consumption of economic benefits has occurred (p. 132).

Accrued revenues Amounts not yet received and not yet recorded for which the goods or services have been provided (p. 131).

Adjusted trial balance A list of accounts and their balances after all adjustments have been made (p. 138).

Adjusting entries Entries made at the end of an accounting period to ensure that recognition criteria are followed for assets, liabilities, revenues and expenses (p. 123).

Carrying amount The difference between the cost of a depreciable asset and its related accumulated depreciation (p. 128).

Cash-based accounting An accounting basis in which revenue is recorded only when cash is received, and an expense is recorded only when cash is paid (p. 122).

Closing entries Entries at the end of an accounting period to transfer the balances of temporary

accounts to a permanent owners' equity account, Retained Profits (p. 140).

Contra asset account An account that is offset against an asset account on the statement of financial position (p. 127).

Depreciation The process of allocating the cost of an asset to expense over its useful life (p. 127).

Expense recognition criteria Expenses are recognised when it is probable that the loss of future economic benefits has occurred and can be measured reliably (p. 121).

Financial year An accounting period that is 1 year in duration (p. 118).

Operating cycle The length of time it takes for a business to acquire goods, sell them to customers and collect the cash from the sale (p. 119).

Period assumption An assumption that the economic life of a business can be divided into artificial time periods (p. 118).

Permanent accounts Statement of financial position accounts whose balances are carried forward to the next accounting period (p. 140).

Post-closing trial balance A list of permanent accounts and their balances after closing entries have been journalised and posted (p. 142).

Prepaid expenses (prepayments) Amounts paid in cash and recorded as assets until the economic benefits are used or consumed (p. 125).

Profit and Loss Summary A temporary account used in closing revenue and expense accounts (p. 141).

Revenues received in advance Amounts received from customers and recorded as liabilities until the services are performed or the goods are provided and the revenue is recognised (p. 128).

Revenue recognition criteria Revenues are recognised when a probable inflow or savings in outflows of future economic benefits has occurred and can be reliably measured (p. 119).

Reversing entry An entry made at the beginning of the next accounting period; the exact opposite of the adjusting entry made in the previous period (p. 143).

Temporary accounts Revenue, expense and dividend accounts whose balances are transferred to Retained Profits at the end of an accounting period (p. 140).

Useful life The length of service of an asset (p. 127).

Worksheet A multicolumn spreadsheet, prepared either manually or electronically, that may be used in the adjustment process and in preparing financial statements (p. 147).

CHAPTER 4

Business activity statement (BAS) A report filed at regular intervals (monthly, quarterly or yearly) by a business with the taxation authority. It details the amount of GST collected by a business on taxable supplies, the amount of GST paid on purchases and the amount owing to or the refund due from the taxation authority (p. 189).

Contra revenue account An account that is offset against a revenue account on the statement of financial performance (p. 179).

Cost of goods sold (COGS) The total cost of inventories sold during the period (p. 170).

Discount allowed A settlement discount given by a seller for prompt payment of a balance due (p. 179).

Discount received A settlement discount claimed by a buyer for prompt payment of a balance due (p. 175).

Goods and services tax (GST) A broad-based indirect tax levied on most supplies of goods and services. In Australia the rate applied is 10% and in New Zealand it is 12.5% (p. 187).

Gross profit The excess of net sales revenue over the cost of goods sold (p. 181).

Gross profit ratio Gross profit expressed as a percentage by dividing the amount of gross profit by net sales (p. 182).

GST-free supplies (zero rated in New Zealand) Goods and services that do not attract GST under GST legislation, such as basic food, education, health services and exported goods (p. 188).

Input tax credit The credit received by registered suppliers from the taxation authority for the amount of GST paid on all goods and services purchased in the supply chain (p. 188).

Input taxed supplies (exempt supplies in New Zealand) Goods and services that do not attract GST under GST legislation such as residential rents and financial supplies (p. 188).

Inventory Goods acquired by a retail business for the purposes of resale in the ordinary course of business activities (p. 170).

Inventory Write-down An expense account used to record damaged, stolen, obsolete or lost inventory as well as inventory shrinkage or waste that occurs (p. 178).

Net sales Sales less sales returns and allowances (p. 180).

Operating expenses to sales ratio The ratio of operating expenses to net sales (p. 184).

Other revenue Revenue items other than sales revenue, such as interest revenue and rent revenue (p. 181).

Periodic inventory system An inventory system in which detailed records are not maintained and the cost of goods sold and inventory on hand is determined only at the end of an accounting period (p. 171).

Perpetual inventory system A detailed inventory system in which the cost of each inventory item is maintained and the records continuously show the cost of goods sold and inventory that should be on hand (p. 171).

Sales invoice A document prepared by the seller evidencing a claim for payment for goods or services provided to a customer (p. 177).

Sales revenue Revenue generated from the sale of inventory (p. 170).

Supplier's invoice A document prepared by the supplier, evidencing a claim for payment for goods and services provided (p. 173).

Taxation authority The body that administers tax legislation. In Australia, this is the Australian Taxation Office (ATO) (p. 188).

Taxable supply Goods and services that have GST included in the selling price (p. 188).

Trade discount A reduction in the list price granted to certain customers. The discount is shown as a reduction from the list price on the invoice but is not recorded in the accounts of either the buyer or the seller (p. 176).

Value-added tax An indirect tax levied on the value added by a business at each stage of the production and distribution chain, i.e. from the purchase of raw materials to the sale of the finished product or supply of the service to the final consumer (p. 188).

CHAPTER 5

Average cost method An inventory costing method that uses the weighted average unit cost to allocate the cost of goods available for sale to ending inventory and cost of goods sold (p. 224).

Consigned goods Goods held for sale by one party (the consignee) although ownership of the goods is retained by another party (the consignor) (p. 218).

Cost of goods available for sale The sum of the beginning inventory and the cost of goods purchased (p. 218).

Cost of goods purchased The sum of net purchases and freight-in (p. 216).

Cost of goods sold The total cost of inventory sold during the period. In a periodic inventory system it is determined by subtracting ending inventory from the cost of goods available for sale (p. 216).

Days in inventory Measure of the average number of days inventory is held; calculated as 365 divided by inventory turnover ratio (p. 229).

Finished goods inventory Manufactured items that are completed and ready for sale (p. 212).

First-in, first-out (FIFO) method An inventory costing method that assumes that the costs of the earliest goods purchased are the first to be recognised as cost of goods sold (p. 221).

FOB destination Freight terms indicating that the goods are placed free on board the carrier by the seller but the seller pays the freight cost; goods belong to the seller while in transit (p. 218).

FOB shipping point Freight terms indicating that the goods are placed free on board the carrier by the seller, but the buyer pays the freight cost; goods belong to the buyer while in transit (p. 218).

Goods in transit Goods moving between the buyer and the seller on board a truck, train, ship or plane (p. 217).

Inventory turnover ratio A ratio that measures the number of times on average the inventory has been sold during the period; calculated by dividing cost of goods sold by the average inventory during the period (p. 229).

Last-in, first-out (LIFO) method An inventory costing method that assumes that the costs of the latest units purchased are the first to be allocated to cost of goods sold (p. 222).

Lower of cost and market (LCM) basis A basis whereby inventory is stated at the lower of cost and market (net realisable value) (p. 228).

Net purchases Purchases less purchase returns and allowances (p. 216).

Moving weighted average method An inventory costing method used in a perpetual inventory system, where a moving weighted average unit cost is used to allocate the cost of goods available for sale to ending inventory and cost of goods sold (p. 234).

Periodic inventory system An inventory system in which ending inventory and cost of goods sold are determined at the end of the period. Inventory on hand is determined by a physical count. Cost of goods sold is calculated at the end of the period by subtracting the ending inventory (costs are assigned to a physical count of items on hand) from the cost of goods available for sale (p. 213).

Purchases account Account used to accumulate the cost of all inventory purchased for resale during

the period (p. 213).

Purchase Returns and Allowances account Account used to accumulate the cost of all inventory returned to suppliers (p. 214).

Raw materials Materials that will be used in production but have not yet been placed in production (p. 212).

Retail inventory method A method used to estimate the ending inventory value based on the relationship of cost to retail prices (p. 226).

Specific identification method An inventory costing method that uses actual physical flow of inventory to determine cost of goods sold; items still in inventory are specifically costed to arrive at the total cost of the ending inventory (p. 220).

Weighted average unit cost Average cost that is weighted by the number of units purchased at each unit cost (p. 224).

Work in process That portion of manufactured inventory that has begun the production process but is not yet complete (p. 212).

CHAPTER 6

Accounts payable (suppliers') subsidiary ledger A subsidiary ledger that contains accounts of individual creditors (p. 260).

Accounts receivable (customers') subsidiary ledger A subsidiary ledger that contains individual customer accounts (p. 260).

Cash payments journal A special journal used to record all payments (p. 272).

Cash receipts journal A special journal used to record all cash received (p. 267).

Control account An account in the general ledger that is supported by the detail of a subsidiary ledger (p. 261).

Integrated accounting system A computerised accounting package consisting of several modules which perform different accounting functions (e.g. payroll). Once an entry is made in one module, all other relevant modules are updated (p. 277).

Manual accounting system A system in which each of the steps in the accounting cycle is performed by hand (p. 276).

Purchases journal A special journal used to record all purchases of inventory on account (p. 270).

Sales journal A special journal used to record all sales of inventory on account (p. 264).

Schedule of accounts payable A list of all accounts and their balances in the accounts payable subsidiary ledger at a particular date (p. 262).

Schedule of accounts receivable A list of all accounts and their balances in the accounts receivable subsidiary ledger at a particular date (p. 262).

Special journal A journal that is used to record similar types of transactions, such as all credit sales (p. 264).

Subsidiary ledger A group of accounts with a common characteristic, the total of which should equal the balance in the related general ledger control account (p. 260).

CHAPTER 7

Accounts receivable Amounts owed by customers on account (p. 324).

Ageing the accounts receivable A method of determining the allowance for doubtful debts by analysing customer balances by the length of time they have been unpaid (p. 328).

Allowance method A method of accounting for bad debts that involves estimating uncollectable accounts at the end of each period and recognising an allowance account as a contra accounts receivable account (p. 326).

Average collection period The average amount of time that a receivable is outstanding, calculated by dividing 365 days by the receivables turnover (p. 336).

Bad Debts Expense An expense account to record uncollectable receivables (p. 325).

Bank statement A statement received from the bank that shows the depositor's bank transactions and balances for a period (p. 313).

Cash Resources that consist of cash on hand, cash at bank, cheque account, and highly liquid investments such as deposits on the money market and 90-day bank acceptance bills (p. 311).

Cash Over and Short A general ledger account for recording surplus or deficit of petty cash (p. 343).

Credit risk The threat of non-payment of receivables that could adversely affect the financial health of a business (p. 334).

Credit risk ratio A measure of the risk that a business's customers may not pay their accounts, calculated as the Allowance for Doubtful Debts divided by Accounts Receivable (p. 334).

Direct write-off method A method of accounting for bad debts that involves expensing accounts receivable at the time they are determined to be uncollectable (p. 325)

Dishonoured cheque A cheque that is not paid by the bank because of insufficient funds in the payer's bank account or because it has been cancelled by the payer (p. 314).

Electronic funds transfer (EFT) A cash transfer system that uses wire, telephone, telegraph or computer to transfer cash from one location to another (p. 311).

Factor A financial institution that buys receivables from businesses for a fee and then collects the payments directly from the customers (p. 337).

Internal auditors Company employees who evaluate on a continuous basis the effectiveness of the company's system of internal control (p. 308).

Internal control The plan of organisation and all the related methods and measures adopted within a business to safeguard its assets and enhance the accuracy and reliability of its accounting records (p. 304).

Net realisable value Net amount expected to be received in cash from the sale or use of an asset or the collection of a receivable (p. 326).

Notes receivable Claims for which formal instruments of credit are issued as evidence of the debt (p. 324).

Outstanding deposits Deposits that have been made but do not yet appear on the bank statement because of timing differences (p. 314).

Petty cash fund A cash fund used to pay relatively small amounts (p. 312).

Promissory note A written promise to pay a specified amount of money on a defined date (p. 330).

Ratio of cash to daily cash expenses A measure that indicates the number of days of expenses that available cash can cover. Calculated as cash divided by average daily expenses (p. 322).

Receivables Amounts due from individuals and businesses that are expected to be collected in cash (p. 324).

Receivables turnover A measure of the liquidity of receivables, calculated by dividing net credit sales by average net receivables (p. 335).

Unpresented cheque A cheque that has been issued by the payer but not yet paid by the bank (p. 314).

CHAPTER 8

Additions and improvements Costs incurred to increase the operating efficiency, productive capacity or expected useful life of a PPE asset (p. 375).

Amortisation The allocation of the cost of an intangible asset to expense (p. 382).

Asset turnover ratio Measure of efficient use of assets, calculated as net sales divided by average total assets (p. 390).

Average age of PPE assets Measure of the age of a company's PPE assets, calculated as accumulated depreciation divided by depreciation expense (p. 389).

Average useful life A comparative measure of PPE assets, calculated as the average cost of the assets divided by depreciation expense (p. 388).

Capital expenditures Expenditures that increase the company's investment in productive facilities (p. 363).

Carrying amount The cost of an asset less accumulated depreciation. This is also referred to as book value (p. 367).

Class of non-current assets Category of assets having similar nature or function in the operations of the entity. Shown as a single line item in the notes to the statement of financial position without further dissection (p. 376).

Cost Consists of the fair value of all expenditures necessary to acquire the asset and make it ready for its intended use (p. 363).

Copyright An exclusive right allowing the owner to reproduce and sell an artistic or published work (p. 384).

Depletion (amortisation) The periodic allocation of the cost of natural resources to reflect the units removed (p. 387).

Depreciable amount The cost of a PPE asset less its residual value (p. 369).

Depreciation The process of allocating to expense the cost of an asset over its useful life in a rational and systematic manner (p. 367).

Fair value The amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's-length transaction (p. 363).

Finance lease A long-term agreement where the lessor effectively transfers to the lessee substantially all the risks and benefits incidental to ownership of the leased asset. The arrangement is accounted

for like a purchase (p. 366).

Franchise A contractual arrangement under which the franchisor grants the franchisee the right to sell certain products, to render specific services or to use certain trademarks or brand names, usually within a designated geographic area (p. 384).

Goodwill The future benefits from unidentifiable assets (p. 385).

Intangible assets Non-monetary, non-current assets that have no physical substance (p. 381).

Lessee A party that has made contractual arrangements to use another party's asset without purchasing it (p. 366).

Lessor A party that has agreed contractually to let another party use its asset (p. 365).

Licences Operating rights to use public property, granted by a government agency to a business (p. 384).

Net market value The amount that an entity can expect to receive from disposal in an active market, after deducting costs expected to be incurred in realising the proceeds in such a disposal (p. 386).

Off-balance-sheet financing A form of financing that is not reported on the statement of financial position (p. 366).

Operating lease An arrangement whereby the lessor effectively retains substantially all the risks and benefits incidental to ownership of a leased asset. The arrangement is accounted for as a rental (p. 366).

Ordinary repairs Expenditures to maintain the operating efficiency and expected productive life of the asset (p. 375).

Patent An exclusive right that enables the recipient to manufacture, sell or otherwise control an invention for a number of years from the date of the grant (p. 383).

Property, plant and equipment Tangible assets that have physical substance, are used in the operations of the business, and are not intended for sale to customers (p. 362).

Recoverable amount The net amount that is expected to be recovered through the cash inflows and outflows arising from the continued use of an asset and its subsequent disposal (p. 375)

Reducing-balance method A depreciation method that results in a decreasing charge over the asset's useful life by applying a predetermined rate to the carrying amount of the asset. This is also referred to as accelerated depreciation (p. 371).

Research and development costs Expenditures that may lead to patents, copyrights, new processes, and new products (p. 383).

Residual value An estimate of the asset's value at the end of its useful life. This is also called salvage value or trade-in value (p. 368).

Revaluation A reassessment of the fair value of a non-current asset at a particular date (p. 375).

Self-generating and regenerating assets (SGARAs) Non-human living assets, including forests, livestock, crops, fruit-bearing trees, and the produce of aquaculturalists and other breeders (p. 386).

Straight-line method A method in which periodic depreciation is the same for each year of the asset's useful life (p. 369).

Trademark (brand name) A word, phrase, jingle or symbol that distinguishes or identifies a particular enterprise or product (p. 384).

Units-of-production method A depreciation method in which useful life is expressed in terms of the total units of production or use expected from the asset (p. 372).

Useful life An estimate of the expected productive life (also called service life) of the asset to the entity (p. 368).

CHAPTER 9

Allotment The issue of shares (p. 417).

Application The act of subscribing to a public issue of shares or other securities, such as debentures (p. 417).

Call on capital A claim for unpaid capital made by a company (p. 417).

Cash dividend A pro rata distribution of profit paid in cash to shareholders (p. 420).

Chief executive officer (CEO) Most senior manager with direct responsibility for managing the business (p. 414).

Company A form of corporation; evidence of ownership is shares (p. 412).

Contractual interest rate Rate used to determine the amount of interest the borrower pays and the investor receives (p. 428).

Corporation A separate legal entity, with most of the rights and privileges of a person (p. 412).

Current liability An obligation that can reasonably be expected to be paid within 1 year or the operating cycle (p. 424).

Debentures Notes issued with security over some assets of the issuer (p. 427).

Declaration date The date the board of directors formally declares the dividend and announces it to shareholders (p. 421).

Discounting A reduction in value of a future amount to its present value reflecting the time value of money (p. 429).

Dividend A distribution by a company to its shareholders on a pro rata (proportionate) basis (p. 420).

Earnings per share A measure of the net profit per ordinary share; calculated by dividing net profit by the average number of ordinary issued shares (p. 428).

Face value Amount of principal due at the maturity date of the note (p. 428).

Financial controller The chief accounting officer in a business (p. 414).

Issue price Amount received on issue of a share, debenture or unsecured note (p. 416).

Limited liability The limit of liability of owners of a company to any unpaid amount of capital (p. 413).

Market interest rate The rate investors demand for lending funds to the company (p. 429).

Non-current liability An obligation that is not classified as a current liability, i.e. an obligation expected to be paid after 1 year or outside the normal operating cycle (p. 427).

Notes payable A liability issued in small denominations evidenced by notes (p. 424).

Payment date The date dividends are paid to shareholders (p. 421).

Present value The value today of an amount to be paid or received at some date in the future after taking into account current interest rates (p. 429).

Private placement An issue of shares by private invitation (p. 416).

Proprietary company A company that has up to 50 shareholders and whose shares are not available for sale to the general public; also called a private company (p. 413).

Prospectus A document issued with an invitation to subscribe for shares, containing information about the offering company (p. 416).

Public company A company that may have thousands of shareholders and which may raise money from the public through debt or equity issues (p. 413).

Quick ratio A measure of a company's immediate short-term liquidity, calculated by dividing the sum of cash, marketable securities and net receivables by current liabilities; also called the acid test (p. 432).

Retained profits Net profit that has not been distributed (p. 418).

Share dividend A pro rata distribution of the company's own shares to shareholders; also called a bonus issue (p. 421).

Times interest earned A measure of solvency calculated by dividing profit before income tax plus interest expense by interest expense (p. 434).

Treasurer The person with custody of a company's funds and responsibility for maintaining the company's cash position (p. 414).

Unsecured notes Notes issued against the general credit of the issuer, i.e. not subject to any secured charge over assets (p. 427).

CHAPTER 10

Capital expenditure ratio A cash-basis ratio that indicates the extent to which cash provided by operating activities was sufficient to fund capital expenditure (fixed asset) purchases during the year (p. 475).

Cash debt coverage A cash-basis ratio used to evaluate solvency, calculated as net cash provided by operating activities divided by average total liabilities (p. 477).

Cash return on sales ratio A cash-basis ratio used to evaluate profitability, calculated as net cash provided by operating activities divided by net sales (p. 478).

Current cash debt coverage ratio A cash-basis ratio used to evaluate liquidity, calculated as net cash provided by operating activities divided by average current liabilities (p. 477).

Direct method A method of determining net cash provided by operating activities by adjusting each item in the statement of financial performance from the accrual basis to the cash basis (p. 456).

Financing activities Activities that include (a) obtaining cash from issuing debt and repaying the amounts borrowed and (b) obtaining cash from shareholders and providing them with a return on their investment (p. 455).

Free cash flow Cash provided by operating activities adjusted for a charge for investments made to maintain the current level of operations (p. 474).

Indirect method A method of preparing a statement of cash flows in which net profit is adjusted for timing differences, non-cash items and cash flows classified as investing to determine net cash provided by operating activities (p. 456).

Investing activities Activities that include (a) purchasing and disposing of investments and productive non-current assets using cash and (b) lending money and collecting on those loans (p. 455).

Operating activities Activities that are related to providing goods and services, and that are not classified as investing or financing activities (p. 455).

Statement of cash flows A basic financial statement that provides information about the cash receipts and cash payments of an entity during a period, classified as operating, investing and financing activities, in a format that reconciles the beginning and ending cash balances (p. 454).

CHAPTER 11

Asset turnover A measure of how efficiently a company uses its assets to generate sales, calculated as net sales divided by average total assets (p. 521).

Average collection period The average number of days that receivables are outstanding, calculated as receivables turnover divided into 365 days (p. 516).

Average days in inventory A measure of the average number of days it takes to sell the inventory, calculated as inventory turnover divided into 365 days (p. 517).

Cash debt coverage A cash-basis measure used to evaluate solvency, calculated as cash from operations divided by average total liabilities (p. 519).

Cash dividend payout ratio A measure of the percentage of profit distributed in the form of cash dividends, calculated as cash dividends divided by net profit (p. 524).

Cash return on sales ratio The cash-basis measure of net profit generated by each dollar of sales, calculated as net cash from operations divided by net sales (p. 523).

Change in accounting estimates A revision of estimates used in the preparation of previous period financial statements (p. 505).

Change in accounting policy Use of an accounting policy in the current year different from the one used in the preceding year (p. 506).

Current cash debt coverage A cash-basis measure of short-term debt-paying ability, calculated as cash from operations divided by average current liabilities (p. 515).

Current ratio A measure that expresses the relationship of current assets to current liabilities, calculated as current assets divided by current liabilities (p. 514).

Debt to total assets ratio A measure of the percentage of total assets provided by creditors, calculated as total liabilities divided by total assets (p. 518).

Discontinuing operations A part of an entity that is being substantially disposed of or abandoned (p. 506).

Earning power Net profit adjusted for irregular items (p. 502)

Earnings per share The net profit earned per ordinary share, calculated as net profit divided by the weighted average ordinary shares (p. 523).

Extraordinary items Events and transactions that meet two conditions: (1) they are outside the ordinary activities of the entity and (2) they are non-recurring (p. 503).

Free cash flow The amount of cash from operations available for paying dividends or expanding operations after spending enough cash to maintain operations at their current level, calculated as cash provided by operating activities less capital expenditure (p. 519).

Fundamental error An error discovered in the current reporting period that causes the financial statements in one or more previous periods to now be considered unreliable (p. 504).

Gross profit rate An indicator of a company's ability to maintain an adequate selling price of goods above their cost, calculated as gross profit divided by net sales (p. 522).

Horizontal analysis A technique for evaluating a series of financial statement data over a period of time to determine the increase (decrease) that has taken place, expressed as either an amount or a percentage (p. 508).

Inventory turnover A measure of the liquidity of inventory, calculated as cost of goods sold divided by average inventory (p. 517).

Leveraging Borrowing money at a lower rate of interest than can be earned by using the borrowed money; also referred to as trading on the equity (p. 521).

Liquidity ratios Measures of the short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash (p. 514).

Operating expenses to sales ratio A measure of the costs incurred to support each dollar of sales, calculated as operating expenses divided by net sales (p. 523).

Price-earnings ratio A comparison of the market price of each ordinary share with the earnings per share, calculated as the market price of the share divided by earnings per share (p. 524).

Profit margin ratio A measure of the net profit generated by each dollar of sales, calculated as net profit divided by net sales (p. 521).

Profitability ratios Measures of the profit or operating success of an entity for a given period of time (p. 514).

Quick ratio (acid test) A measure of a company's immediate short-term liquidity, calculated as the sum of cash, marketable securities and net receivables divided by current liabilities (p. 515).

Receivables turnover A measure of the liquidity of receivables, calculated as net credit sales divided by average net receivables (p. 516).

Return on assets ratio (ROA) An overall measure of profitability, calculated as net profit divided by average total assets (p. 520).

Return on ordinary shareholders' equity ratio (ROE) A measure of the dollars of net profit earned for each dollar invested by the owners, calculated as profit available to ordinary shareholders divided by average ordinary shareholders' equity (p. 520).

Segmental data A required note disclosure for diversified companies in which the company reports financial information such as sales, operating profit and identifiable assets by geographic and/or industry segments (p. 526).

Solvency ratios Measures of the ability of the company to survive over a long period of time (p. 514).

Times interest earned A measure of a company's ability to meet interest payments as they come due, calculated as profit before income tax plus interest expense divided by interest expense (p. 518).

Trading on the equity Same as leveraging (p. 521).

Vertical analysis A technique for evaluating financial statement data that expresses each item in a financial statement as a percentage of a base amount, such as total assets or sales revenue (p. 511).

CHAPTER 12

Conversion costs Direct labour and manufacturing overhead costs incurred in converting raw materials into finished goods (p. 558).

Cost of goods manufactured Total cost of work in process less the cost of the ending work in process inventory (p. 561).

Direct labour The work of factory employees that can be physically and economically traced to converting raw materials into finished goods (p. 557).

Direct materials Raw materials that can be physically and economically traced to manufacturing the finished product (p. 557).

Indirect labour Work of factory employees that has no physical association with the finished product, or it is not economically feasible to trace the costs to the goods produced (p. 557).

Indirect materials Raw materials that do not physically become part of the finished product or cannot be traced because their physical association with the finished product is too small (p. 557).

Management accounting A field of accounting that provides economic and financial information for managers and other internal users (p. 554).

Manufacturing overhead Manufacturing costs that are indirectly associated with the manufacture of the finished product (p. 558).

Manufacturing Summary account Used to close all accounts that appear in the cost of goods manufactured schedule. It is similar to the Profit and Loss Summary account, in that they are both temporary accounts used to summarise certain closing entries (p. 572).

Period costs Costs that are identified with a specific time period and charged to expense as incurred (p. 558).

Prime costs Direct materials and direct labour (p. 558).

Product costs Costs that are a necessary and integral part of producing the finished product (p. 558).

Total cost of work in process Cost of the beginning work in process plus total manufacturing costs for the current period (p. 561).

Total manufacturing costs The sum of direct materials, direct labour and manufacturing overhead incurred in the current period (p. 560).

CHAPTER 13

Activity Any event, action, transaction or work sequence that causes incurrence of cost in producing a product or rendering a service (p. 613).

Activity-based costing (ABC) An overhead cost allocation system that allocates overhead to multiple activity cost pools and assigns the activity cost pools to products or services by means of cost drivers (p. 613).

Activity-based management (ABM) An extension of ABC from a product costing system to a management function that focuses on reducing costs and improving processes and decision making (p. 617).

Activity cost pool The overhead cost allocated to a distinct type of activity or related activities (p. 613).

Batch-level activities Activities performed for each batch of products (p. 618).

Cost accounting An area of accounting that involves the measuring, recording and reporting of product or service costs (p. 592).

Cost accounting system Manufacturing cost accounts that are fully integrated into the general ledger of a business (p. 592).

Cost driver Any factor or activity that has a direct cause–effect relationship with the resources consumed. In ABC, cost drivers are used to assign activity cost pools to products or services (pp. 593, 613).

Equivalent units of production A measure of the work done during the period, expressed in fully completed units (p. 608).

Facility-level activities Activities required to support or sustain an entire production process and not dependent on number of products, batches or units produced (p. 618).

Job cost sheet A form used to record the costs chargeable to a job and to determine the total and unit cost of the completed job (p. 597).

Job order cost system A cost accounting system in which costs are assigned to each job or batch (p. 594).

Materials requisition slip A document authorising the issue of raw materials from the storeroom to production (p. 605).

Non-value-added activity An activity that adds cost to, or increases the time spent on, a product or service without increasing its market value (p. 617).

Overapplied overhead A situation in which overhead assigned to work in process is greater than the overhead incurred (p. 601).

Predetermined overhead application rate A rate based on the relationship between estimated annual overhead costs and expected annual operating activity, expressed in terms of a common activity base (p. 598).

Process cost system A system of accounting used by businesses that manufacture a large volume of uniform or relatively homogeneous products through a series of continuous processes or operations (p. 594).

Production cost report An internal report for management that shows both production quantity and cost data for a production department (p. 610).

Product-level activities Activities performed for and identifiable with an entire product line (p. 618).

Time ticket A document that indicates the employee, the hours worked, the account and job to be charged, and the total labour cost (p. 596).

Underapplied overhead A situation in which overhead assigned to work in process is less than the overhead incurred (p. 601).

Unit-level activities Activities performed for each unit of productivity (p. 618).

Value-added activity An activity that increases the worth of a product or service to customers (p. 617).

Weighted-average method Method used to calculate equivalent units of production which consider the degree of completion (weighting) of the units completed and transferred out and the ending work in process (p. 608).

CHAPTER 14

Absorption costing A costing approach in which all manufacturing costs are charged to the product — direct materials, direct labour, and both variable and fixed manufacturing overhead (p. 651).

Activity index The activity that causes changes in the behaviour of costs (p. 646).

Break-even point The level of activity at which total revenues equal total costs (p. 656).

Contribution margin (CM) The amount of revenue remaining after deducting variable costs (p. 655).

Cost behaviour analysis The study of how specific costs respond to changes in the level of activity within a business (p. 646).

Cost–volume–profit (CVP) analysis The study of the effects of changes in costs and volume on a business's profits (p. 654).

Cost–volume–profit (CVP) graph A graph showing the relationship between costs, volume and profits (p. 658).

Cost–volume–profit (CVP) statement of financial performance A statement for internal use that classifies costs and expenses as fixed or variable and reports contribution margin in the body of the statement (p. 666).

Fixed costs Costs that remain the same in total regardless of changes in the activity level within the relevant range (p. 647).

Margin of safety The difference between actual or expected sales and sales at the break-even point (p. 660).

Mixed costs Costs that contain both a variable and a fixed cost element and change in total but not proportionately with changes in the activity level (p. 649).

Relevant range The range of the activity index over which the business expects to operate during the year (p. 648).

Sales mix The relative combination in which a business's products are sold (p. 663).

Target net profit The profit objective for individual product lines; it indicates the sales necessary to achieve a specified level of profit (p. 660).

Variable costing A costing approach in which only direct materials, direct labour and variable manufacturing overhead costs are product costs and fixed manufacturing overhead costs are period costs (expenses) (p. 651).

Variable costs Costs that vary in total directly and proportionately with changes in the activity level within the relevant range (p. 646).

CHAPTER 15

Budget A formal written summary of management's plans for a specified future time period, expressed in financial terms (p. 684).

Budgetary control The use of budgets to control operations (p. 699).

Budgeted statement of financial position A projection of financial position at the end of the budget period (p. 696).

Budgeted statement of financial performance An estimate of the expected profitability of operations for the budget period (p. 692).

Cash budget A projection of anticipated cash flows (p. 693).

Controllable costs Costs that a manager has the authority to incur within a given period of time (p. 710).

Controllable margin Contribution margin less controllable fixed costs (p. 714).

Cost centre A responsibility centre that incurs costs but does not directly generate revenues (p. 712).

Decentralisation Control of operations is delegated by top management to many managers throughout the organisation (p. 709).

Direct fixed costs Costs that relate specifically to a responsibility centre and are incurred for the sole benefit of the centre; also called traceable costs (p. 713).

Direct labour budget A projection of the quantity and cost of direct labour to be incurred to meet production requirements (p. 690).

Direct materials budget An estimate of the quantity and cost of direct materials to be purchased (p. 689).

Financial budgets Individual budgets that indicate the cash resources needed for expected operations and planned capital expenditures (p. 687).

Flexible budget A projection of budget data for various levels of activity (p. 702).

Indirect fixed costs Costs that are incurred for the benefit of more than one profit centre; also called common costs (p. 713).

Investment centre A responsibility centre that incurs costs, generates revenues, and has control over the investment funds available for use (p. 712).

Long-range planning A formalised process of selecting strategies to achieve long-term goals and developing policies and plans to implement the strategies (p. 686).

Management by exception The review of budget reports by top management directed entirely or mainly to differences between actual results and planned objectives (p. 707).

Manufacturing overhead budget An estimate of expected manufacturing overhead costs for the budget period (p. 691).

Master budget A set of interrelated budgets that constitutes a plan of action for a specific time period (p. 687).

Non-controllable costs Costs incurred indirectly and allocated to a responsibility centre that are not controllable at that level (p. 710).

Operating budgets Individual budgets that culminate in a budgeted statement of financial performance (p. 687).

Production budget A projection of the units that must be produced to meet anticipated sales (p. 688).

Profit centre A responsibility centre that incurs costs and also generates revenues (p. 712).

Purchases budget The estimated cost of goods to be purchased in a retail entity to meet expected sales (p. 698).

Responsibility accounting A part of management accounting that involves accumulating and reporting revenues and costs on the basis of the individual manager who has the authority to make the

day-to-day decisions about the items (p. 708).

Responsibility reporting system The preparation of reports for each level of responsibility shown in the company's organisation chart (p. 710).

Return on investment (ROI) A measure of management's effectiveness in using assets at its disposal in an investment centre (p. 715).

Sales budget An estimate of expected sales for the budget period (p. 688).

Sales forecast The projection of potential sales for the industry and the entity's expected share of such sales (p. 686).

Segment An area of responsibility in decentralised operations (p. 709).

Selling and administrative expense budget A projection of anticipated selling and administrative expenses for the budget period (p. 692).

Static budget A projection of budget data at one level of activity (p. 700).

CHAPTER 16

Capital budgeting The process of making capital expenditure decisions in business (p. 749).

Cash payback technique A capital budgeting technique that identifies the time period required to recover the cost of a capital investment from the annual cash inflow produced by the investment (p. 761).

Cost of capital The average rate of return that the business must pay to obtain borrowed and equity funds (p. 754).

Discounted cash flow technique A capital budgeting technique that considers both the estimated total cash inflows from the investment and the time value of money (p. 752).

Incremental analysis The process of identifying the financial data that change under alternative courses of action (p. 743).

Internal rate of return method A method used in capital budgeting that results in finding the interest yield of the potential investment. It is the rate that will cause the present value of the proposed capital expenditure to equal the present value of the expected cash inflows. (p. 756).

Net present value (NPV) method A method used in capital budgeting in which cash inflows are discounted to their present value and then compared with the capital outlay required by the investment (p. 752).

Opportunity cost The potential benefit that may be obtained from following an alternative course of action (p. 744).

Relevant cost Those costs and revenues that differ across alternatives (p. 744).

Return on average investment method The determination of the profitability of a capital expenditure by dividing expected annual net profit by the average investment (p. 761).

Sunk cost A cost that cannot be changed or avoided by any present or future decision (p. 744).