

Financial Terminology

TERM NAME	DEFINITION
Accelerated Depreciation	Method that records more depreciation in early years of an asset's estimated useful life than in later years. See Depreciation.
Account	A detailed summary of changes in a particular asset or liability or in owner's equity. Accounts are usually maintained in a ledger.
Accounts Payable	The debts shown on the buyer's balance sheet when goods or services are purchased on an open account, usually a current liability.
Accounts Receivable	Charges outstanding for services rendered to patients.
Accrual Basis	A matching process whereby revenue is recognized as earned and expenses are recognized as incurred, regardless of when cash is received or disbursed.
Accumulated Depreciation	A contra asset account. The sum of all depreciation charged on the asset up to the date of the balance sheet. See Depreciation.
Additional Paid-In Capital	Capital contributed by owners that is in excess of any par value or stated value of issued stock. See Par Value.
Assets	Resources of value to the firm to which it has exclusive rights of use.
Balance Sheet	A statement of financial position as of a specific date, listing assets, liabilities, and owner's equity.
Book Value	Book value of plant and equipment is acquisition cost less accumulated depreciation.
Cash Basis	A matching process that recognizes revenues when cash is received and expenses when cash is paid out.
Cash Flow Statement	Similar to a "sources and uses of funds statement," provides an overview of cash income and outflow among collections, investments in equipment, and financing.
Consolidated Statements	Combinations of the financial statements of the parent company with those of various subsidiaries into an overall report as a single entity.
Contra Asset Account	A deduction from an asset account in the balance sheet.
Contractual Adjustment	The difference between a gross charge and the expected reimbursement level from a third-party payer.
Cost Center	A responsibility center that does not serve patients directly and to which only costs are traced.
Cost of Goods Sold	An expense consisting of the cost to the seller of goods sold to customers. It is equal to beginning inventory plus purchases, less ending inventory.
Credit	The right side of an account. To credit an account is to place an entry on the right side.
Current Assets	Cash and other assets that are expected to be converted to cash or otherwise consumed during a relatively short time, usually one year.
Current Liabilities	Liabilities that will fall due within the same period current assets are consumed or converted to cash, usually one year.
Current Ratio	The ratio of current assets to current liabilities.
Debit	The left side of an account. To debit is to place an entry on the left side.
Debt-Equity Ratios	Measures of the proportions of assets that are financed through debt and owners' equity.

Depreciation	That portion of the cost of plant and equipment that is allocated to each period of the asset's life.
Dividends	Distributions of earnings to shareholders. Dividends are paid in proportion to the number of shares owed.
Double Entry	Bookkeeping method used for recording transactions. At least two accounts are affected by each transaction.
Double-Declining Balance Depreciation	A form of accelerated depreciation. Twice the straight-line rate is applied to the declining balance of the asset. The declining balance is defined as the acquisition cost less depreciation previously charged. The asset cannot be depreciated below its salvage value. See Straight-Line Depreciation.
Earnings	The excess of revenues over expenses.
Earnings Per Share (Common Shares)	Common income (net income less preferred dividends) divided by the number of common shares outstanding.
Fiscal Period	The period covered by the income statement. A fiscal year may or may not coincide with a calendar year.
Fixed Costs	Costs that do not vary with the level of output, especially fixed financial costs such as interest and lease payments.
Generally Accepted Accounting Principles (GAAP)	All the concepts, conventions, rules, and procedures that make up accepted accounting practices at a given time.
Goodwill	An intangible asset representing the excess of the cost of an acquired company of the sum of the fair market value of its individual assets less its liabilities.
Gross Profit	Net revenues (revenues minus adjustments and patient refunds) less cost of goods sold.
Income	The excess of revenues over expenses.
Income Statement	A formal presentation of all revenues and expenses for a specified time period.
Intangible Assets	Non-current, non-material assets of a firm. Franchises, patents, trademarks, copyrights, and goodwill are all intangible assets.
Journal	A chronological record where transactions are first recorded.
Ledger	A group of accounts.
Liabilities	Claims by creditors against the assets of the firm.
Liquidity	A firm's cash and marketable securities position in relationship to its upcoming obligations. A highly liquid firm has large supplies of cash and marketable securities available to meet current liabilities. A firm with a low liquidity has less adequate cash reserves. In general, a liquid asset is one that can be readily converted to cash at a reasonable price.
Long-Term Debt	Liabilities, usually in the form of bonds or institutional loans, that are not due for more than a year.
Matching	The process by which expenses are assigned to the same accounting period as the revenues they generate.
Net Present Value	The current value of an item measured by discounting at an appropriate interest rate the future estimated value of net cash flows or cost savings.
Non-Operating Expenses	Expenses incurred which do not result from the sale of goods or services regularly offered for sale.
Non-Operating Revenues	Revenues that do not result from the sale of goods or services regularly offered for sale.

Operating Expenses	Expenses of carrying on normal business activities. Typically, refers to selling, general, and administrative expenses but not to cost of goods sold, interest expenses, and tax expenses.
Operating Leverage	The extent to which fixed costs are used in a firm's operation.
Operating Revenues	Revenues resulting from the sale of goods or services regularly offered for sale.
Owner's Equity	Claims of owners to the assets of a firm. Includes both paid-in capital and retained earnings.
Paid-In Capital	Funds a corporation receives from issuance of shares, either at inception or subsequently.
Par Value	An arbitrary value printed on the face of a security certificate. Par value has little economic significance.
Payable	An amount due to be paid as a result of a prior transaction.
Prepaid Expense	Costs such as rent, insurance, and supplies that have been paid but not yet used. Prepaid expenses are classified as current assets.
Price Earnings Ratio (P/E)	The market price per share of common stock divided by earnings per share. Firms expected to grow quickly typically have higher P/E ratios than firms expected to grow slowly.
Profit	The excess of revenues over expenses.
Profit Center	A responsibility center that performs a service and to which revenue for that service, as well as direct costs, can be traced or assigned.
Quick Ratio	The ratio of the sum of cash, marketable securities, and accounts receivable to total current liabilities. Also called the "acid test."
Retained Earnings	The portion of earnings not paid out in dividends.
Salvage Value	In accounting, the estimated market value of a capital asset at the end of its economic life.
Selling Expenses	Expenses incurred in selling or marketing a product or service.
Stockholder's Equity	Synonym for owner's equity specific to corporations.
Straight-Line Depreciation	A method of allocating the cost of plant assets equally to each period of the asset's estimated life.
Tangible Assets	Long-term assets that can be seen and felt, as opposed to intangible assets such as patents, copyrights, and goodwill. Plant and equipment are tangible assets.
Working Capital	The excess of current assets over current liabilities. Also called net working capital.