ACAF The CPA Canada Advanced Certificate in Accounting and Finance (ACAF) is a nationally recognized certificate for those seeking a challenging and rewarding career in accounting and finance, but not as a CPA.

Accounting System A system, including all of the activities required, that provides management with the quantified information needed for planning, controlling, and reporting the financial conditions and operations of a business.

Accounts Payable Obligations to pay for goods and services that have been acquired on an open account from vendors. Accounts Payable are classified as a current liability on the balance sheet.

Accounts Receivable Amounts due from sales to customers on an open account. Accounts Receivable are classified as a current asset on the balance sheet.

Accrual Method The recognition of revenue and expenses when incurred. These are recorded at the end of an accounting period whether or not cash has been received or paid.

Accumulated Depreciation The total depreciation that has been collected to date for one asset account.

AcSB The Accounting Standards Board in Canada
**Advanced Certificate in Accounting and Finance** ACAF is a nationally recognized certificate for those seeking a challenging and rewarding career in accounting and finance, but not as a CPA.

**AEC** Acronym for Architects, Engineers and Contractors. Stands for a potential weekly update meeting between the parties during the course of a construction project.

**AIA** Acronym for American Institute of Architects.

**AICPA** Acronym for American Institute of Certified Public Accountants.

**Allocation of Costs** The partitioning of costs to specific periods of time. This allocation can include the assignment of assets to expense and liabilities to revenue. Examples are depreciation and the amortization of intangibles over a specified period of time.

**Alternative Minimum Tax (AMT)** Tax levied with the intent that each taxpayer will pay their fair share. AMT is designed to prevent taxpayers from escaping a fair share of tax liability by excessive use of certain tax breaks. A taxpayer is subject to AMT if the taxpayer has certain minimum tax adjustments or tax preference items and the alternative minimum taxable income (including adjustment for any net operating loss) exceeds the exemption allowed for the taxpayer’s filing status and income level. The AMT is computed on Form 6251 for individuals and Form 4626 for corporations.

**Alternative Minimum Taxable Income (AMTI)** Used to arrive at the alternative minimum tax (AMT). Generally, AMTI starts with the taxpayer’s taxable income. To this amount, the taxpayer adds preference items, adds or subtracts adjustments, and subtracts any alternative minimum tax net operating loss (AMTNOL) deduction to arrive at AMTI.

**American Institute of Architects (AIA)** The AIA produces copyrighted documents that are used routinely throughout the course of a construction project. Typical forms utilized for billing are AIA G702 (Architects certificate for payment) and AIA G703 (Schedule of Values).

**American Institute of Certified Public Accountants (AICPA)** A professional organization comprised of practicing Certified Public Accountants. Its objectives are to develop standards of practice for its members and provide technical assistance and advice to its membership and governmental agencies.
**AMT** Acronym for Alternative Minimum Tax. Tax levied with the intent that each taxpayer will pay their fair share.

**Annual Report** a document commonly prepared for dissemination to security holders of public companies and investment funds; it usually contains one or more reports from management, the audited annual financial statements and certain other information; if an annual report is prepared and sent to security holders, it must also be filed with the securities commissions

**ASC** the Alberta Securities Commission

**ASPE** Accounting Standards for Private Enterprises or ASPE represent the accounting framework established by the Accounting Standards Board (“AcSB”) for private enterprises.

**Assets** Economic resources expected to provide benefit and value to a business. Basic characteristics of assets are to provide future probable economic benefit, controlled by the entity and resulted from a prior event or transaction. Assets are most commonly expressed in money or are readily converted to money. Assets are often deferred charges that are not considered to be a resource. Assets can be classified as current (having a life of less than one year) or noncurrent (having a life in excess of one year). Examples of current assets are cash, marketable securities, and accounts receivable. Noncurrent assets include real estate, machinery and equipment, land, furniture, and fixtures. Assets are either tangible or intangible. Tangible assets have physical substance, such as construction equipment, whereas intangibles lack physical substance, such as goodwill.

**Asset Based Lending** Any kind of lending secured by an asset. This means, if the loan is not repaid, the asset is taken.

**Attestation Engagement** An engagement in which a practitioner is hired to issue written communication that expresses a conclusion about the reliability of written assertions prepared by a separate party.

**Attorney Work Product Privilege** Under the work product doctrine, “tangible material or its intangible equivalent” that is collected or prepared in anticipation of litigation is not discoverable, and may be shielded from discovery by a protective order, unless the party seeking discovery can demonstrate that the sought facts can only be obtained through discovery and that those facts are indispensable from
impeaching or substantiating a claim. That is, the party unable to obtain the information has no other means of obtaining the information without undue hardship.

**Audits** Examination of records and procedures with the objective of formulating an opinion as to compliance to prescribed standards, either internal or external, to the company.

- **Financial audits** are conducted by an independent Certified Public Accountant with the intent of expressing an audit opinion as to whether information examined in its examination of the accounting records conform to Generally Accepted Accounting Principles (GAAP) and fairly represent the financial position of the company.
- **Internal audits** are performed by an internal auditor as a means to evaluate and monitor the company’s procedures and operations to ensure compliance with established policy.
- **Compliance audits** are conducted to ascertain company compliance with specified rules and regulations. An example of a compliance audit would be a safety audit conducted by OSHA.

**Back Charges** Charges for work performed, services provided, or costs incurred by the one party to a contract (usually the general contractor) that should have been performed or incurred by another party to the contract (usually the subcontractor).

**Backlog** Remaining amount of expected revenue to be recognized from uncompleted contracts inclusive of new contracts that have not begun.

**Balance Sheet** Statement showing the company’s financial position at the end of an accounting period. It presents the company assets, liabilities, and equity.

**Benchmarking** Management tool used to measure a company’s performance against its strategic initiatives.

**Beta Factor** Measure of a security’s volatility relative to an average security.

**Bid** Formal offer prepared in accordance with the specifications of the project, to perform all or a phase of work on the project for a specified sum of money. Properly completed bids will include the terms and conditions of the offer and often list exclusions or alternates.

**Bid Bond** A bond issued by a surety on behalf of the contractor that provides assurance to the recipient of the contractor’s bid, that if the contractor’s bid is
accepted by the recipient, then the contractor will execute a contract and further provide a performance bond.

**Billings in Excess of Costs** Amounts billed on contracts where billings exceed costs and estimated earnings. These amounts are accumulated and presented as a liability on the balance sheet.

**Built-in Gains** Built in gain or loss is the difference between the fair market value of an asset at the date of transfer to an entity and the adjusted basis of the property in the hands of the transferor. Built in gain/loss property sold by the transferee within certain time periods may result in tax consequences to the original transferor.

**Capitalization of Interest** Capitalization of interest is to record the cost of interest (as well as other time related costs, such as taxes and insurance) paid to finance a long term construction project (whether self-constructed or acquired from others and whether for self-use or for resale) as an asset and defer its recognition as an expense to future periods. It is not to exceed the total interest incurred during that period. Conceptually, the amount of interest to be capitalized is the interest that could have been avoided if the expenditures for the asset had not been made. It requires determination of average accumulated expenditures during each interim capitalization period and the capitalization rate (usually the purchaser's incremental borrowing rate or a weighted average interest rate).

**Cash** Money held on deposit at a bank or other financial institution. Items include paper money, coins, checks, and money orders.

**Cash Flow Statement** Financial statement presenting the sources from which cash has been derived into the business and on what cash has been spent or used over an accounting period. The net result of the sources and uses are reflected in the balance sheet of the cash account.

**Cash Method of Accounting** Method of recognizing revenue and expenses when cash is received or disbursed rather than when earned or incurred. One of two most common methods of accounting, the other is the accrual method.

**CCIP** Contractor Controlled Insurance Program

**CC or CCM** Completed Contract Method

**CFM** Construction Financial Manager
**Change in Accounting Method** Contractors are required to adopt a method of accounting for contract income. Contract income may be accounted for by using the Percentage of Completion Method or Completed Contract Method. Switching from one accounting method to another constitutes a change. Permission to change accounting methods must receive approval from the International Revenue Service.

**Change Order** Increase or decrease in the original contract price or date by changing the work to be performed—such as specifications, design method, manner of performance, equipment required, materials, or the completion date.

**Chart of Accounts** A list of all accounts that a business maintains in its general ledger.

**COI** Certificate of Insurance &/or Cost of Insurance

**Collateral** A security or guarantee (usually an asset) pledged for the repayment of a loan if one cannot procure enough funds to repay.

**Competitive Bid Contracts** Contracts that are awarded to the lowest, most responsible bidder and are the most frequent method used in contracting.

**Completed Contract Method** Method of recognizing profit only when a long-term construction contract is completed. However, if a loss on a contract is expected, then it should immediately be recognized as consistent with the conservatism principle. This is a method of accounting for long-term contracts under which income is recognized only in the year of completion. Costs in process and billings are accumulated and netted and recorded as an asset (costs in excess of billings) or as a liability (similar to deferred revenue, billings in excess of costs) with no interim charges to revenue (except for provisions for loss, recorded upon discovery). The advantage is that accounting amounts are based on actual results, not estimates. The disadvantage is irregular recognition of income. If at any time a loss on the project is projected, this loss should be recognized immediately. This method should be used when a lack of dependable estimates or inherent hazards cause forecasts to be doubtful. Compare to percentage of completion method.

**Comprehensive Income** Changes in a business’ net assets during a period resulting from transactions and other events and circumstances from non-owner and non-investment sources.
**Construction Management Contract** Written agreement between the owner of a project (client) and a firm of professionals for planning, design, construction, and commissioning of a construction project.

**Contracting Method** Manner in which the team of participants to the contract are assembled. Traditionally, the owner engages a design professional to solicit bids and negotiate contracts with the general contractor responsible for constructing the project. The general contractor engages the subcontractor for specific portions of the work. Other contracting methods used are Construction Management (CM), Design Build, and Turnkey.

**Contractor’s Claim** Contractors request for additional money or time to perform work that has been rejected by the owner or the owner’s agent. Claims arise when the contractor has suffered financial damage as a result of owner-caused delays in design, specifications, and unapproved change orders. Not every request for a contract modification should be considered a claim.

**Corporation** Entity with authority under law to act as a single person, with rights to issue stock and exist indefinitely.

**Corporeal property** is tangible property or things in possession, such as furniture, equipment, and cattle.

**Cost** Price paid to acquire, produce, or maintain goods and services. Construction project costs are typically broken down into labor, benefits, materials, subcontract, equipment, rentals, and overhead.

**Cost Accounting** System of recording job costs and performing services in aggregate and detail. Cost accounting systems include: job order, process, and standard and direct costing.

**Cost Allocation** Identification of costs with cost objectives. Generally, there are three basic elements to the allocation of costs:

- choosing the object of costing
- accumulating the costs that relate to the object of costing
- selecting the method of identifying the accumulation of costs

Example: Consumable tools—accumulate for period and assign to labor hours.
**Costs in Excess of Billings** Amounts recognized on contracts where costs and estimated earnings exceed contract billings. These amounts are accumulated and presented as an asset (debit balance) on the balance sheet.

**Cost Method** The parent company’s accounting method for investments in subsidiary companies. The parent maintains the investment in subsidiary account at its cost, not recognizing periodically its share of subsidiary income or loss. This method of accounting is used when one company owns less than 20% of the outstanding voting common stock of another company. It could be used instead of the equity method if 20%-50% of voting common stock is owned but there is a lack of effective control (significant influence). Under the cost method, the investment portfolio is accounted for under the lower of cost or market value applied on a total portfolio basis separately for current and noncurrent securities.

**Cost Plus - Award Fee Contracts** Cost Plus Contract is where the contractor’s fee is comprised of two parts—fixed and variable. The variable portion of the award is based on the specific performance of the contractor. A cost plus – award fee contract does NOT motivate the contractor to economize; the contractor would be better off by spending more. A cost plus - fixed fee contract is a more reasonable.

**Cost Plus - Fixed Fee Contracts** A more judicious contract that reimburses the contractor for the costs incurred to complete a contract plus a predetermined fixed fee. The fee is generally expressed as a fixed flat dollar amount or a percentage.

**Cost Plus-Time and Material** Contract based on the actual time and materials used to complete the project.

**Cost to Cost Method** Accounting method that compares costs incurred to date to the estimated total costs to be incurred. Calculate the percentage of completion by dividing the costs incurred to date by the estimated total costs to be incurred for a contract.

**Countertrade** Contractual linking of a sale of service to the purchase of products by the seller.

**CSI** Construction Specifications Institute

**Current Assets** Cash, accounts receivable, inventory, and other assets that are likely to be converted into cash, sold, exchanged, or expensed in the normal course of business, usually within one year.
**Deferred Income Tax** The amount of future tax expense which is computed independently and does not yet appear on the tax return; the net change during the period in the entity's deferred tax liability (asset); results from changes in the deferred (noncurrent) tax liability(asset) which appears on the statement of financial position until it reverses or is settled; is added to the current tax expense (computed on the tax return) to give the total tax expense for the period (a residual amount) which is reported on the income statement.

**Demand note** (1) Instrument that by its express terms is payable immediately on an agreed upon date of maturity without further demand for payment. (2) Instrument payable at sight or upon presentation, or one in which no time for payment is stated.

**Design Build Contract** Method of contracting where the owner enters into one contract for the design and construction of the project.

**Discovery** The pretrial phase in a lawsuit in which each party through the law of civil procedure can request documents and other evidence from other parties or can compel the production of evidence by using a subpoena or through other discovery devices, such as requests for production and depositions.

**Equity** Computed by subtracting assets from liabilities, the result is the net worth of the business. It may further be defined as any right to an asset (property right).

**Equity Funding** Raising capital by selling part of the ownership, such as stock in a corporation.

**Equity Investment** The buying and holding of shares of stock on a stock market by individuals and funds in anticipation of income from dividends and capital gain as the value of the stock rises. It also sometimes refers to the acquisition of equity (ownership) participation in a private (unlisted) company or a startup (a company being created or newly created). When the investment is in infant companies, it is referred to as venture capital investing and is generally understood to be higher risk than investment in listed going concern situations.

**Equity Method** Accounting method used by an investor who owns between 20% and 50% of the voting common stock of a company. It can also be used instead of the cost method when the investor owns less than 20% of the company but has significant influence over the investee. Further, it is employed instead of consolidation, even though more than 50% is owned, when one of the negating factors for consolidation exists.
**Estimated Cost to Complete** The estimated cost of materials, labor and benefits, equipment, subcontract, and other expenses necessary to complete a project within the required amount of time.

**Excusable Delays** Delays experienced on a construction project that are not the fault of the delaying party.

**Extras** Additional work not included in the original scope. This work is invoiced separately and not included as part of the original contract.

**Fair Market Value** Amount that could be received on the sale of an asset when willing and financially capable buyers and sellers exist.

**Financial Accounting Standards Board (FASB)** A non-governing board with the authority to define Generally Accepted Accounting Principles (GAAP) and reporting practices. The pronouncements are published in the form of FASB Statements.

**Financial Reporting** Presentation of information in conformance with Generally Accepted Accounting Principles.

**Financial Statement** Report containing the financial information of the organization. The required statements are balance sheet, income statement, and statement of changes in financial position.

**Fixed Price Contract** Contract for providing all or a portion of work on a construction project stated in a single price. Also called Lump Sum Contract.

**Front-End Loading** Process of accelerating progress billings relative to costs incurred by assigning a higher value to the early stages of the contract with the intent of generating increased cash receipts during those stages and not as earned throughout the project. A cash flow tool – results in Billings in Excess on the Balance Sheet.

**GAAP - Generally Accepted Accounting Principles** Standards that would guide a professional as to how to account for and present a transaction in the financial statements, i.e., rules followed by accountants to record and summarize transactions in the preparation of financial statements.
GAAS - Generally Accepted Auditing Standards  Guidelines that would guide an auditor on how to audit a set of financial statements.

General Contractor  A contractor who enters into a contract with an owner of a project for the purpose of construction and has full responsibility for its completion.

Generally Accepted Accounting Principles (GAAP)  Standards and rules followed by accountants to record and summarize transactions in the preparation of financial statements.

Gross Profit  Excess between sales and cost of sales.

Guaranteed Maximum Price (GMP)  A type of contract generally between an owner and a general contractor (but is allowable from a General Contractor down to a sub contractor) where costs are guaranteed not to exceed a certain price. Any savings left at the end of the project either reverts to the owner (100%) or occasionally there are incentive clauses where the General and the owner split the savings.

HoldBack  The amount of money held back on a progress billing by the owner of a construction project to insure that the project is completed according with the term of the contract. This amount is billed separately at the end of the contract period and pertains primarily to commercial construction projects. The common industry standard for retainage is 10% of the value of the contract inclusive of change orders.

Home Construction Contracts  The requirement to use the percentage of completion method of accounting applies to all long term contracts of the taxpayer for AMT, except for certain home construction contracts where the buildings contain four or fewer dwelling units. IRC §§56(a)(3) and 460(e)(6). In essence, the accounting method used for regular tax purposes by taxpayers to report income on home construction contracts will be allowed for AMT purposes, thereby resulting in no AMT adjustment with respect to home construction contracts.

IASB - International Accounting Standards Board  is the independent standard setting body of the IFRS (International Financial Reporting Standards) responsible for the development and publications of the IFRS.

IFRS  International Financial Reporting Standards are developed and issued in the public interest by the International Accounting Standards Board (the Board). The Board is the standard-setting body of the IFRS® Foundation, an independent, private sector, not-for-profit organization.
**Income Recognition** Recognition of income at the time of the sale or the provision of services.

**Incorporeal property** is intangible property or things in action, such as stocks, bonds, accounts, patents, and royalties.

**Independent Auditor** Certified Public Accountant (CPA) in public practice who has no financial or other interest in the client whose financial statements are being examined.

**Indirect Costs** Expenses that are difficult to trace directly to a specific costing objective, e.g., non-field supervision, expendables, etc.

**Insurance** Contractual agreement referred to as a policy whereby one party, for an agreed premium, will provide insurance or pay the insured a specific sum of money upon meeting conditions within the insurance contract.

**Insurance Claim** A request by an insured for indemnification by an insurance company for loss incurred from an insured peril.

**Interest** Amount charged by a lender to the borrower for the use of funds.

**Interest During Construction (IDC)** In project finance, the interest that accumulates on a loan that finances the construction of a building or development. The IDC is a cost for the project, though it is not always calculated as such. The IDC is calculated until the project begins to generate revenue, when the company financing the project begins to service its debts.

**Intrinsic Value Method** Accounting method where valuation is determined by applying data inputs to a valuation theory or model. The resulting value is then compared to the prevailing market price.

**Inventory** The value of a firm's raw materials, work in process, supplies used in operations, and finished goods.

**Job Detail** The lowest level of an estimate or job to which costs can be posted. Details are used to record specific labor, material, equipment, subcontractor,
overhead, and miscellaneous costs necessary to complete a phase or activity within an estimate or job.

**Job Number** An alphanumeric name used to identify a job.

**Joint Venture** An agreement by two or more parties to work on a project together.

**Ledger Balance** The total amount of funds net of all receipts/disbursements for one business day or specified period at a bank or other financial institution.

**Liabilities** Amount payable in dollars or future services to be rendered.

**Lien** Legal right of a party to hold, possess, or control the property of another in satisfaction of a debt, duty, or liability.

**Liquidated Damages** A contract clause that obligates the contractor to pay damages, generally specified in daily amounts, to the owner, as compensation for damages suffered by the owner for the contractors’ failure to complete work within a stated period of time.

**Liquidity** Ability of current assets to meet current liabilities when due.

**Litigation** Act or process of engaging in a lawsuit.

**Long-term Contracts** A long term contract is a contract for the construction of a specific project over an extended period of time (more than one accounting period), such as ships, airplanes, bridges, roads, buildings. Accounting issues include revenue/profit recognition and valuation of construction in process. There are two alternative GAAP methods available completed contract and percentage of completion.

**Losses** Excess expenses over revenues or decrease in net assets where no revenue has been obtained.

**Negotiated Contract** Contract agreed to through meetings between buyer and seller. For example, owner and general contractor or general contractor and subcontractor.
**OCIP** Owner Controlled Insurance Program

**Open Bid Process** The solicitation of bids by the owner usually by advertisement for all qualified contractors to participate. The open bid process is typical for public sector work and, with few exceptions, the contract is awarded to the lowest bidder.

**Operating Cycle** The average time period between purchasing goods or services and the actual cash proceeds received from its eventual sale.

**Overhead Costs** The total of all costs of a project less direct costs, often referred to as burden. Indirect expenses of running a business not directly associated with a particular item or service sold. Electricity, insurance, and benefits paid to workers are overhead expenses. By applying a factor called the burden rate, cost accounting attempts to allocate overhead, where possible, to the cost of goods sold.

**Owner Architect Contractor (OAC)** Typically referred to as a type of meeting held between all parties during the course of construction. Topics discussed during the meeting include but are not limited to: pending change orders, schedule changes, RFI’s, Submittals, etc.

**Penalty Clause** Provision in a construction contract that reduces the amount payable to a contractor for its failure to meet project targets, schedules, or specifications.

**Percentage of Completion** PC Method of accounting for a long term construction project by periodically including a portion of the profit earned based on a comparison of incurred costs with total estimated costs. Method of recognizing income on a long-term construction contract as it’s earned over the construction period. Assets under this method may include accumulated costs (construction in progress) and recognized income in excess of billings. Liabilities may include billings in excess of costs and recognized income.

**Performance Bond** A contractor's bond, guaranteeing that the contractor will perform the contract and providing that, in the event of a default, the surety may complete the contract or pay damages up to the bond limit.

**Permanent Differences** Permanent differences are differences between accounting income and taxable income that are not expected to reverse. These are amounts that arise as a result of transactions or events recognized in the financial statements that do not have any tax consequences or vice versa (items that have a tax consequence but are not determinants of accounting income or have no effect on inter-period tax
allocation). Tax payable in the current period equals the income tax expense that arises from the item.

**Personal property** Personal property is everything that is the subject of ownership that is not real property. It is also known as movables and chattels. Personal property can be either corporeal or incorporeal: Incorporeal property is intangible property or things in action, such as stocks, bonds, accounts, patents, and royalties. Corporeal property is tangible property or things in possession, such as furniture, equipment, and cattle.

**Prime Contractor** Contractor that has a contract with the project owner for the completion of all or a portion of a project, under which the contractor assumes full responsibility for the completion of the work.

**Profit Center** The segment of a business organization that is responsible for producing profits on its own. For instance, a conglomerate with interests in hotels, food processing, and paper may consider each of these three businesses separate profit centers.

**Real property** Real property (also known as real estate) includes land, buildings, and their structural components.

**Receivables** Claims against customers or others for money, goods, or services. Receivables are classified on the balance sheet as trade or non-trade. If the collection period is one year or less, then they are presented on the balance sheet as a current asset. If not, then they are classified as noncurrent.

**Revenue** Increase in a company’s assets or decrease in a company’s liabilities over an accounting period that are derived from operating activities.

**Schedule** The timing and sequence of tasks with a project, as well as the project duration. The schedule consists mainly of tasks, dependencies among the tasks, durations, constraints, and time-oriented project information.

**Securities and Exchange Commission (SEC)** The federal agency empowered to regulate and supervise the selling of securities, to prevent unfair practices on security exchanges and over the counter markets, and to maintain a fair and orderly market for the investor.
Strategic Planning  Process of implementing a company’s long-term objective relative to products or services provided and its marketing strategy.

Subcontractor  A contractor that enters into a contract with a general contractor for a specific phase of a construction project. Subcontractors are specialists in a given trade, such as electrical, mechanical, etc.

Subsidiary Ledger  A group of accounts other than general ledger accounts that show details underlying the balance of a controlling account in the general ledger.

Surety  Individual or entity—generally a bonding company—that guarantees the performance of a party, either general contractor or subcontractor, on a construction project.

Tangible Asset  Asset having physical substance with a useful life greater than one year and not held for resale through the course of normal operations.

Tax Year  Time period that a tax return covers. Typically, taxpayers file on a calendar basis but may elect to file on a fiscal year calendar, which is subject to approval by the Internal Revenue Service.

Temporary Differences  Temporary differences are amounts that arise from items that are treated differently under GAAP than under the tax law, and that are expected to reverse (create an offsetting amount) in the future, such as installment sales, warranty expense, and depreciation under different methods. Note: "Timing" difference is no longer acceptable terminology.

Turnkey Construction Contract  A type of construction contract under which the construction firm is obligated to complete a project according to prespecified criteria for a price that is fixed at the time the contract is signed.

Unbalanced Items  Result from the conversion of the contractor’s day-to-day accounting records related to long-term contracts to the percentage of completion basis. For example, when accrual basis revenues and costs are adjusted to percentage of completion.

Unit Price Contract  Contract where the owner pays the contractor a set amount for each unit of work. For the most part, unit price contracts are used if the number of units (quantity) cannot be accurately determined at the start of the contract.
Valuation Allowance  A valuation allowance is a “contra” account. It may have a debit balance or a credit balance, depending on the circumstances. It is neither an asset nor a liability itself; rather, it is used to reflect the difference between the amount at which a given asset or liability must be recognized in the entity’s financial statements. For example, an entity may choose to record its marketable equity securities in its books at acquisition cost. GAAP, however, require those securities to be recognized in the entity’s financial statements at fair value. A valuation allowance account could be used to reflect the difference between the acquisition cost and the fair value of those securities.

Work in Process (WIP)  A schedule typically included with a contractor’s financial statements that lists jobs in progress, how much has been spent, how much is forecasted to be spent to complete the job, how much you have made so far, how much you expect to make, and what portion of the revenue you get to recognize.

Working Capital  Funds invested in a company’s cash, accounts receivable, inventory, and other current assets (gross working capital). It usually refers to net working capital, that is, current assets minus current liabilities. Working capital finances the cash conversion cycle of a business, the length of time required to convert raw materials into finished goods, finished goods into sale, and accounts receivable into cash.

Zero Gross Profit Option  Measurement of contract progress to report proportionate amount of revenues and costs on a break-even basis. This method may be used if conditions prevent a percentage of completion method, but there is no reasonable assurance that a loss will not be sustained. This method is seldom used and does not provide an accurate estimate of profit earned.