

General Accounting Terms and Definitions

Accounting Cycle - Composed of several *Accounting Periods* spanning over twelve consecutive months. Corporations currently operate on a fiscal year beginning on July 1st and ending June 30th.

Accounting Period - Expenditure and revenue measurement within a pre-determined time frame. There may be several *Accounting Periods* in an *Accounting Cycle*. See also *Accounting Cycle*.

Allocation - A method of separating an asset's value or expenditures among Corporations or line-items.

Amortization - The measure of an intangible asset's loss of value over time by a mathematical formula to properly match revenues against the appropriated value of the asset. This is done for patents, copyrights, and organizational costs.

Assets - Tangible or intangible property that a Corporation controls.

Fixed Assets - Purchases whose historic cost is above the Corporation established threshold or \$1,000.00. This may include furniture, office equipment (e.g. copiers, computers, fax machines, and telephone systems), trade fixtures (items attached to the building or real estate such as signs), and vehicles.

Intangible Assets - Assets that cannot be physically measured: goodwill, patents, copyrights, and organizational costs.

Liquid Assets - Assets that can be readily spent or transferred to cash such as bank accounts (e.g. checking accounts, savings accounts, certificates of deposit, money market accounts, and current asset management accounts), and securities (e.g. stocks and bonds).

Tangible Assets - Assets that may be physically measured by inventory: furniture, office equipment, and vehicles.

Budget - A detailed maximum spending plan by line-item covering a time period.

Capitalized - Purchases, modifications, improvements, or repairs exceeding a Corporation's established threshold

Consideration - An exchange of goods or services for other goods or services.

Contract - A written or verbal agreement for services or goods with specific terms.

Depreciation - Mathematical formula measure of a tangible asset's loss of value over time to properly match revenues against the appropriated asset's lost value (estimated expense). This is done for office equipment, furniture, and vehicles.

Employee - A compensated individual authorized to perform duties for the Corporation where the Corporation incurs expenditures related to Employee Benefits.

Expenditure - The use of assets to obtain an established goal.

Fiscal Year - Twelve consecutive months designated as the operational year that is not a calendar year. The State of West Virginia uses a governmental accounting year beginning on July 1 and ending June 30.

Footnote - Additional information that offers insight to financial statement readers concerning specific events, transactions, or decisions that the Corporation has made.

Historic Cost - The original total purchase price (including freight and taxes).

Liability - A debt or outstanding balance owed to another party requiring a future cash flow for satisfaction or extinguishment. This may be considered short-term (less than twelve months) or long term (greater than twelve months).

Line-Item - A specific account that categorizes or groups common expenditures.

Related Party Transactions - A term used to define the close relationship between individuals who have entered into or executed a contract. The relationship may include but not limited to, closely related family members (e.g. spouse, parent, sibling, grandparent, aunt, uncle, and cousin) and someone having a vested interest in the other party (e.g. agent, stockholder, employee, and board members). These transactions may have tax implications.

Report - Information compiled to communicate an idea or to state a fact that covers a specific time period. Management uses these tools to make decision concerning the Corporation's future operations. Readers may use these reports to make financial decisions (e.g. credit decisions) about the Corporation. Reports should be compiled and reported on a cash basis. Accrual basis reports are completed after the final cash basis report is issued to PDS (at the conclusion of the fiscal year - June 30; and prior to the CAFR audit).

Asset Report - A *Balance Sheet* is a report listing the total assets, liabilities, and equity of a business.

Budget Report - Report concerning the current or future spending plans of the Corporation. Normally detailed by line-item, budgets can be made for an accounting cycle and budgets may be allocated over several accounting periods.

Expenditure Report - A line-item report detailing the amounts spent.

Variance Report - A line item report that compares differences between the budget and expenses.

LINE-ITEM ACCOUNTING TERMS & DEFINITIONS

Personal Services - Account class that includes *"Compensation paid to full-time, part-time, temporary or intermittent employees with payroll deductions, e.g., Federal or State withholding, social security, retirement, etc."* This does *"...not include fees or contractual payments paid to consultants or to independent contractors..."* doing business with the Corporation (WV 2000, p. 53).

Salaries: Lawyers' - Employment is contingent upon professional credentials (education and BAR certification). This does not include non-client related litigation expenditures.

Salaries: Non-Lawyers' - Accounting, administrative, clerical staff and support staff that are employed either part-time or full-time basis.

Interns - Employment is related to an education program (usually for college or high school credit).

Temporary Help - Employment related to a time period such as seasonal or task oriented. Does not include fees paid to temporary employment agencies.

Employee Benefits - Account class that includes expenditures *"...normally paid by the employer as a direct cost of employment..."* such as *"...social security matching, workers' compensation, unemployment compensation, pension and retirement contributions..."* and health care premiums (WV 2000, p. 54).

Health Insurance - Medical coverage payments, on the employees' behalf, to a third party.

Pension Contribution - Payments paid on the employee's behalf to a third party for the benefit of receiving retirement funds.

Taxes: FICA - Payments paid on the employee's behalf to the Social Security Administration. For current tax year information, contact the Internal Revenue Service.

Unemployment Compensation - Payments to the Division of Employment Programs or other designated agency. A 501(c)(3) has the option of not paying into the Federal and State Unemployment Compensation Fund. For FUTA, the IRS Form 990 is used for tax filing. For SUTA, an application (Forms UC-201-B, Employer's Initial Statement, and WVUC-A-80, and Benefits Reimbursement Agreement) for reimbursable SUTA must be filed with the Bureau of Employment Programs, Division of Unemployment Compensation. Corporations should not be paying any Unemployment Compensations

premiums unless authorized by PDS. *Only those Corporations that have prior approval of PDS should be using this line item.*

Workers' Compensation - Payments to a Workers' Compensation Fund or insurance program to cover employees' work-related injuries.

Supportive Services - Account class that includes services purchased on a contract or consulting basis: accounting and audits, equipment service contracts, custodial or janitorial contracts, investigative contracts, and expert witnesses. Supportive services shall **not** meet the definition of Personnel Services or have any Employee Benefits.

Accounting - Contract fees for auditing and professional accounting services. This account does not include salaries paid to employees who complete audits or accounting services.

Computer Personnel/Consulting - Contract fees for equipment and software maintenance, consulting services, and payments for service contracts.

Contracts – General - All service contract fees not listed in any specified account. This includes equipment maintenance contracts (except for computers), records management contracts such as microfilming, and fees paid to temporary service agencies (e.g. Manpower, Kelly Services).

Contracts – Legal - Fees associated with obtaining legal opinions or council. This does not include wages paid to employees.

Janitorial - Contract fees for cleaning and custodial services. This does not include wages paid to employees or the purchase of cleaning supplies (see *Miscellaneous* under *Other*).

(CR) Expert Witnesses - Professional testimony or opinions on client cases. This may include forensic analysis (e.g. handwriting analysis, fingerprint verification), medical opinions, or engineering opinions. This does not include employee wages.

(CR) Investigative - Research, investigation, or fact finding fees on client cases. This does not include employee wages.

Administrative Support - Account class related to the Corporation's business operations: association dues, professional memberships, continuing education, training, development of skills, and travel. Administrative support is directly related to the management and operation of the Corporation by employees, Board members, or volunteers.

Association Dues & Professional Memberships - Payments of dues, fees, and memberships in organizations that help maintain an employee's position (e.g. Bar dues). This does not include magazine or periodical subscriptions unless they are part of the membership package.

Education: Lawyers' CLE - Reimburses lawyers for expenses incurred to continue legal education.

Education: Training & Development - Costs associated with the training, development, and education of non-lawyers or lawyers attending training that is not case or CLE related.

Travel: Board - A Board of Directors transportation expenditure account.

Travel: Employee – (CR) - Employee case related transportation account associated with agency operations, factual investigation, and interviewing witnesses.

Travel: Employee – (NCR) - Employee non-case related transportation account associated with agency operations.

Office - Account class relating to the Corporation's daily operations including non-capitalized expenditures, office and storage costs, equipment rental, utilities, telecommunications, and non-health insurance premiums (e.g. fire, flood, theft, & liability).

Insurance - Includes insurance costs except for those costs that fit the description of Employee Benefits.

Office & Storage Costs - Costs incurred for operational space including rents, lease payments, or other expenditures. This account is split into *Rent: Office* and *Rent: Storage*.

Telecommunications - Costs incurred for a communication network including telephone, Internet, paging, cellular, digital, or other means of communications. This account is split into *Telephone* and *Internet*.

Utilities - Utility costs including "...Natural gas, electric, fuel oil or other substance used for heating, cooling, light, sanitation fees, trash/garbage disposal, fire service, septic tank maintenance, cable TV charges, and purchase of bottled water..." (WV 2000, p. 55).

Computer Software - Costs associated with software purchase (not Internet services) under the Corporation's established threshold or \$1,000.00. Software should not be depreciated.

Office Supplies - Administrative costs: pencils, pens, markers, correction fluids, paper, envelopes, notebooks, ink, binders, paper clips, tape, staples, file folders, push pins, ink cartridges, and typewriter ribbons. This may *not* include adding machines, calculators, office furniture, or office equipment.

Postage - Delivery services payments associated with letters or packages including postage stamps, bulk mailings, and freight charges. This does not include envelopes or

supplies.

Printing - Costs for reproduction or production of materials including envelopes, letterhead, posters, transparencies, and letters.

Rent: Equipment - Fees paid for usage of office equipment.

Other - Account class used when all other accounts have been reviewed.

Litigation - Costs associated with miscellaneous case related expenditures and with the legal defense of the Corporation against internal or external sources which may include charges of employee misconduct or lawsuits brought by creditors. This may *not* include expenses associated with client travel, clothing, medical, or necessary care.

Miscellaneous - Costs where no other category has been established. This account is used when all other accounts have been reviewed.

Acquisition - Account class for asset purchases. Purchases should appear on an inventory schedule and may be depreciated in accordance with the Corporation's established capitalization policy and threshold. Thresholds should be set at not less than \$1,000.00 and should not be applied to library purchases or computer software purchases.

Property: Computers - computer hardware purchase including freight charges and installation fees. Purchases should not include maintenance fees or Internet charges.

Property: General - Asset purchases including freight charges and installation fees. This account is used after other accounts have been explored.

Property: Library - Expenditures for periodicals, subscriptions, journals, digests, and textbooks including freight and delivery charges.

Property: (Special) - Other accounts as established by PDS

Note: West Virginia's *Expenditure Schedule Instructions Fiscal Year 2000* was consulted for definitions of terms.

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