

**United Way
of Central New Mexico**

**Center for
Nonprofit
Excellence**



Accounting Glossary

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Toolkits are designed to provide you with easy to access information on key subject areas that can strengthen your organization.

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ACCOUNTING GLOSSARY

The following glossary is a condensed version of the New York Society of CPAs accounting terms glossary which can be found at: http://www.nysscpa.org/prof_library/guide.htm

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A

Accounting - Recording and reporting of financial transactions, including the origination of the transaction, its recognition, processing, and summarization in the FINANCIAL STATEMENTS.

Account Payable - Amount owed to a CREDITOR for delivered goods or completed services.

Account Receivable - Claim against a DEBTOR for an uncollected amount, generally from a completed transaction of sales or services rendered.

Accrual Basis - Method of ACCOUNTING that recognizes REVENUE when earned, rather than when collected. Expenses are recognized when incurred rather than when paid.

Accumulated Depreciation - Total DEPRECIATION pertaining to an ASSET or group of assets from the time the assets were placed in services until the date of the FINANCIAL STATEMENT or tax return. This total is the CONTRA ACCOUNT to the related asset account.

Adjusted Gross Income - Gross income reduced by business and other specified expenses of individual taxpayers. The amount of adjusted gross income affects the extent to which medical expenses, non business casualty and theft losses and charitable contributions may be deductible. It is also an important figure in the basis of many other individual planning issues as well as a key line item on the IRS form 1040 and required state forms.

Adjusting Journal Entry - An accounting entry made into a subsidiary ledger called the General journal to account for a periods changes, omissions or other financial data required to be reported "in the books" but not usually posted to the journals used for typical period transactions (the cash receipts journal, cash disbursements journal, the payroll journal, sales journal and so on) the entry is posted to the general ledger accounts directly and usually will be numbered itself, dated and have an explanation. Example: AJE# 1 12-31-2003, debit Cash in bank \$1,000. Credit interest income \$1,000, to record interest income on business bank account at year end, not recorded in cash receipts journal but credited by the bank. (Cross-reference bank reconciliation and account where it was found)

Adverse Opinion - Expression of an opinion in an AUDITORS' REPORT which states that FINANCIAL STATEMENTS do not fairly present the financial position, results of operations and cash flows in conformity with GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP). The auditor will issue an adverse opinion when there is an existence of a material weakness on the effectiveness of internal control over financial reporting.

Affiliated Company - Company, or other organization related through common ownership, common control of management or owners, or through some other control mechanism, such as a long-term LEASE.

American Institute of Certified Public Accountants (AICPA) - National professional membership organization that represents practicing CERTIFIED PUBLIC ACCOUNTANTS (CPAs). The AICPA establishes ethical and auditing standards as well as standards for other services performed by its members. Through committees, it develops guidance for specialized industries. It participates with the FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) and the GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) in establishing accounting principles.

Amortization - Gradual and periodic reduction of any amount, such as the periodic writedown of a BOND premium, the cost of an intangible ASSET or periodic payment Of MORTGAGES or other DEBT.

Analytical Procedures - Substantive tests of financial information which examine relationships among data as a means of obtaining evidence. Such procedures include: (1) comparison of financial information with information of comparable prior periods; (2) comparison of financial information with anticipated results (e.g., forecasts); (3) study of relationships between elements of financial information that should conform to predictable patterns based on the entity's experience; (4) comparison of financial information with industry norms.

Annual Report - Report to the stockholders of a company which includes the company's annual, audited BALANCE SHEET and related statements of earnings, stockholders' or owners' equity and cash flows, as well as other financial and business information.

Annuity - Series of payments, usually payable at specified time intervals.

Annuity Gift – A contribution in which the donor has the condition that the nonprofit must make periodic specified payments to the donor over a specified time period. After those payments are complete, the organization keeps the remaining principal of the gift.

Asset – Something of value to an organization. For accounting purposes the value is generally tangible and the value can be determined. Some intangible assets can be recorded, but are limited.

Auditors' Report - Written communication issued by an independent CERTIFIED PUBLIC ACCOUNTANT (CPA) describing the character of his or her work and the degree of responsibility taken. An auditors' report includes a statement that the AUDIT was conducted in accordance with GENERALLY ACCEPTED AUDITING STANDARDS (GAAS), which require that the AUDITOR plan and perform the audit to obtain reasonable assurance about whether the FINANCIAL STATEMENTS are free of material misstatement, as well as a statement that the auditor believes the audit provides a reasonable basis for his or her opinion. (See ACCOUNTANTS' REPORT.)

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B

Bad Debt - All or portion of an ACCOUNT, loan, or note receivable considered to be uncollectible.

Balance Sheet - Basic FINANCIAL STATEMENT, usually accompanied by appropriate DISCLOSURES that describe the basis of ACCOUNTING used in its preparation and presentation of a specified date the entity's ASSETS, LIABILITIES and the EQUITY of its owners. Also known as a STATEMENT OF FINANCIAL CONDITION.

Baseline Budget – Baseline budget method is a budgeting method where the current year's activity levels, funding levels and expenses are used as a base to build a budget. Projected changes to the current year's results are applied to the base budget.

Bond - One type of long-term PROMISSORY NOTE, frequently issued to the public as a SECURITY regulated under federal securities laws or state BLUE SKY LAWS. Bonds can either be registered in the owner's name or are issued as bearer instruments.

Book Value - Amount, net or CONTRA ACCOUNT balances, that an ASSET or LIABILITY shows on the BALANCE SHEET of a company. Also known as CARRYING VALUE.

Budget - Financial plan that serves as an estimate of future cost, REVENUES or both.

Bylaws - Collection of formal, written rules governing the conduct of a CORPORATION'S affairs (such as what officers it will have, what their responsibilities are, and how they are to be chosen). Bylaws are approved by a corporation's stockholders, if a stock corporation, or other owners, if a non-stock corporation. (See GOVERNING DOCUMENTS.)

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Cafeteria Plan - A benefit plan maintained by an employer for the benefit of the employees under which each participant has the opportunity to select the benefits they desire. Certain minimum choices and nondiscriminatory rules apply.

Capital Stock - Ownership shares of a CORPORATION authorized by its ARTICLES OF INCORPORATION. The money value assigned to a corporation's issued shares. The BALANCE SHEET account with the aggregate amount of the PAR VALUE or STATED VALUE of all stock issued by a corporation.

Capitalized Cost - Expenditure identified with goods or services acquired and measured by the amount of cash paid or the market value of other property, CAPITAL STOCK, or services surrendered. Expenditures that are written off during two or more accounting periods.

Capitalized Interest - INTEREST cost incurred during the time necessary to bring an ASSET to the condition and location for its intended use and included as part of the HISTORICAL COST of acquiring the asset.

Capitalized Lease - LEASE recorded as an ASSET acquisition accompanied by a corresponding LIABILITY by the LESSEE.

Cash Basis - Method of bookkeeping by which REVENUES and EXPENDITURES are recorded when they are received and paid. (See OTHER COMPREHENSIVE BASIS OF ACCOUNTING.)

Cash Equivalents - Short-term (generally less than three months), highly liquid INVESTMENTS that are convertible to known amounts of cash.

Cash Flows - Net of cash receipts and cash disbursements relating to a particular activity during a specified accounting period.

Certified Public Accountant (CPA) - ACCOUNTANT who has satisfied the education, experience, and examination requirements of his or her jurisdiction necessary to be certified as a public accountant.

Common Stock - CAPITAL STOCK having no preferences generally in terms of dividends, voting rights or distributions. (See PREFERRED STOCK.)

Conditional Promise to Gift – When a donor places a condition on a contribution that occurs in the future and/or the outcome is uncertain the gift is considered a conditional promise and is not recognized as revenue until the condition is met.

Consistency - ACCOUNTING postulate which stipulates that, except as otherwise noted in the FINANCIAL STATEMENT, the same accounting policies and procedures have been followed from period to period by an organization in the preparation and presentation of its financial statements.

Consolidated Financial Statements - Combined FINANCIAL STATEMENTS of a parent company and one or more of its subsidiaries as one economic unit.

Contribution – Are gifts of cash or other assets such as property, use of property and service time of volunteers.

Contra Account - ACCOUNT considered to be an offset to another account. Generally established to reduce the other account to amounts that can be realized or collected.

Control Deficiency - This exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Control Risk - Measure of risk that errors exceeding a tolerable amount will not be prevented or detected by an entity's internal controls.

Corporation - Form of doing business pursuant to a charter granted by a state or federal government. Corporations typically are characterized by the issuance of freely transferable CAPITAL STOCK, perpetual life, centralized management, and limitation of owners' LIABILITY to the amount they invest in the business.

Cost Accounting - Procedures used for rationally classifying, recording, and allocating current or predicted costs that relate to a certain product or production process.

Credit - Entry on the right side of a DOUBLE-ENTRY BOOKKEEPING system that represents the reduction of an ASSET or expense or the addition to a LIABILITY or REVENUE. (See DEBIT.)

Current Asset - ASSET that one can reasonably expect to convert into cash, sell, or consume in operations within a single operating cycle, or within a year if more than one cycle is completed each year.

Current Liability - Obligation whose LIQUIDATION is expected to require the use of existing resources classified as CURRENT ASSETS, or the creation of other current liabilities.

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Debit - Entry on the left side of a DOUBLE-ENTRY BOOKKEEPING system that represents the addition of an ASSET or expense or the reduction to a LIABILITY or REVENUE. (See CREDIT.)

Deferred Income - Income received but not earned until all events have occurred. Deferred income is reflected as a LIABILITY.

Deferred Income Taxes - ASSETS or LIABILITIES that arise from timing or measurement differences between tax and accounting principles.

Deficit - Financial shortage that occurs when LIABILITIES exceed ASSETS.

Depreciation - Expense allowance made for wear and tear on an ASSET over its estimated useful life. (See ACCELERATED DEPRECIATION and STRAIGHT-LINE DEPRECIATION.)

Designated asset – A designated asset is an unrestricted asset which the organization's governing body has placed some designated use for some specific period of time on that asset.

Disbursement - Payment by cash or check.

Disclaimer of Opinion - Statement by an AUDITOR indicating inability to express an opinion on the fairness of the FINANCIAL STATEMENTS provided and the reason for the inability. The auditor is required to disclaim depending on the limitation in scope.

Discount Rate - Rate at which INTEREST is deducted in advance of the issuance, purchasing, selling, or lending of a financial instrument. Also, the rate used to determine the CURRENT VALUE, or present value, of an ASSET or income stream.

Discounted Cash Flow - Present value of future cash estimated to be generated.

Dividends - Distribution of earnings to owners of a CORPORATION in cash, other ASSETS of the corporation, or the corporation's CAPITAL STOCK.

Donor-Imposed Restriction - When a donor places a restriction on the use of the gift. The donation is recorded as revenue at the time of the gift, but is monitored by the organization to ensure the gift is used for the purpose designated by the donor.

Double-Entry Bookkeeping - Method of recording financial transactions in which each transaction is entered in two or more accounts and involves two-way, self-balancing posting. Total DEBITS must equal total CREDITS.

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Earned Income - Wages, salaries, professional fees, and other amounts received as compensation for services rendered.

Earned Income Credit - A refundable tax credit for eligible low income workers, subject to computations based on qualifying children and phase in and phase out income levels.

Earnings Per Share (EPS) - Measure of performance calculated by dividing the net earnings of a company by the average number of shares outstanding during a period.

Endowment Fund – An endowment fund is a fund existing of cash, securities and/or other assets with the purpose to provide income to a nonprofit. Endowment funds and their earnings may be permanently restricted, temporarily restricted or unrestricted.

Equity - Residual INTEREST in the ASSETS of an entity that remains after deducting its LIABILITIES. Also, the amount of a business' total assets less total liabilities. Also, the third section of a BALANCE SHEET, the other two being assets and liabilities.

Exempt Organization - Organization which is generally exempt from paying federal income tax. Exempt organizations include religious organizations, charitable organizations, social clubs, and others.

Expenditure - Payment, either in cash, by assuming a LIABILITY, or by surrendering ASSET.

Extraordinary Items - Events and transactions distinguished by their unusual nature and by the infrequency of their occurrence. Extraordinary items are reported separately, less applicable income taxes, in the entity's statement of income or operations.

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F

Fair Market Value - Price at which property would change hands between a buyer and a seller without any compulsion to buy or sell, and both having reasonable knowledge of the relevant facts.

Favorable Variance - Excess of actual REVENUE over projected revenue, or actual costs over projected costs.

Fiduciary - Person who is responsible for the administration of property owned by others. Corporate management is a FIDUCIARY with respect to corporate ASSETS which are beneficially owned by the stockholders and CREDITORS. Similarly, a TRUSTEE is the fiduciary of a TRUST and partners owe fiduciary responsibility to each other and to their creditors.

Financial Accounting Standards Board (FASB) - Independent, private, non-governmental authority for the establishment of ACCOUNTING principles in the United States.

Financial Statements - Presentation of financial data including BALANCE SHEETS, INCOME STATEMENTS and STATEMENTS OF CASH FLOW, or any supporting statement that is intended to communicate an entity's financial position at a point in time and its results of operations for a period then ended.

Fiscal Year - Period of 12 consecutive months chosen by an entity as its ACCOUNTING period which may or may not be a calendar year. Fixed Asset - Any tangible ASSET with a life of more than one year used in an entity's operations.

Fixed assets – Fixed assets are assets with a useful life of one year or more, and include but are not limited to, land, buildings, vehicles and equipment.

Fraud - Willful misrepresentation by one person of a fact inflicting damage on another person.

Fund Accounting - Method of ACCOUNTING and presentation whereby ASSETS and LIABILITIES are grouped according to the purpose for which they are to be used. Generally used by government entities and not-for-profits. (See RESTRICTED FUND and UNRESTRICTED FUND.)

Functional Expenses - The grouping of expenses by the purposes for which costs are incurred is called functional expenses.. The IRS 990 requires the following grouping of expenses, fundraising expenses and management and general,

Fund – The grouping of net assets, resources and expenditures within an accounting system. For nonprofits the following funds are necessary: Unrestricted fund, temporally restricted fund and unrestricted fund.

Fundraising Expense – Fundraising expenses are those incurred toward generating contributions.

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G

General Ledger - Collection of all ASSET, LIABILITY, owners EQUITY, REVENUE, and expense accounts.

Generally Accepted Accounting Principles (GAAP) - Conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. The highest level of such principles are set by the FINANCIAL ACCOUNTING STANDARDS BOARD (FASB).

Gift-in-Kind – A contribution that is not cash or securities is considered a gift-in-kind. Gifts in kind include, but are not limited to, property, supplies, equipment, rent free use of property and donated services of qualified volunteers.

Going Concern - Assumption that a business can remain in operation long enough for all of its current plans to be carried out.

Goodwill - Premium paid in the acquisition of an entity over the fair value of its identifiable tangible and intangible ASSETS less LIABILITIES assumed.

Government Accountability Office (GAO) - Accounting and auditing office of the United States government. An independent agency that reviews federal financial transactions and reports directly to Congress.

Governmental Accounting Standards Board (GASB) - Group that has authority to establish standards of financial reporting for all units of state and local government.

Grantee - Person to whom property is transferred.

Grantor - (1) Person who transfers property. (2) Person who creates a trust.

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H

Historical cost - Original cost of an asset to an entity.

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Imputed Interest - If no interest or an unrealistic amount of interest is charged in a sale involving certain kinds of deferred payments, then the transaction will be treated as if the realistic rate of interest had been used. The difference between the realistic interest and the interest actually used is referred to as imputed interest.

Interest - Payment for the use or forbearance of money.

Interim Financial Statements - FINANCIAL STATEMENTS that report the operations of an entity for less than one year.

Internal Audit - AUDIT performed within an entity by its staff rather than an independent certified public accountant.

Internal Control - Process designed to provide reasonable assurance regarding achievement of various management objectives such as the reliability of financial reports.

Internal Control Over Financial Reporting - A process designed by, or under the supervision of the company's principal executive and principal financial officers or persons performing similar functions and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

1. Pertain to the maintenance of records that accurately and fairly reflect the transactions and dispositions of the assets of the company.
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial

statements in accordance with GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the company.

3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Internal Rate of Return - Method that determines the discount rate at which the present value of the future CASH FLOWS will exactly equal investment outlay.

Inventory - Tangible property held for sale, or materials used in a production process to make a product.

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J

Joint Costs of Multipurpose Activities – Joint costs are costs which cannot be easily designated to one functional activity.

Journal - Any book containing original entries of daily financial transactions.

Journal Entry – A Journal entry is an original entry of daily financial transactions.

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K

Key Employee - For purposes of rules that apply to top heavy plans, a key employee:

1. An officer of the employer earning more than \$130,000;
2. An individual who owns more than 5 percent of the employer;
3. An individual who owns more than 1 percent of the employer and compensation greater than \$150,000.

Kiting - Writing checks against a bank account with insufficient funds to cover them, hoping that the bank will receive deposits before the checks arrive for clearance.

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L

Lease - Conveyance of land, buildings, equipment or other ASSETS from one person (LESSOR) to another (LESSEE) for a specific period of time for monetary or other consideration, usually in the form of rent.

Ledger - Any book of accounts containing the summaries of debit and credit entries.

Lessee - Person or entity that has the right to use property under the terms of a LEASE.

Lessor - Owner of property, the temporary use of which is transferred to another (LESSEE) under the terms of a LEASE.

Liability - DEBTS or obligations owed by one entity (DEBTOR) to another entity (CREDITOR) payable in money, goods, or services.

Liquid Assets - Cash, cash equivalents, and marketable SECURITIES.

Long-Term Debt - DEBT with a maturity of more than one year from the current date.

Loss - Excess of EXPENDITURES over REVENUE for a period or activity. Also, for tax purposes, an excess of basis over the amount realized in a transaction. (See NET INCOME.)

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M

Management Accounting - Reporting designed to assist management in decision-making, planning, and control. Also known as Managerial Accounting.

Management and General Expense – Management and general expenses are those expenses that cannot be attributed to program and fundraising activities.

Management's Report - Management is required to include in its annual report its assessment of the effectiveness of the company's internal control over financial reporting in addition to its audited financial statements as of the end of the most recent fiscal year.

Matching Principle - A fundamental concept of basic accounting. In any one given accounting period, you should try to match the revenue you are reporting with the expenses it took to generate that revenue in the same time period, or over the periods in which you will be receiving benefits from that expenditure. A simple example is depreciation expense. If you buy a building that will last for many years, you don't write off the cost of that building all at once. Instead, you take depreciation deductions over the building's estimated useful life. Thus, you've "matched" the expense, or cost, of the building with the benefits it produces, over the course of the years it will be in service.

Material Weakness - A significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

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N

Natural Expenses – The classification of expenses by categories such as salaries, fringe, rent, utilities, etc.

Negligence - The omission to do something which a reasonable man, guided by those ordinary considerations which ordinarily regulate human affairs, would do, or the doing of something which a reasonable and prudent man would not do. Negligence is the failure to use such care as a reasonably prudent and careful person would use under similar circumstances; it is the doing of some act which a person of ordinary prudence would not have done under similar circumstances or failure to do what a person of ordinary prudence would have done under similar circumstances. The term refers only to that legal delinquency which results whenever a man fails to exhibit the care which he ought to exhibit, whether it be slight, ordinary, or great. It is characterized chiefly by inadvertence, thoughtlessness, inattention, and the like, while "wantonness" or "recklessness" is characterized by willfulness. The law of negligence is founded on reasonable conduct or reasonable care under all circumstances of particular care. Doctrine of negligence rests on duty of every person to exercise due care in his conduct toward others from which injury may result.

Net Assets - Excess of the value of SECURITIES owned, cash, receivables, and other ASSETS over the LIABILITIES of the company.

Net Income - Excess or DEFICIT of total REVENUES and GAINS compared with total expenses and losses for an ACCOUNTING period. (See INCOME and LOSS.)

Non-for-Profit Organization/Tax-Exempt Organization - An incorporated organization which exists for educational or charitable purposes, and from which its shareholders or trustees do not benefit financially. Also called not-for-profit organization.

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O

Objectivity - Emphasizing or expressing the nature of reality as it is apart from personal reflection or feelings; independence of mind.

Obligations - Any amount which may require payment by an entity at a future time.

Operating Cycle - Period of time between the acquisition of goods and services involved in the manufacturing process and the final cash realization resulting from sales and subsequent collections.

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P

Paid in Capital - Portion of the stockholders' EQUITY which was paid in by the stockholders, as opposed to CAPITAL arising from profitable operations.

Passive Activity Loss - LOSS generated from activities involved in the conduct of a trade or business in which the taxpayer does not materially participate.

Passive Income - Includes income derived from such sources as dividends, interest, royalties, rents, amounts received from personal service contracts, and income received as a beneficiary of an estate or trust.

PCAOB - Public Corporation Accounting Oversight Board, a private-sector, non-profit corporation, created by the [Sarbanes-Oxley Act of 2002](#), to oversee the AUDITORS of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.

Permanently restriction – A contribution restricted by the donor to be maintained permanently is a permanent restriction. Generally the income earned from the permanently restricted asset is available for the nonprofit's use.

Prepaid Expense – A prepaid expense is when an expense is paid in one accounting period, but the nonprofit will not receive the benefit from the expense until a later period.

Perpetual Inventory - System that requires a continuous record of all receipts and withdrawals of each item of INVENTORY.

Personal Property - Movable property that is not affixed to the land (REAL PROPERTY). Personal property includes tangible items such as cash, cars and computers, as well as intangible items, such as royalties, patents and copyrights.

Present Value - CURRENT VALUE of a given future cash flow stream, discounted at a given rate.

Preventive Controls - These have the objective of preventing errors or fraud from occurring in the first place that could result in a misstatement of the financial statements.

Prime Rate - Rate of interest charged by major U.S. banks on loans made to their preferred customers.

Principal - Face amount of a SECURITY, exclusive of any PREMIUM or INTEREST. The basis for INTEREST computations.

Private Inurement – Private inurement is another name for an excess benefit paid by the nonprofit to an insider of the nonprofit. Private inurement is prohibited under Section 501(c) by the Internal Revenue Service.

Program Expense – Program expenses are expenses paid for program activities.

Promise to Give (Pledge) – A written or oral agreement by a donor to contribute cash or other asset within a specific time period is a promise to give or pledge.

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Q

Qualified Opinion - AUDIT opinion that states, except for the effect of a matter to which a qualification relates, the FINANCIAL STATEMENTS are fairly presented in accordance with GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP). The AUDITOR is required to qualify when there is a scope limitation.

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R

Ratio Analysis - Comparison of actual or projected data for a particular company to other data for that company or industry in order to analyze trends or relationships.

Real Property - Land and improvements, including buildings and PERSONAL PROPERTY, that is permanently attached to the land or customarily transferred with the land.

Receivables - Amounts of money due from customers or other DEBTORS.

Reconciliation - Comparison of two numbers to demonstrate the basis for the difference between them.

Related Party Transaction - Business or other transaction between persons who do not have an arm's-length relationship (e.g., a relationship with independent, competing interests). The most common is between family members or controlled entities. For tax purposes, these types of transactions are generally subject to a greater level of scrutiny.

Repurchase Agreement (Repos) - Agreement whereby an institution purchases SECURITIES under a stipulation that the seller will repurchase the securities within a certain time period at a certain price.

Research and Development (R&D) - Research is a planned activity aimed at discovery of new knowledge with the hope of developing new or improved products and services. Development is the translation of research findings into a plan or design of new or improved products and services.

Restricted Assets - Cash or other ASSETS whose use in whole or in part is restricted for specific purposes bound by virtue of contracted agreements.

Restricted Fund - Fund established to account for assets whose income must be used for purposes established by donors or grantors of such ASSETS. (See FUND ACCOUNTING and UNRESTRICTED FUNDS.)

Retained Earnings - Accumulated undistributed earnings of a company retained for future needs or for future distribution to its owners.

Return on Investment (ROI) - Ratio measure of the profits achieved by a firm through its basic operations. An indicator of management's general effectiveness and efficiency. The simplest version is the ratio of NET INCOME to total ASSETS.

Revenue Recognition - Method of determining whether or not income has met the conditions of being earned and realized or is realizable.

Revenues - Sales of products, merchandise, and services; and earnings from INTEREST, DIVIDEND, rents.

Review - Accounting service that provides some assurance as to the reliability of financial information. In a review, a CERTIFIED PUBLIC ACCOUNTANT (CPA) does not conduct an examination under GENERALLY ACCEPTED AUDITING STANDARDS (GAAS).

Risk Management - Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.

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S

Safe Harbor Rule - Concept in statutes and regulations whereby a person who meets listed requirements will be preserved from adverse legal action. Frequently, safe harbors are used where a legal requirement is somewhat ambiguous and carries a risk of punishment for an unintended violation.

Sale-Leaseback Transaction - Sale of property by a seller who simultaneously leases the property back from the purchaser.

Securities and Exchange Commission (SEC) - Agency authorized by the United States Congress to regulate the financial reporting practices of most public corporations.

Single Audit Act - The Single Audit Act of 1984 and the Single Audit Act Amendments of 1996 establish requirements for audits of states, local governments, and nonprofit organizations that administer federal financial assistance programs above a certain threshold.

Start-up Costs - (1) Costs, excluding acquisition costs, incurred to bring a new unit into production. (2) Costs incurred to begin a business.

Statement of Cash Flows - A statement of cash flows is one of the basic financial statements that is required as part of a complete set of financial statements prepared in conformity with generally accepted accounting principles. It categorizes net cash provided or used during a period as operating, investing and financing activities, and reconciles beginning and ending cash and cash equivalents.

Subsequent Event - Material event that occurs after the end of the accounting period and before the publication of an entity's FINANCIAL STATEMENTS. Such events are disclosed in the notes to the financial statements. (See MATERIALITY.)

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I

Tangible Asset - ASSETS having a physical existence, such as cash, land, buildings, machinery, or claims on property, investments or goods in process. (See INTANGIBLE ASSETS.)

Temporarily Restriction – When a donor restricts a gift for a specific purpose or time period it is considered a temporarily restriction. Once the restriction has been met the restriction is removed.

Trust - Ancient legal practice where one person (the GRANTOR) transfers the legal title to an ASSET, called the principal or corpus, to another person (the TRUSTEE), with specific instructions about how the corpus is to be managed and disposed.

Trustee - Person who is given legal title to, and management authority over, the property placed in a trust.

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U

Unaudited Financial Statements - FINANCIAL STATEMENTS which have not undergone a detailed AUDIT examination by an independent CERTIFIED PUBLIC ACCOUNTANT (CPA).

Unconditional Gift – A gift given by a donor without any restrictions is considered an unconditional gift.

Unearned Income - Payments received for services which have not yet been performed.

Unqualified Opinion - AUDIT opinion not qualified for any material scope restrictions nor departures from GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP). The AUDITOR may issue an unqualified opinion only when there are no identified material weaknesses and when there have been no restrictions on the scope of the auditor's work. Also known as CLEAN OPINION.

Unrelated Business Income (UBI) – In general UBI is Income generated by a nonprofit that is not related to their tax-exempt purpose. The Internal Revenue Service has determined some exceptions to the general definition.

Unrestricted Funds - Resources of a not-for-profit entity that have no restrictions as to use or purpose. (See FUND ACCOUNTING and RESTRICTED FUND.)

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V

Variable Rate Loan - Loan whose interest rate changes over its life in relation to the level of an index.

Variance - Deviation or difference between an estimated value and the actual value.

Vesting - Point at which certain benefits available to an employee are no longer contingent on the employee continuing to work for the employer.

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W

Withholding - Amount withheld or deducted from employee salaries by the employer and paid by the employer, for the employee, to the proper authority.

Work in Progress - INVENTORY account consisting of partially completed goods awaiting completion and transfer to finished inventory.

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Y

Yield - Return on an INVESTMENT an investor receives from DIVIDENDS or INTEREST expressed as a percentage of the cost of the SECURITY.

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Z

Zero-based Budgeting – Zero-based budgeting method is evaluating the expected funding and activities for the upcoming year and basing the budget on those expectations.

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About the Author:

Janice Moen has spent fourteen years as the CEO or CFO of nonprofit organizations and has five years experience as an external auditor of governmental and nonprofit agencies. Currently, she is a University of New Mexico Anderson School of Business faculty. Janice has developed a graduate level class on nonprofit accounting and the IRS Form 990 at UNM. She has developed nonprofit curriculum for various trainings throughout Albuquerque. Janice has also presented for four years on the IRS Form 990 and other related nonprofit topics. Janice received her BBA and Master in Accounting from the Anderson School of Management at the University of New Mexico. Janice was awarded the 2007 Outstanding Member in Corporate Practice Award by the New Mexico Society of CPA's in 2007. She was also recognized as one of the Business Weekly's Top CFO's in 2007.

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