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SHORT NOTES

According to new syllabus

MGT101 – Financial Accounting



Prepared By

MUHAMMAD IMRAN

account

An accounting record in which the results of transactions are accumulated; shows increases, decreases, and a balance.

account payable

An amount owed to a supplier for good or services purchased on credit; payment is due within a short time period, usually 30 days or less.

account receivable

A current asset representing money due for services performed or merchandise sold on credit.

account receivable turnover

A measure used to determine a company's average collection period for receivables; computed by dividing net sales (or net credit sales) by average accounts receivable.

accounting

A service activity designed to accumulate, measure, and communicate financial information about economic entities for decision-making purposes.

accounting cycle

The procedures for analyzing, recording, classifying, summarizing, and reporting the transactions of a business.

accounting model

The basic accounting assumptions, concepts, principles, and procedures that determine the manner of recording, measuring, and reporting an entity's transactions.

accounting system

The set of manual and computerized procedures and controls that provide for identifying relevant transactions or events; preparing accurate source documents, entering data into the accounting records accurately, processing transactions accurately, updating master files properly, and generating accurate documents and reports.

accrual basis

Gross income is recognized when earned.

accrual-basis accounting

A system of accounting in which revenues and expenses are recorded as they are earned and incurred, not necessarily when cash is received or paid.

accrued expenses

Expenses that arise through adjusting entries when accounting for unrecorded expenses.

accrued liabilities

Liabilities that arise through adjusting entries when accounting for unrecorded liabilities.

accumulated depreciation

The total depreciation recorded on an asset since its acquisition; a contra account deducted from the orig securities of an asset on the balance sheet.

acid-test ratio (or quick ratio)

A measure of a firm's ability to meet current liabilities; more restrictive than the current ratio, it is computed by dividing net quick assets (all current assets, except inventories and prepaid expenses) by current liabilities.

adjusted gross income

An individual taxpayer's total income minus deductions (adjustments) for individual retirement plan contributions and alimony paid.

adjusting entries

Entries required at the end of each accounting period to recognize, on an accrual basis, revenues and expenses for the period and to report proper amounts for asset, liability, and owners' equity accounts.

adjustments to gross income

Amounts deducted from the gross income of an individual taxpayer in arriving at adjusted gross income; includes contributions to individual retirement plans and alimony paid.

adverse opinion

Audit report indicating the auditor believes the overall financial statements are so materially misstated or misleading that the statements do not fairly represent the financial position or results of the operations and cash flows.

aging accounts receivable

The process of categorizing each account receivable by the number of days it has been outstanding.

Allowance for Uncollectible Accounts

A contra account, deducted from Accounts Receivable, that shows the estimated losses from uncollectible accounts.

allowance method

The recording of estimated losses due to uncollectible accounts as expenses during the period in which the sales occurred.

amortization

The process of cost allocation that assigns the original cost of an intangible asset to the periods benefited.

annual report

A document that summarizes the results of operations and financial status of a company for the past year and outlines plans for the future.

annuity

A series of equal amounts to be received or paid at the end of equal time intervals.

arm's-length transactions

Business dealings between independent and rational parties who are looking out for their own interests.

articulation

The interrelationships among the financial statements.

asset turnover ratio

An overall measure of how effectively assets are used during a period; computed by dividing net sales by average total assets.

assets

Economic resources that are owned or controlled by an entity.

audit

The result of an independent accountant's review of the statements and footnotes to ensure compliance with generally accepted accounting principles and to render an opinion on the fairness of the financial statements.

audit committee

Members of a client's board of directors who are responsible for dealing with the external and internal auditors.

audit report

A report issued by an independent CPA that expresses an opinion about whether the financial statements present fairly a company's financial position, operating results, and cash flows in accordance with generally accepted accounting principles.

authorized stock

The amount and type of stock that may be issued by a company, as specified in its articles of incorporation.

available-for-sale securities

Debt and equity securities not classified as trading, held-to-maturity, or equity method securities

bad debt

balance sheet (statement of financial position)

The financial statement that shows the assets, liabilities, and owners' equity of an entity at a particular date.

reconciliation

The process of systematically comparing the cash balance as reported by the bank with the cash balance on the company's books and explaining any differences.

basket purchase

The purchase of two or more assets acquired together at a single price.

board of directors

Individuals elected by the stockholders to govern a corporation.

bond

A contract between a borrower and a lender in which the borrower promises to pay a specified rate of interest for each period the bond is outstanding and repay the principal at the maturity date.

bond carrying value

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The face value of bonds minus the unamortized discount or plus the unamortized premium.

bond discount

The difference between the face value and the sales price when bonds are sold below their face value.

bond indenture

A contract between a bond issuer and a bond purchaser that specifies the terms of a bond.

bond maturity date

The date at which a bond principal or face amount becomes payable.

bond premium

The difference between the face value and the sales price when bonds are sold above their face value.

book value

The net amount shown in the accounts for an asset, liability, or owners' equity item.

book value per share

A measure of net worth; computed by dividing stockholders' equity for each class of stock by the number of shares outstanding for that class.

business

An organization operated with the objective of making a profit from the sale of goods or services.

business documents

Records of transactions used as the basis for recording accounting entries; includes invoices, check stubs, receipts, and similar business papers.

business expenses

Expenses that have been paid or incurred in the course of business and that are ordinary, necessary, and reasonable in amount

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calendar year

An entity's reporting year, covering 12 months and ending on December 31.

callable bonds

Bonds for which the issuer reserves the right to pay the obligation before its maturity date.

capital

The total amount of money or other resources owned or used to acquire future income or benefits.

capital account

An account in which a proprietor's or partner's interest in a firm is recorded; it is increased by owner investments and net income and decreased by withdrawals and net losses.

capital expenditure

An expenditure that is recorded as an asset because it is expected to benefit more than the current period.

capital gain

The excess of the selling price over the cost basis when assets, such as securities and other personal and investment assets, are sold.

capital lease

A leasing transaction that is recorded as a purchase by the lessee.

capital stock

The portion of a corporation's owners' equity contributed by investors (owners) in exchange for shares of stock.

cash

Coins, currency, money orders, checks, and funds on deposit with financial institutions; the most liquid of assets.

cash basis

Gross income is recognized when cash is received.

cash disbursements journal

A special journal in which all cash paid out for supplies, merchandise, salaries, and other items is recorded.

cash dividend

A cash distribution of earnings to shareholders.

cash equivalents

Short-term, highly liquid investments that can be converted easily into cash.

cash inflows

Any current or expected revenues or savings directly associated with an investment.

cash outflows

The initial cost and other expected outlays associated with an investment.

cash over and short

An account used to record overages and shortages in petty cash.

cash receipts journal

A special journal in which all cash received, from sales, interest, rent, or other sources, is recorded.

cash-basis accounting

A system of accounting in which transactions are recorded and revenues and expenses are recognized only when cash is received or paid.

ceiling

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The maximum market amount at which inventory can be carried on the books; equal to net realizable value.

certified public accountant (CPA)

A special designation given to an accountant who has passed a national uniform examination and has met other certifying requirements; CPA certificates are issued and monitored by state boards of accountancy or similar agencies.

chart of accounts

A systematic listing of all accounts used by a company.

charter (articles of incorporation)

A document issued by a state that gives legal status to a corporation and details its specific rights, including the authority to issue a certain maximum number of shares of stock.

classified balance sheet

A balance sheet in which assets and liabilities are subdivided into current and noncurrent categories.

closed transaction

A transaction that is completed within the accounting period; both the purchase and payment or sale and receipt of payment occur within the same accounting period.

closing entries

Entries that reduce all nominal, or temporary, accounts to a zero balance at the end of each accounting period, transferring their preclosing balances to a permanent balance sheet account.

code of professional ethics

Rules set by the AICPA's Committee on Professional Ethics, which govern the conduct of CPAs.

common stock

The most frequently issued class of stock; usually it provides a voting right but is secondary to preferred stock in dividend and liquidation rights.

comparative financial statements

Financial statements in which data for two or more years are shown together.

compound journal entry

A journal entry that involves more than one debit or more than one credit or both.

compounding period

The period of time for which interest is computed.

conduit principle

The idea that all income earned by an entity must be passed through to the owners and reported on their individual tax returns; applicable to proprietorships, partnerships, and S corporations.

consignee

A vendor who sells merchandise owned by another party, known as the consignor, usually on a commission basis.

consignment

An arrangement whereby merchandise owned by one party (the consignor) is sold by another party (the consignee), usually on a commission basis.

consignor

The owner of merchandise to be sold by someone else, known as the consignee.

consolidated financial statements

Statements that report the combined operating results, financial position, and cash flows of two or more legally separate but affiliated companies as if they were one economic entity.

contingent liability

A potential obligation, dependent upon the occurrence of future events.

contra account

An account that is offset or deducted from another account.

contributed capital

The portion of owners' equity contributed by investors (the owners) in exchange for shares of stock.

control account

A summary account in the General Ledger that is supported by detailed individual accounts in a subsidiary ledger.

control activities

Policies and procedures used by management to meet its objectives; generally divided into adequate segregation of duties, proper authorization of transactions and activities, adequate documents and records, physical control over assets and records, and independent checks on performance.

control environment

The actions, policies, and procedures that reflect the overall attitudes of top management, the directors, and the owners about control and its importance to the entity.

convertible bonds

Bonds that can be traded for, or converted to, other securities after a specified period of time.

convertible preferred stock

Preferred stock that can be converted to common stock at a specified conversion rate.

corporation

A legal entity chartered by a state; ownership is represented by transferable shares of stock.

cost method of accounting for investments in stock

Method used to account for an investment in the stock of another company when less than 20 percent of the outstanding voting stock is owned.

cost of goods sold

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The expense incurred to purchase or manufacture the merchandise sold during a period.

cost principle

The idea that transactions are recorded at their historical costs or exchange prices at the transaction date.

coupon bonds

Unregistered bonds for which owners receive periodic interest payments by clipping a coupon from the bond and sending it to the issuer as evidence of ownership.

credit

An entry on the right side of the account.

credit card draft

The part of the multiple-page credit form that is sent by the retailer to the credit card company for reimbursement of the stated amount.

cumulative-dividend preference

The rights of preferred stockholders to receive current dividends plus all dividends in arrears before common stockholders receive any dividends. current assets: Cash and other assets that may reasonably be expected to be converted to cash within a year or during the normal operating cycle.

current (or working capital) ratio

A measure of the liquidity of a business; equal to current assets divided by current liabilities.

current-dividend preference

The right of preferred shareholders to receive current dividends before common shareholders receive dividends.

date of record

The date selected by a corporation's board of directors on which the shareholders of record are identified as those who will receive dividends.

debentures (unsecured bonds)

Bonds for which no collateral has been pledged.

debit

An entry on the left side of an account.

debt financing

Acquiring funds by borrowing money from creditors in the form of long-term notes, mortgages, leases, or bonds.

debt securities

Financial instruments issued by a company that carry with them a promise of interest payments and the repayment of principal.

debt-equity management ratio

A measurement of the relative utilization of debt and equity; computed by dividing average total assets by average stockholders' equity.

declaration date

The date on which a corporation's board of directors formally decides to pay a dividend to shareholders.

declining-balance depreciation method

An accelerated depreciation method in which an asset's book value is multiplied by a constant depreciation rate (such as double the straight-line percentage, in the case of double-declining-balance.)

deduction

Business expenses or losses that are subtracted from gross income in computing taxable income.

Deferred Income Taxes

An account used to record the difference between income tax expense on the income statement and income taxes payable for the year to federal and state governments.

depletion

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The process of cost allocation that assigns the original cost of a natural resource to the periods benefited.

depreciation

The process of cost allocation that assigns the original cost of plant and equipment to the periods benefited.

direct method

A method of reporting net cash flow from operations that shows the major classes of cash receipts and payments for a period of time.

direct write-off method

The recording of actual losses from uncollectible accounts as expenses during the period in which accounts receivable are determined to be uncollectible.

disclaimer of opinion

A disclaimer indicating the auditor was unable to satisfy himself or herself that the overall financial statements were fairly present in accordance with GAAP.

discount

The amount charged by a financial institution when a note receivable is discounted; calculated as maturity value times discount rate times discount period.

discount period

The time between the date a note is sold to a financial institution and its maturity date.

discount rate

The interest rate charged by a financial institution for buying a note receivable.

discounting a note receivable

The process of the payee's selling notes to financial institution for less than the maturity value.

diversified companies

Companies operating in more than one line of business.

dividend payment date

The date on which a corporation pays dividends to its shareholders.

dividends

Distributions to owners (stockholders) of a corporation.

dividends account

The account used to reflect periodic distributions of earnings to the owners (stockholders) of a corporation.

dividends in arrears

Missed dividends for past years that preferred stockholders have a right to receive under the cumulative-dividend preference if and when dividends are declared.

double-entry accounting

A system of recording transactions in a way that maintains the equality of the accounting equation.

drawings

Distribution to the owner(s) of a proprietorship or partnership; similar to dividends for a corporation.

drawings account

The account used to reflect periodic withdrawals of earnings by the owner (proprietor) or owners (partners) of a proprietorship or partnership.

earnings per share (EPS)

The amount of net income (earnings) related to each share of stock; computed by dividing net income by the number of shares of common stock outstanding during the period.

EDP (electronic data processing)

A term referring to the use of computers in recording, classifying, manipulating, and summarizing data.

effective (yield or market) rate of interest

The actual interest rate earned or paid on a bond investment.

effective tax rate

A tax rate that reflects the percentage of the actual tax liability to the accounting income generated by the company, that is, net tax liability/financial (book) income before taxes.

effective-interest amortization

A method of systematically writing off a bond premium or discount that takes into consideration the time value of money and results in an equal rate of amortization for each period.

electronic data processing (EDP)

A term referring to the use of computers in recording, classifying, manipulating, and summarizing data.

entity

An organizational unit (a person, partnership, or corporation) for which accounting records are kept and about which accounting reports are prepared.

EPS (earnings per share)

The amount of net income (earnings) related to each share of stock; computed by dividing net income by the number of shares of common stock outstanding during the period.

equity financing

Acquiring funds in the form of investments by owners (proprietor, partner, or stockholder).

equity method or accounting for investments in sto

Method used to account for an investments in the stock of another company when significant influence can be imposed (presumed to exist when 20 to 50 percent of the outstanding voting stock is owned).

equity securities

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Shares of ownership in a corporation that can change significantly in value and that provide for a return to investors in the form of dividends.

exchange gain or loss

The gain or loss incurred when the exchange rates are different on the purchase and payment dates or on the sale and receipt of payment dates.

exchange rate

The value of one currency in terms of another.

exclusions

Gross receipts that are not subject to tax and are not included in gross income, such as interest on state and local government bonds.

expenses

Costs incurred in the normal course of business to generate revenues.

external auditors

Independent CPAs who are retained by organizations to perform audits of financial statements.

external audits

Audits conducted by CPAs who are independent of the client company.

extraordinary items

Nonoperating gains and losses that are unusual in nature, infrequent in occurrence, and material in amount.

factor

To sell accounts receivable at a discount before they are due.

fair market value

The current value of an asset, e.g., the amount at which an asset could be sold or purchased in an arm's-length transaction.

FASB (Financial Accounting Standards Board)

The private organization responsible for establishing the standards for financial accounting and reporting in the United States.

FCPA (Foreign Corrupt Practices Act)

Legislation requiring any company that has publicly-traded stock to maintain records that accurately and fairly represent the company's transactions; additionally, requires any publicly-traded company to have an adequate system of internal accounting controls.

FICA (social security) taxes

Federal Insurance Contributions Act taxes imposed on employee and employer; used mainly to provide retirement benefits.

FIFO (first-in, first-out)

An inventory cost flow whereby the first goods purchased are assumed to be the first goods sold so that the ending inventory consists of the most recently purchased goods.

financial accounting

The area of accounting concerned with reporting financial information to interested external parties.

Financial Accounting Standards Board (FASB)

The private organization responsible for establishing the standards for financial accounting and reporting in the United States.

financial statements

Reports such as the balance sheet, income statement, and statement of cash flows, which summarize the financial status and results of operations of a business entity.

financing activities

Transactions and events whereby resources are obtained from, or repaid to, owners (equity financing) and creditors (debt financing).

fiscal year

An entity's reporting year, covering a 12 month accounting period.

floor

The minimum market amount at which inventory can be carried on the books; equal to net realizable value minus a normal profit.

FOB (free-on-board) destination

A business term meaning that the seller of merchandise bears the shipping costs and maintains ownership until the merchandise is delivered to the buyer.

FOB (free-on-board) shipping point

A business term meaning that the buyer of merchandise bears the shipping costs and acquires ownership at the point of shipment.

Foreign Corrupt Practices Act (FCPA)

Legislation requiring any company that has publicly-traded stock to maintain records that accurately and fairly represent the company's transactions; additionally, requires any publicly-traded company to have an adequate system of internal accounting controls.

franchise

An entity that has been licensed to sell the product of a manufacturer or to offer a particular service in a given area.

freight-in

An account used with the periodic inventory method for recording the costs of transporting into a firm all purchased merchandise intended for sale; added to purchases in calculating cost of goods sold.

functional currency

The currency in which a subsidiary conducts most of its business; generally, but not always, the currency of the country where it does most of its spending and earning.

GAAP (generally accepted accounting principles)

Authoritative guidelines that define accounting practice at a particular time.

GAAS (generally accepted auditing standards)

Auditing standards developed by the AICPA.

general-purpose financial statements

The financial reports intended for use by a variety of external groups; they include the balance sheet, the income statement, and the statement of cash flows.

generally accepted accounting principles (GAAP)

Authoritative guidelines that define accounting practice at a particular time.

generally accepted auditing standards (GAAS)

Auditing standards developed by the AICPA.

going concern

The idea that an accounting entity will have a continuing existence for the foreseeable future.

goodwill

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An intangible asset that exists when a business is valued at more than the fair market value of its net assets, usually due to strategic location, reputation, good customer relations, or similar factors; equal to the excess of the purchase price over the fair market value of the net assets purchased.

gross income

The taxable portion of a taxpayer's gross receipts.

gross margin

The excess of net sales revenue over the cost of goods sold.

gross margin method

A procedure for estimating the amount of ending inventory; the historical relationship of cost of goods sold to sales revenue is used in computing ending inventory.

gross sales

Total recorded sales before deducting any sales discounts or sales returns and allowances.

gross tax liability

The amount of tax computed by multiplying the tax base (taxable income) by the appropriate tax rates.

held-to-maturity securities

Debt securities purchased by an investor with the intent of holding the securities until they mature.

historical cost

The dollar amount originally exchanged in an arm's-length transaction; an amount assumed to reflect the fair market value of an item at the transaction date.

historical exchange rate

The exchange rate that existed on the date of a transaction.

horizontal analysis of financial statements

A technique for analyzing the percentage change in individual income statement or balance sheet items from one year to the next.

imprest petty cash fund

A petty cash fund in which all expenditures are documented by vouchers or vendors' receipts or invoices, the total of the vouchers and cash in the fund should equal the established balance.

income statement (statement of earnings)

The financial statement that summarizes the revenues generated and the expenses incurred by an entity during a period of time.

income taxes payable

The amount expected to be paid to the federal and state governments based on the income before taxes reported on the income statement.

independent checks

Procedures for continual internal verification of other controls. indirect method: A method of reporting net cash flow from operations that involves converting accrual-basis net income to a cash basis.

inflation

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An increase in the general price level of goods and services; alternatively, a decrease in the purchasing power of the dollar.

intangible assets

Long-lived assets without physical substance that are used in business, such as licenses, patents, franchises, and goodwill.

intercompany transaction

A transaction between a parent company and a subsidiary company.

interest

The payment (cost) for the use of money.

interest rate

The cost of using money, expressed as an annual percentage.

internal auditors

An independent group of experts in controls, accounting, and operations, who monitor operating results and financial records, evaluate internal controls, assist with increasing the efficiency and effectiveness of operations, and detect fraud.

internal control structure

Safeguards in the form of policies and procedures established to provide management with reasonable assurance that the objectives of an entity will be achieved.

inventory

Goods held for resale.

inventory cutoff

The determination of which items should be included in the year-end inventory balance.

inventory turnover ratio

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A measure of the efficiency with which inventory is managed; computed by dividing cost of goods sold by average inventory for a period.

investing activities

Transactions and events that involve the purchase and sale of securities (excluding cash equivalents), property, plant, equipment, and other assets not generally held for resale, and the making and collecting of loans.

issued stock

Authorized stock originally issued to stockholders; it may or may not still be outstanding.

itemized deduction

Amounts paid by an individual taxpayer for personal and quasi-business expenses that can be deducted in computing taxable income, such as medical expenses, property and income taxes, mortgage and investment interest, charitable contributions, moving expenses, casualty and theft losses, and certain miscellaneous expenses

JIT (just-in-time) inventory

An inventory system that allows for the elimination of inventory stockpiles and inefficiency and waste; raw materials arrive "just in time" for production and finished goods "just in time" for sale.

journal

An accounting record in which transactions are first entered; provides a chronological record of all business activities.

journal entry

A recording of a transaction where debits equal credits; usually includes a date and an explanation of the transaction.

junk bonds

Bonds issued by companies in weak financial condition with large amounts of debt already outstanding; these bonds yield high rates of return because of the high risk.

just-in-time (JIT) inventory

An inventory system that allows for the elimination of inventory stockpiles and inefficiency and waste; raw materials arrive "just in time" for production and finished goods "just in time" for sale

lapping

A procedure used to conceal the theft of cash by crediting the payment from one customer to another customer's account on a delayed basis.

LCM (lower cost or market)

A basis for valuing certain assets at the lower of original cost or current market value.

lease

A contract that specifies the terms under which the owner of an asset (the lessor) agrees to transfer the right to use the asset to another party (the lessee).

ledger

A book of accounts in which data from transactions recorded in journals are posted and thereby classified and summarized.

legal capital

The amount of contributed capital not available for dividends; usually equal to the par or stated value of outstanding capital stock.

lessee

The party that is granted the right to use property under the terms of a lease.

lessor

The owner of property that is rented (leased) to another party.

liabilities

Obligations measurable in monetary terms that represent amounts owed to creditors, governments, employees, and other parties.

license

The right to perform certain activities, generally granted by a governmental agency.

LIFO (last-in, first-out)

An inventory cost flow whereby the last goods purchased are assumed to be the first goods sold so that the ending inventory consists of the first goods purchased.

limited liability

The legal protection given stockholders whereby they are responsible for the debts and obligations of a corporation only to the extent of their capital contributions.

liquidation

The process of dissolving a business by selling the assets, paying the debts, and distributing the remaining equity to the owners.

liquidity

A company's ability to meet current obligations with cash or other assets that can be quickly converted to cash.

long-term investment

An expenditure to acquire a non-operating asset that is expected to increase in value or generate income for longer than 1 year.

long-term liabilities

Debts or other obligations that will not be paid within one year.

loss per share

The amount of net loss related to each share of stock; computed by dividing net loss by a number of shares of common stock outstanding during the period.

losses

Costs that provide no benefit to an organization.

lower cost or market (LCM)

A basis for valuing certain assets at the lower of original cost or current market value.

MACRS (modified accelerated cost recovery system)

IRS regulations that allocate the cost of an asset according to predefined recovery periods and percentages.

maker

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A person (entity) who signs a note to borrow money and who assumes responsibility to pay the note at maturity.

management accounting

The area of accounting concerned with providing internal financial reports to assist management in making decisions.

Market Adjustment-Trading Securities account

An account used to track the difference between the historical cost and the market value of a company's portfolio of trading securities.

matching principle

The concept that all costs and expenses incurred in generating revenues must be recognized in the same reporting period as the related revenues.

maturity date

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The date on which a note or other obligation becomes due.

maturity value

The amount of an obligation to be collected or paid at maturity; equal to principal plus any interest.

merger

The acquisition of one company by another company whereby the companies combine as one legal entity, with the acquired company going out of existence.

minority interest

The interest owned in a subsidiary by stockholders other than those of the parent company; occurs when the acquiring company has less than a 100 percent ownership interest.

modified accelerated cost recovery system (MACRS)

IRS regulations that allocate the cost of an asset according to predefined recovery periods and percentages.

monetary measurement

The idea that money, as the common medium of exchange, is the accounting unit of measurement, and that only economic activities measurable in monetary terms are included in the accounting model.

mortgage amortization schedule

A schedule that shows the breakdown between interest and principal for each payment over the life of a mortgage.

mortgage payable

A written promise to pay a stated amount of money at one or more specified future dates; a mortgage is secured by the pledging of certain assets, usually real estate, as collateral.

moving average

A perpetual inventory cost flow alternative whereby the cost of goods sold and the cost of ending inventory are determined by using a weighted-average cost of all merchandise on hand after each purchase.

mutual agency

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The right of all partners in a partnership to act as agents for the normal business operations of the partnership, with the authority to bind it to a business agreements.

natural resources

Assets that are physically consumed or waste away, such as oil, minerals, gravel, and timber.

net assets (owners' equity)

The ownership interest in the assets of an entity; equal total assets minus total liabilities.

net income (or net loss)

A measure of the overall performance of a business entity; equal to revenues minus expenses for the period.

net proceeds

The difference between maturity value and discount when a note receivable is discounted.

net realizable value

The selling price of an item less reasonable selling costs.

net realizable value of accounts receivable

The net amount that would be received if all receivables considered collectible were collected; equal to total accounts receivable less the allowance for uncollectible accounts; also called the book value of accounts receivable.

net sales

Gross sales less sales discounts and sales returns and allowances.

net tax liability

The amount of tax computed by subtracting tax credits from the gross tax liability.

no-par stock

Stock that does not have a par value printed on the face of the stock certificate.

nominal accounts

Accounts that are closed to a zero balance at the end of each accounting period; temporary accounts generally appearing on the income statement.

noncash items

Items included in the determination of net income on an accrual basis that do not affect cash; examples are depreciation and amortization.

noncash transactions

Investing and financing activities that do not affect cash; if significant, they are disclosed below the statement of cash flows or in the notes to the financial statements.

nonoperating assets

Investment and other assets not used in a business but held to earn a return separate from operations.

nonprofit organization

An entity without a profit objective, oriented toward providing services efficiently and effectively.

note payable

A debt owed to a creditor, evidenced by an unconditional written promise to pay a certain sum of money on or before a specified future date.

note receivable

A claim against a debtor, evidenced by an unconditional written promise to pay a certain sum of money on or before a specified future date.

notes to financial statements

Explanatory information considered an integral part of the financial statements.

NSF (not sufficient funds) check

A check that is not honored by a bank because of insufficient cash in the customer's account.

number of days' of inventory on hand

An alternative measure of how well inventory is being managed; computed by dividing 365 days by the inventory turnover ratio.

number of days' sales in receivables

A measure of the average number of days it takes to collect a credit sale; computed by dividing 365 days by the accounts receivable turnover.

number of days' sales invested in working capital

An alternative measure of the amount of working capital used in generating the sales of a period; computed by dividing 365 days by the working capital turnover.

open transaction

A transaction that is not completed at the end of the accounting period; a purchase that has not yet been paid for or a sale where payment is yet to be collected when the accounting period ends.

operating activities

Transactions and events that enter into the determination of net income.

operating assets

Long-term, or noncurrent, assets acquired for use in the business rather than for resale; includes property, plant, and equipment; intangible assets; and natural resources.

operating lease

A simple rental agreement.

operating leverage

The extent to which fixed costs are part of a company's cost structure; the higher the proportion of fixed costs, the faster income increases or decreases with sales volumes.

operating performance ratio

An overall measure of the efficiency of operations during a period; computed by dividing net income by net sales.

organizational structure

Lines of authority and responsibility.

other revenues and expenses

Items incurred or earned from activities that are outside, or peripheral to, the normal operations of a firm.

outstanding stock

Issued stock that is still being held by investors.

owners' equity (net assets)

The ownership interest in the assets of an entity; equal total assets minus total liabilities.

P/E (price earnings) ratio

A measure of growth potential, earnings stability, and management capabilities; computed by dividing market price per share by earnings per share.

par-value stock

MGT101 SHORT NOTES BY M.IMRAN

Stock that has a nominal value assigned to it in the corporation's charter and printed on the face of each share of stock.

parent company

A company that owns or maintains control over other companies, known as subsidiaries, which are themselves separate legal entities; control generally refers to more than 50 percent ownership of the stock of another company.

partnership

An association of two or more individuals or organizations to carry on economic activity.

partnership agreement

A legal agreement between partners; it usually specifies, among other things, the capital contributions to be made by each partner, the ratios in which partnership earnings and losses will be distributed, the management responsibilities of the partners, and the partners' rights to transfer or sell their individual interests.

patent

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An exclusive right granted for 17 years by the federal government to manufacture and sell an invention.

payee

The person (entity) to whom payment on a note is to be made.

pension plan

A contract between a company and its employees whereby the company agrees to pay benefits to employees after their retirement.

periodic inventory method

A system of accounting for inventory in which cost of goods sold is determined and inventory is adjusted at the end of the accounting period, not when merchandise is purchased or sold.

perpetual inventory method

A system of accounting for inventory in which detailed records of the number of units and the cost of each purchase and sales transactions are prepared throughout the accounting period.

petty cash fund

A small amount of cash kept on hand for making miscellaneous payments.

physical safeguards

Physical precautions used to protect assets and records, such as locks on doors, fireproof vaults, password verification, security gauds.

post-closing trial balance

A listing of all real account balances after the closing process has been completed; provides a means of testing whether total debits equal total credits for all real accounts prior to beginning a new accounting cycle.

posting

The process of transferring amounts from the journal to the ledger.

preemptive right

The right of current stockholders to purchase additional shares of stock in order to maintain their same percentage of ownership if new shares are issued.

preferred stock

A class of stock that usually provides dividend and liquidation preferences over common stock.

premium on stock

The excess of the issuance (market) price of stock over its par or stated value.

prepaid expenses

Payments made in advance for items normally charged to expense.

present value of \$1

The value today of \$1 to be received or paid at some future date given a specified interest rate.

present value of an annuity

The value today of a series of equally spaced, equal-amount payments to be made or received in the future given a specified interest rate.

price-earnings (P/E) ratio

A measure of growth potential, earnings stability, and management capabilities; computed by dividing market price per share by earnings per share.

primary financial statements

The balance sheet, income statement, and statement of cash flows, used by external groups to assess a company's economic standing.

principal (face value or maturity value)

The amount that will be paid on a bond at a maturity date.

principal on a note

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The face amount of a note; the amount (excluding interest) that the maker agrees to pay the payee.

prior-period adjustments

Adjustments made directly to Retained Earnings in order to correct errors in the financial statements of prior periods.

pro rata

A term describing an allocation that is based on a proportionate distribution of the total.

profitability

A company's ability to generate revenues in excess of the costs incurred in producing those revenues.

proper authorization

Policy regarding either a general class of transactions such as inventory or a specific transaction to achieve control objectives.

property dividend

The distribution to shareholders of assets other than cash.

property, plant, and equipment

Tangible, long-lived assets acquired for use in business operations; includes land, buildings, machinery, equipment, and furniture.

property, plant, and equipment turnover

A measure of how well property, plant, and equipment are being utilized in generating a period's sales; computed by dividing net sales by average property, plant and equipment.

proprietorship

A business owned by one person.

public companies

Entities whose stock is publicly traded.

purchase discount

A reduction in the purchase price, allowed if payment is made within a specified period.

purchase method

A method used to prepare consolidated financial statements when one company has acquired a controlling interest in another company with similar activities by exchanging cash or other assets for more than 50 percent of the acquired company's outstanding voting stock.

Purchase Returns and Allowances

A contra-purchase account used for recording the return of, or allowances for, previously purchased merchandise.

purchases account

An account in which all inventory purchases are recorded; used with the periodic inventory method.

purchases journal

A special journal in which credit purchases are recorded.

real accounts

Accounts that are not closed to a zero balance at the end of each accounting period; permanent accounts appearing on the balance sheet.

realized gains and losses

Gains and losses resulting from the sale of securities in an arm's length transaction.

receivables

Claims for money, goods, or services.

recourse

The right to seek payment on a discounted note from the payee if the maker defaults.

recovery period

The time period designated by Congress for depreciating business assets.

redemption value

The price, stated in the contract, to be paid by a company to repurchase preferred stock.

registered bonds

Bonds for which the names and addresses of the bondholders are kept on file by the issuing company.

relative fair market value method

A way of allocating a lump-sum or "basket" purchase price to the individual assets acquired based on their respective market values.

residual income

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The amount of net income an investment center is able to earn above a specified minimum rate of return on assets.

retail inventory method

A procedure for estimating the dollar amount of ending inventory; the ending inventory at retail prices is converted to a cost basis by using a ratio of the cost and the retail prices of goods available for sale.

retained earnings

The portion of a corporation's owners' equity that has been earned from profitable operations and not distributed to stockholders.

return on investment (ROI)

A measure of operating performance and efficiency in utilizing assets computed in its simplest form by dividing net income by average total assets.

return on sales revenue

A measure of operating performance; computed by dividing net income by total sales revenue.

return on stockholders' equity

A measure of overall performance from a stockholder's viewpoint; includes management of operations, uses of assets, and management of debt and equity, and is computed by dividing net income by average stockholder's equity.

return on total assets

An overall measure of the return to both stockholders and creditors; includes operating performance and asset turnover.

revenue recognition principle

The idea that revenues should be recorded when (1) the earnings process has been substantially completed and (2) an exchange has taken place.

revenues

Increases in a company's resources from the sale of goods or services.

ROI (return on investment)

A measure of operating performance and efficiency in utilizing assets computed in its simplest form by dividing net income by average total assets.

qualified opinion

Opinion issues when the work of the auditor has been limited in scope or the entity has failed to follow GAAP

S corporation

A domestic corporation that is recognized as a regular corporation under state law but is granted special status for federal income tax purposes.

sales discount

A reduction in the selling price that is allowed if payment is received within a specified period.

Sales Journal

A special journal in which credit sales are recorded.

Sales Returns and Allowances

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A contra-revenue account in which the return of, or allowance for, reduction in the price of merchandise previously sold is recorded.

sales tax payable

Money collected from customers for sales taxes, that must be remitted to local governments and other taxing authorities.

salvage, or residual, value

Estimated value or actual price of an asset at the conclusion of its useful life, net of disposal costs.

SEC (Securities and Exchange Commission)

The government body responsible for regulating the financial reporting practices of most publicly owned corporations in connection with the buying and selling of stocks and bonds.

secured bonds

Bonds for which assets have been pledged in order to guarantee repayment.

Securities and Exchange Commission (SEC)

The government body responsible for regulating the financial reporting practices of most publicly owned corporations in connection with the buying and selling of stocks and bonds.

segregation of duties

Strategy to provide an internal check on performance through separation of custody of assets from accounting personnel, separation of authorization of transactions from custody of related assets, separation of operational responsibilities from record keeping responsibilities.

shareholders (stockholders)

Individuals or organizations that own a portion (shares of stock) of a corporation.

significant influences

Influence presumed if a company owns between 20% and 50% of another company.

social security (FICA) taxes

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Federal Insurance Contributions Act taxes imposed on employee and employer; used mainly to provide retirement benefits.

solvency

A company's long-run ability to meet all financial obligations.

special journal

A book of original entry for recording similar transactions that occur frequently.

special order

An order that may be priced below the normal price in order to utilize excess capacity and thereby contribute to company profits.

specific identification

A method of valuing inventory and determining cost of goods sold whereby the actual costs of specific inventory items are assigned to them.

standard unqualified audit report

Audit report indicating that all auditing conditions have been met, no significant misstatements have been discovered and remain uncorrected, and the auditors feel the financial statements are fairly stated in accordance with generally accepted accounting principles.

stated rate of interest

The rate of interest printed on the bond.

stated value

A nominal value assigned to no-par stock by the board of directors of a corporation.

statement of cash flows

The financial statement that shows an entity's cash inflows (receipts) and outflows (payments) during a period of time.

statement of earnings (income statement)

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The financial statement that summarizes the revenues generated and the expenses incurred by an entity during a period of time.

statement of partners' capital

A partnership report showing the changes in the capital balances; similar to a statement of retained earnings for a corporation.

statement of retained earnings

A report that shows the changes in the Retained Earnings account during a period of time.

statement of stockholders' equity

A financial statement that reports all changes in stockholders' equity.

stock certificate

A document issued by a corporation to stockholders evidencing ownership in the corporation.

stock dividend

A pro rata distribution of additional shares of stock to shareholders.

stock split

The replacement of outstanding shares of stock with a greater number of new shares that have a proportionately lower par or stated value.

stockholders (shareholders)

Individuals or organizations that own a portion (shares of stock) of a corporation.

straight-line amortization

A method of systematically writing off a bond discount or premium in equal amounts each period until maturity.

straight-line depreciation method

The depreciation method in which the cost of an asset is allocated equally over the periods of an asset's estimated useful life.

subsidiary company

A company owned or controlled by another company, known as the parent company.

subsidiary ledger

A grouping of individual accounts that in total equal the balance of a control account in the General Ledger.

sum-of-the-years'-digits (SYD) depreciation method

The accelerated depreciation method in which a constant balance (cost minus salvage value) is multiplied by a declining depreciation rate.

supplies

Materials used in a business that do not generally become part of the sales product and were not purchased to be resold to customers.

SYD (sum-of-the-years'-digits) depreciation method

The accelerated depreciation method in which a constant balance (cost minus salvage value) is multiplied by a declining depreciation rate.

tangible personal business property

Depreciable operating assets of a business, other than real property, including machinery, furniture and fixtures, automobiles and trucks, and equipment.

term bonds

Bonds that mature in one lump sum at a specified future date.

time period (or periodicity) concept

The idea that the life of a business is divided into distinct and relatively short time periods so that accounting information can be timely.

times interest earned ratio

Ratio that indicates the company's margin above the fixed interest charged to be paid to creditors; calculated by dividing income before interest and income taxes by interest expense.

trading securities

Debt and equity securities purchased with the intent of selling them should the need for cash arise or to realize short-term gains.

transactions

Exchange of goods or services between entities (whether individuals, businesses, or other organizations), as well as other events having an economic impact on a business.

transportation costs

Costs of transferring merchandise into or out of a firm.

treasury stock

Issued stock that has subsequently been reacquired by the corporation.

trial balance

MGT101 SHORT NOTES BY M.IMRAN

A listing of all account balances; provides a means of testing whether total debits equal total credits for all accounts.

Uncollectible Accounts Expense

An account that represents the portion of the current period's receivables that are estimated to become uncollectible.

unearned revenues

Amounts received before they have been earned.

units-or-production depreciation method

The depreciation method in which the cost of an asset is allocated to each period on the basis of the productive output or use of the asset during the period.

unlimited liability

The lack of a ceiling on the amount of liability a proprietor or partner must assume; meaning that if business assets are not sufficient to settle creditor claims, the personal assets of the proprietor or partners may be used to settle the claims.

unrealized gains and losses

Gains and losses resulting from changes in the value of securities that are still being held.

unrecorded expenses

Expenses incurred during a period that have not been recorded by the end of that period.

unrecorded revenues

Revenues earned during a period that have not been recorded by the end of that period.

useful life

The term used to describe the life over which an asset is expected to be useful to the company; cost is assigned to the periods benefited from using the asset.

vertical analysis of financial statements

A technique for analyzing the relationships between items on an income statement or balance sheet by expressing all items as percentages.

weighted-average

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A periodic inventory cost flow alternative whereby the cost of goods sold and the cost of ending inventory are determined by using a weighted-average cost of all merchandise available for sale during the period.

work sheet

A columnar schedule used to summarize accounting data.

working capital

Current assets minus current liabilities.

working capital turnover

A measure of the amount of working capital used in generating the sales of a period; computed by dividing net sales by average working capital.

zero-interest bonds

Bonds issued with no promise of interest payments; only a lump sum payment will be made.

THE END

Imranhasan355@gmail.com