Key Terms | Unit 3

1. **Bank reconciliation** - a report explaining any differences between the checking account balance according to the depositor’s records and the balance reported on the bank statement.

2. **Conservatism constraint** - prescribes the use of the less optimistic amount when more than one estimate of the amount to be received or paid exists and these estimates are about equally likely.

3. **Cost of goods sold** - the term used for the expense of buying and preparing the merchandise or raw materials for sale.

4. **Electronic funds transfer (EFT)** - is the electronic transfer of cash from one party to another. No paper documents are necessary.

5. **Gross profit** - equals net sales less cost of goods sold.

6. **Internal control system** - All policies and procedures used to protect assets, ensure reliable accounting, promote efficient operations, and urge adherence to company policies.

7. **Last-in, first-out (LIFO) (p. 211)** - Method to assign cost to inventory that assumes costs for the most recent items purchased are sold first and charged to cost of goods sold.

8. **Liquidity** - refers to a company’s ability to pay for its near-term obligations. Cash and similar assets are called liquid assets because they can be readily used to settle such obligations.

9. **Lower of cost or market (LCM)** - When the recorded cost of inventory is higher than the replacement cost, a loss is recognized.

10. **Merchandise Inventory** - Goods that a company owns and expects to sell to customers.
11. **Multiple-step income statement** - Income statement format that shows subtotals between sales and net income, categorizes expenses, and often reports the details of net sales and expenses.

12. **Periodic inventory system - Method** that records the cost of inventory purchased but does not continuously track the quantity available or sold to customers; records are updated at the end of each period to reflect the physical count and costs of goods available.

13. **Perpetual inventory system -** Method that maintains continuous records of the cost of inventory available and the cost of goods sold.

14. **Principles of internal control** - Principles prescribing management to establish responsibility, maintain records, insure assets, separate record-keeping from custody of assets, divide responsibility for related transactions, apply technological controls, and perform reviews.

15. **Retailer** - buys products from manufacturers or wholesalers and sells them to consumers.

16. **Vendor** – A seller or supplier.