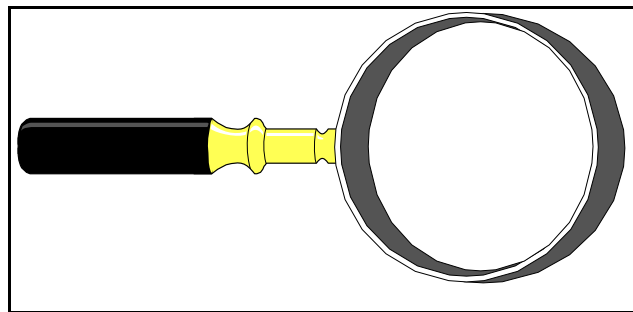


SECTION II
DEFINITIONS & TERMS



GLOSSARY OF TERMS

Absorption costing - A system of product costing in which all costs of production, whether variable or fixed are classed as product costs and identified with the full cost of inventory.

Accumulated depreciation - The sum of all depreciation previously deducted from the historical cost of an asset.

Accrual basis - An accounting method which records all income earned and expenses incurred as of the initial commitment, regardless of whether actual payment has occurred. (See "Cash Basis.")

Ad valorem - Latin meaning "according to value," in common usage an ad valorem tax is a tax levied on property in proportion to the value of the property.

Appraisal - The act of estimating the value of property. An estimate or opinion of value.

Audit - An examination of data or materials with the intent to test and verify the accuracy of financial reports or statements or to obtain complete information necessary to form an opinion as in an appraisal.

Balance sheet - A financial statement as of a specific date detailing the financial condition of a business enterprise, showing assets, liabilities, and capital. (See "Statement of Condition.")

Bill of lading - A carrier's written document acknowledging receipt of goods, listing same, and contracting to deliver such goods to a specified place and party.

Bond - An interest-bearing certificate of a corporation or government, usually secured, promising to pay the holder a fixed amount on a specified maturity date.

Book of original entry - A journal in which business transactions are first recorded and from which ledger entries are made. (Also known as the "Journal.")

Book value - An accounting "value". Usually the undepreciated balance of the historical or original cost of an asset. "Book value" usually reflects an accommodation with income tax regulations, is characterized by frequently- accelerated depreciation, usually does not reflect inflation or appreciation, and rarely bears any resemblance to fair market value.

Business Personal Property - Personal property associated with a business or used in connection with the production of income.

Capital - On the balance sheet or statement of condition, the owners' or stockholders' share of a business enterprise; it is the mathematical difference between assets and liabilities, and will usually be itemized as capital stock, surplus, and undivided profits ("undivided profits" may be variously labeled "undistributed earnings" or "retained earnings.") Also referred to as "owners' equity."

Cash basis - An accounting method which records no transactions until such time as the actual cash receipt or disbursement has taken place. (See "accrual Basis.")

Chattels - An article of personal or movable property, as distinguished from real property; furniture, automobiles, livestock, farm equipment, boats, etc., are chattels.

Consignee - The party in whose possession is placed a consignment or consigned goods.

Consigned inventory - Inventory belonging to another -- the consignor, which is held by the consignee, who will receive payment for the goods when they are sold and then himself will forward his payment to the consignor. The consignment agreement will often stipulate that as between the parties the consignee is responsible for property taxes.

Consignment - A shipment of goods to an agent, with title to the goods remaining with the shipper, or consignor; when the goods are sold the agent, or consignee, forwards payment to the consignor. (See preceding definition.)

Consignor - A party which ships goods to an agent (consignee), and does not relinquish title until receiving payment after the agent has sold the goods.

Consolidated accounting report - A financial statement that combines the income statement and/or balance sheet of a parent company with one or more of its subsidiaries.

Corporation - An artificial legal entity, chartered by the State to engage in business, and having legal powers, rights, privileges, and liabilities distinct from those of its owners and officers as individuals.

Cost - The amount of consideration exchanged for the acquisition of an asset or group of assets.

Cost - capitalized - An accounting term expressing the total consideration expended necessary to acquire asset(s) and which also includes invoice cost, trade-in allowances, sales tax, freight, installation, and construction period interest.

Cost - historical - Original cost new.

Cost - installed - Capitalized cost and other cost necessary to achieve normal utility of assets within an operating unit but does not include maintenance or other operating expense. It should include repairs that extend the life of the asset.

Cost - replacement - The cost to replace a property with something comparable and similar having equivalent utility.

Cost - reproduction - The cost of reproducing a new replica property on the basis of current prices with the same or closely similar material and one having equivalent utility.

Current assets - Cash and other short-term assets that will be converted into cash within the current operating cycle -- usually one year.

Current liabilities - Usually short-term debt -- obligations falling due within a year or less.

Depreciation in appraising - A decrease in the upper limit of value due to physical wear and tear, functional obsolescence, and/or economic obsolescence. A loss in value from all causes.

Depreciation - accounting - The amount of annual expense taken as a reduction of income necessary to recapture the cost of an asset and does not represent actual losses in value.

Direct labor - Labor employed directly in converting raw material into finished goods.

Economic obsolescence - Loss in remaining value due to reasons external to the property.

Fair market value - The price estimated in terms of money at which the property would change hands between a willing and financially able buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of all the uses to which the property is adapted and for which it is capable of being used.

Financial statements - Any written presentation of financial data, including a balance sheet, statement of condition, profit and loss statement, income statement, etc.

Finished goods - Goods having been converted from raw materials into the form in which they will be used or sold.

Fiscal year - A period between annual settlements of financial accounts for presentation; it may or may not coincide with the calendar year. Usually it consists of a twelve month period, but could be less than twelve months.

Fixed assets - Permanent-type assets with an economic life of more than one year, e.g., real estate improvements, manufacturing equipment, motor vehicles.

Floor-planning - A method of financing which ties up a minimum of capital prior to actual sale of the inventory being floor-planned. A merchant signs a floor-planning agreement with a lending institution whereby the lending institution pays the supplier or wholesaler and collects a small down payment from the merchant. The lender holds title to the goods until they are paid for, which is usually the day after they are sold by the merchant.

F.O.B. - Literally, "free on board" -- used in quoting prices of goods at a specific location, not including transportation costs to any other location or installation costs.

Functional obsolescence - A reduction in functional capacity or efficiency -- caused by factors inherent in the property itself. (See Section VIII)

General journal - The book where the first entry for all transactions of a business enterprise are summarized.

Going concern - A concept assuming the continuation of an entity long enough to experience the revenues generated by the assets suspended in the accounts.

Going concern value - The value of a property arrived at by considering the value in place, in use assuming its present use is its highest and best and assuming a transaction between a willing seller and a willing buyer whereby the buyer would continue to operate the property at its present location.

Goodwill - The excess of the consideration paid for a business as a whole over the book value of all the tangible net assets purchased; the excess of value over cost. A salable business asset based on reputation, not physical assets.

Hardware - The physical equipment of a computer system

Historical Cost - The original cost of an item when first purchased; generally "historical" and "original" costs are terms used interchangeably in appraising personal property, however, a distinction may be drawn between historical cost as being the first cost of an item at the time it was first sold, and original cost as being the first cost to the present owner.

Idle Equipment – Equipment that has been taken off production status on a permanent basis and is not used on a day-to-day basis, but is retained based upon its potential. This future potential value is in excess of a disposal or scrap value, but less than a value-in-use based upon its current condition.

Income statement - See "Profit and Loss Statement."

Journal - A book in which business transactions are first recorded, and from which ledger entries are made. (Also known as "Book of Original Entry.")

Journal entry - The first recording of a business transaction.

Leasehold improvements - Real estate improvements to leased property contracted for, installed, and paid for by the lessee; and which may well remain with the real estate, thereby becoming an integral part of the leased fee real estate upon expiration or termination of the current lease, but which are the property of, and should be charged to, the current lessee who installs same. (Examples: lavatories installed by lessee in barber shop, special lighting, interior trim such as floors, wall-covering, dropped ceiling, built-ins, etc., as installed by lessee to an unfinished-on-the-interior "four walls and a roof" type leased building.)

Ledger - A book of final entry, in which journal entries are summarized. (See "General Ledger or General Journal.")

Lessee - One not owning property, who makes periodic payments for the right to use or enjoy the property; e.g., a tenant.

Lessor - The party owning the property, who allows another to take possession, use and/or enjoy the property in return for which he receives periodic payments, and retains full title to the property; e.g., a landlord.

Liability - An amount owed by one party to another, or the representation of such obligation.

Liquidation value - The price which the individual assets of an operating unit or non-operating unit would bring if disassembled, moved from its present location and sold on the open market. Liquidation value should not be used in the going concern concept or in-place in-use concept unless adjustments are made to account for the various value additives necessary to achieve utility of the property in- place, in-use.

Merchandise turnover - The number of times in an accounting period (a year) that the average inventory is sold. (Gross sales divided by the turnover ratio equals the average inventory).

Mortgagee - The lender, the one making the loan and advancing funds to mortgage property.

Mortgagor - The borrower, the one who pledges security (gives a mortgage on property) in return for borrowed funds.

Partnership - A merger of two or more individuals, based on an agreement to combine their labor and resources in a business enterprise and to share profits and losses accordingly.

Percent Good Factor – The product of the trending factors and the straight-line depreciation factors. The percent good factor is used to find the current replacement cost new less depreciation.

Personal property - All tangible property other than real estate. Generally includes movable items, that is, those not permanently attached or affixed to the real estate. In determining whether an item is personal or real, there can be considered the manner in which it is affixed to the real property as well as the intention of the owner with regard to the removal of the asset at the end of a lease period. Also, the purpose for which the property is used such as an industrial plant. If the item can be removed without serious injury to the building or to the item itself, then it could safely be termed as tangible personal property.

Also classified as personal property, but more commonly known as intangible personal property. Intangible personal property may represent tremendous value, however it is usually not subject to physical measurements. Examples of this type of asset are money, stocks and bonds, goodwill, patents, copyrights, trademarks, etc.

Prepaid expenses - Expenditures that will benefit future periods, they are classed as current assets since they will be converted to cash in the next period or if not paid for in advance would require the disbursement of cash in the next period. In the appraisal of personal property, prepaid expenses normally are those miscellaneous office supplies, store, advertising or shipping supplies which will most likely be consumed within the time frame of an accounting period, and which are not classified as, nor included with, normal business inventories.

Profit and loss statement - A financial statement showing income and expenses for a business for an accounting period, and the profit or loss resulting from the related activity.

Physical deterioration - Loss in value due to physical wear and tear.

Raw materials - Goods to be used as component parts of finished goods.

Real estate - The land and appurtenances, including all things not movable in nature and more or less permanently affixed to the land.

Real property - The "bundle of rights" that go with physical ownership of real estate, including the interests, benefits, and rights inherent in same.

Replacement cost - The cost new today to purchase property of like utility as the equipment to be replaced, assuming no physical deterioration and economic obsolescence neither greater nor lesser than the subject property.

Reproduction cost - The cost new today to reproduce, or reconstruct, an exact duplicate or replica of the subject property, containing the same degree of obsolescence.

Residual value - In appraising personal property, a minimum value -- below which no further depreciation is allowed so long as the property is either still in use or capable of use. The residual value is expressed in most cases as a percentage of cost. Residual values should reflect the remaining fair market value.

In manufacturing or production machinery and equipment, the residual fair market value, utilizing a going concern concept, will reflect not only the value of an individual item as may be reflected by the used equipment market, but also the value added for freight, taxes and installation.

Retained earnings - The cumulative undistributed profits of a business enterprise, presented in the capital section of the balance sheet, and also known as undivided profits or undistributed earnings.

Reversionary value - The remaining market value of a property at the time it comes off lease and reverts to the lessor. In applying the income capitalization technique the value of the reversion must usually be estimated.

Salvage value - The remaining value of a piece of property (usually equipment) when it no longer is capable of performing the function or serving the purpose for which it was intended. It is the value of the component parts which may be retained for recycling, reprocessing, or which may be combined with salvageable parts from other comparable property to rebuild a similar piece of property.

Scrap value - See "Salvage Value."

Selling value - The value arrived at through a negotiation process which usually involves consideration for items other than tangible assets such as goodwill, debts, financing, receivables, income tax considerations, cash flow positions, stockholder considerations, etc.

Special Tools – Tools such as jigs, dies, and molds which are specifically designed for the production or processing of particular parts and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular part produced by the special tools.

Software - Computer programs and routines that facilitate the programming and operation of a computer.

Sole proprietorship - A business owned entirely by one individual.

Special journals - Journals used to record only transactions of a certain kind, e.g., sales journal, purchase journal, cash journal.

Standard cost - A predetermined cost per unit based on actual experience and management objectives.

Statement of condition - See "Balance Sheet." Also known as "Report of Condition."

Subsidiary ledger - A supporting ledger, containing a summary of similar accounts, the total of which supports a controlling account in the general ledger.

Surplus - One of the capital accounts on the balance sheet, representing the cumulative difference between total par value of issued stock and actual value received.

Trade discount - A discount or deduction from the list price or catalogue price.

Tools, Tooling, or Special Tools - Items primarily used in manufacturing, such as molds, dies, and jigs which are specifically designed for production or processing and have no significant utilitarian value and cannot be adapted to further or different use after changes or improvements are made in the model design of the particular item produced by the special tools. It will be necessary to determine from the particular manufacturer the average life of this category of property. This does not include general-purpose small tools such as wrenches and drills, both hand and power-driven. Notice specific definitions for the following:

Jig- a device used to guide a tool; it usually has the function of clamping and positioning materials during machine processing.

Die- a tool used for cutting out, shaping, punching, forming, or stamping various materials, usually goods in process.

Mold- a hollow form or frame for giving a certain shape to something, usually molten goods in process.

Trending/Indexing - In appraising it is the process of applying percentage adjustments to historical cost data to arrive at a cost to reproduce and becomes the basis for depreciation -- (appreciation factor - inflation factor).

Turnover - See "Merchandise Turnover."

Usufruct - The right to use, enjoy, and benefit from property belonging to another.

Value in exchange - The value of goods, services, or purchasing power which a knowledgeable buyer could reasonably be expected to offer in exchange for property in an arms length transaction.

Value in use - The value of property to its owner or the one who enjoys its use, based on its utility and productivity to that particular person.

Vendee - The person to whom a thing is sold; a buyer.

Vendor - One who sells; a seller.

Work in process - Raw materials which have been partially processed or acted upon, but which are not yet completely converted to the finished product or finished goods; goods in the process of being converted from raw materials to finished goods.

CASE PROBLEM

Matching Definitions

Match the correct definition (on the right) to the correct word (on the left). Place the letter at the front of the word/terms.

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|----------------------------------|---|
| _____ Ad Valorem | A. Long term permanent tangible assets. |
| _____ Appraisal | B. Costs incurred that are necessary to achieve normal utility of an asset. |
| _____ Book Value | C. A minimum value below which no further depreciation is allowed, expressed as a percentage of cost. |
| _____ Business Personal Property | D. Estimate or opinion of value |
| _____ Cost-Capitalized | E. The price estimated in terms of money at which the property would change hands between a willing and financially able buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of the property. |
| _____ Cost-Installed | F. Property used in connection with the production of income. |
| _____ Depreciation in Appraising | G. Typically a landlord who owns property and allows another to take possession of and use or enjoy the property in return for rent payment |
| _____ Depreciation in Accounting | H. Latin, meaning "According to value" |
| _____ Fair Market Value | I. Annual expense taken as a reduction of income necessary to recapture the cost of an asset. |
| _____ Fixed Assets | J. All tangible property other than real property. |
| _____ Lessee | K. Undepreciated balance of the historical or original cost of an asset. |
| _____ Lessor | L. One who makes periodic payments for the right to use or enjoy property they do not own. |
| _____ Personal Property | M. Accounting term showing the total consideration necessary to acquire an asset. |
| _____ Residual Value | N. A decrease of value due to physical wear, functional or economic obsolescence. |