

Glossary of Accounting and Financial Terms:

1099-DIV	A statement of dividends paid, sent to IRS and taxpayer.
1099-INT	A statement of interest paid, sent to IRS and taxpayer.
1099-OID	Original Issue Discount statement, sent to IRS and taxpayer.
401(k)	A type of retirement program sponsored by employers for their workers. Contributions deducted directly from your paycheck make it easy to save and can reduce your taxable income for that year. Earnings grow quickly because they're tax-deferred. Many employers also match the employee's own contributions up to a set limit.
A-133 Audit	The Office of Management and Budget (OMB) has issued Circular A133, Audits of State, Local Governments, and Nonprofit Organizations, which requires nonprofits spending more than \$500,000 per year in federal funding to have an audit. This audit is required even if the federal money you receive is passed through another agency.
Accountant	An individual trained and knowledgeable in the profession of accountancy.
Accounting (Accountancy)	The function of compiling and providing financial information primarily by reports referred to as financial statements. Accounting includes bookkeeping, systems design, analysis and interpretation of accounting information.
Accounts Payable	Obligations to pay for goods or services that have been acquired on open accounts from suppliers. Accounts Payable is a current liability in the Balance Sheet.
Accounts Receivable	Amounts due the company on account from customers who have bought merchandise or received services. Accounts Receivable is a current asset in the Balance Sheet.
Accrual Basis	The method of keeping accounts which shows all expenses incurred and income earned for a given period of time, even though such expenses and income may not actually have been paid or received in cash during the same period of time.
Accrued Expense	An expense incurred, but not yet paid.
Accrued Revenue	Revenue earned, but not yet collected.
Accumulated Depreciation	An account to which estimated depreciation is added.
Adjustable Rate Mortgage or ARM.	A mortgage with an interest rate that may increase or decrease during the term of the loan, according to determined margins with limits on increases or decreases (called "caps").
Adjusted Entry	An entry made in the general journal at the end of an accounting period to bring certain accounts up to date.
Adjusted Gross Income (AGI)	A person's entire income reduced by adjustments including a deduction for an IRA (Individual Retirement Account), medical savings accounts, and alimony paid to an ex-spouse. Saving money now in an IRA for your retirement (yes, even though it seems like a million years away) could be one of your smartest moves yet.
Agent	A person authorized by another to act on their behalf. Thus, an agent can enter into contacts and other such legal binding functions on behalf of another. Usually, the corporation's officers act as corporate agents.
Amortization	Accounting or financial process of reducing an amount by periodic payments or write-downs. Refers to liquidation, writing off or extinguishing of a debt over a period of time.
Annual Meeting of Shareholders	Nearly all states require a corporation to hold an annual meeting of shareholders at which time directors are elected and other corporate issues are voted on.
Annuity	A sequence of equal payments, usually made at regular intervals of time.
Appreciation	Increase in value. Often used with reference to an asset, such as land, building, stocks or bonds.
Articles of	The articles are the primary legal document of a corporation; they serve as a corporation's

Incorporation (Certificate of incorporation or charter)	Constitution. The articles are filed with the state government to begin corporate existence. The articles contain basic information on the Corporation as required by state law.
Articles of Organization	LLCs must file the articles with the proper state authorities to begin existence. The articles of organization are very similar to a corporation's articles of incorporation.
Asset	Anything of value owned or controlled by a corporation or individual. An asset may be tangible or intangible.
Asset allocation	The division of holdings among different types of assets, such as bonds, domestic stocks, international stocks, real estate, and cash.
Asset class	Securities which have similar features, such as cash (money market), bonds large cap stocks, small cap stocks, and international stocks.
Assumed Name	A name under which a corporation conducts business that is not the legal name of the corporation as shown in its articles of incorporation. If a corporation does business under an assumed name, it may be required to file registration of the assumed name with the state. Also known as a Fictitious Business Name.
Authorized Shares or Stock	The total number of shares a corporation is authorized to sell. This number is specified in the articles of incorporation. All of the shares authorized need not be issued.
Bad Debts	Accounts receivable that are un-collectable Used in Accrual Method accounting.
Balance	Amount arrived at by adding all debits and subtracting all credits. To ensure total debits equal the 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). Also known as Statement of Financial Position.
Bank Overdraft	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/corporation who/which is unable to pay its debts as they become due and who/which has made a transfer of property or of a right or interest in property to a trustee for the benefit of creditors.
Bankruptcy	State of being bankrupt.
Beneficiary	The recipient, typically a person, an organization, or a trust, of the proceeds of a life insurance policy when the insured person dies
Benefits Received	When people pay taxes according to the amount of government aid (benefits) they receive. Examples of benefits the American public receives include (to name only a few): welfare, child care, Medicare, Medicaid. Some people believe it's only fair that people pay taxes based on the amount of government aid they receive.
Bill of Lading	Written document issued by the carrier of goods. Also, a receipt for goods and a contract to deliver goods.
Bond	Essentially, a loan made to companies and government entitles who promise to pay interest at a specified rate over a specified period of time, and repay the total loan amount at the end of the specified period.
Book of Original Entry	A journal in which transactions are recorded for the first time before summarizing and/or posting to ledger accounts, for example, purchase journal, cash receipts journal, accounts payable journal, disbursements journal, general journal and payroll journal. See General Journal and Journal.
Book Value	(1) The current value of a fixed asset as shown by the records; the difference between the original cost of the asset and the accumulated depreciation. (2) The difference between the accounts receivable and the allowance for bad debts. (3) The value of a share of stock as

	shown by the corporate books.
Bookkeeping	The recording of financial transactions electronically or manually. The record-keeping part of the accounting process.
Broker	A person who handles the transfer of a security from a seller to a buyer.
Budget	An estimate of future income and expenditures.
Business Taxes	Are you a budding entrepreneur? Just remember that businesses pay taxes to federal, state and local governments. Businesses pay taxes on their profits. Businesses also pay unemployment insurance, worker's compensation, social security and Medicare insurance.
Bylaws	Bylaws are the rules and regulations adopted by a corporation for its internal governance. It usually contains provisions relating to shareholders, directors, officers and general corporate business. At the corporation's initial meeting the bylaws are adopted. Bylaws are a private document not filed with any state authority. Bylaws are more flexible than the articles of incorporation because they are easier to amend.
Canceled Check	A check that has cleared the bank and is returned to the depositor with his monthly statement.
Capital (or Equity)	Interest of the owner in the business that is the difference between Assets & Liabilities. Also called Equity or Networth. In a corporation, capital represents the stockholders' equity.
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.
Capital Gain	Difference between an asset's purchase price and its selling price, when the selling price is greater.
Capital Loss	Difference between an asset's purchase price and its selling price, when the purchase price is greater.
Capital Stock	See Stock and Authorized stock
CAPS	A limit on how much the interest rate can change either at each adjustment or during the life of the mortgage, e.g., "2/6" equates to 2% per year and 6% over life of loan.
Cash Basis	A method of accounting in which no transactions are entered for income until cash is actually received, and no entries are made for expenses until cash is actually paid.
Certificate of Authority	A document issued by the proper state authority to a foreign corporation granting the corporation the right to do business in that state.
Certificate of Deposit (CD)	Evidence that the holder has deposited at a financial institution a certain amount of money for a certain period of time. By issuing a CD, a financial institution pledges to redeem the certificate at maturity and pay a certain rate of interest for use of the deposited funds.
Certified Public Accountant	A professional accountant who is a member of the American Institute of Certified Public Accountants. Designation CPA.
Check Register	A form of cash payments journal which is used to record deposits and expenditures in and out of a bank account.
Close Corporation or Closely Held Corporation	A close corporation is a corporation that possesses the following traits: a small number of shareholders; no ready market for the corporation's stock; and substantial participation by the majority shareholders in the management of the corporation. Some states have close corporation statutes.
Common Stock	The primary stock of a corporation. This stock gives shareholders the right to participate in management of the corporation and give the shareholder a proportionate share of the dividends.
Compound Interest	Interest calculated on both the principal amount invested and the previously accumulated unpaid interest.
Consignee	A person who receives goods that belong to someone else for future sale or other purpose.

	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 other purpose.
Consignor	The owner of goods that are in someone else's hands for future sale or other purpose.
Consolidated Financial Statements	Financial statements that show the results of all operations under the parent company's control, including those of any subsidiaries.
Controlling Interest	Direct or indirect ownership of voting shares sufficient to elect the majority of the board of directors of a corporation.
Corporate Record Book	Maintaining the proper records is very important to assure limited liability to corporate shareholders. The corporation should have a record book that contains a copy of the articles of incorporation, bylaws, initial and subsequent minutes of directors and shareholders meetings and a stock register.
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. The name of a corporation ends with Limited, Ltd., incorporated, Inc., Corporation or Corp.
Credit	Legal obligation to make repayment at a later date for goods, services or money obtained through the extension of credit i.e., a promise to pay in the future. The cost of credit is usually referred to as a finance charge, interest or time-price differential
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. Opposite of debit.
Credit Bureau	Clearinghouse of consumer credit information used by businesses to determine the credit.
Credit Note	Issued by a seller to a purchaser to record the reduction of a bill because of an allowance, return or cancellation. Opposite of an invoice.
Credits	If you have a store credit, you can use the credit to purchase merchandise free of charge. If you have a tax credit, your taxes are reduced by the amount of your credit. You can get tax credits for purposes such as child care expenses and the earned income credit for low-income taxpayers.
Cumulative Voting	This method of voting is intended to create adequate representation of minority shareholders. Cumulative voting allows shareholders to aggregate their votes in favor of fewer candidates than there are slots available.
Current Asset	Unrestricted cash, or other asset that is expected to be converted into cash or consumed in the production of income within a year.
Current Liability	Liability expected to be liquidated in a year.
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. 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.
Dependents	A person who relies on someone else for financial support. Sound like a mooch? Not really. Think about it- most "young adults" (under 21 years old) are supported by their parents. Is this you? If it is, your parents can claim an exemption for you-their adorable dependent-if dependency tests are met.
Depletion	Gradual using up or consumption of a natural resource.
Depreciation	Accounting process of allocating in a systematic manner the cost or other basic value of a tangible, long-lived asset or group of assets over the useful life of the asset. See Amortization.

Direct Cost	Costs identified with a specific unit of product (for example, clay in the production of flowerpots or tubing in the production of bicycles).
Direct Deposit	When you give the IRS the go-ahead, they'll send your refund directly to your bank account. It's the fastest way to get your cash.
Direct Tax	A direct tax cannot be shifted to others (unlike an indirect tax). A good example of a direct tax is the Federal income tax. You just gotta pay it.
Directors	Directors are elected by the shareholders. They manage or direct the affairs of the corporation. Typically, the directors make only major business decisions and monitor the activities of the officers.
Disposable Income	An individual's income after taxes.
Dissolution	The termination of a corporation's legal existence. Dissolution may be caused many ways including: failure to file annual reports, failure to pay certain taxes, bankruptcy, or voluntary dissolution of the corporation by the shareholders and directors.
Distribution	Amount paid to mutual fund investors for capital gains on sales of investments and for dividends received from investments.
Dividend	A distribution of money or property paid by the corporation to a shareholder. These distributions are subject to a double tax; both the corporation and the dividend recipient must pay federal taxes on these earnings.
Domestic Corporation	A Corporation is a domestic corporation in the state where it has incorporated.
Double Taxation	Corporations are treated as a separate legal taxable entity for income tax purposes. Therefore, corporations pay tax on their earnings. If corporate earnings are distributed to shareholders in the form of dividends, the corporation does not receive the reasonable business expense deduction, and dividend income is taxed as regular income to the shareholders. Thus, to the extent that earnings are distributed to shareholders as dividends, there is a double tax on earnings at the corporate and shareholder level. S corporations and LLCs are pass-through entities that are not subject to the double tax.
Earned Income	In simple English: All the money you earn. This includes any wages, salaries, tips, net earnings (if you're self-employed), and any other income received for personal services. Add it all up, it's all earned income.
Earned Income Credit	Not exactly rolling in dough? Low-income workers can file a tax return to get an earned income credit, even if no income tax was withheld from the worker's pay.
Education IRA	A tax-deferred savings and investment account for education expenses of children and grandchildren under 18.
Electronic Filing (IRS e-file)	IRS e-file options allow you to file Federal income tax returns (and some state returns) through a tax professional, through your home computer or even through your telephone. It may also be available in many other places in your local community.
Employee Stock Option Plan (ESOP)	A qualified retirement plan which gives employees a stake in the company without investing employees' funds.
Employee Stock Purchase Plan (ESPP)	A plan which permits employees to purchase company stock, usually at a discount.
Engagement Letter	Written communication between an accountant and a client with respect to a professional engagement, outlining the scope of the accountant's responsibilities and arrangements agreed upon.
Enrolled Agent	An Enrolled Agent (EA) is a federally-authorized tax practitioner who has technical expertise in the field of taxation and who is empowered by the U.S. Department of the Treasury to represent taxpayers before all administrative levels of the Internal Revenue Service for audits, collections, and appeals.

Source: National Association of Enrolled Agents (NAEA)

	Weblink to NAEA: www.naea.org
Equity	The ownership of a shareholder in a corporation. See Capital.
Estate	Real and personal property owned by a person at the time of death (real property is land and anything permanently attached to it).
Excise Tax	Excise taxes are taxes on the sale or use of certain products or transactions. So every time you make a telephone call, buy a plane ticket, or ride in a car (to name but a few) you'll be paying excise taxes.
Exempt (from tax liability)	Before a taxpayer pays taxes, he/she can claim a set amount of tax deductions for him/herself, a spouse and eligible dependents. The total amount is subtracted from the adjusted gross income. Then the tax on the remaining income is figured out.
Exempt (from withholding)	Have you ever been exempt from taking an exam because your average was high enough? What a feeling! Well, taxpayers can be exempt from paying a certain amount of federal income tax if they meet certain income, tax liability, and dependency requirements. In fact, you could be exempt from having certain taxes taken out of your paycheck. If you have a job, be smart and check into this.
Expenditure	Consumption of an asset or payment for an expense. Incurrence of a liability.
External Auditor	An independent accountant engaged to determine if the financial statements of an entity represent the economic events that occurred during the period audited. The external audit is for the shareholders/owners (rather than for management).
F.O.B.	Shipping term meaning "free on board" to inform the purchasers of the location at which they become responsible for the shipping charges (for example, F.O.B. Toronto means the vendor pays the charges to Toronto's freight yard and the purchaser is responsible from there).
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.
Family & Medical Leave Act (FMLA)	Federal law requiring businesses with 50 or more employees to offer at least 12 weeks of unpaid leave for personal health reasons, to provide medical care for immediate family members, or to care for a newborn or newly adopted child.
Federal Tax Identification Number	A number given to a corporation or other business entity by the federal government for tax purposes. Banks generally require a tax identification number to open bank accounts.
FICA (Federal Insurance Contributions Act)	The Federal Insurance Contributions Act (FICA) consists of both a Social Security (retirement) payroll tax and a Medicare (hospital insurance) tax. The tax is levied on employers, employees, and certain self-employed individuals.
Fiduciary	A person who holds something in trust for another (often used to describe executors and administrators of estates and trusts).
File A Return	To file a return is to send in your completed tax forms, or return ("return" is the official term-use it, you'll sound smarter). All your tax information appears on the return, including income and tax liability.
Filing Status	Your filing status determines your tax bracket and amount of taxes you must pay. Factors such as marital status affect your filing status.
Financial Statements	Formal financial reports prepared from accounting records (for example, Profit & Loss Statement, Balance Sheet, Statement of Retained Earnings).
Fiscal Year	A period of one year for which financial statements are prepared that may or may not coincide with the calendar year. Any twelve-month period used by a business as its accounting period.
Fixed Assets	See Capital Assets
Fixed Rate	A mortgage with an interest rate which does not increase or decrease during the term of the loan.

Flexible benefits plan	A benefits plan which allows employees to choose from a range of taxable and non-taxable benefits, usually including 401(k), health insurance, and flexible spending accounts.
Flexible Spending Account (FSA)	A benefit program which allows money to be deducted from an employee's wages or salary on a pre-tax basis, to pay for qualifying health care and dependent care expenses.
Foreign Corporation	A Corporation is referred to as a foreign corporation in all states except for the state where it is incorporated. If a corporation conducts business in a state other than where it was incorporated, it must register for a certificate of authority to transact business in the other state or possibly lose access to that state's courts and face fines.
FORM 1040EZ	This form is great if you're single or married, don't have any dependents and aren't rolling in dough. If your income is \$50,000 or less and your interest income is \$400 or less --- use this easy (get it, EZ) IRS form to file your return.
FORM W-2	By January 31 of each year --- your employer (even if you don't work there anymore) will provide you with a statement of how much you earned in wages, tips and other compensation from the previous year. This form will reflect state and federal taxes, social security, Medicare wages, and tips withheld. It also includes a lot of other really important information you will need to file your return.
FORM W-4 (Employee's withholding allowance certificate)	If you have or had a part-time or summer job, you probably completed this form on your first day of work. This form determines how much of your paycheck is withheld for federal income taxes.
Formal Tax Legislation Process	There are strict steps (that involve the President and Congress) that a proposed tax must pass through before it becomes a law.
Franchise Tax	A tax imposed by the State for the privilege of carrying on business as a corporation or LLC. The value of the franchise tax may be measured by amount of earnings, total value of capital or stock, or by amount of business done.
GAAP	Abbreviation for generally accepted accounting principles. Accounting principles that have been given formal recognition or authoritative support.
GAAS	Abbreviation for generally accepted auditing standards. Auditing standards that have been given formal recognition or authoritative support.
General Journal	Journal in which transactions are recorded for which specific journals are not provided (for example, adjustments and corrections). 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 separately determined).
Gross Income	This deals with all the money, goods and property you receive that must be included as taxable income. Fact: people who use the barter system (exchanging non-monetary goods/services as payment) have to include whatever they've bartered for as part of their gross income.
Holding Company	A corporation that has no other function except owning other corporations.
Home Equity Loan	Loan in which the lender allows the borrower to use the equity in his or her home as collateral for a line of credit or revolving credit. The borrower may then obtain cash advances by using a credit card or checks up to some predetermined limit.
Horizontal Equity	Horizontal equity says that people in the same income groups should be taxed at the same rate. "Equals should be taxed equally."
Income	Money or its equivalent, earned periodically by an individual, a corporation, etc., in return for goods or services provided. Opposite of loss.
Income Disability Benefits	Insurance which pays a monthly benefit to replace a percentage of earnings lost due to illness or injury resulting from a covered accident.

Income Statement	A financial statement summarizing revenues, expenses, gains and losses for a stated period of time. The Income Statement is also known as Profit & Loss Statement, Statement of Earnings, Statement of Income or Statement of Operations.
Income Tax	These are taxes on income, both earned income (salaries, wages, tips, commissions) and unearned income (interest from savings accounts, dividends if you hold stock). Individuals and businesses are subject to income taxes.
Incorporated (Inc.)	See Corporation
Incorporator	The person or entity that prepares and files the articles of incorporation. Total Tax Solutions acts as an Incorporator for many new companies.
Indemnify	To reimburse or compensate. Directors and officers of corporations are often reimbursed or indemnified for all the expenses they may have incurred during the incorporation process.
Indirect Tax	You might not think you're paying this tax, but you probably are. It's the type of tax that can be shifted to others: hence the name. For example: A company might have to pay a specific tax to the government, let's say a fuel tax. The company pays the tax but can increase the cost of their products so consumers are actually paying the tax indirectly by paying more for the company's products.
Individual Retirement Accounts (IRAs):	A tax-deferred product offered by banks, mutual funds and other companies. Under current law, a married couple can put \$4,000 (\$2,000 each) into their own IRA each year in a wide range of savings accounts and investments. Earnings are tax-deferred until you begin withdrawing the money (which you can start doing without penalty after age 59 ½). Under current tax law, some people (depending on their income, marital status or other factors) can deduct all or part of their IRA contributions, which reduces their taxes.
Informal Tax Legislation Process	Ever joined a book club? What about a study group? Well, if you're interested, there are also informal tax legislation meetings where individuals and interest groups get together to discuss tax issues. Once you become a steady wage earner, these are meetings you probably won't want to miss.
Insolvency	When liabilities exceed assets. Also, the inability to pay debts when due. See Bankruptcy.
Installment	A part of a sum of money or a debt to be paid at regular intervals, usually made up of principal and interest combined.
Intangible Asset	An asset without physical substance that has value due to rights resulting from its ownership and possession (for example, goodwill, patents, trademarks).
Interest (1)	"Interests" represent a member's ownership of an LLC just as a partner has an interest in a partnership and shareholders own stock in a corporation.
Interest (2)	The cost of using money over time usually expressed as an annual percentage.
Interest Income	You deposit your money into a savings account for a reason, right? So you can earn interest on your money. People also earn interest from lending money to people. We're not talking about you lending your buddy Dave a couple bucks to buy lunch; we're talking about lending lots of money so the interest really accumulates on the loan. Well, add up all that interest you accumulate and there's your interest income. Not to burst your bubble, but that interest income is all fully taxable.
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 its business.
Internal Control	A coordinated 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.
Inventory	Items of tangible property held for sale. An Inventory is a detailed list of items and their values owned at a specific point in time. Stock inventory would include raw materials for manufacture, materials partly processed and finished products including items in transit for which title is held, but would not include items physically held for which title belongs to others. Inventories may also be made of fixed assets, stationery and supplies, etc.

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 goods having approximately the same economic value that are manufactured simultaneously from the same raw material.
Journal	A book of original entry in which financial transactions are recorded (for example, a purchase journal is a record of purchase transactions).
Journal Entry	An entry in any journal.
Keogh Accounts:	Similar to a 401(k), but for the self-employed.
Lease	A legal contract conveying the use of property from the owner (lessor) to another (lessee) at a fixed rate, 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 (for example, general ledger, accounts receivable ledger).
Liability	The Liabilities of a business are the debts of a business. For example, if money is borrowed from a bank, there is a liability to repay the loan. In this case, the borrower would be known as the debtor and the bank to which the debt is owed would be called the creditor.
Limited (Ltd.)	See Corporation
Limited Liability Company	A business entity formed upon filing articles of organization with the proper state authorities and paying all fees. LLCs are a new entity in the United States, although the concept has long been used internationally. LLCs provide limited liability to their members, and are taxed like a partnership, preventing double taxation. LLCs can be formed in every state.
Limited Partnership	A partnership with two classes of partners: Limited partners and one or more General partner. Limited partners have no personal liability for debts of the limited partnership beyond the amounts invested.
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 satisfy obligations.
Liquidation	The winding-up of an organization by settling with debtors, creditors and shareholders. Usually done by selling or otherwise disposing of assets to pay off liabilities.
Liquidation Value	The net amount realized on assets in the event of a liquidation.
Local Tax	In addition to federal and state taxes, your local town or city may also need tax money to operate services such as garbage pick-up, water treatment, and street-cleaning.
Long-term health care insurance	Coverage intended for elderly to provide for expenses related to long-term home health care or extended stays in nursing homes.
Loss	The excess of expenditures over revenues. Opposite of income/profit.
Lump-sum distribution	A disbursement of the entire funds in an account, commonly paid when an employee retires or leaves a company, potentially with tax consequences if not rolled over into another retirement plan or an IRA when taken prior to retirement.
Management Accounting	Accounting concerned with providing information to managers; that is, to those who are inside an organization and who direct and control operations. Management Accounting includes cost accumulation for product costing, budgeting and financial statement analysis.
Manager	An LLC may be operated by a group of managers who act much like a board of directors. If an LLC is to be controlled by managers this fact must be stated in the articles of organization.

Market Value	The highest price that an owner could realize in an open market transaction. See Fair Market Value.
Materiality	A term used to describe the significance of financial statement information to decision makers. An item of information is material if it is probable that its omission or misstatement would influence or change a decision.
Medicare	The Medicare program funds the federal health program for people over 65. It helps out people at a time in their lives when they may have health problems but may not have a lot of money.
Member	A member is a person who is an owner of a Limited Liability Company. The members make the business decisions of an LLC unless the articles of organization provide that the LLC will be controlled by a manager or managers.
Merger	Merger occurs when one corporation is taken over by another.
Minority Interest	The equity of all shareholders who do not hold a controlling interest in a company.
Minutes	A written record which details the events of the corporation. These records should be kept in the corporation's record book.
Money Market	Financial markets in which short-term debt instruments such as Treasury bills, commercial paper and CD's are traded.
Name Reservation	The name of a corporation or LLC must be distinguishable on the records of the state government. If the name is not unique, the state will reject the articles of incorporation or articles of organization (for LLCs). A name can be reserved, usually for 120 days, by applying with the proper state authorities and paying a fee.
Net Income	Profit after all expenditures have been deducted from the revenue. See Profit.
Net Worth	Excess of total assets over total liabilities as reported in a company's balance sheet. See Capital (or Equity)
No-Par-Value Stock	Stock with no minimum value. Most states allow no-par stock. If the stock is no-par stock then the amount of stated capital is an arbitrary amount assigned by the board of directors. Further, the value of capital for franchise tax purposes is determined by the state and this may result in higher franchise taxes in comparison with low par-value stock.
Not-For-Profit Corporation	A Corporation organized for some charitable, civil or other social purpose that does not entail the generation of profits for shareholders. These corporations receive special tax treatment. Not-for-profit corporations must file not-for-profit articles of incorporation with the state.
Note Payable (Promissory Note)	Written promise made by one individual to another to pay a specific amount on demand or by a definite date.
Note Receivable	Written promise by another party to make payment to you at a specified date.
Officers	Officers are people who are appointed by the directors. They manage the daily affairs of the corporation. A Corporation's officers usually consist of a president, vice-president, treasurer, and secretary. In most states, one person can hold all of these positions.
Operating Agreement	An agreement among the LLC members which govern the LLC operations and the rights of its members. It is analogous to corporate bylaws.
Options	Marketable securities that provide for future exchange of cash and common shares contingent upon the option owner's choice.
Organizational Meeting	The initial meeting where the formation of the corporation is completed. At the organizational meeting a number of initial tasks are completed such as: the articles of incorporation are ratified, the initial shares are issued, officers are elected, bylaws approved, and a resolution authorizing the opening of bank accounts is passed. If the initial directors are named in the articles of incorporation, they can hold the organizational meeting. If they are not named, then the Incorporator holds the organizational meeting.
Overhead	Fixed costs not directly applicable to the production of a -product (for example, costs of

	lighting and heating a factory).
Owner's Equity	What the business is worth to the owner. See Capital and Equity.
Paid in Capital Requirements	A few states require corporations to have a specified amount of paid in capital prior to starting business. These states include CT, DC, SD, and TX and require that the company have \$1,000 in paid in capital before starting business.
Par-Value	The stated minimum value of a share stock. Stock must be sold for at least this value or the owner of the stock can face liability. With low par value stock or no par value stock this liability is minimized.
Parent Company	A corporation that directly or indirectly owns a controlling interest in another corporation. See Subsidiary.
Partnership	Two or more persons carrying on a business for profit, each partner having unlimited liability for the debts of the partnership, except in a limited partnership in which some of the partners may have limited liability.
Pass-Through Taxation	Income to the entity is not taxed. Instead the income is "passed through" to the individual shareholders or interest holders. S corporations, Partnerships and LLCs are pass-through taxation entities.
Payable	An obligation to pay a sum at a future date.
Payroll	A record of wages or salaries paid or payable. The actual wages and salaries paid during a given period.
Payroll Taxes	Your employer deducts a certain amount from your paycheck to pay for taxes. This tax money funds many finance specific programs, including social security, health care and worker's disability. These programs might not mean a whole lot to you now, but you may likely benefit from them when you're older. Check out
Pension	Arrangement whereby an employer agrees to provide benefits to retired employees. A pension is paid out in a series of regular payments or a lump sum of money to retired employees or their beneficiaries.
Personal Income Tax	Everyone pays a tax on his/her yearly total amount of taxable income. Remember that the personal income tax is not a tax on the taxpayers total income (the taxpayer can take deductions). Deductions are subtracted first from the taxpayer's income and then he/she pays the tax on the remaining amount.
Piercing the Corporate Veil	If corporate formalities are not followed, it is possible that the corporate entity will not protect shareholders from corporate debt. Keeping proper records and holding regular meetings help solve this possible problem.
Posting	Process whereby transactions are transferred from a journal to a general ledger or subsidiary ledger.
Preemptive Rights	Rights delineated in the articles of incorporation granting shareholders the first opportunity to buy a new issue of stock in proportion to their current equity. The shareholder has the right to buy the new issue of stock, but is not required to make the purchase. If the shareholder elects not to exercise this right, the shares can be sold on the open market.
Preferred Stock	Stock that generally provides the shareholder with preferential payment of dividends but does not carry voting rights.
Premium	An amount paid for insurance.
Prepaid	Asset created by payment for economic benefits that do not expire until a later time; as the benefit expires the asset becomes an expense (for example, prepaid rent, prepaid insurance).
Principal	The capital portion of a loan as opposed to interest.
Professional Corporation	A Corporation that is organized for the purpose of engaging in a learned profession such as law, medicine or architecture. Professional Corporations must file articles of incorporation with the state which meet the state's requirements for professional corporations.
Profit	The excess of total revenue over total expenses for a period of time.

Progressive Tax	This type of tax takes a larger percentage of income from higher income groups than from low-income groups. Is this fair? Check out What is Fair?
Property Tax	Proportional taxes take the same percentage of income from everyone regardless of how much (or little) a person earns. This type of tax is not currently in use, but some feel it's the way to go. What do you think? Check out What is Fair?
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Proxy	If a shareholder can not attend a meeting, the shareholder is allowed to vote by proxy. A proxy grants another individual the power to vote on their behalf.
Qualified retirement plans	Plans such as 401(k)s, IRAs, etc., which are IRS approved for favorable tax treatment for contributions and tax-deferred earnings.
Quorum	The minimum attendance required to conduct business at a meeting. Usually, a quorum is achieved if a majority of directors are present (for directors meetings) or outstanding shares are represented (for shareholder meetings). The percentage needed for a quorum may be modified in the bylaws.
Ratio	Relative size, expressed as the number of times one quantity is contained in another (for example, the ratio of assets to liabilities of a company having total assets of \$200,000 and liabilities of \$150,000 would be $\$200,000 / \$150,000 = 1.33$)
Receivable	An amount to be received at a future date.
Refinancing	Rescheduling of payments due, usually resulting in smaller payments over a longer period of time.
Refund	When your employer deducts too much money from your paycheck, the government owes you that money back. When they pay it, it's called a refund.
Registered Agent	The agent named in the articles of incorporation. The agent will receive service of process on the corporation and other important documents. The agent must be named in the articles of incorporation.
Registered Office	The office named in the articles of incorporation. The registered office must be where the registered agent is located, and need not be the principal office or place of business of the corporation.
Regressive Tax	This is the tax that takes a smaller percentage from those with high income than from those with lower income. Is this fair? What do you think?
Required minimum distribution	Minimum distribution, based on life expectancy or the joint life expectancies of holder and beneficiary, that the IRS rules must be withdrawn from IRAs, 401(k)s, etc. or be subject to penalties.
Resolution	A resolution is a formal decision of the corporation that has been adopted by either the shareholders or the board of directors.
Retained Earnings	Cumulative net incomes of a corporation less losses and dividend distributions to shareholders (profits not distributed).
Revenue	Gross proceeds from sale of goods or services. Also, interest and dividends earned on investments. Revenue is a source of income.
Review Engagement	The un-audited 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. A review includes making inquiries 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 un-audited financial statements and provides negative assurance that the financial information conforms to generally accepted accounting principles.

Risk	Possibility that the actual return on an investment will be less than its expected return.
Rollover	Transfer of funds from one tax-deferred account to another without tax consequences, provided IRS rules are followed.
Roth IRA	Differing from a traditional IRA, contributions to a tax-deferred Roth IRA are not tax-deductible, but there is no tax on withdrawals if the taxpayer is over 59 1/2 and the account has been open for five years.
S Corporation	A small corporation which elects subchapter S tax treatment. This tax treatment allows the corporation to avoid federal level taxation. Corporate Profits and Losses are passed through to the shareholders.
Sales Taxes	You gotta have that new CD, but do you have enough cash? Don't forget to add the sales tax to the price. Depending on the state you live in, you pay an extra percentage of sales tax for items purchased.
Schedule	Your class schedule essentially organizes your day, right? Taxpayers have to be organized too. They use certain schedules (or forms) to itemize specific sources of income or specific expenses they claim should be deducted from their taxes. It can pay to be organized! SOCIAL SECURITY
Security	Collateral for a debt (for example, accounts receivable may be pledged as security for a loan). Security is a generic term used to refer to a bond, share certificate or other medium or long-term investment evidencing debt or ownership.
Self-Select Pin	Does a paperless return sound good to you? If you choose the Self-Select Pin option, it's magic. . . no paper to mail!
SEP or SEP-IRA	Generally following the rules for IRAs, a Simplified Employee Pension is a tax deferred retirement plan for self-employed persons and for businesses with fewer than 25 employees.
Share	An interest in a corporation. The total ownership of a corporation is divided into shares of stock. See Stock
Shareholder	Any holder of one or more shares in a corporation. A shareholder usually has evidence that they are a shareholder. This evidence is represented by a stock certificate.
Simple IRA	The Savings Incentive Match Plan for Employees is a tax-deferred retirement plan for businesses with fewer than 100 employees and for self-employed persons which generally follows rules for traditional IRAs.
Social Security	Social Security is America's government-run retirement plan. One day, when you're your grandparents' age, you'll get the money back.
Sole Proprietorship	A business carried on by the owner as an individual. The owner of a sole proprietorship is personally liable for all business debts; thus, personal property could be taken to pay business debts. A Sole Proprietorship is an unincorporated business wholly owned by one individual.
Spousal IRA	A tax-deferred retirement account for spouses who do not work for pay which allows an employed taxpayer to contribute \$2,000 a year on behalf of a stay-at-home spouse, provided the couple files a joint return.
Standard Deductions	Some taxpayers choose to take a standard amount instead of itemizing all of their deductions. This is a fixed amount that is generally based on a person's filing status.
State Taxes	There are all kinds of taxes which are used to pay for all sorts of things. Some of our money goes to the Federal government, which pays for services like Interstate highways, the armed forces, the FBI, and a lot more. Your state also needs money for schools, roads, state troopers-to name just a few. At the end of the tax year, you will need to send one form to the Federal government, and another to your state government.
Stated Capital	The par value of shares multiplied by the number of shares outstanding. The amount of stated capital may affect the ability to pay dividends.
Statement	Summary of an account for a period of time (usually one month) showing invoices, credits and balance due. A statement is provided to a customer by a supplier.

Statement of Changes in Financial Position	A financial statement showing the effect of operating, financing and investing activities effecting the cash position of the company. Also known as Cash Flow Statement, Statement of Cash Flow, 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. Also known as 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. Stock refers to an equity or ownership interest in a corporation. There may be several classes of stock in a corporation, each class divided into equal portions or shares. Ownership of shares is demonstrated by stock certificates. See Share.
Stock Certificate	A written instrument that shows ownership of shares in a corporation.
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.
Stock Transfer Book	A record book which lists the owners of shares of stock in a corporation.
Stockholder	See shareholder.
Subsidiary	A corporation controlled by another corporation that owns directly or indirectly an interest sufficient to elect a majority of the board of directors. See Parent Company.
Tariff Duty	Ever travel abroad and do a little duty-free shopping at the airport? You're buying tax-free products. When you buy that same product at your corner store (assuming it's not a duty-free shop), you're paying a tariff duty or tax on the product.
Tax Avoidance	Legal minimization of the impact of taxation.
Tax basis	The basis used for calculating capital gains or losses, it is the original cost paid for an investment, plus expense, which must be reported to the IRS when the investment is sold.
Tax Credits	The amount of money that tax payers can deduct directly from their taxes.
TAX DEDUCTIONS	The amount that a person or business can subtract from their taxable income. The more you can deduct, the less you pay.
Tax deferment	Certain contributions and investment with earnings which are taxed at a later date.
Tax Evasion	Illegal attempt to escape the impact of taxes.
Tax Exempt	Pretty excited when you're exempt from gym class? Taxpayers are pretty happy when they see there's a part of their total income on which no tax is imposed. That's a tax exemption.
Tax free	Investments, such as municipal bonds, whose earnings are never taxed, but whose capital gains may be taxed if investment is sold at a profit.
Tax Liability	There's no getting out of it- tax liability is the total amount of tax that a person must pay. Taxpayers pay this through withholdings, estimated tax payments, and payments attached to their yearly tax forms.
Tax Shelter	Investment to acquire something of value with the expectation it will produce income and reduce or defer taxes.
Tax Shift	One lucky person or group is able to shift a tax that they're supposed to pay to someone else.
Tax Withholdings	There's a portion that your employer takes from your (and other employees) paycheck to pay part or all of your taxes.

Taxable Income	Everything you earn that can be taxed.
Taxes	Taxes are required payments of money to the government. This money is used to make your life better. You might not even realize it, but tax money provides public goods and services for the community as a whole (think roads, schools, law enforcement, public libraries, etc.). Show a little gratitude, pay your fair share.
Telefile	The IRS knows that millions of people like you have simple tax returns, but some of them don't have access to a home computer. However, most people do have access to a touch-tone telephone. Telefile lets you use your tone touch phone, but not a cell phone, to send tax information directly to an IRS computer. It's free, simple, accurate and secure. The IRS will send you the TeleFile package if you are eligible to participate. Check out IRS e-file using Telefile. When you visit, be sure to check out the seven states that offer state TeleFile during the same call!
Tips	Here's a tip on receiving tips: If you earn more than \$20 a month in tips, you must report the amount to your employer. To keep track of your tips keep a daily "tips-earned log" where you write down the exact amount of tips you earn each day. Share the monthly total with your employer who will make certain federal, state, and local taxes are paid. Remember, it still pays to be nice . . . so don't forget to smile. Publication 1244 contains forms for daily record keeping of tips and for reporting tips to your employer. The freely available Adobe Acrobat Reader is required to view this publication.
Title	Legal right to ownership of property.
Transaction Taxes	The sale of all goods and services have transaction taxes. These taxes can be a set percentage of a sales value or a set amount of a physical quantity. What's that all about? Let's say you buy a CD-you pay a set amount in sales tax, but when you fill up your tank with gas, you pay a tax per gallon.
Treasury Bills	Debt obligations of the U.S. Government that mature in one year or less.
Treasury Shares	Shares of stock that were issued and later acquired by the corporation.
Trial Balance	Listing and totaling all balances in a ledger to verify that total debits equal total credits.
Trust	Fiduciary relationship under which property is held by one person (a trustee) for the benefit of another (the beneficiary).
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.
Ultra Vires	Traditionally, the purpose of a corporation was closely spelled out in its articles of incorporation. If the corporation acted beyond its described purposes these actions were unenforceable against the corporation or by the corporation. However, most modern statutes allow corporate purposes to be any lawful activity. Therefore, the importance of this doctrine has greatly diminished.
Unanimous Written Consent	Nearly all states allow directors to act without a meeting if they each give their consent
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.
Variance	Difference between standard cost and actual cost. Also, the difference between an actual revenue or expense item and the budget for that item (budget variance).
Vertical Equity	Who said all taxpayers are created equal? Vertical equity states that people in different income groups should pay different rates of taxes. Our current tax system is one of vertical equity.
Voluntary Compliance	Your mom might order you to clean up your room. Well, the IRS doesn't have time to tell every single taxpayer to file taxes correctly and on time . . . there are millions of taxpayers in this country after all. This system relies on citizens to report their income, calculate tax liability and file tax returns on time. Everyone's gotta grow up sometime. Check it out.

Volunteer Income Tax Assistance	Available in most communities are Volunteer Income Tax Assistance (VITA) sites to help with tax return preparation. People volunteer their time to help their neighbors. The service is free to those with limited or moderate income people, non-English speaking, the elderly and the disabled. Some VITA sites even offer free electronic filing. If you want to know more about a VITA site in your community or volunteering your time, call the IRS at 1 800-829-1040. Check out IRS e-file.
Walk-In Electronic Filing	If you need help preparing your taxes visit the Volunteer Income Tax Assistance (VITA) office nearest you. Many VITA offices have IRS representatives who can help you fill out your forms and then transmit the information on your forms electronically.
Withholding ("Pay-as-you-earn" taxation)	Your employer takes out a certain amount from your check for the government. You are credited for these taxes when you file your return. This money is used to pay for your federal income taxes, federal social security, and Medicare taxes, and state and local income taxes.
Withholding Allowance	An allowance an individual claims on a W-4 Form. It is mainly used to assist an employer in calculating the amount of income tax to withhold from an employee's paycheck. The more allowances you wish to claim, the less income tax will be withheld from your paycheck. You can claim one allowance for yourself, one for your spouse, and one for each of your dependents.
Worker's Compensation	Insurance required by law which compensates employees who are injured on the job.
Write-off	To transfer an item that was an asset to an expense account (for example, to transfer an uncollectable account receivable to bad debts expense).
Yield	Interest earned on a bond, or the dividend paid on a stock or mutual fund, usually expressed as a percentage.