



CERTIFIED GENERAL ACCOUNTANTS OF ONTARIO

Certified General  
Accountants  
Name Your Need



## ABCs of Accounting: Accounting Definitions

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# Introduction

A basic premise of the accounting profession is to inform the owner(s) of a business what the business comprises and owes, as well as what profit or loss it has incurred.

Although the maintenance of financial books and basic forms of accounting have existed for centuries, the accounting profession is relatively new and continues to evolve. Like many other professionals, accountants have developed their own language or 'jargon' in an effort to do their jobs more efficiently.

To help you reach a better understanding of the basics of accounting, this booklet introduces and defines the more common accounting terms. When referring to these definitions, bear in mind that many terms do not have narrow and precise meanings in the legal sense. The financial definitions contained in this information booklet aim to increase understanding by non-accountants.



## Accountant

- an individual trained and knowledgeable in the profession of accountancy; and
- preferably a member of a professional accounting organization (e.g., a CGA, CMA or CA).

## Accountant's Communication

- the accountant's written communication that prefaces the financial statements; and
- additionally, see Auditors' Report, Review Engagement Report and Notice to Reader.

## Accounting (Accountancy)

- functions include analyzing, interpreting and examining the results of the bookkeeping process; and
- information system design and development of controls and procedures.

## Accounting Equation

- a description of the relationship between a company's assets, liabilities and equity; expressed as  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$ ; and
- also known as the balance sheet equation.

## Accrued Expense

- liability, created by consumption of economic benefit that has not been invoiced and does not require payment until a later date (e.g., accrued property taxes).

## Accrued Revenue

- an asset, created by realization of economic benefit, which normally is not due or invoiced until a later date (e.g., accrued interest income).

## Amortization

- systematic allocation of cost over a related time period
- the expensing of both tangible and intangible assets; and
- often referred to as "depreciation."

## Annuity

- a sequence of equal payments, usually made at regular intervals of time.

## Articles of Incorporation

- legal documents that recognize a corporation as a legal entity
- additionally, are granted by the federal or provincial jurisdiction in which the company is incorporated; and
- the documents would include the name of the company, the nature of business activities, and the number and types of capital stock it can sell.

## Asset

- anything of value owned or controlled by a corporation or individual—may be tangible or intangible; and
- anything owned by the company that provides a future benefit.

## Audit

- an examination of records or financial accounts to verify their accuracy; and
- additionally, see Audit (External); Compliance Audit; Environmental Audit; Forensic Audit; Internal Audit; and Operational Audit.

## Auditor

- see External Auditor; and
- see Internal Auditor.

## Auditors' Report

- the report that prefaces financial statements and expresses the opinion of the external auditor as to the fairness of the financial statements attached.

## Balance

- amount arrived at by adding all debits and subtracting all credits; and
- to ensure total debits equal total credits.

## Balance Sheet

- statement, at a particular point in time, of the financial position of a business or organization—divided into three parts—assets, liabilities and ownership (equity); and
- also known as statement of financial position.

## Bank Indebtedness

- balance of a bank account when funds withdrawn exceed funds deposited.

## Bank Reconciliation

- analysis that accounts for the difference between the balance shown on the bank statement and the balance shown in the accounting records on a given date.

## Bankrupt

- legal status of a person or corporation who/that is unable to pay his/her/its debts as they become due and who/that has made a transfer of property or of a right or interest in property to a trustee for the benefit of creditors.

## Bankruptcy

- the state of being bankrupt.

## Benchmarks

- high standards established by other similar companies in an industry; and
- are used as a comparison base by individual companies to identify activities with the greatest room for improvement.

## Bill of Lading

- written document issued by the carrier of goods
- both a receipt for goods and a contract to deliver goods; and
- title to the goods may be passed by transfer of the bill of lading.

## Bond

- certificate of indebtedness issued by a government or corporation
- written obligation, sometimes supported by collateral, given by one to another to pay damages or indemnify against losses caused by a third party (e.g., an insurance company agrees to indemnify a company for actions of the company's employees); and
- the status of goods stored in a warehouse on which duties are unpaid.

## Book of Original Entry

- a journal in which transactions are recorded for the first time before summarizing and/or posting to ledger accounts (e.g., purchase journal, cash receipts journal, accounts payable journal, disbursements journal, general journal and payroll journal); and
- additionally, see General Journal and Journal.

## Bookkeeping

- the recording of financial transactions, electronically or manually; and
- all work in support of the accounting process, including verification of accuracy.

## Branch Accounting

- complete set of records kept separately by a branch operation for which a controlling account is maintained in the records of the main operation.

## Budget

- monetary plan—that may be simple or very detailed—with a forecast of cash flows, revenue, expenses and profit or loss over a future period, usually one year or one operating cycle; and
- a plan of action expressed in financial terms.

## By-laws

- the internal rules formally approved by the owners or members of an organization to regulate the method of operation.

## Canada Revenue Agency (CRA)

- the federal body responsible for interpreting and applying tax laws and regulations and collecting the tax from individuals, corporations and trusts in Canada; and
- previously known as Canada Customs and Revenue Agency and (before that) Revenue Canada.

## Capital (or Equity)

- the interest of business owner(s) in the assets of a business, generally represented by the excess of total assets over total liabilities due to outside interests.

## Capital Asset

- assets of either a tangible or intangible nature, owned or held by a business, which are expected to be used or held over several fiscal periods; and
- additionally, see Fixed Asset.

## Capital Cost Allowance (CCA)

- systematic write off of capital assets as provided by rules under income tax legislation; and
- CCA replaces amortization and depreciation in tax calculations.

## Capital Gain

- profit or gain realized from the sale or disposal of a capital asset; and
- under income tax legislation, the term has a special meaning.

## Capital Loss

- loss realized from the sale or disposal of a capital asset; and
- under income tax legislation, the term has a special meaning.

## Capital Stock

- see Stock.

## Certified General Accountant

- a professional accountant who is a member of the Certified General Accountants Association of Canada
- this nationally recognized designation is given to those who successfully complete its program of professional studies and other academic and experience requirements; and
- the designation acquired is CGA.

## Certified Management Accountant

- a professional accountant who is a member of the Society of Management Accountants of Canada; and
- the designation acquired is CMA.

## Chartered Accountant

- a professional accountant who is a member of the Canadian Institute of Chartered Accountants; and
- the designation acquired is CA.

## Chartered Certified Accountant

- a professional accountant who is a member of the Association of Chartered Certified Accountants, the world's largest and fastest-growing global professional accounting body; and
- the designation acquired is ACCA.

## Commitment/Encumbrance Accounting

- often used by not-for-profit organizations, an accounting concept where expenses are recorded when goods or services are ordered, rather than when the organization receives the good/service; and
- the end result generally reduces the possibility of overspending the budget.

## Compliance Audit

- an audit performed with the purpose of determining whether the party being audited is following specific procedures or rules set down by a higher authority; and
- an example would be reviewing wage rate paid by an employer to see if it is in accordance with minimum wage laws.

## Compilation Engagement

- the compiling of unaudited financial information into financial statements, schedules or reports, based on information provided by the accountant's client; and
- basically, client information is arranged in the form of a financial statement, without performing an audit or a review.

# C

## Compilation Report

- the 'Notice to Reader' that appears on each page or prefaces the financial statements, schedules or reports, warning readers of the very limited involvement of the accountant in a compilation engagement.

## Compound Interest

- the interest calculated on both the principal amount invested and the previously accumulated unpaid interest.

## Comprehensive Income

- the change in net assets that results from all transactions other than those of the shareholders.

## Consignee

- a person who receives goods that belong to someone else, for future sale or another purpose; and
- although consignees are not the owners of the goods, they are accountable for them.

## Consignment

- goods that are in the hands of someone other than the owner for future sale or another purpose.

## Consignor

- the owner of goods that are in someone else's hands for future sale or another purpose.

## Consolidated Financial Statements

- financial statements that show the results of all operations under the parent company's control, including those of any subsidiaries.

## Control

- is assumed to exist where the acquiring corporation has acquired more than 50 per cent of the voting shares of another (acquired) corporation.

## Controlling Interest

- direct or indirect ownership of voting shares sufficient to elect the majority of the board of directors of a corporation.

## Corporation

- legal entity formed under the authority of either provincial or federal statutes
- usually formed to make a profit
- liabilities of shareholders (owners) are generally limited to the amount of their investment; and
- the name of a corporation ends with Limited, Ltd., Incorporated, Inc., Corporation or Corp.

## CRA Auditor

- an individual hired by the Canada Revenue Agency who is responsible for performing compliance audits on individuals, corporations and trusts; and
- this individual audits taxpayers on behalf of the federal government.

## Credit

- entry recording an increase to a liability or owner's equity or revenue or a reduction to an asset or expense
- credits are recorded in the right hand column of an account or a two-column book; and
- the opposite of debit.

## Credit Note

- issued by a seller to a purchaser to record the reduction of a bill because of an allowance, return or cancellation; and
- the opposite of an invoice.

## Current Asset

- unrestricted cash, or other asset, which is expected to be converted into cash or consumed in the production of income within the greater of one year and the normal operating cycle.

## Current Liability

- liability expected to be liquidated in the greater of one year and the normal operating cycle, excluding any liability otherwise classified as current, which will be settled from other than current assets.

## Customer Relationship Management (CRM)

- covers methods and technologies that analyze the accounting sales data, which allows the business to better track and manage (or anticipate) the needs of customers or clients
- CRM works to ensure ongoing loyalty by generating or anticipating marketing preferences based on customer information; and
- improving the company's ability to meet or exceed customer expectations.

# D

## Debenture

- an unsecured bond.

## Debit

- entry recording an increase to an asset or expense or a reduction to a liability, revenue or owner's equity
- debits are recorded in the left hand column of an account or a two-column book; and
- the opposite of credit.

## Deficit

- a negative amount (debit balance) of retained earnings caused by cumulative losses and dividend distributions exceeding cumulative net income.

## Demand Loan

- loan repayable upon demand of creditor.

## Depletion

- gradual using up or consumption of a natural resource; and
- charge to an accounting period that reflects the cost of the portion of wasting assets consumed or used (e.g., timber resources).

## Depreciation

- see Amortization.

## Direct Cost

- any cost that can be easily and efficiently traced directly to the product (e.g., wheels in the production of wagons or labour in the production of custom cabinetry).

## Discount

- an amount paid below the face value (e.g., purchase of \$100 bond at a cost of \$96).

## Dividend

- portion of the earnings of the company distributed to shareholders by declaration of the board of directors.

## **E-commerce**

- the ability for consumers, businesses and others to order products and services electronically (e.g., via the Internet).

## **Economic Value**

- the value of an asset deriving from its ability to generate income.

## **Economic Value Added (EVA)**

- the monetary value of an entity at the end of any time period, minus the monetary value of that same entity at the beginning of that time period.

## **Electronic Approval/Signature**

- in electronic purchase-order or payment systems, the process where an order is approved by a code or password, rather than a conventional signature.

## **Electronic Data Interchange (EDI)**

- the ability for businesses to place, process, receive and pay for orders of merchandise through computers, thus reducing the cost and need for paper invoices and data entry time; and
- this system is often found with Just-In-Time (JIT) inventory systems.

## **Electronic Funds Transfer (EFT)**

- in banking, a term that represents the transfer of funds from one entity's bank account to another's, without a traditional paper-based cheque.

## **Engagement**

- the work performed for a specific client is referred to as an engagement; normally this refers to an audit engagement or, in the case of a non-audit engagement, to one of either a review engagement or a compilation engagement.

## **Engagement Letter**

- written communication between an accountant and a client with respect to a professional engagement, which outlines the scope of the accountant's responsibilities and arrangement agreed upon.

## **Enterprise Resource Planning systems (ERP)**

- software stemming from an organization's computerized accounting system that allows for increased automation and processing of orders, their fulfilment and payment.

## Environmental Audit

- examination to evaluate environmental protection policies and procedures including, in pertinent circumstances, an assessment of the viability of past and present methods for disposal of soil, water and air contaminants and/or search for their presence.

## Equity

- see Capital.

## Ethics

- evaluation of conflicting alternatives, in order to achieve the greatest good or cause the least harm.

## Expenditure

- consumption of an asset or payment for an expense; and
- incurring a liability.

## External Auditor

- an independent accountant engaged to determine if the financial statements of an entity present fairly (without any material misstatements) the economic events that occurred during the period audited (referred to as the attest function); and
- the external audit is for the shareholders/owners (rather than for management).

## Fair Market Value

- the highest price available in an open and unrestricted market between informed, prudent parties, acting at arm's length and under no compulsion to transact, expressed in terms of money or money's worth.

## Financial Instruments

- anything of monetary value, including currency, stock, bonds and promissory notes.

## Financial Statements

- formal financial reports prepared from accounting records (e.g., balance sheet, statement of retained earnings, statement of income, cash flow statement).

## Fiscal Year

- a period of one year for which financial statements are prepared that may or may not coincide with the calendar year.

## Fixed Assets

- see Capital Assets.

## Fixed Cost

- costs that do not change in total in relation to the activity
- an example is rent that is fixed in relation to the production of goods; and
- additionally, see Variable Cost.

## Free on Board (FOB)

- shipping term meaning “free on board” (FOB); and
- to inform the purchasers of the location at which they become responsible for the shipping charges (e.g., FOB Toronto means the vendor pays the charges to Toronto’s freight yard and the purchaser is responsible from then on).

## Forecast

- an estimate of the most likely business operating results based on existing information for one or more future periods
- to estimate business results in advance
- to plan the business course for the future; and the document that lays out the plans.

## Forensic Accounting

- uses accounting, auditing and investigative skills to conduct an examination into a company’s financial statements, thus providing an accounting analysis that is suitable for court.

## Forensic Audit

- the activity that consists of gathering, verifying, processing, analyzing and reporting on data in order to obtain facts and/or evidence; and
- in the area of financial or legal disputes and/or irregularities (including fraud), this includes providing preventative advice.

## Forensic Auditing

- the application of auditing skills to situations that have legal consequences.

## **GAAP**

- abbreviation for generally accepted accounting principles (GAAP); and
- accounting principles that have been given formal recognition or authoritative support.

## **GAAS**

- abbreviation for generally accepted auditing standards (GAAS); and
- auditing standards that have been given formal recognition or authoritative support.

## **General Journal**

- the journal in which transactions are recorded for which specific journals are not provided (e.g., adjustments and corrections); and
- in a small operation the general journal may be the only book of original entry.

## **General Ledger**

- ledger in which all the assets, liabilities, equity, revenue and expenses are posted and from which financial statements are prepared.

## **Goodwill**

- the difference between going-concern value and tangible asset value (tangible assets include identifiable intangible assets having values that can be determined separately).

## **Government Auditor**

- an individual hired to audit the federal or provincial governments on behalf of the taxpayers
- an example is an Auditor General; and
- additionally, see CRA Auditor.

## **Human Resources**

- employees of an organization, the management of which includes hiring, retention, training, employment responsibility and dismissal.

## Imprest Fund

- a bank account solely dedicated to one specific type of disbursement, the purpose of which is to provide a higher level of control over the disbursement of the fund; and
- some examples include payroll disbursements, dividend disbursements, etc.

## Income

- money or its equivalent, earned periodically by an individual, a corporation, etc., in return for goods or services provided; and
- the opposite of loss.

## Income Statement

- a financial statement summarizing revenues, expenses, gains and losses for a stated period of time; and
- also known as statement of earnings, statement of income or statement of operations.

## Income Tax

- tax levied on the income of a person or a business.

## Incorporated (Inc.)

- see Corporation.

## Information Systems Audit

- a detailed review of an organization's internal controls and computerized systems, with the intent to ensure that accounting and other data are accurate, complete, protected and accessible to the proper personnel only.

## Insolvency

- when liabilities exceed assets
- the inability to pay debts when due; and
- additionally, see Bankruptcy.

## Instalment

- part of a sum of money or a debt to be paid at regular intervals, usually made up of principal and interest combined.

## Institute of Internal Auditors

- an international professional association recognized as the internal audit function's premier body in certification, education, research and technological guidance
- its designation is the only globally accepted certification for internal auditors; and
- the designation acquired is CIA.

## Intangible Asset

- an asset without physical substance that has value due to rights resulting from its ownership and possession (e.g., goodwill, patents, trademarks).

## Internal Audit

- an independent and objective assurance and consulting activity, designed to add value and improve an organization's operations
- it helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluation; and
- it approves the effectiveness of risk management, controls and governance processes.

## Internal Auditor

- an employee of an entity (for example, a corporation) who audits for management, providing valuable information for decision-making concerning the effective operation of his or her business.

## Internal Checks

- a system of procedures and techniques designed to minimize errors, fraud or waste, whereby the work of an employee or group is verified by having to be in agreement with the work of others.

## Internal Control

- a co-ordinated system of procedures and techniques designed to safeguard a company's assets, to ensure the accuracy of its accounting records and to promote efficiency and adherence to prescribed policies.

## International Financial Reporting Standards (IFRS)

- accounting standards set by the International Accounting Standards Board (IASB).

## Inventory

- items of tangible property held for sale
- detailed list of items and their values owned at a specific point in time
- stock inventory could include raw materials for manufacture, materials partly processed, as well as finished products including items in transit for which title is held
- stock inventory would not include items physically held for which title belongs to others
- inventories may also be made of capital assets, stationery and supplies, etc; and
- additionally, see Work in Progress.

## Investment

- funds committed to acquire something tangible or intangible, in order to receive a return, either in revenue or use.

## Invoice

- document for goods purchased or services rendered, showing details such as quantities, prices, dates, shipping details, order numbers, terms of sale, etc.

## Joint Products

- two or more products that are manufactured simultaneously from the same raw materials; and
- an example is gasoline and heating oil, which are joint products of crude oil.

## Journal

- a book of original entry in which financial transactions are recorded (e.g., a purchase journal is a record of purchase transactions).

## Journal Entry

- an entry in any journal.

## Just-in-Time (JIT)

- scheduling production to meet immediate sales or demand, with the intention of reducing inventories (and related costs) to a minimum level; and
- sometimes referred to as “pull production.”

## Lease

- a legal contract conveying the use of property from the owner (lessor) to another (lessee) at a rent, for a stated length of time.

## Leasehold Improvements

- additions, improvements or alterations made to leased property by the lessee.

## Ledger

- a book of final entry containing all the accounts of a business or all the accounts of a particular type (e.g., general ledger, accounts receivable ledger).

## Liability

- an amount owed, not necessarily due to be paid immediately; and
- an obligation to remit assets or services at a future date.

## Limited (Ltd.)

- see Corporation.

## Limited Partnership

- a partnership with two classes of partners: limited partners and one or more general partners; and
- limited partners have no personal liability for debts of the limited partnership beyond the amounts invested by them.

## Liquid Asset

- an asset, such as cash, that can be readily converted into other types of assets or used to buy goods and services or to satisfy obligations.

## Liquidation

- payment of a debt; and
- the winding-up of an organization by settling with debtors, creditors and shareholders.

## Liquidation Value

- the net amount realized on assets in the event of a liquidation.

## Loss

- the excess of expenditures over revenues; and
- the opposite of income/profit.

## Management Accounting

- accounting concerned with providing information to managers; that is, to those who are inside an organization and who direct and control operations; and
- management accounting includes cost accumulation for product and job costing, budgeting and financial statement analysis.

## Market Value

- the highest price that an owner could realize in an open market transaction.

## Materiality

- a term used to describe the significance of financial statement information to decision-makers; and
- an item of information is material if it is probable that its omission or misstatement would influence or change a decision.

## Minority Interest

- the equity of all shareholders who do not hold a controlling interest in a company.

## Net Book Value

- the cost of an asset, less accumulated amortization.

## Net Income

- the excess of total revenue over total expenses for a period of time; and
- additionally, see Profit.

## Net Worth

- total assets less total liabilities; and
- additionally, see Capital (or Equity).

## Note Payable (Promissory Note)

- written promise made by one individual to another, to pay a specific amount on demand by a definite date.

## Note Receivable

- written promise by another party to make payment to you at a specified date.

## Notice to Reader

- see Compilation Report.

## Operational Audit

- an audit whose purpose is to assess the effectiveness and efficiency of a process or performance, the purpose of which is to serve as a basis for improvements in effectiveness and efficiency
- an example would be assessing the layout of a factory, to determine if it facilitates the movement of new materials to production; and
- also referred to as an internal audit.

## Operating Cycle

- normal business cycle; and
- assumes one year in length, although some industries (e.g., ship building and various areas of construction) have a longer cycle.

## Overhead

- all costs associated with production of goods or services other than direct costs, for example, the cost of heating a factory or the cost of support staff in an accounting firm.

# P

## Parent Company

- a corporation that, directly or indirectly, owns a controlling interest in another corporation; and
- additionally, see Subsidiary.

## Partnership

- two or more persons carrying on a business for profit, whereby each partner has unlimited liability for the debts of the partnership, except in a limited partnership in which some of the partners may have limited liability.

## Payable

- an obligation to pay a sum at a future date.

## Payroll

- a record of wages or salaries paid or payable; and
- the actual wages and salaries paid during a given period.

## Pension

- series of regular payments or a lump sum of money paid to retired employees or their beneficiaries.

## Point-of-Sales (POS) Systems

- in a computerized accounting system, this represents the ability to process sales transactions by scanning a barcode or radio frequency identification (RFID) tag on the product, rather than key-punching information into a cash register.

## Posting

- a process whereby transactions are transferred from a journal to a general ledger or subsidiary ledger.

## Premium

- an amount paid over and above the face value or normal price (e.g., purchase of \$100 bond at a cost of \$110); and
- an amount paid for insurance.

## Prepaid

- an asset created by payment for economic benefits that do not expire until a later time; as the benefit expires the asset becomes an expense (e.g., prepaid rent, prepaid insurance); and
- shipping costs paid by the shipper rather than the receiver.

## Principal

- the capital portion of a loan as opposed to interest.

## Profit

- the excess of total revenue over total expenses for a period of time; and
- additionally, see Net Income.

## Projection

- a forecast of expected business results that considers one or more possible changes to the environment, policies or processes, which will affect future outcomes; and
- projections often consist of a series of “what-if” or “best case/worst case” scenarios.

## Property, Plant and Equipment

- capital assets that are tangible in nature, including land, buildings, equipment, furniture, automobiles, etc.

## Radio Frequency Identification (RFID)

- used primarily in inventory systems, an electronic tag that allows the identification of a goods item to a point-of-sale system; and
- RFID is gradually replacing the traditional barcode system.

## Ratio

- relative size, expressed as the number of times one quantity is contained in another (e.g., the ratio of assets to liabilities of a company having total assets of \$200,000 and total liabilities of \$150,000 would be  $\$200,000 \div \$150,000 = 1.33$ ).

## Receivable

- an amount to be received at a future date.

## Retained Earnings

- cumulative net incomes of a corporation, less losses and dividend distributions to shareholders (profits not distributed).

## Return on Investment

- a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments.

## Revenue

- gross proceeds from the sale of goods or services
- interest and dividends earned on investments; and
- a source of income.

## Review Engagement

- the unaudited review of financial statements of a business or organization by an independent accountant for the purpose of determining the plausibility of the information reported on; and
- a review involves making enquiries concerning financial, operating and contractual information, applying analytical procedures and having discussions with appropriate officials of the enterprise.

## Review Engagement Report

- the accountant's report that prefaces unaudited financial statements that have been reviewed. It provides negative assurance that the financial information conforms in all material respects to generally accepted accounting principles.

## Security

- collateral for a debt (e.g., accounts receivable may be pledged as security for a loan); and
- a generic term used to refer to a bond, share certificate or other medium- or long-term investments evidencing debt or ownership.

## Semi-Variable or Mixed Costs

- costs that contain both fixed and variable elements (or costs that behave as though they do).

## Share

- one of equal parts of a class of capital stock in a company
- legal ownership certificate for above; and
- additionally, see Stock.

## Shareholder

- person who is the owner of a stock certificate or share in a corporation.

## Significant Influence

- where the acquiring corporation does not have control but is able to influence business decisions of the acquired corporation
- assumed to exist where the acquiring corporation has 20 per cent of the voting shares; and
- additionally, see Control

## Sole Proprietorship

- an unincorporated business wholly owned by one individual.

## Source Documents

- documents that are the source of information recorded with accounting entries
- can be either be on paper or in an electronic form; and
- an example would be an invoice, cheque, bank statement, contract or other documentation, either paper or electronic.

## Standard Cost

- predetermination of costs of production (i.e., direct costs and overhead) under normal, efficient operating conditions
- costs assigned to work in progress and finished goods in a standard costing system; and
- used to compare to actual results, in order to monitor costs and performance (see Variance).

## Statement

- summary of an account for a period of time (usually one month) showing invoices, credits and balance due, provided to a customer by a supplier.

## Statement of Cash Flows

- a financial statement showing the effect of operating, financing and investing activities, for a stated period of time, on the cash position of an entity; and
- also known as the cash flow statement, statement of operating, financing and investing activities or statement of changes in cash resources.

## Statement of Earnings

- see Income Statement.

## Statement of Financial Position

- see Balance Sheet.

## Statement of Retained Earnings

- a financial statement summarizing the changes in retained earnings for a stated period; and
- also known as the statement of changes in capital accounts or statement of changes in retained earnings and reserves.

## Stock

- capital of a corporation that is divided into portions or shares. There may be several classes of shares in a corporation, each class divided into equal portions or shares
- additionally, see Share; and
- materials and finished products on hand (stock inventory).

## Stock Dividend

- a dividend paid by the issuance of shares of capital stock.

## Stock Option

- the right to buy shares of capital stock at a stated price on or by a given date; a privilege often extended to executives or employees of a company.

## Subsidiary

- a corporation controlled by another corporation that owns directly, or indirectly, an interest sufficient to elect a majority of the board of directors of the subsidiary corporation; and
- additionally, see Parent Company.

## Supply Chain

- a network of facilities and distribution from procurement of raw materials and supplies to shipment of goods to customers; and
- also referred to as logistics.

## Tax Avoidance

- legal minimization of the impact of taxation.

## Tax Evasion

- illegal attempt to escape the impact of taxes.

## Title

- legal right to ownership of property.

## Total Quality Management (TQM)

- total quality management is a management strategy aimed at ensuring that an awareness of quality is found in all of the processes of an organization.

## Trial Balance

- listing and totalling all balances in a ledger to verify that total debits equal total credits; and

- listing and totalling all balances in a subsidiary ledger to verify that the total is in agreement with the controlling general ledger account.

## Trust Fund

- money, property or valuables legally held by a person or company for the benefit of another.

## Trustee

- a person or company legally responsible for the property of another.

## Valuation Day

- date established by law as the basis of one method of valuation for the calculation of capital gains or losses for income tax purposes; and
- valuation day is December 23, 1971, for publicly traded securities; and December 31, 1971, for all other capital property.

## Variable Costs

- costs that change in total in relation to the activity
- an example is the total cost of wheels increases as the production of wagons increases; and
- see Fixed Costs.

## Variance

- the difference between standard cost and actual cost; and
- the difference between an actual revenue or expense item and the budget for that item (budget variance).

## Work in Progress (or Process)

- an inventory account in a production or service industry that includes either actual or standard costs associated with work not yet completed.

## Working Papers

- analyses, confirmations, schedules, transcripts, notes and other memoranda prepared and accumulated by accountants and/or auditors in the performance of a professional engagement that supports the conclusions reached and any report issued.

## Write-Off

- to transfer an item that was an asset to an expense account (e.g., to transfer an uncollectible account receivable to bad debts expense); and
- the item or amount reduced or cancelled.

# Other Resources from the Certified General Accountants of Ontario

## Other Booklets in This Information Series

- Effective Planning to Achieve Goals
- Executorship: A Guide for Those Called Upon to Act as an Estate Trustee
- How to Conduct a Meeting
- Keeping the Record Straight: Accounting for Not-for-Profit Organizations
- Resource Guide for Business Immigrants to Ontario

## Accountant Referral Service

The Certified General Accountants of Ontario offers an accountant referral service, free of charge to Ontario residents and businesses that would like to hire a professional accountant for help with financial planning, tax returns, financial statement preparation and other accounting services. CGA Ontario will match clients' specific needs to a CGA Ontario practitioner's preferred area of practice.

To access CGA Ontario's online accounting referral service, visit [www.cga-ontario.org/contentfiles/services/accountant\\_referral.aspx](http://www.cga-ontario.org/contentfiles/services/accountant_referral.aspx) or for more information, call CGA Ontario at 416-322-8884 or toll-free at 1-800-242-9131.

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