



## **Tax, Financial and Accounting Glossary for Lenders** **By Linda Keith, CPA**

If you do not have a formal background in accounting, analysis can seem like a foreign language. Some of the terms don't sound familiar at all. Others mean something entirely different on tax returns or financial statements than they do in normal conversation.

### ***401(k) plan***

A tax-deferred retirement plan designed to encourage long-term retirement savings. Some companies provide contributions as an employee benefit.

### **A**

### ***Ability to pay***

A concept of tax fairness that states that people with different amounts of wealth or different amounts of income should pay tax at different rates. Wealth includes assets such as houses, cars, stocks, bonds, and bank accounts. Income includes wages, interest and dividends, and other payments.

### ***Acceleration***

A contract clause that requires payment of the full amount of the debt owed if a payment is missed or another triggering event (such as bankruptcy of the debtor) occurs. This type of clause often appears in promissory notes or loan agreements.

### ***Account***

A category that stores information on like items. There are assets, liabilities, capital accounts, revenues and expenses.

### ***Accounting***

Recording and summarizing business transactions to provide useful information.

### ***Accounting cycle***

Transactions occur, are recorded, are summarized, and then put into the form of financial statements.

### ***Accounting equation***

Assets - Liabilities = Owner's equity (capital, net worth, stockholder's equity).

### ***Accounts payable***

Amount owed, generally to suppliers.

### ***Accounting period***

The period for which the financial statements are prepared.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.

.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Accounts receivable***

Amounts the business is expecting from its customers based on credit sales that have already occurred.

### ***Accrual basis of accounting***

A system whereby revenue is recognized and recorded when earned (rather than when received) and expenses are recognized and recorded when incurred (rather than when paid).

### ***Accrued expenses***

Expenses that have been incurred but not yet paid.

### ***Accumulated depreciation***

The depreciation expense accumulated against the buildings and equipment on the books.

### ***Addendum***

An attachment or exhibit to a written document, such as a contract.

### ***Additional paid in capital***

Capital paid in by the owners in addition to that paid for capital stock.

### ***Adjusted Basis***

The net cost of an asset after adjusting for various tax-related items.

### ***Adjusted gross income***

Gross income reduced by certain amounts, such as a deductible IRA contribution or student loan interest

### ***Adjusting entry***

A bookkeeping entry that does not arise from the cash receipts and disbursements. These entries are made at the end of the period for which the financial statement is prepared.

### ***Adjustments to income***

Certain expenses which directly reduce your total income rather than relying on itemizing your deductions. Benefit, they help you even if you use the standard deduction.

### ***Advance earned income credit payment***

Payments of part of your Earned Income Tax Credit received via your paycheck.

### ***Agent***

A person granted the authority to act on behalf of another person or entity, known as the "principal." The actions and decisions of the agent can be binding on the principal.

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Aging of accounts receivables or payables***

Breaking the receivables or payables out into those due within 30 days, 60 days, 90 days, etc. Helpful for determining if they are being received or paid in a timely fashion.

### ***Alimony***

Money received or paid to a former spouse under a divorce decree or separation instrument.

### ***Allocations***

In cost accounting, the method for assigning costs to products or departments.

### ***Allowance for doubtful (uncollectible) accounts***

A set-aside out of accounts receivable for amounts expected not to be received. Used in situations where a fairly uniform amount of credit sales are not collected. This allows a steady recognition of bad debts even when we don't know which receivables will not be collected. As receivables are determined to be uncollectible they are charged off against the allowance.

### ***Alternative Minimum Tax***

A separate method for calculating your income taxes. You are responsible for paying the higher of the AMT or the regular tax. If your AMT tax is higher, you add the difference between the AMT and the regular tax on your 1040 line 44.

### ***Amortization***

The bookkeeping write-off of intangible assets over their useful life.

### ***Annuity***

A type of tax-deferred retirement plan.

### ***Appeal***

To call for a review of an IRS or legal decision.

### ***Appreciation***

The increase in the value of an asset.

### ***Appropriated retained earnings***

A set-aside of the retained earnings of a company for a particular purpose. This could be for a contingent liability such as a lawsuit, for expansion, or for any other purpose deemed appropriate by the management. It signifies retained earnings that are not available to be paid to the stockholder's in the form of dividends.

### ***Arbitration***

A form of alternative dispute resolution in which a neutral 3rd party (an arbitrator) considers the competing parties arguments/evidence and renders a decision or award. Arbitration can be binding or nonbinding.

### ***Archer MSAs***

Tax-deductible savings accounts to save for medical expenses.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.

.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### **Asset**

What the company owns.

### **Asset turnover**

A ratio that measures how efficient the company is using its assets to produce sales.

### **Assign**

To give or sell a right or an interest. The person who receives the right or interest is the “assignee” and the person making the transfer is the “assignor.”

### **At risk rules**

Losses from a business operation are limited to the amount of money you can actually lose in the business.

### **At-will employment**

The policy allowing employers or employees to end an employment relationship at any time for any reason — or for no reason at all. In some states, the law may place practical limits on this policy.

### **Auditing**

Performance of specified procedures necessary for Certified Public Accountants to form an opinion as to whether the financial statements present fairly the operations of the business.

### **Auditor’s report**

The letter in which the CPA sets forth an opinion, along with the financial statements and notes to the financial statements.

### **Average days in receivables**

The number of days it generally takes to collect accounts receivable.

## **B**

### **Balance sheet**

The financial statement that represents the assets, liabilities and capital position at a specific date.

### **Balance sheet equation**

Assets = Liabilities + Capital (Net Worth, Equity)

### **Bankruptcy**

A condition in which a business cannot meet its debt obligations and petitions a federal district court for either reorganization of its debts (Chapter 11) or liquidation of its assets (Chapter 7). In the action the property of a debtor is taken over by a receiver or trustee in bankruptcy for the benefit of the creditors. The action may be voluntary or involuntary.

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Beginning inventory***

The items held for sale by the company, expressed at the lower of their cost or the market value.

### ***Bonds***

Securities issued by the U.S. government, corporations, federal agencies, or state or local municipalities. Bonds are sometimes further classified as follows:

Corporate Bonds - Debt instruments issued by corporations, as distinct from ones issued by a government agency, typically interest-bearing with a fixed maturity.

High-Yield Bonds - A bond that has a rating of BB or lower and pays a higher yield to compensate for the greater credit risk.

Long-Term Government Bonds - Securities issued by the US government and debt issues of federal agencies having a maturity of 10 years or more.

Mortgage-Backed Bonds - Securities backed by mortgages issued by FLMC and FNMA or guaranteed by GNMA. Investors receive payments out of the interest and principal on the underlying mortgages.

Municipal Bonds - Debt obligation of a state or local government entity. The funds may support general government needs or fund special projects. The interest on these bonds is typically exempt from federal income taxes, and most state and local taxes.

### ***Bonus***

Compensation received by an employee for services performed. A bonus is given in addition to an employee's usual compensation.

### ***Book value***

Historical cost of an asset less the depreciation accumulated against it.

### ***Breach of contract***

A violation of or failure to perform according to the terms and conditions of an agreement.

### ***Business***

A continuous and regular activity that has income or profit as its primary purpose.

### ***Business entities***

A group of people organized for some profitable or charitable purpose.

### ***Business expense***

An expense that is ordinary and necessary for carrying on a trade or business.

### ***Business plan***

A planning document that describes a company, its market, management team, its potential, competitors, and all other relevant information about its business and its prospects.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Business use of home***

Employees who work out of their home or independent contractors with a home office may be able to deduct part of their household expenses on their tax return.

## **C**

### ***Cafeteria plan***

An employee benefit plan where employees use pretax salary or wages to create their own customized benefits package. Employees may be able to take cash (which becomes taxable) for unused credits or convert more pretax dollars to pay for more benefits. Also known as a flexible benefits plan.

### ***Cancellation fee***

A fee for breaking a contract. Many cellular phone service contracts impose a cancellation fee for ending the contract before the end of its term.

### ***Capital***

The owner's rights against the assets of the business...the owner's share.

### ***Capital expenditures***

Business spending on additional plant equipment and inventory.

### ***Capital gain distributions***

Distributions from a mutual fund of capital gains on investments they have sold off.

### ***Capital gains***

A capital gain is the difference between what you paid for an investment and what you received when you sold that investment for more than your cost.

### ***Capital lease***

A lease that actually represents the purchase of the asset. A lease is generally deemed a capital or financing lease when the item can be purchased at the end of the lease for 10% or less of the value.

### ***Capital losses***

A capital loss is the difference between what you paid for an investment and what you received when you sold that investment for less than your cost.

### ***Capitalize***

Record as an asset rather than an expense. For example, labor is capitalized when it is direct labor incurred in the manufacture of inventory. It is recorded as part of the inventory...which is an asset.

### ***Capital stock***

Stock purchased by the stockholders representing their ownership interest in the company.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Cash Equivalents***

Investments of high liquidity and safety with a known market value and a very short-term maturity. Examples include Treasury bills and money market funds.

### ***Cash basis of accounting***

Revenue is recognized when received (rather than when earned) and expenses are recognized when paid (rather than when incurred).

### ***Cash disbursements journal***

A record in which cash disbursements (checks) are recorded.

### ***Cash discount***

An incentive offered by the seller to encourage a buyer to pay within a stipulated time. For example, if the terms are 1%/10/net 30, the buyer may deduct 1 percent from the amount of the invoice (if paid with 10 days); otherwise the full amount is due within 30 days.

### ***Cashflow (see also Cashflow Statement)***

An accounting presentation showing how much of the cash generated by a business remains after both expenses (including interest) and principal repayment on loans are paid. A projected cash flow statement indicates whether the business will have cash to pay its expenses, loans, and make a profit. Cash flows can be calculated for any given period of time, normally done on a monthly basis or yearly basis.

### ***Cashflow statement***

Also called Statement of Cashflows, it indicates the sources and uses of cashflow by three categories: Operations, Investing and Financing. It is one of the three statements required by Generally Accepted Accounting Principles (GAAP).

### ***Cash over or short***

An account representing the difference between what cash should be based on recorded sales and expenses and the actual amount of cash. This is common in a retail, cash register situation. In fact, the absence of cash short can be a warning sign for embezzlement.

### ***Cash receipts journal***

A record in which cash receipts (deposits) are recorded.

### ***Casualty & theft losses***

If you suffered a loss of personal property due to a casualty or theft, you may be able to deduct this loss as an itemized deduction on Schedule A.

### ***Certificates of deposit***

Interest-bearing debt instruments issued by banks with maturities from a few weeks to several years.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.

.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Certified Public Accountant (CPA)***

A CPA is a professional accountant licensed by the state. Best for corporate accounting, tax audits, and business consulting.

### ***Chart of accounts***

The list of accounts used by a particular entity. These will include assets, liabilities, capital accounts, revenues and expenses.

### ***Child tax credit***

You may take a tax credit if you have dependent children.

### ***Citizen or resident Test***

Assuming all other dependency tests are met, the citizen or resident test allows taxpayers to claim a dependency exemption for persons who are U.S. citizens for some part of the year or who live in the United States, Canada, or Mexico for some part of the year.

### ***Closing entries***

Entries made at the end of the accounting period to close the temporary revenue and expense accounts to the capital section. Remember,  $Assets = Liabilities + Capital$ . Capital is increased by revenues and decreased by expenses. Another way to say the same thing, capital is increased by net income and decreased by net loss.

### ***Collateral***

Something of value pledged to support the repayment of an obligation or loan. Examples include real estate and certificates of deposit.

### ***Collateral document.***

A legal document covering the item(s) pledged as collateral on a loan.

### ***Commission***

Compensation received by an employee for services performed. Commissions are paid based on a percentage of sales made or a fixed amount per sale.

### ***Common law.***

Law made by judges in individual cases, rather than by the legislature.

### ***Common-size statement***

A financial statement expressed as percentages instead of dollars. The balance sheet will be expressed as a percentage of assets...the income statement as a percentage of net sales. This allows the analyst to compare to years when sales were different or compare this company to another company.

### ***Common stock***

Stock with basic rights (as compared to preferred stock).

### ***Community property states***

Married persons are considered to own their property, assets, and income jointly.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Comparability***

An accounting concept in which information should be presented in such a way that users can identify similarities and differences between two sets of data.

### ***Comparative analysis***

Comparing the entity you are reviewing to other similar entities through the use of industry averages.

### ***Comparative financial statements***

Financial statements representing two periods (commonly two years) side-by-side to aid in comparisons and trend analysis.

### ***Compensating balances***

A minimum amount of cash required by the bank as part of a credit agreement.

### ***Compensation***

Direct and indirect monetary and nonmonetary rewards given to employees based on the value of the job, their personal contributions and performance.

### ***Compromise***

The settlement of a dispute or claim.

### ***Compulsory payroll tax***

An automatic tax collected from employers and employees to finance specific programs.

### ***Conservatism***

If not sure, we will disclose or record expenses but not income. For example, we will disclose a contingent liability like a lawsuit because it could harm the company. We will not disclose a contingent asset like a lottery ticket. Another example is inventory which is recorded at the lower of cost or market value ...the most conservative figure.

### ***Consideration***

The inducement to a contract. Some right, interest, profit, or benefit accruing to one party, or some forbearance, detriment, loss, or responsibility given, suffered, or undertaken by the other.

### ***Consistency***

Representing information using similar conventions, estimates and formats so that information from one period can be compared to that of another period.

### ***Contingency fee***

A common legal fee arrangement that relies on the collection of monetary damages for the plaintiff before any legal fees are owed. Most common in litigation (such as in personal injury lawsuits), it allows the client to receive legal services while paying the attorney little or no money up front.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Contingent liability***

A potential obligation that may be incurred dependent upon the occurrence of a future event. Two examples are: (1) the liability of a guarantor of a promissory note if the primary borrower fails to pay as agreed and (2) the liability that would be incurred if a pending lawsuit is resolved in the other party's favor.

### ***Contra account***

An account that is negative in the section of the financial statement in which it is reported. Accumulated depreciation is a contra asset since it reduces buildings and equipment. Returns and allowances is a contra revenue since it reduces sales.

### ***Contributed capital***

Capital contributed by the owners over and above what they paid for capital stock.

### ***Copyright***

An exclusive ownership interest in an artistic or literary work. The term "literary work" includes computer software and other information stored in electronic form. Copyright is often noted by the following example: "Copyright© 2003 by Linda Keith CPA."

### ***Corporation***

A business entity that has a legal life separate from its owners. It provides its owners and shareholders with certain rights and privileges, including protection from personal liability, if proper steps are followed. Corporations may take a number of forms, depending on the goals and objectives of the founders. Types include C, S and nonprofit corporations. Corporations are regarded as "persons" in the eyes of the law and may thus sue and be sued, own property, borrow money and hire employees.

### ***Corrective distributions***

If you contribute more money to your 401k or IRA than you were supposed to, the plan administrator will send you a check for your excess contributions.

### ***Cost basis***

The original price of an asset, such as stocks, bonds, mutual funds, property, or equipment. Cost basis includes the purchase price and any associated purchase costs. The basis increases as the owner puts more funds into the improvements to the property.

### ***Cost behavior***

The way in which costs respond (or don't respond) to changes in activity or revenue.

### ***Cost-benefit convention***

The benefit of additional accounting information must outweigh the cost of gathering and reporting it.

### ***Cost of goods sold***

The cost of the inventory sold ...including raw materials, direct labor and overhead for a manufacturing company.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.

.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Credit accounts***

The right side of an accounting transaction. “Debits are next to the window ...credits next to the door.” Liabilities and capital run credit balances on the balance sheet. Revenue runs a credit balance.

### ***Credit rating***

A formal evaluation of an individual or a company’s credit history and capability of repaying debt.

### ***Credit score***

A statistical summary of the individual pieces of information on a credit report. A credit score predicts how likely it is that a company or individual will repay debts. Lenders use credit scores to determine whether to extend credit and at what interest rate. Also called a risk score.

### ***Current assets***

Assets that are cash or are expected to be turned into cash within one year or operating cycle ...whichever is greater. Also assets like prepaid insurance that will expire (i.e. you’ll use up the insurance) in the same period of time.

### ***Current liabilities***

The principal portion of liabilities to be paid within one year or an operating cycle, whichever is longer.

### ***Current ratio***

The ratio of the company’s current assets to its current liabilities. A current ratio of less than 1-to-1 typically indicates a poor credit risk. A current ratio of greater than 2-to-1 typically indicates a good credit risk.

### ***Cyclical industry***

An industry that has natural high and low sales periods based on the time of year, season or other factors.

### ***C Corporation***

A corporation where the entity is taxed separately from its owners under subchapter C of the Internal Revenue Code.

## ***D***

### ***Damages***

A cash compensation ordered by a court or arbitrator to offset losses or suffering caused by another’s fault or negligence. Damages are a typical request made of a court or arbitrator when persons sue for breach of contract or tort.

### ***Days in inventory***

The number of days it generally takes to sell an item that has been added to inventory.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say “yes” to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### *Days in receivables*

The number of days it generally takes to collect accounts receivable.

### *(DBA): Doing Business As*

A situation in which a business owner operates a company under a different name than the one under which it is incorporated. The owner typically must file a fictitious name statement or similar document with the appropriate county or state agency.

### *Debenture*

Debt instrument evidencing the holder's right to receive interest and principal installments from the debtor.

### *Debit*

The left side of an accounting transaction. "Debits are next to the window ...credits next to the door." Assets run a debit balance as do expenses.

### *Debt to equity ratio*

A ratio that determines how many dollars of total debt the business has for every dollar of capital (owner investment).

### *Deed of trust*

A document that, when properly delivered, transfers a security interest in real property.

### *Defaults*

The nonpayment of principal and/or interest on the due date as provided by the terms and conditions of a promissory note or loan agreement.

### *Deferred expense*

A prepayment on an expense, recorded as an asset until such time as the expense actually occurs. It is an asset because you have a right to a refund unless you incur the expense.

### *Deferred income taxes*

The income taxes that should be paid according to the financial statements, even though using the tax rules, the taxable income is less than the income per books. It represents a timing difference. Eventually, the taxes will have to be paid.

### *Deferred revenues*

Cash received that the business has not earned yet. It is a liability until earned because if the business does not earn it the business will have to pay it back.

### *Deficit*

A negative. When referencing the federal deficit, the result of the government taking in less money than it spends.

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Dependency exemption***

Amount that taxpayers can claim for their eligible dependents. Each exemption reduces the income subject to tax. The exemption amount is a set amount that changes from year to year.

### ***Dependent***

A person, other than the taxpayer or spouse, who entitles the taxpayer to claim a dependency exemption. A dependent is someone you take care of. Claiming a person as a dependent on your tax return will increase your personal exemptions, and may help you qualify for other tax benefits. You can claim a dependent on your tax return if you meet five criteria.

### ***Depletion***

The bookkeeping write off of natural resources, representing the fact that they are being used up.

### ***Depreciation***

The bookkeeping write-off of tangible assets such as buildings and equipment, to spread their acquisition cost over their useful life. Land is never depreciated.

### ***Direct charge-off***

The write-off of bad debts as they actually occur, rather than regularly recognizing it through an allowance for bad debts. This is appropriate when bad debts are not frequent or are not very predictable.

### ***Direct deposit***

This allows tax refunds to be deposited directly to the taxpayer's bank account. Direct Deposit is a fast, simple, safe, secure way to get a tax refund. The taxpayer must have an established checking or savings account to qualify for Direct Deposit.

### ***Direct tax***

A tax that cannot be shifted to others, such as the federal income tax.

### ***Disability benefits***

Benefits paid to an employee who cannot work because of disability, usually limited to what is not covered by workers compensation. Disability benefits are usually a percentage of the employee's prior income and generally run for a limited time.

### ***Disclosure***

Releasing your tax return information to a third-party. Disclosure may be authorized or unauthorized. Unauthorized disclosure is a crime.

### ***Dividends***

Payment to the stockholders out of retained earnings (the accumulated profits of the company).

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.

.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Doing Business As (DBA)***

A situation in which a business owner operates a company under a different name than the one under which it is incorporated. The owner typically must file a fictitious name statement or similar document with the appropriate county or state agency.

### ***Double-entry system***

The debit and credit system of accounting that results in the accounts being in balance. Designed to avoid or catch errors.

## ***E***

### ***Earned income***

Includes wages, salaries, tips, includible in gross income, and net earnings from self-employment earnings.

### ***Earned Income Credit***

A tax credit for certain people who work, meet certain requirements, and have earned income under a specified limit.

### ***Earnings per share***

The net income divided by the shares of common stock outstanding.

### ***EBITDA***

Earnings before interest, taxes, depreciation, and amortization.

### ***Employee***

Works for an employer. Employers can control when, where, and how the employee performs the work. Significant for how and where the compensation is reported on the tax return.

### ***Employee Stock Ownership Plan (ESOP)***

A retirement-type plan in which a trust holds stock in the employees' names. Employees receive cash from the stock only when they leave the company or perhaps when the company is sold.

### ***Employer ID Number (EIN)***

An identification number assigned to businesses for taxpaying purposes by the IRS or state taxing authorities. An Employer ID Number is required for partnerships, corporations, and trusts, and it may be required for sole proprietorships that have employees. Also called a Federal ID Number or Taxpayer ID Number.

### ***Ending inventory***

The items held for sale but still owned by the business at the end of the period.

### ***Enrolled Agent***

A tax professional who has passed an IRS test covering all aspects of taxation.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.

.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### **Entity**

1) A person or group of people who are subject to the tax laws. 2) The business unit for which we are accounting ...generally a corporation, partnership or sole proprietorship.

### **Entrepreneur**

One who assumes the financial risk of the initiation, operation, and management of a given business undertaking.

### **Equity**

An ownership interest in a business. Owner's rights against the assets...the owner's share. For example, stock in a corporation represents equity in the corporation.

### **Equity financing**

The provision of funds for capital or operating expenses in exchange for capital stock, stock purchase warrants, and/or options in the business financed, without any guaranteed return, but with the opportunity to share in the company's profits.

### **ERISA: Employee Retirement Income Security Act**

A broad-reaching law that establishes the rights of pension plan participants, standards for the investment of pension plan assets, and requirements for the disclosure of plan provisions and funding.

### **ESOP (Employee Stock Ownership Plan)**

A retirement-type plan in which a trust holds stock in the employees' names. Employees receive cash from the stock only when they leave the company or perhaps when the company is sold.

### **Estates & Trusts**

Estates report income after an individual person has died. A trust is created by an individual person to protect or to preserve the person's assets, and to distribute income to beneficiaries.

### **Excise tax**

A tax on the sale or use of specific products or transactions.

### **Exempt (from withholding)**

Free from withholding of federal income tax. A person must meet certain income, tax liability, and dependency criteria. This does not exempt a person from other kinds of tax withholding, such as the Social Security tax.

### **Exempt employee**

Employees who are not bound to overtime regulations and minimum wage laws. Who is exempt depends on level of responsibility or professional status.

### **Exemption**

Amount that taxpayers can claim for themselves, their spouses, and eligible dependents. There are two types of exemptions-personal and dependency. Each

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

exemption reduces the income subject to tax. The exemption amount is a set amount that changes from year to year.

### ***Extraordinary items***

Items that are not part of usual operations of the business. They are reported after operating income so that operating income can be compared year-to-year and to other similar companies. Examples are gain/loss on sale of assets or business casualty losses.

## ***F***

### ***Fair market value***

The price that would be negotiated between a willing buyer and willing seller, neither under compunction to buy or sell.

### ***Federal income tax***

The federal government levies a tax on personal income. The federal income tax provides for national programs such as defense, foreign affairs, law enforcement, and interest on the national debt.

### ***FICA (Federal Insurance Contributions Act)***

Provides benefits for retired workers and their dependents as well as for disabled workers and their dependents. Also known as the Social Security tax.

### ***Filing status***

Determines the rate at which income is taxed. The five filing statuses are: single, married filing a joint return, married filing a separate return, head of household, and qualifying widow(er) with dependent child.

### ***Financial statement analysis***

Calculations and interpretations of financial statements to determine profitability and solvency.

### ***Financial statements***

Balance sheet, income statement and statement of cashflows are the three financial statements required by Generally Accepted Accounting Principles.

### ***First-in First-out (FIFO)***

A method of counting inventory that assumes the first items purchased are the first items sold. If prices are increasing, FIFO will result in a higher balance in inventory and lower cost of goods sold (therefore higher net income) compared to LIFO.

### ***Fiscal year***

A twelve-month period. Some business entities can select a yearly reporting period other than the calendar year.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Fixed annuity***

Investment contract sold by an insurance company that guarantees fixed payments, either for life or for a specified period, to the annuitant. The insurer takes both the investment risk and the mortality risk.

### ***Fixed asset***

Long-term asset such as building, equipment and land.

### ***Fixed costs***

Costs that do not vary with activity level or sales within the relevant range.

### ***Form W-4***

Form W-4 is used to figure the right amount of federal income tax to have withheld from your paycheck.

### ***Full disclosure***

The concept that financial statements and their notes should include all information reasonably expected to be relevant to the user's understanding.

## **G**

### ***General journal***

A book in which adjusting entries are recorded. A book of original entry. (While this used to be a book, literally, it is not more likely maintained as a computer file.)

### ***Generally accepted accounting principles (GAAP)***

The concepts and guidelines followed by Certified Public Accountants in preparing financial information and promulgated by such bodies as the Financial Accounting Standards Board. The purpose of GAAP is to provide meaningful information to end-users of financial statements and other financial information.

### ***Going concern***

The expectation that the company will continue to sell goods, collect receivables and operate in the normal course of business at least for the foreseeable future.

### ***Goodwill***

An intangible asset that represents the excess of the purchase price of a business over the fair market value of its tangible assets (equipment and inventory). Goodwill arises at the point in time that the company is purchased and often represents the reputation of the company, value of the location and licenses or patents that might be held by the company.

### ***Gross income***

Money, goods, services, and property a person receives that must be reported on a tax return. Includes unemployment compensation and certain scholarships. It does not include welfare benefits and nontaxable Social Security benefits.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### **Gross margin**

Sales minus cost of goods sold. (Also called gross profit)

### **Gross profit**

Sales minus cost of goods sold. (Also called gross margin)

### **Gross profit method**

A method of estimating inventories for interim financial statements by using the percentage gross profit to sales from the last year-end statement. This allows an interim statement without taking a physical inventory.

### **Gross sales**

Total dollars in the door for sale of inventory.

## **H**

### **Head of household filing status**

You must meet the following requirements: 1. You are unmarried or considered unmarried on the last day of the year. 2. You paid more than half the cost of keeping up a home for the year. 3. A qualifying person lived with you in the home for more than half the year (except temporary absences, such as school). However, your dependent parent does not have to live with you. A foster child must live with you all year.

### **Historical cost**

Acquisition cost of assets as opposed to fair market value or liquidation value. We use historical cost for assets because it is verifiable, objective and timely.

### **Home office**

Employees who work out of their home or business owners who have a home office may be able to deduct part of their household expenses on their tax return.

### **Horizontal analysis**

Calculating the change in an account from one year to the next, in dollars and percentages. For example, comparing ending cash balances for last year and the year before.

## **I**

### **Income from operations**

Net income from operating activities before other income and expenses, extraordinary items or income taxes. Helpful for comparing one year to another or one company to another.

### **Income statement**

The statement that represents  $\text{Sales} - \text{Expenses} = \text{Profits}$ .

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Independent contractor***

Performs services for others. The recipients of the services do not control the means or methods the independent contractor uses to accomplish the work. The recipients do control the results of the work; they decide whether the work is acceptable. Independent contractors are self-employed.

### ***Indirect tax***

A tax that can be shifted to others, such as business property taxes.

### ***Inflation***

The simultaneous increase of consumer prices and decrease in the value of money and credit.

### ***Intangible assets***

Assets that have value but do not have a physical life such as patents, licenses and goodwill.

### ***Interest expense***

The charge for the use of borrowed money.

### ***Interest income***

The income a person receives from certain bank accounts or from lending money to someone else.

### ***Interim financial statements***

Other than year-end statements, often monthly or quarterly.

### ***Internal control***

A system to avoid or detect errors or irregularities in the books.

### ***Inventory costs***

These include the purchase price of the inventory as well as shipping, storage and other inventory related expenses.

### ***Inventory turnover***

The number of times in a year that the inventory is sold or clears out. An inventory turnover of 4 times would mean that inventory is held for an average of about 90 days or three months. (Three months x 4 = one year.)

### ***Investment income***

Includes taxable and tax-exempt interest, dividends, capital gains net income, certain rent and royalty income, and net passive activity income.

## ***J***

### ***Journal***

Book of original entry for transactions.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### L

#### ***Last-in, First-out (LIFO)***

A method of inventory valuation in which the last item purchased is considered the first item sold. If inventory costs are increasing, this method results in a lower ending inventory, higher cost of good sold and lower net income compared to FIFO.

#### ***Leasehold improvements***

Improvements to a building that the business leases rather than owns. Often leasehold improvements are amortized over the life of the lease.

#### ***Leverage***

The extent to which debt has been used by the company to finance growth or operations.

#### ***Liabilities***

What the company owes. The amount stated is the outstanding debt, not the amount that will be repaid (which includes interest).

#### ***Liquidation value***

The amount the business could get for the asset if they must sell it in a hurry.

#### ***Liquidity***

Having enough funds to pay bills when due plus a comfortable cushion.

#### ***Long-term assets***

Fixed assets ...expected to last more than a year.

#### ***Long-term liabilities***

The portion of long-term notes and bonds that are due 13 months and beyond.

#### ***Lower-of-cost-or-market***

The amount at which inventory or marketable securities is listed on the balance sheet.

#### ***Luxury tax***

A tax paid on expensive goods and services considered by the government to be nonessential.

### M

#### ***Marginal tax rate***

The marginal tax rate is the income tax rate paid on the last dollar of income earned.

#### ***Marketable securities***

Securities that are traded on the stock exchanges. They are put in current assets only if expected to be kept short-term.

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Market economy***

An economic system based on private enterprise that rests upon three basic freedoms: freedom of the consumer to choose among competing products and services, freedom of the producer to start or expand a business, and freedom of the worker to choose a job and employer.

### ***Married Filing Jointly filing status***

You are married and both you and your spouse agree to file a joint return. (On a joint return, you report your combined income and deduct your combined allowable expenses.)

### ***Married Filing Separate filing status***

You must be married. This method may benefit you if you want to be responsible only for your own tax or if this method results in less tax than a joint return. If you and your spouse don't agree to file a joint return, you have to use this filing status.

### ***Matching rule***

The attempt to match revenue with the expenses necessary to earn the revenue in the period in which it was earned. This gives rise to the accrual basis of accounting.

### ***Materiality***

The concept that only items significant enough to make a difference to the end user should be appropriately disclosed.

### ***Medicare tax***

Used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65. Significant for lenders as all wages are taxed for Medicare purposes. Therefore if the lender has the W-2 you can determine the full wages to which the borrower was entitled before 401-k etc.

### ***Mixed cost***

Useful for financial analysis, a cost that has both a fixed and a variable component. Example: Rent in a shopping mall that is a set amount plus a percentage of sales.

## ***N***

### ***Net income***

Sales - costs.

### ***Notes to the financial statements***

Additional information provided with financial statements that enhances the understanding of the enterprise and its operations during the period for users other than management.

---

© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.

---

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Operating cycle***

The time it takes to pay for inventory, sell it, and collect the receivable. In other words, to start with cash and end up with cash.

### ***Operating expenses***

Expenses that relate to normal operations of the business. This does not include loss on disposal of assets, casualty losses or interest expense.

### ***Operating income***

Net income from operating activities before other income and expenses, extraordinary items or income taxes. Helpful for comparing one year to another or one company to another.

### ***Operating lease***

A lease that allows temporary use of the asset for a fee, as opposed to a financing lease in which the business will own the item at the end of the lease for a nominal amount.

### ***Organization costs***

The start-up costs of a business. Often can be added back as nonrecurring for projecting cashflow.

### ***Other income and expenses***

Items that are not part of the normal operations of a business. These include gain/loss on disposal of assets, interest income and interest expense.

### ***Owner's equity***

Assets - liabilities = owner's equity. The owner's share in the assets.

## ***P***

### ***Paid in capital***

Capital paid in by the owners in addition to that paid for capital stock.

### ***Partner's equity***

The ownership position of a partner (owner) in a partnership.

### ***Partnership***

A business entity owned by more than one person but without the limited liability of a corporation.

### ***Par value***

The stated value of the corporate stock.

### ***Periodic inventory method***

Use of a physical count to determine inventory that must have been sold during the period. Beginning inventory plus purchases minus ending inventory = cost of goods sold.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.

.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Perpetual inventory method***

Use of a continuous record of sales and purchases to keep track of inventory and cost of goods sold. Appropriate for larger ticket items such as vehicles.

### ***Personal exemption***

Can be claimed for the taxpayer and spouse. Each personal exemption reduces the income subject to tax by the exemption amount.

### ***Posting***

Entering transactions from the journals to the ledgers.

### ***Preferred stock***

Stock that has preference over common stock, generally regarding dividends.

### ***Prepaid expenses***

Expenses that are paid in advance. They are recorded as an asset because they represent a right to something in the future. A good example is prepaid insurance. If a full year of insurance was recorded in the month paid, that month's statement would show too high of an expense, and in the rest of the statements for the year the expense would be understated. Prepaid expenses are only used when recording the full amount in the period paid would materially misstate income. These are often listed in current assets because they will be used up (expire) within twelve months. Analysts often subtract them from current assets prior to calculating liquidity ratios.

### ***Prior period adjustments***

Adjustments directly to retained earnings for items that should have been reported in prior periods. Thus retained earnings can be corrected without misstating the current period income and expenses.

### ***Profit***

Revenue - Costs = Profits

### ***Profitability***

The degree to which the company uses its resources effectively in creating profit.

### ***Profit margin***

Net income divided by sales. The percentage of each sales dollar resulting in profit.

### ***Property, plant and equipment***

Another term for Fixed or Long-term assets. It is not a literal description of what the company owns. For example, the may not own a plant.

### ***Property taxes***

Taxes on property, especially real estate, but also can be on boats, automobiles (often paid along with license fees), recreational vehicles, and business inventories.

### ***Purchases***

Purchase of inventory items for resale.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

## Q

### **Qualifying person**

For the tax credit for child and dependent care expenses, a qualifying person is a child, dependent, or spouse who meets specific requirements. The taxpayer must furnish more than half the cost of maintaining a home that is also the home of the qualifying person. A qualifying child must be under age 13; the taxpayer must claim a dependency exemption for the child. (There is an exception for children of divorced or separated parents.) A qualifying dependent, or a person who could be claimed as a dependent if his or her gross income was less than the exemption amount, must be physically or mentally incapable of self-care. A qualifying spouse must be physically or mentally incapable of self-care.

### **Qualifying widow(er) filing status**

If your spouse died in 2004, you can use married filing jointly as your filing status for 2004 if you otherwise qualify to use that status. The year of death is the last year for which you can file jointly with your described spouse. You may be eligible to use qualifying widow(er) with dependent child as your filing status for 2 years following the year of death of your spouse. For example, if your spouse died in 2004, and you have not remarried, you may be able to use this filing status for 2005 and 2006. This filing status entitles you to use joint return tax rates and the highest standard deduction amount (if you don't itemize deductions). This status does not entitle you to file a joint return.

### **Quick ratio**

Quick assets (cash, marketable securities and accounts receivable) divided by current liabilities. Put another way, for every dollar of debt due within the next 12 months, how many dollars of highly liquid assets does the business have.

## R

### **Ratio**

Dividing one number by another. For every dollar of (the denominator), how many dollars of (the numerator) does the business have. We compare these ratios one year to the next and to other businesses of similar size in similar industries to determine acceptable solvency and profitability.

### **Ratio analysis**

Calculating and interpreting ratios to determine acceptable solvency and profitability.

### **Refund**

Amount government returns due to overpayment. State tax refunds are reported as taxable income only if the borrower took a deduction for the actual amount paid in the previous year.

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Receivable turnover***

Number of times a year that receivables are collected. Twelve times would relate to 30 days in receivables. If you have a credit sales figure, you can calculate receivable turnover and days in receivables, then compare to their credit policy. If the policy is 2/10, net 30 and the days in receivables is 45, they are not collecting their receivables as agreed.

### ***Relevant***

The accounting concept that items that will make a difference to end users should be disclosed adequately.

### ***Relevant range***

The reasonably expected range of activity. Used to determine if a cost is fixed or variable within the 'relevant range'.

### ***Reliability***

The accounting concept that figures and estimates used in the financial statements should be accurate and verifiable.

### ***Retained earnings***

The accumulated net profits of the business from the beginning, less capital returned to the shareholders in the form of dividends. If the company has been running a loss then retained 'earnings' will be negative. You can think of this as 'accumulated losses'. Remember that assets are shown at historical cost. A negative retained earnings on the books could actually be positive "equity" if the assets have appreciated in value (i.e. buildings or land).

### ***Return on assets***

A ratio of net income divided by total assets, shows how well the company is deploying or using its assets to create income.

### ***Return on equity***

A ratio of net income divided by equity, shows how well the company is doing relative to the investment of the owners. (What else could they do with their money?)

### ***Revenues***

Total dollars in the door.

### ***Reversing entries***

An accounting term indicating journal entries necessary to back out beginning receivables and payables and enter the ending receivables and payables. These adjusting entries are used in accrual accounting.

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### S

#### **Salary**

Compensation received by an employee for services performed. A salary is a fixed sum paid for a specific period of time worked, such as weekly or monthly.

#### **Sales tax**

A tax on retail products based on a set percentage of retail cost.

#### **Self-employment tax**

Similar to Social Security and Medicare taxes. The self-employment tax rate is 15.3 percent of self-employment profit including from a sole proprietorship, LLC or partnership. The self-employment tax is calculated on Schedule SE. The self-employment tax is reported on Form 1040.

#### **Single filing status**

If on the last day of the year, you are unmarried or legally separated from your spouse under a divorce or separate maintenance decree and you do not qualify for another filing status.

#### **Sin tax**

A tax on goods such as tobacco and alcohol.

#### **Social security tax**

Provides benefits for retired workers and their dependents as well as for the disabled and their dependents. Also known as the “Federal Insurance Contributions Act” (FICA) tax.

#### **Sole proprietorship**

A business owned by a single individual (sole proprietor). There is no legal distinction between the business and its owner, even though we account for them as separate entities.

#### **Solvency**

Do assets exceed liabilities?

#### **Standard deduction**

Reduces the income subject to tax and varies depending on filing status, age, blindness, and dependency. This is a minimum adjustment. The taxpayer can itemize deductions if s/he can document more than the standard amount.

#### **Statement of cashflows**

The third financial statement required by Generally Accepted Accounting Principles (GAAP), it shows sources and uses of cashflow in three categories: Operations, Investing, and Financing.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say “yes” to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### ***Stockholder's equity***

The corporate shareholder's rights against the assets of the company ...their share. This includes capital stock, paid in capital and retained earnings.

### ***Support***

For dependency test purposes, support includes food, clothing, shelter, education, medical and dental care, recreation, and transportation. It also includes welfare, food stamps, and housing provided by the state. Support includes all income, taxable and nontaxable.

### ***T***

### ***Tangible assets***

Assets that have a physical existence. Examples: buildings, inventory, land.

### ***Tariff***

A tax on products imported from foreign countries.

### ***Tax code***

The official body of tax laws and regulations.

### ***Tax credit***

A dollar-for-dollar reduction in the tax. Can be deducted directly from taxes owed.

### ***Tax evasion***

A failure to pay or a deliberate underpayment of taxes. This is to be distinguished from tax 'avoidance' which is the legitimate avoidance of taxes by taking legal deductions and credits in an aggressive manner.

### ***Tax-exempt interest income***

Interest income that is not subject to income tax. Tax-exempt interest income is earned from bonds issued by states, cities, or counties and the District of Columbia.

### ***Taxpayer ID number***

An identification number assigned to businesses for taxpaying purposes by the IRS or state taxing authorities. An Employer ID Number is required for partnerships, corporations, and trusts, and it may be required for sole proprietorships that have employees. Also called a Federal ID Number or Employer ID Number.

### ***Timeliness***

The accounting concept that accounting information should be provided within a time frame that allows users to act on it. One of the reasons for the historical cost basis for assets is that it would not be possible to provide fair market values of assets on a timely basis each month.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

## Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

### **Tip income**

Money and goods received for services performed by food servers, baggage handlers, and others. Tips go beyond the stated amount of the bill and are given voluntarily. Taxpayers are required to report and pay taxes on their tips.

### **Transaction**

An event that affects the resources of a business.

### **Treasury notes (T-Notes)**

Negotiable debt obligations of the US government with maturities of 1 to 10 years.

### **Treasury stock**

Stock bought back by the corporation.

### **Trend analysis**

Comparison of account balances, percentages and ratios of a company one year to the next.

### **Trial balance**

An accounting step to determine that the asset and liability balances compare to other sources to ensure the integrity of the statements. Example: the cash balance would be compared to a reconciled bank statement. This used to be, literally, a step to be sure the total debits and total credits matched after manually entering transactions in the 'books'. Thus it was a trial balance.

### **Turnover**

The number of times accounts receivable are collected or inventory sold in a year. Provides an indication of efficiency in the business.

## **U**

### **Uncollectible accounts**

Accounts receivable balances that are not expected to be collected either because of their age or other information available about the customer.

### **Unlimited liability**

Sole proprietors and partners are personally liable for the debts and liabilities of their businesses. Corporate shareholders and Limited Liability Company Members (owners) have limited liability. Even owners who would otherwise have unlimited liability can guarantee a business debt, thus increasing their personal liability for business obligations.

## **V**

### **Variable costs**

Costs that vary with activity level. This is a useful concept to understand when a lender suspects fraud. Are the costs behaving in a way that the lender would expect?

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.  
.....

# Tax, Financial and Accounting Glossary for Lenders

By Linda Keith, CPA

## *Verifiability*

The concept that accounting information used should be objectively verifiable.

## *Vertical analysis*

Also called common sizing, a technique whereby all the figures for the year within a statement are expressed as a percentage of one number. For the balance sheet it is a percentage of assets. For the income statement it is a percentage of sales. This allows us to compare two years (or two companies) with a different dollar amount of sales. It pinpoints which expenses are changing in relation to sales and which are holding steady.

## *W*

## *Wages*

Compensation received by employees for services performed. Usually, wages are computed by multiplying an hourly pay rate by the number of hours worked.

## *Withholding*

Funds that employers withhold from employees paychecks. This money is deposited for the government. (It will be credited against the employees' tax liability when they file their returns.) Employers withhold money for federal income taxes, Social Security taxes and state and local income taxes in some states and localities. Other entities may also withhold based on federal tax rules.

## *Working capital*

Current assets (those assets expected to be turned into cash within a year) minus current liabilities (those debts that have to be paid within the year). If positive, this provides the cushion to handle unexpected events and to grow the company.

.....  
**Permission to reprint:** You are welcome to reprint this article under these conditions:

1. Contact us to let us know where you will reprint and send us a copy if print or link if electronic.
2. Include the bio paragraph as it is written and, if published in an electronic format, with the live link to our website.
3. If you must edit for space, send us the edited version for approval or give us a word count and we'll revise it for you. With technical information such as this, removing a sentence can change the meaning. We'll make sure it is still correct for you.

.....  
© Linda Keith CPA

Linda Keith CPA is a nationally recognized authority on Cashflow Analysis of Tax Returns. She helps lenders say "yes" to good loans through on-site, open-enrollment and online training and resources. Contact her at [www.LindaKeithCPA.com](http://www.LindaKeithCPA.com) or 888-441-1569.

.....