Unit 6 Glossary

**Capital expenditure**: An expenditure for property, plant, and equipment that is properly charged to an asset account.

**Consignment**: A transfer of goods from the owner to another person who acts as the sales agent of the owner.

**Electronic Data Interchange (EDI)**: A system in which data are exchanged electronically between the computers of different companies. In an EDI system, source documents are replaced with electronic transactions created in a standard format.

**Master production schedule**: A schedule that is used to plan overall production for a period of time. This schedule illustrates the gross production of each of the company’s products.

**Observation**: The auditors’ evidence-gathering technique of viewing client activity to obtain physical evidence of performance.

**Periodic inventory system**: A method of accounting in which inventories are determined solely by means of a physical inventory at the end of the accounting period.

**Perpetual inventory system**: A method of accounting for inventories in which controlling accounts and subsidiary ledgers are maintained to record receipts and issuances of goods, both in quantities and in dollar amounts. The accuracy of perpetual inventory records is tested periodically by physical inventories.

**Purchase commitment**: A contractual obligation to purchase goods at fixed prices, entered into well in advance of scheduled delivery dates.

**Revenue expenditure**: An expenditure for property, plant, and equipment that is properly charged to an expense account.

**Sales commitment**: A contractual obligation to sell goods at fixed prices, entered into well in advance of scheduled delivery dates.

Reference