Accounting Cheat Sheet

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AccountingCoach.com's Accounting Cheat Sheet is a quick reference and overview of accounting concepts. You should consult a professional accountant and/or the accounting profession's official pronouncements for specific situations and for more complete information.

Financial Statements

Financial statements are general purpose, external financial statements prepared according to generally accepted accounting principles. Some terms that apply to the financial statements include:

balance sheet reports the amounts of assets, liabilities, and stockholders' equity at a specified moment, such as midnight of December 31; also known as the statement of financial position.

income statement reports revenues, expenses, gains, losses, and net income during the period of time stated in its heading; also known as the statement of operations and as the profit and loss (P&L) statement.

statement of cash flows reports the changes in cash and cash equivalents during a period of time according to three activities: operating, investing, and financing.

statement of stockholders' equity reports the changes in the components of stockholders' equity, including net income, other comprehensive income, dividends, exercise of stock options.

interim financial statements issued between the annual financial statements, e.g. quarterly.

audited financial statements independent CPA firm gives assurance about reasonableness and compliance with accounting principles.

financial reporting includes financial statements, annual and quarterly reports to SEC and stockholders, press releases and other financial reports.

Note: *To learn more about Financial Statements see our Video Seminar, Visual Tutorial and Exam Questions in AccountingCoach Pro.*

Balance Sheet

The balance sheet or statement of financial position reports assets, liabilities, owner's or stockholders' equity at a point in time. Some terms that apply to balance sheets include:

assets resources, things owned, and prepaid or deferred expenses; examples include cash, accounts receivable, inventory, prepaid insurance, land, equipment, vehicles, furnishings.

liabilities obligations and deferred revenues; examples include accounts payable, loans payable, wages payable, interest payable, customer deposits, deferred revenues.

owner's equity a sole proprietorship's assets minus its liabilities.

stockholders' equity a corporation's assets minus its liabilities; reports paid-in capital, retained earnings, and treasury stock.

accounting equation Assets = Liabilities + Stockholders' (Owner's) Equity.

classified balance sheet groups assets into the following classification: current assets, investments, property, plant and equipment, and other assets. Liabilities are classified as either current or long-term.

current asset will turn to cash within one year of the date of the balance sheet (unless the operating cycle is greater than one year).

current liability an obligation that will become due within one year of the balance sheet date (unless the operating cycle is greater than one year).

Note: *To learn more about the Balance Sheet see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com. Also see our Visual Tutorial and Exam Questions in AccountingCoach Pro.*

Income Statement

The income statement (statement of operations, or P&L for profit and loss statement) reports a company's net income for a specified period of time. Net income is revenues and gains minus expenses and losses. Some terms associated with the income statement include:

revenues amounts earned, sales, service fees, interest earned.

expenses costs incurred to earn revenues, costs used up or expiring during the accounting period, and costs for which the future value cannot be measured.

gain sale of a long-term asset for more than its carrying (book) value; elimination of an obligation for less than its carrying value.

loss sale of a long-term asset for less than its carrying (book) value; elimination of an obligation for more than its carrying value.

gross profit sales minus cost of goods sold.

cost of goods sold beginning finished goods inventory + net purchases (or cost of goods manufactured) – ending finished goods inventory.

single-step income statement one subtraction to reach net income: operating and nonoperating revenues minus operating (including cost of goods sold) and nonoperating expenses.

multiple-step income statement at least one subtotal before reaching net income: sales – cost of goods sold = gross profit; gross profit – operating expenses = income from operations. Income from operations +/- nonoperating items = net income.

selling, general and administrative SG&A; operating expenses; noninventoriable costs.

operating income income from operations; pretax income before nonoperating revenues and expenses.

nonoperating income income from peripheral activities.

Note: *To learn more about the Income Statement see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com. Also see our Visual Tutorial and Exam Questions in AccountingCoach Pro.*

Cash Flow Statement

The statement of cash flows (or cash flow statement) summarizes the significant reasons for the change in a company's cash and cash equivalents during a period of time. The items are presented in the following categories: operating activities, investing activities, financing activities, and supplemental information.

Since the income statement is usually prepared under the accrual method of accounting, the statement of cash flows provides information on the amounts of cash flowing in and out of the business. Some investors will compare the cash from operating activities to the amount of net income in order to assess the "quality" of a company's earnings.

Terms related to the statement of cash flows (SCF) include:

direct method the method preferred by the FASB for preparing the SCF.

indirect method the method used by most companies when preparing the SCF; operating activities begins with net income which is then adjusted to the cash provided by operating activities.

operating activities activities involving net income.

investing activities activities involving the purchase and sale of long-term assets.

financing activities activities involving the borrowing and repayment of debt, long-term liabilities and stockholders' equity (other than net income).

Supplemental information a separate disclosure containing significant noncash transactions such as the exchange of stock for bonds, stock for land, and so on. In addition there must be a disclosure of the amounts paid for interest and income taxes.

Note: *To learn more about the Cash Flow Statement see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com. Also see our Visual Tutorial and Exam Questions in AccountingCoach Pro.*

Stockholders' Equity

The statement of stockholders' equity reports the changes in the components of stockholders' equity for the specified period. Some of the terms involved with stockholders' equity include:

paid-in capital amount received by the corporation from the original issue of its shares of common and preferred stock; contributed capital.

retained earnings generally, the cumulative earnings of the corporation since it began, minus the cumulative dividends declared by the corporation.

comprehensive income all changes in ownership interest other than owner investments and distributions to owners.

treasury stock a corporation's own stock that it repurchased; appears as a negative amount in stockholders' equity because it has a debit balance.

cash dividend distribution of cash to a corporation's stockholders.

stock dividend distribution of additional shares of a corporation's stock to its present stockholders.

common stock dividend distributable a stockholders' equity account that reports the par value of the shares to be issued in the near future as the result of a stock (not cash) dividend.

declaration date the date a dividend is declared; the date a liability (dividend payable) is recorded and retained earnings is reduced.

record date the date which determines which stockholders will receive a dividend.

stock split a 2-for-1 stock split means all stockholders' number of shares of stock will double and should result in a 50% drop in market value of each share of stock.

dividend payable a current liability resulting from a corporation's directors declaring a cash dividend.

Note: *To learn more about Stockholders' Equity see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com.*

Financial Ratios

Financial ratios are one component of financial analysis. Some of the many ratios and some of the terminology are included here:

working capital current assets minus current liabilities.

current ratio current assets divided by current liabilities.

acid-test ratio (cash + marketable securities + accounts receivable) divided by current liabilities; also known as the quick ratio.

quick ratio same as acid-test ratio.

receivables turnover ratio credit sales for a year divided by the average balance in accounts receivable during the same year.

average collection period 360 or 365 days divided by the receivables turnover ratio.

inventory turnover ratio the cost of goods sold for a year divided by the average inventory during the same year.

days' sales in inventory 360 or 365 days divided by the inventory turnover ratio.

free cash flow one definition is net cash inflow from operating activities minus necessary capital expenditures.

times interest earned income before interest and income tax expense divided by interest expense.

gross margin (gross profit %) net sales minus cost of goods sold equals gross profit or gross margin dollars. Gross profit divided by net sales equals gross margin or gross margin percentage.

return on assets net income for a year divided by the average amount of assets during the year.

return on equity (no preferred stock) net income for a year divided by the average amount of stockholders' equity during the year.

asset turnover ratio net sales for a year divided by the average amount of assets during the year of the sales.

Note: *To learn more about Financial Ratios see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com. Also see our Exam Questions and Business Forms in AccountingCoach Pro.*

Accounting Principles

Generally accepted accounting principles are based on some underlying concepts often referred to as the basic accounting principles or fundamental accounting principles. Some of the basic principles and concepts are presented here:

cost or **historical cost** transactions are recorded at their cost (cash or cash equivalent at the time of the transaction) and generally the amounts are not changed as their market values change. (There are some exceptions such as certain marketable securities and impairments.)

matching costs are matched with revenues and to the period in which they are used up.

full disclosure must report information that will make a difference to a decision maker.

economic entity the accountant can keep an owner's business transactions separate from the owner's personal transactions.

periodicity assumes that an ongoing business can be divided into discrete time periods such as years, quarters, months, etc.

time period same as periodicity.

monetary unit assumes the purchasing power of the dollar is constant; activities and assets can be expressed in dollars.

going concern assumption that a company will remain in business and will carry out its objectives and commitments.

materiality if an amount is insignificant, an accounting principle could be violated, e.g. expensing a $150 printer immediately instead of depreciating it over its useful life.

conservatism when doubt exists between two alternatives, choose the alternative with the lower profit and lower asset amount. Example: inventory valued at the lower of cost or market.

industry practices often regulated businesses have unique reporting requirements, e.g. utilities report their plant assets before their current assets.

comparability allows readers to compare different corporations' financial statements; enhanced by accounting standards.

consistency using the same method of accounting year after year.

reliability dependable and free from bias.

relevance will make a difference to a decision maker; timely.

GAAP generally accepted accounting principles; accounting standards including industry practices.

Note: *To learn more about Accounting Principles see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com.*

Bookkeeping, Debits & Credits

The use of debits and credits in double entry bookkeeping can be traced back many centuries. Some of the terminology used in bookkeeping includes the following:

debit an amount entered on the left side of an account; will increase the account balances of assets, expenses, losses; will decrease the account balances of liabilities, stockholders' equity, revenues.

credit an amount entered on the right side of an account; will cause the account balances of revenues, liabilities, stockholders' (owner's) equity, and gains to increase; will cause the balances of assets and expenses to decrease.

double entry each bookkeeping or accounting entry will involve at least two accounts: at least one account will be debited, one account will be credited.

account a record in the general ledger to which amounts are posted; typical accounts include Cash, Accounts Receivable, Accounts Payable, Sales, Wages Expense, and so on.

chart of accounts a list of all of the accounts that are available in the general ledger.

journal book of original entry, used to record accounting/bookkeeping entries in order by date. With computer accounting systems, the use of journals has been greatly reduced.

posting entering amounts in the general ledger.

general ledger contains all of the balance sheet and income statement accounts.

trial balance a listing of the balances of the accounts in the general ledger to prove that the total amount of debit balances is equal to the total amount of credit balances.

balance sheet accounts real or permanent accounts; asset, liability, and equity accounts.

income statement accounts temporary accounts; revenue, expense, gain, and loss accounts.

contra account an account with a balance that is opposite of the normal balance; e.g. Accumulated Depreciation is a contra asset account because its credit balance is the opposite of the normal debit balance for an asset account.

control account an account in the general ledger with summary information. The supporting details are contained in a subsidiary ledger.

subsidiary ledger a record containing the detail for a control account in the general ledger.

closing entries entries to transfer the balances from the temporary accounts to the owner's (stockholders') equity account.

temporary accounts accounts that are closed at the end of the accounting year so that they begin the new year with a zero balance; e.g. income statement accounts and the owner's drawing account.

permanent accounts accounts whose balances carry forward to the next accounting year; e.g. balance sheet accounts.

Note: *To learn more about Bookkeeping and Debits and Credits see our Explanations, Quizzes, Puzzles, and Q&A for these topics on AccountingCoach.com. Also see our Seminar Video, Visual Tutorial and Exam Questions in AccountingCoach Pro.*

Accounting Equation

The accounting equation is also referred to as the bookkeeping equation. The accounting equation varies slightly by type of organization. Here are three examples:

Assets = Liabilities + Owner's Equity (sole proprietorship)

Assets = Liabilities + Stockholders' Equity (corporation)

Assets = **Liabilities + Net Assets** (not-for-profit organization)

The accounting equation will remain in balance because of double entry bookkeeping. (At least two accounts are involved in every transaction.)

Revenues will increase assets and will increase owner's (stockholders') equity.

Expenses paid with cash will decrease assets and will decrease owner's (stockholders') equity.

Expenses incurred by use of credit will increase liabilities and will decrease owner's (stockholders') equity.

A bank loan will increase assets and will increase liabilities.

Purchase of equipment for cash will increase one asset and will decrease another asset.

Collecting an account receivable will increase one asset (cash) and will decrease another asset (accounts receivable).

The balance sheet reflects the accounting equation.

Note: *To learn more about the Accounting Equation see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com. Also see our Visual Tutorial in AccountingCoach Pro.*

Adjusting Entries

Adjusting entries are usually made just prior to the preparation of the financial statements. A common characteristic of an adjusting entry is that it involves one balance sheet account and one income statement account. Terms associated with adjusting entries include:

accrual basis of accounting reports revenues when they are earned and expenses when they occur (not when a cash receipt or payment takes place).

adjusting entry an entry usually recorded as of the last day of an accounting period so that the financial statements reflect the accrual basis of accounting.

accrual adjusting entry a journal entry to record an expense or revenue that occurred, but is not yet recorded; e.g. debit Interest Expense and credit Interest Payable.

deferral adjusting entry a journal entry to adjust an amount that has been previously recorded, but the amount involves several accounting periods; e.g. debit Insurance Expense and credit Prepaid Insurance, or debit Prepaid Insurance and credit Insurance Expense depending on how the transaction was recorded.

“other” adjusting entry to record estimated credit losses: debit Bad Debts Expense and credit Allowance for Doubtful Accounts. The adjusting entry for Depreciation (debit Depreciation Expense and credit Accumulated Depreciation) is often categorized as an “other” type of adjusting entry.

reversing entry an entry made on the first day of an accounting period to reverse an accrual adjusting entry that was made on the last day of the previous accounting period; the purpose is to avoid the double-counting of an accrued expense or accrued revenue that will later be recorded via the actual source documents.

Note: *To learn more about Adjusting Entries see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com. Also see our Visual Tutorial and Exam Questions in AccountingCoach Pro.*

Bank Reconciliation

The bank reconciliation provides comfort that a company's accounting records and balance sheet reflect the proper amount of cash as well as the pertinent other accounts because of the double entry system. Terms associated with the "bank rec" include:

outstanding checks checks that were written (and have been recorded on the company's books), but have not cleared the bank account.

deposits in transit receipts that occurred but they are not yet reported on the bank statement; also referred to as outstanding deposits.

adjusted balance per bank the balance on the bank statement after deducting outstanding checks, adding deposits in transit, and recording any bank errors.

adjusted balance per books the balance in the general ledger for the checking account after (1) deducting any bank fees or other deductions that are on the bank statement but are not yet recorded in the general ledger account, (2) adding any receipts on the bank statement that are not yet recorded in the general ledger account, and (3) correcting any errors in the general ledger accounts.

journal entries entries to the company's accounting records. Journal entries are required for bank reconciliation adjustments to the balance per books.

bank credit memo an addition to a bank account made by the bank for an adjustment to a deposit, correction of a bank error, interest on bank balances, etc. These will require a debit to the company's general ledger Cash account.

bank debit memo a deduction from a bank account made by the bank for a bank service charge, deposited check that was returned, check printing fee, etc. These will require a credit to the company's general ledger Cash account.

demand deposits checking accounts. On the bank's balance sheet these are reported as liabilities.

time deposits savings accounts and certificates of deposit. On the bank's balance sheet these are reported as liabilities.

NSF check a check not paid by the bank on which it was drawn because the account's balance was less than the amount of the check.

float usually the amount of outstanding checks.

Note: *To learn more about Bank Reconciliation see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com. Also see our Visual Tutorial and Exam Questions in AccountingCoach Pro.*

Petty Cash

Petty cash involves the following terminology:

custodian the person entrusted with the petty cash money.

replenish to get the petty cash custodian's currency and coins to be equal to the amount reported in the general ledger account Petty Cash. This is done by writing a check drawn on the company's regular checking account.

cash account the general ledger account that reflects the company's balance in its regular checking account.

petty cash account the general ledger account that reports the amount in the petty cash fund.

imprest a fixed amount such as a balance of $200 in the general ledger Petty Cash account; at all times the petty cash custodian should have a combination of cash and petty cash receipts equal to the imprest amount.

cash short and over an income statement account used to report the shortages or overages that appear when the petty cash fund is replenished. A debit balance in this account will likely be reported on the income statement as a miscellaneous expense.

Accounts Receivable & Bad Debts Expense

Providing sales and services on credit creates a situation for a potential loss if the customer does not pay. Some of the terminology involved includes:

accounts receivable claims resulting from the delivery of goods or services on credit.

bad debts expense an operating expense that results when accounts receivable cannot be collected.

direct write-off method no allowance account; when an account is determined to be worthless, Accounts Receivable is credited, and Bad Debts Expense is debited.

allowance for doubtful accounts a contra asset account (an asset account with a credit balance) that reports the estimated amount of the accounts receivable that might not be collected; this account balance in combination with the balance in accounts receivable provides the estimated net realizable value of the accounts receivable.

allowance method an accounting method that anticipates that some of the accounts receivable will not be collected; results in a contra asset account Allowance for Doubtful Accounts; under the allowance method, bad debts expense is reported earlier than under the direct write-off method.

percentage of sales a technique under the allowance method where Bad Debts Expense is debited for a percentage of the credit sales and the Allowance for Doubtful Accounts is credited for the same amount in order to achieve the matching principle.

percentage of accounts receivable a technique under the allowance method where the balance in the account Allowance for Doubtful Accounts is adjusted to an estimated percentage of the asset accounts receivable. The adjustment amount is debited to Bad Debts Expense.

aging of accounts receivable a report which sorts the accounts receivable according to the date of the sales invoice; often used as the percentage of accounts receivable technique for determining the correct balance in Allowance for Doubtful Accounts.

recovery of bad account collecting an account receivable that was previously written off; under the allowance method two entries are required: (1) debit Accounts Receivable and credit Allowance for Doubtful Accounts for the amount that is recovered, and (2) debit Cash and credit Accounts Receivable for the amount recovered.

Note: *To learn more about Accounts Receivable and Bad Debts Expense see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com.*

Inventory & Cost of Goods Sold

Inventory is a significant current asset and is important in the calculation of net income. The cost of goods sold is deducted from sales in order to calculate a retailer's (or a manufacturer's) gross profit. Some of the related terminology includes:

FIFO first in, first out. Oldest costs are expensed to the cost of goods sold, while recent costs are reported in inventory.

LIFO last in, first out. Most recent costs are expensed to the cost of goods sold, while oldest costs remain in inventory.

periodic inventory account is dormant until it is adjusted to the proper balance at the end of the accounting period.

perpetual inventory account is increased with each purchase and decreased with each sale.

cost of goods sold beginning inventory + net purchases – ending inventory.

lower of cost or market an application of the conservatism concept; inventory is reported at the lower of cost or replacement cost (with replacement cost having a ceiling amount and a floor amount).

replacement cost cost to replace through purchase or manufacture.

Note: *To learn more about Inventory and Cost of Goods Sold see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com.*

Depreciation

Depreciation is the systematic allocation of a plant asset's cost from the balance sheet to depreciation expense on the income statement over the useful life of the asset. Here are some terms associated with depreciation:

useful life a company's estimate of the economic life of a plant asset.

allocation assigning costs on some basis.

depreciable amount cost minus the estimated salvage value.

straight-line equal amounts of depreciation in each year of an asset's useful life.

accelerated same total amount of depreciation as straight-line, but greater amounts of depreciation in the early years of the asset's life and then smaller amounts in the later years of the asset's life.

double-declining balance method a form of accelerated depreciation. Two times the straight-line depreciation rate multiplied times the asset's book value at the start of the year.

> Example: $100,000 cost with 10-year life will be 20% (2 X 10%) times $100,000 = $20,000 for the first year of the asset's life. In the second year of the asset's life, the depreciation will be 20% times $80,000 ($100,000 cost minus $20,000 of accumulated depreciation) = $16,000.

sum-of-the-years' digits a form of accelerated depreciation. An asset having a 5-year life will have a sum of its digits equal to 20 (5 + 4 + 3 + 2 + 1). In the first year of the asset's life the depreciation expense will be 5/20 times the depreciable amount. In the second year of the asset's life the depreciation will be 4/20 and so on.

salvage value estimated residual or scrap value at the end of an asset's useful life.

residual value see salvage value.

book value a plant asset's cost minus its accumulated depreciation; carrying value.

carrying value a plant asset's cost minus its accumulated depreciation; book value.

Note: *To learn more about Depreciation see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com.*

Accounts Payable

Accounts payable involves the purchase of goods and services on credit. Some of the terms used in accounts payable include:

purchase order a document (multi-copy form, computer record) stating the quantity of goods purchased, price and other conditions.

receiving ticket a document from a company's receiving department stating that goods have been received at the company.

vendor invoice the invoice prepared by the supplier (and received by the buyer) for goods or services. The vendor invoice lists the items and the cost of each, the total amount due and the terms.

three-way match the comparison and reconciling of a company's purchase order, the company's receiving ticket and the vendor's invoice to be certain that what was ordered is what was received and what is being billed.

trade discount a discount from catalog prices usually as a percentage that varies with volume.

purchase discount a discount allowed by some companies if the customer remits the amount due within a stated period of time.

net 30 invoice amount (less any returns) is payable within 30 days of the invoice date.

2/10, n/30 2% of the invoice amount (less any returns) can be deducted if the amount is remitted within 10 days of the invoice date.

EOM end of month

FOB destination title passes to buyer when the goods arrive at the buyer's location

FOB shipping point title passes to buyer when the goods are loaded at the seller's location

Note: *To learn more about Accounts Payable see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com.*

Cost Behavior & Break-even Point

fixed a cost or expense that does not change in total within a reasonable range of activity.

variable a cost or expense the total of which changes in proportion with the change in volume of activity. The per-unit cost is expected to remain unchanged.

mixed a cost or expense that is partly fixed and partly variable.

contribution margin net sales/revenues minus all variable costs and expenses; amount available to cover fixed costs and profit.

contribution margin ratio contribution margin divided by net sales or revenues.

break-even point in sales $ fixed costs and expenses divided by the contribution margin ratio.

break-even point in units fixed costs and expenses divided by the contribution margin per unit.

margin of safety the amount by which sales can decline and the company will not incur a loss.

break-even point the point in units or sales dollars where the amount of revenue is equal to the total amount of expenses (fixed, variable and mixed) of a company; net income of exactly zero.

Note: *To learn more about Break-even Point see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com.*

Payroll Accounting

gross wages hours worked times the hourly rate of pay; amount earned before taxes.

gross salaries compensation before taxes usually involving executives, managers, and some office personnel.

overtime usually the hours worked in excess of 40 hours per week.

overtime premium the amount in excess of the straight-time hourly rate of pay; the "half" in "time and a half."

exempt employee an employee such as a manager or executive that a company is not required to pay additional compensation for working overtime hours.

nonexempt employee an employee that must be paid additional compensation for working overtime hours.

withholdings amounts deducted from employees' gross wages and salaries.

net pay gross wages or salaries minus withholdings; take home pay; amount the employee clears.

Social Security tax is a component of FICA. During the year 2014, the rate for withholding Social Security tax from employees is 6.2% on the first $117,000 of salaries and wages. The employer also pays 6.2% of each employee's first $117,000 of annual wages and salaries.

Medicare tax is a component of FICA. During the year 2014, the rate for withholding Medicare tax from employees is 1.45% on every dollar of salaries and wages. The employer also pays 1.45% of every dollar of salaries and wages. High-income individuals are also subject to an additional Medicare tax (see IRS.gov for details).

FICA the combination of Social Security and Medicare.

state unemployment tax a tax paid solely by the employer that is calculated based on a rate provided by each state and multiplied times the first $7,000 to $30,000+ (varies by state) of annual salaries and wages of each employee.

federal unemployment tax a tax paid solely by the employer which has been 0.6% (after credits) of the first $7,000 of annual salaries and wages of every employee. However, the credits have been reduced in many states. As a result, you need to inquire as to the current federal unemployment tax rate (after credits) that applies to organizations in your state.

compensated absences refers to paid holidays, sick days, and vacation days.

worker compensation insurance insurance that covers work related injuries.

post-retirement benefits other than pension often refers to medical and dental insurance that an employer provides for retirees.

Note: *To learn more about Payroll Accounting see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com.*

Standard Costing

standard a predetermined, budgeted or expected unit cost; the amount that something should cost. In manufacturing it is common to have standard costs for direct materials, direct labor and manufacturing overhead.

variance the difference between an actual and standard cost; the difference between an actual and budgeted amount.

direct material the raw materials and component parts that are included in a manufactured product.

price variance the difference between the actual cost of the direct material input and the standard cost of the direct material input; often recorded at the time of purchase, but could be reported at the time of use.

usage variance the difference between the actual quantity of direct material input used and the standard quantity that should have been used for the actual output of products.

rate variance the difference between the actual average hourly pay rate for the direct labor and the standard average hourly pay rate.

efficiency variance the difference between the actual quantity of direct labor hours and the standard quantity of direct labor hours that should have been used for the actual output of products; also, one of the variable manufacturing overhead variances.

manufacturing overhead manufacturing costs other than direct material and direct labor; indirect product costs such as factory supervision, depreciation, utilities; burden or factory overhead.

volume variance the difference between the budgeted fixed manufacturing overhead and the standard amount of fixed manufacturing overhead applied to the actual output of products.

favorable variance occurs when actual costs are less than the standard costs allowed for the actual output; also occurs when actual revenues are greater than the budgeted revenues.

unfavorable variance actual costs are greater than the standard costs allowed for the actual output; actual revenues are smaller than the budgeted revenues.

applied assigned or allocated on some basis. For example, manufacturing overhead is applied to products based on the number of standard hours for the good output. This can also be thought of as the manufacturing overhead that was absorbed by the good output.

input direct materials, direct labor, and manufacturing overhead.

output products manufactured or partially manufactured.

Note: *To learn more about Standard Costing see our Explanation, Quiz, Puzzles, and Q&A for this topic on AccountingCoach.com. AccountingCoach PRO contains forms for calculating the variances from manufacturing standard costs.*

Accounting Pronouncements

Today, the official accounting rules, known as U.S. generally accepted accounting principles (U.S. GAAP), are contained in the Financial Accounting Standards Board's *Accounting Standards Codification*® The *Codification* became effective on July 1, 2009.

Prior to the *Codification*, U.S. GAAP included the *statements of financial accounting standards* issued by the Financial Accounting Standards Board, the *Opinions* issued by the Accounting Principles Board (APB), and the *Accounting Research Bulletins* issued by the American Institute of Certified Public Accountants (AICPA).

Below is a listing of some of the official accounting pronouncements and the professionals that were responsible for issuing them.

ARBs Accounting Research Bulletins; official accounting standards issued by the AICPA's Committee on Accounting Procedures (1939-59).

APB's Opinions official accounting standards issued by the Accounting Principles Board from 1962-73.

APB's Interpretations provided clarification on APB Opinions.

FASB's Statements of Financial Accounting Standards official accounting standards issued by the Financial Accounting Standards Board from 1973 to June 30, 2009.

FASB's Interpretations provide clarification on existing standards.

FASB Technical Bulletins provide guidance on financial and reporting problems

FASB's Statements of Financial Accounting Concepts non-GAAP effort by the FASB to define objectives, terms, and concepts involved in financial reporting.

You can learn more about the U.S. generally accepted accounting principles at www.FASB.org

Organizations

The following is a list of some of the prominent accounting organizations in the U.S.:

FASB Financial Accounting Standards Board; a non-government group responsible for researching and developing U.S. GAAP from 1973 – present; www.FASB.org.

SEC Securities and Exchange Commission; a U.S. government agency which has oversight over the financial reporting of corporations whose stock is publicly-traded; www.SEC.gov.

AICPA American Institute of Certified Public Accountants; www.AICPA.org.

APB Accounting Principles Board. Responsible for GAAP from 1959-73.

IRS Internal Revenue Service, a U.S. government agency involved with the federal income taxes; www.IRS.gov.

EITF Emerging Issues Task Force, see www.FASB.org for additional information.

IMA Institute of Management Accountants; an organization focused on management accounting and cost accounting; www.imanet.org.