The following glossary is from our book “Simple Accounting Procedures”. This book is available for purchase at www.mrhvac.com. It contains the most common HVAC related accounting and bookkeeping terms. Seek additional accounting resources for more comprehensive and detailed information.

**A**

**Account**: A record of similar transactions under one title in the ledger. Examples include sales, rent, utilities, labor costs, insurance, etc. Basically any item found in an income statement or balance sheet is referred to as an account.

**Accounting Equation**: Assets equal liabilities plus owner’s or shareholder’s equity.

**Accounting Period**: A specified span of time covered by a financial report such as one month, one quarter, one year, or any other period.

**Accounting Period**: That time period to which accounting reports are related.

**Accounts Payable to Sales**: Formula: Accounts Payable / Net Sales x 100. The *Accounts Payable to Sales* (APS) ratio is an efficiency ratio that measures how much the company pays its suppliers in relation to its transacted sales volume. A low percentage is a healthy ratio. Example: Dealer, Inc. has an APS of 8%, a bad result since the industry median is 5.3%. Dealer, Inc. is probably paying its bills too slowly and/or missing out on some supplier discount incentives.

**Accounts Payable**: The aggregate amount of money owed to the creditors of a business. Not to be confused with *Notes Payable*.

**Accounts Receivable**: Money owed to a business by a customer. 2. A “Trade” accounts receivable includes those resulting from a sale or other billing to a customer for work done or for materials furnished by the company.

**Accrued Liability**: A service or expense used or incurred but not yet paid. “Accrue” means to accumulate.

**Accrued Salaries and Wages**: Money owed to employees of the company for work that they have performed but not yet been paid for.

**Accrued Taxes**: Taxes that are withheld or accrued but not paid.

**Accumulated Depreciation**: Sum total of all accumulated depreciation of fixed assets. A decrease in value of a fixed asset due to wear and tear or obsolescence. This is a *Contra Account* (see definition) and appears on the balance sheet under the Asset column.

**Active Worksheet**: The worksheet that is currently open or in use. The name or description of the active worksheet is displayed in the title text box (found at the top left of the main form).

**Additional Paid in Capital**: The extra money received when stock is sold in excess of its par value.

**Advertising and Marketing**: The company’s net expense for all advertising and sales promotions, including yellow pages, advertising exchanges for donations, signs, etc.

**Allocation Method**: Also called the *Cost Allocation Method*. Overhead costs are produced when a company researches, designs, manufactures, produces, or sells goods and/or services. There is a predictable relationship between direct costs and variable overhead production. Therefore, these costs can be allocated by a percentage proportionate to these direct costs. The *Allocation Method* determines which direct cost is used when allocating overhead.

**Amortization**: Balance Sheet: The amortization of an intangible asset refers to the systematic write-off of the cost of the asset over its economical useful life.

**Ascending (Sorting)**: Sort a list starting with the lowest value and ending with the highest value. Example: From A to Z or 1 to 100.
Asset: A property that has a monetary value.

Assets to Sales: Formula: Total Assets / Net Sales x 100. Assets to Sales is an efficiency ratio that measures the percentage of investment in assets that is required to generate the current annual sales level. If the percentage is abnormally high, it indicates that a business is not being aggressive enough in its sales efforts or that its assets are not being fully utilized. A low ratio may indicate that a business is selling more than can be safely covered by its assets. The industry median is 47.6%.

Auto and Truck Insurance: Total company expenses for general coverage insurance policies specifically related to company owned motor vehicles.

Auto\Truck Gas and Oil: The cost of providing gasoline and motor oil for use in company cars, trucks, and other motorized equipment. Generally this does not include motor oil and filter replacement; only the “top-off” of motor oil.

Auto\Truck Repair and Maintenance: Expenses that are associated with owning and operating motor vehicles. This may include oil changes, tune-ups, and other repairs.

Bad Debt: The uncollectible accounts of the company or the current period allowance for doubtful accounts. If you use an allowance for doubtful accounts, a debit in this account will require an equal credit in the allowance for doubtful accounts. Otherwise, the credit would be made directly to the Accounts Receivable account in the event that particular accounts are found to be uncollectible.

Balance Sheet: A statement of the financial condition of a specific business at a specific date. A financial document that lists an organization’s assets, liabilities, and equity.

Bank Discount: Interest on a loan deducted in advance by the bank.

Bank Draft: A check drawn by a bank on another bank, payable to a third party.

Board of Directors: Persons elected by the corporation’s stockholders to manage the corporation’s affairs.

Bonus Pay: Money paid to employees for performing certain tasks, such as collecting on service calls, selling accessories, exceptional customer satisfaction, etc.

Book Per Value: The balance sheet reports the financial position of a business at a particular point in time or stated date.

Breakeven: The amount for which you must sell a product to make exactly zero dollars, including materials and other costs such as labor, utilities, etc. This is used as a starting point for determining retail price based on a given markup.

Budget: A managerial plan of proposed operations to accomplish certain financial objectives.

Building: The base value (cost) of any building that is owned by the company (plus or minus any adjustments).

Capital Stock: The base value of stock issued by a corporation. Most companies establish this amount once, usually when the corporation is initially setup.

Capital: The owner’s equity in a business; the total assets minus the total liabilities.

Capitalization Rate: An interest rate or rate of return paid to an investor that is appropriate for the degree of risk that is associated with that investment. The higher the risk involved in the investment, the higher the return to the investor. A Treasury Bond is considered to be the most risk free investment, so the rate paid to the investor is relatively low. Investment in a small contracting business is considered high risk, so the rate paid to an investor would be much higher than that of a Treasury Bond. The riskier the business, the more the investor expects to receive for their investment. That means a higher Capitalization Rate. The higher the Capitalization Rate, the less money paid for the business. A Capitalization Rate of 25% means that the investor is being paid
an interest rate of 25%. Formula: (Capitalization Rate / Net Profit) x 100.

**Cash Conversion Period:** Formula: Average Age of Accounts Payable + Average Age of Material Inventory + Average Age of Cost and Estimated Earnings in Excess of Billings. The *Cash Conversion Period* measures the average length of time necessary for cash to move from cash, to inventory, to costs in excess of billings, to accounts receivable, and back to cash. This conversion period is often called the *Length of Business Cycle* for a heating and air conditioning company. The calculation of this measure involves adding the average ages of the receivables, inventory, and costs in excess of billings.

**Cash Demand Period:** Formula: Cash Conversion Period - Average Age of Accounts Receivable + Average Age of Cost and Estimated Earnings in Excess of Billings. This ratio subtracts the average age of accounts payable and the average age of billings in excess of costs from the cash conversion period. The most profitable dealers try to minimize the cash demand period by keeping both the average conversion and the average age of accounts payable as low as possible. One apparent shortcoming of this measure is the assumption. It is realized that the cash cycle behaves somewhat sporadically, but the ratio is a helpful measure in determining the stability of a firm’s cash position. The validity of this measure is greatly enhanced if the calculations are made on a monthly basis using 12-month trends in order to accurately evaluate any fluctuations during the year. Use the ratio to improve your cash position.

**Chart of Accounts:** A list of the financial accounts (bookkeeping) for a business, systematically arranged according to assets, liabilities, equity, income, and expenses. Examples: Rent, Sales, Materials, Utilities, and Net Profit. For more information, see the *Sample Chart of Accounts* on page 26.

**Collection Period Ratio:** (Accounts Receivable / Sales) x 365 Days. The *Collection Period Ratio* is an efficiency ratio that helps analyze the "collectability" of accounts receivable, or how fast a business can increase its cash supply. Although businesses establish credit terms, their customers for one reason or another do not always observe them. In analyzing a business, you must know the credit terms it offers before determining the quality of its receivables. While each industry has its own average collection period (number of days it takes to collect payments from customers), there are observers who feel that more than 10 to 15 days over term should be of concern. The industry average is approximately 48 days.

**Common Stock:** Securities that represent an ownership interest in a corporation. If the company pays dividends, the holders of common stock are paid only after the obligations of long-term debt, bond interest, and preferred stock are met.

**Communications:** Telephone, long distance charges, pager, two-way radio, etc.

**Contingent Liability:** A possible but not actual liability. Example: A $100,000 lawsuit that you are defending yourself against may be considered a $100,000 contingent liability.

**Contra Account:** An account offset from a second account to show a proper net amount for the second account. Auto depreciation is an example of a contra account.

**Contribution Margin Percentage:** The percentage of each sales dollar left after variable cost percentage has been subtracted.

**Contribution Margin:** The sales dollars left over after variable costs are subtracted to contribute to fixed costs and profit.

**Contributions:** Any donations to recognized charitable causes. This account should not include any expense for which the company will receive advertising benefit.

**Cost Allocation Method:** Also called the *Allocation Method*. Overhead costs are produced when a company researches, designs, manufactures, produces, or sells goods and/or services. There is a predictable relationship between direct costs and variable overhead production. Therefore, these costs can be allocated by a percentage proportionate to these direct costs. The Allocation Method determines which direct cost is used when allocating overhead.

**Credit:** In strict accounting terms, an entry on the right side of the “T” account.

**Current Assets:** Assets that can be converted into cash in a short period of time or quickly used up in the
Current Liabilities to Inventory: Formula: (Current Liabilities / Inventory) x 100. Current Liabilities to Inventory is a solvency ratio that illustrates a company's reliance on available inventory for payment of debt (how much a company relies on funds from the disposal of unsold inventories to meet its current debt). The industry median is approximately 173.3%.

Current Liabilities to Net Worth: Formula: (Current Liabilities / Net Worth) x 100. The Current Liabilities to Net Worth ratio is a solvency ratio that indicates the amounts due to creditors within a year as a percentage of the owners or stockholders investment. The smaller the net worth and the larger the liabilities, the less security for creditors. Normally a business starts to have trouble when this relationship exceeds 80%. The industry median or norm is approximately 63.8%.

Current Liabilities: Obligations due within a year.

Current Ratio: Formula: (Current Assets / Current Liabilities) x 100. The Current Ratio is a solvency ratio that expresses the working capital relationship of current assets to cover current liabilities. A rule of thumb is that at least 2 to 1 is a sign of sound financial strength. However, much depends on industry-specific standards. The average among all industries is approximately 1.9. If a company's inventory is slow in selling, a stronger current ratio is required.

Customer Relations: As related to a Chart of Accounts, this account refers to customer refunds, adjustments, and other “give-aways.” An example of this may be invoice discounts offered to customers who complain about their charges. Also sometimes referred to as Refunds and Adjustments.

D

DAOM: An algorithmic function designed to properly distribute combined fixed and variable overhead costs to their respective product type; either MESO or labor. Total Office Manager™ uses the “X-Factor” correction and should not be confused with the standard, less accurate, formula.

Debentures: Fixed interest securities or promissory notes issued by the company in return for long-term loans.

Debit: An entry made on the left side of the “T” account.

Departmentalized: Financial statements are departmentalized when they contain sales, direct expenses, overhead, and net profit figures for each department (or profit center) in the company. Examples: service, installation, new construction, and others.

Depletion: The exhaustion of natural resources.

Deposits: The money deposited with utility companies, telephone, landlords, etc. Refundable deposits made on job bids, refundable deposits made for utilities services, and other related deposits.

Depreciation: The loss of value due to use and wear and tear.

Descending (Sorting): Sort a list starting with the lowest value and ending with the highest value. Example: From Z to A or 100 to 1.

Direct Cost of Labor: The amount paid to the technician. This amount should not include payroll taxes, insurance, etc.

Direct Costs: Also known as Direct Expenses. Costs incurred that are directly attributed to and associated with selling goods and services. They are sometimes broken down into two main categories: labor and MESO (materials, equipment, sub-contractors, and other). Examples: Sheet metal, furnaces, and installation labor.

Direct Expenses: Also known as Direct Costs. Costs incurred that are directly attributed to and associated with selling goods and services. They are sometimes broken down into two main categories: labor and MESO (materials, equipment, sub-contractors, and other). Examples: Sheet metal, furnaces, and installation labor.

Direct Labor: Wages paid to produce a unit of production. Example: Wages paid to a service or installation technician, not to a receptionist or bookkeeper.
HVAC Accounting and Bookkeeping Terms

**Dual Allocation of Overhead**: An algorithmic function designed to properly distribute combined fixed and variable overhead costs to their respective product type; either MESO or labor. Total Office Manager™ uses the “X-Factor” correction and should not be confused with the standard, less accurate formula.

**Dual Rate**: Also referred to as *Dual Allocation of Overhead*. An algorithmic function designed to properly distribute combined fixed and variable overhead costs to their respective product type; either MESO or labor. Total Office Manager™ uses the “X-Factor” correction and should not be confused with the standard, less accurate formula.

**Dues, Licenses, and Subscriptions**: The total expense for occupational licenses, special licenses, subscriptions, trade association dues, related expenses, competency certificate fees, tangible and intangible taxes, vehicle tags, corporate registration fees, sales and other miscellaneous taxes incurred and paid for by the company.

**E**

**EBITDA**: *Earnings Before Interest, Taxes, Depreciation, and Amortization*. This is a common method of placing a value on an operating business.

**Employee Receivable**: Amounts receivable from non-officer employees of the company.

**Entry**: The recording of a business transaction in a record.

**Equipment**: Machinery used in the manufacturing of a product or for providing a service.

**Equities**: The claims against the assets of a business.

**Equity**: What is due to each person. The excess of the assets over the liabilities of business ‘shareholders’ equity. Also see Owner’s Equity.

**Expense**: A present or past expenditure defraying a current cost of doing business; a class term for expenditures recognized as operating costs of a business.

**F**

**F.O.B.**: An abbreviation for *free on board*.

**Federal Unemployment Tax (FUTA)**: Money paid to the federal government by the employer. This money is not deducted from the employee’s pay. This tax is in addition to the state unemployment tax (where applicable).

**FICA**: The Company’s expense for federal unemployment compensation insurance (FICA).

**Financial Statement**: A generic term typically used to describe a Profit and Loss Statement (also known as an Income Statement) and Balance Sheet.

**Finished Goods**: Completed products waiting to be sold.

**Fixed Assets to Net Worth**: Formula: (Fixed Assets / Net Worth) x 100. *Fixed Assets to Net Worth* is a solvency ratio that shows the percentage of assets centered in fixed assets compared to total equity. Generally the higher this percentage is over 75%, the more vulnerable a company becomes due to unexpected hazards and business climate changes. Capital is frozen in the form of machinery and the margin for operating funds becomes too narrow for day-to-day operations. The industry median ratio is approximately 48.0.

**Fixed Assets**: Assets that have value but cannot be quickly converted to money.

**Fixed Costs**: Same meaning as *Fixed Overhead*. Expenses (costs) that do not change within a so called “specific trading range” for a given period of time, despite fluctuations in activity. Examples: Rent, office salaries, telephone service, utilities, and others.

**Fixed Overhead**: Overhead that does not change within a specific sales range. Examples: Rent, utilities, property insurance, owner/officer’s salary, office/management salaries, etc.
Focus: A part of the current form has a focus if an area is highlighted or contains the mouse cursor. You can change the focus by clicking on an item with the mouse or by using the [Tab] key on your keyboard to move from item to item. On forms with grids, the [Tab] key stays within the grid. Use the mouse to move the focus elsewhere.

G

General Liability Insurance: An insurance policy designed to protect businesses from general threats such as product liability, lawsuits, physical damage caused by faulty installation or design, and other potential liabilities. Most insurance companies calculate the cost of premium based on a percentage of total sales.

Goodwill: The value of a business in excess of the book value. An example of goodwill is the price that a buyer might pay for your customer list or your company name. These are normally referred to as goodwill items. When the reputation and knowledge of a company is worth more than the physical assets.

Government Securities: Treasury bills, bonds, and other federal documents of indebtedness are classified as government securities. Example: A company that has purchased $10,000 worth of treasury bills (T-bills) would list this as a current asset.

Gross Profit: This is the amount of money you profit on something that you sell using direct cost only. This ignores the effect of other expenses in determining the markup rate.

H

Health and Group Insurance: Health insurance provided to individual employees and their families as individual policies or as an entire group.

Historical Costs: The amount of cash paid to acquire an asset.

I

Income Statement: Also referred to as a Profit and Loss Statement, this financial document typically lists an organization’s sales, expenses, and net profit.

Income Tax: A federal and state tax imposed on net earnings or income. Federal taxes vary with the payee’s level of taxable earnings.

Insolvency: Solvency is the degree in which an organization is able to pay debt obligations as they come due. Insolvency refers to a company that is not capable of satisfying its financial obligations. Also see Solvency Ratios.

Insurance: General Liability: The net cost of the company for premiums on its general liability insurance policy. This expense is usually calculated on total sales.

Insurance: Health\Group\Life: The company’s net expense for any life, health, or other group insurance program in effect.

Intangible Asset: An asset with no physical properties. Goodwill is an intangible asset.

Interest and Bank Charges: The total amount of interest paid on loans, notes, and mortgages owed by the company and any activity charges levied by the bank.

Inventory: All merchandise in stock. This account should not include the value of any merchandise for which invoices have not been received or any merchandise that has been taken to a job site.

Invoice: An itemized statement of goods bought or sold.

J

Journal Entry: The first point of record for a business transaction. See Journal.

Journal: A book of original entry where all transactions are initially recorded. May also be stored by electronic means.
L

**Labor Overhead Burden**: The amount of fixed and variable overhead generated as the result of producing a given unit of labor. Example: The amount that you must charge to break even on one hour of labor less the direct cost on labor (amount you are paying). Usually this burden is expressed as a multiplier such as “2.25.” For each dollar that you pay a technician for labor, you incur $1.25 in fixed and variable overhead. In other words, you must charge $2.25 to break even.

**Leasehold Improvements**: The value (cost) of any improvements made to base facilities. Examples: New carpet, room additions, electrical or plumbing system upgrades, etc.

**Liabilities**: A liability is an obligation owed by the company to its creditors. Also see *Current, Fixed, and Other Liabilities*.

**Licenses and Taxes**: All occupational licenses, competency certificate fees, tangible and intangible taxes, vehicle tags, corporate registration fees, sales and other miscellaneous taxes incurred and paid for by the company.

**Life Insurance — Surrender Value**: The current cash surrender value of any life insurance policies on officers owned by the company. This is the amount of money that would be paid to the policyholder if they “cashed in” their policy at any given point.

**Liquidity**: The ability of a firm to readily convert its assets into cash. By definition, *Current Assets* are considered liquid.

**Long-Term Liabilities**: Total Liabilities less Current Portion (amount due within the next twelve months). A liability is an obligation owed by the company to its creditors. Also see *Current, Fixed, and Other Liabilities*.

M

**Machinery and Equipment**: The base value of all machinery and equipment owned by the company. Examples: Sheet metal bending machines, auto trailers, portable buildings, etc.

** Marketable Securities**: Short-term investments made by the enterprise to earn interest on excess cash. Typical investments are money market securities, certificates of deposit, and federal treasury notes.

**Mean**: A representative value (average) for a set of numbers obtained by dividing the sum of the items by the number of the items.

**Median**: The middle number of a set of numbers arranged in order of magnitude. In the case of an even number of numbers in a set, the median is the arithmetic mean of the two numbers in the middle. This concept is used to reduce the impact on the whole group of a few very high or very low numbers or values.

**MESO Overhead Burden**: The amount of fixed and variable overhead generated as the result of producing a given unit of MESO. Example: The amount that you must charge to break even on a furnace less the direct cost of the furnace (amount your are paying for it). Usually this burden is expressed as a multiplier. For each dollar that you pay a technician for labor, you incur $.25 cents in fixed and variable overhead. In other words, you must charge $1.25 to break even.

**MESO**: Materials, equipment, sub-contracting, and other direct expenses. Freight would be considered an “other” direct cost.

**Miscellaneous Expenses**: All company expenses that cannot be charged to one of the other expense accounts.

N

**Net Profit Margin**: Please see *Return on Sales*.

**Net Profit**: The excess of income over costs and expenses of a business.

**HVAC Accounting and Bookkeeping Terms**

**Net Worth**: Total Owners Equity in a company. Total Assets less Total Liabilities.

**Normalization**: Normalization is often calculated after EBITDA or another valuation method is applied. Income is adjusted by adding back so called “give-backs” and one time operating expenses. Give-backs are personal automobiles, excessive owner salary, work performed on personal property, etc. EBITDA is reduced with lesser normal expenses such as owner salary or rent paid for a building and equipment that are owned by the business owner and other typical or normal expenses that we reasonably believe would need to be increased by new ownership.

**Note**: An unconditional written promise to pay a definite sum of money at a certain time or date.

**Notes Payable — Current Portion**: All notes and loans payable to any company or individual. Only the portion that is due within the next twelve months is considered to be “current.”

**Notes Payable**: The total amounts owed because of promissory notes authorized by the company and given to the creditor. Not to be confused with accounts payable which do not include an actual promissory note.

**Notes Receivable (Current Portion)**: All notes and loans receivable from other companies or individuals. Only the portion that is due within the next twelve months is considered to be “current.”

**Office Equipment and Furniture**: The base value of all office furniture and equipment owned by the company. Generally, any item that costs less than $300.00 is considered “supplies” (overhead) and is not classified as an asset.

**Office Expenses**: All stationary, postage, office equipment rental, copier toner, paper, pens, and other office expenses. Equipment or furniture that costs less than $300.00 is also generally considered to be overhead and not assets. Example: Adding machine.

**Officer’s Salary**: Wages paid to the owner(s) or top management of an organization.

**Other Assets**: Assets that do not fit the definition of Current Assets and Fixed Assets. Examples: Deposits and cash surrender value of life insurance policies. The “Other” account is used by accounting professionals because it is not possible to include every possible account on a financial report.

**Other Current Assets**: Current assets that do not fit any of the other definitions of Current Assets. The “Other” account is used by accounting professionals because it is not possible to include every possible account on a financial report.

**Other Current Liabilities**: Current liabilities which do not fit any of the other definitions of Current Liabilities. The “Other” account is used by accounting professionals because it is not possible to include every possible account on a financial report.

**Other Fixed Assets**: Other fixed assets that do not fit any of the other definitions of Fixed Assets. The “Other” account is used by accounting professionals because it is not possible to include every possible account on a financial report.

**Other Income/Expenses**: Income and expenses that are not a direct result of producing sales. Example: Gain or loss on selling equipment such as vehicles or machinery. Note: These items should not be considered when calculating break even sales price. The “Other” account is used by accounting professionals because it is not possible to include every possible account on a financial report.

**Other Insurance**: Total expense for insurance policies related to normal business activities that do not fit any other defined insurance category. The “Other” account is used by accounting professionals as it is not possible to include every possible account on a financial report.

**Other Liabilities**: Liabilities that do not fit the definition of Current Liabilities and Long Term Liabilities. The “Other” account is used by accounting professionals as it is not possible to include every possible account on a financial report.

**Over-Billing**: Also referred to as Billing In Excess Of Work. Is the money collected for work that has not
actually transpired. This may include deposits of a certain percentage of a contract “down.” Also see Under-Billing. Example: You have completed 10% of a contract job, but have billed for 50% of the total contract amount. Forty percent of the funds collected would be considered over-billing and are classified as a liability.

**Overhead**: Expenses that cannot be attributed to an individual item of output, such as utilities, rent, etc. Also see Variable and Fixed Overhead.

**Owner’s Equity**: The net worth of an organization. The amount of total assets, which belong to the owner(s). Formula: Total assets reduced by total liabilities. Same meaning as Total Net Worth.

**P**

**Paid in Capital**: The premium (above par or stated value) paid to the company by purchasers of capital stock. For small corporations, this often represents additional capital paid into the corporation by its owner(s). This capital may be in the form of cash or property.

**Par Value**: The face amount or value placed on capital stock or other securities.

**Pension Fund**: A fund comprised of money set aside to provide employees with retirement benefits.

**Per Share**: The dollar amount of net assets represented by one share of stock.

**Polynomial**: An algebraic expression consisting of two or more terms. —pol’y-no’mi-al, n.

**Preferred Stock**: A class of corporate stock typically receiving priority over common stock with respect to dividend payments and distribution of assets in the event the corporation should be liquidated.

**Prepaid Expenses**: Payments that have been made in one accounting period for services that will be used in another accounting period.

**Present Value**: The current worth of an asset.

**Profit Center**: A class of products or services that represent a distinct group or category. Examples include a service department, installation department, over-the-counter sales, plumbing division, etc.

**Profit**: Sales less direct costs less overhead equals profit before taxes.

**Q**

**Quick Ratio**: Formula: \([\text{(Cash + Accounts Receivable)} / \text{Current Liabilities}] \times 100\). The Quick Ratio, sometimes called the acid test or liquid ratio, is a solvency ratio that measures the extent to which a business can cover its current liabilities with those current assets readily convertible to cash. Only cash and accounts receivable would be included, as inventory and other current assets would require time and effort to convert into cash. A minimum ratio of 1.0 to 1.0 ($1 of cash receivables to $1 current liabilities) is desirable.

**R**

**Records**: Databases or data files are made up of records. Records are made up of tables, tables are made up of fields, and fields are made up of data.

**Refunds and Adjustments**: As related to a Chart of Accounts, this account refers to customer refunds, adjustments, and other “give-aways.” Example: Invoice discounts offered to customers who complain about their charges. Also referred to as Customer Relations.

**Rent and Waste Removal**: The expense for rent of any facilities used by the company or any special equipment rental not charged to another account. Many Income Statements also include the cost of trash or waste removal.

**Reserve**: The amount of income withheld from sales to cover start-up expenses and warranty service on completed jobs. Amount of income not yet recognized on existing service and maintenance contracts. Check with your state for details on rules and regulations.
Retained Earnings: The amount earned by a business that is not distributed to owners or stockholders.

Return of Equity: See Return on Net Worth.

Return on Assets: Formula: (Net Profit Before Taxes / Total Assets) x 100. Return on Assets ratio is a profitability ratio that indicates the profitability of a company. It matches net profits after taxes with the assets used to earn such profits. A high percentage rate indicates a well-run company with a healthy return on assets. Example: Dealer, Inc. has a 21.88% return on assets—an excellent return in light of the industry median of approximately 15%.

Return on Net Worth: Formula: (Net Profit Before Taxes / Net Worth) x 100. Return on Net Worth is a profitability ratio that measures the ability of a company’s management to realize an adequate return on the capital invested by the owners in the company. Example: Dealer, Inc. has a ratio of 40.29%—a good percentage given the industry median of approximately 20% to 25%.

Return on Sales: Formula: (Net Profit Before Taxes / Net Sales) x 100. The Return on Sales (net profit margin) ratio is a profitability ratio that measures the profits after taxes on the year’s sales. The higher the ratio, the better prepared the business is to handle down trends brought on by adverse conditions. The industry median is approximately 2.5%.

S

Salary: 1. Administration and Managers: All salaries and wages paid to superintendents, department heads, and other supervisory personnel whose time cannot be charged to jobs. 2. Officer/Owner: The salaries of the owners or officers of the corporation. 3. Sales and Estimating: All salaries wages paid to salespeople, engineers, estimators, and other employees.

Sales Commission: Sales commissions paid for performing specific functions such as selling equipment, accessories, or other services. This may include the rate of commission paid to a salesperson and is usually expressed as a percentage of the total sales price or gross profit margin.

Sales Tax: A tax on certain sales generally imposed by state and local government. Exactly what is and is not taxed is very complicated and depends on each respective state.

Sales to Inventory: 1. Formula: Annual Net Sales / Inventory. The Sales to Inventory ratio is an efficiency ratio that provides a yardstick for comparing stock-to-sales ratios of a business with others in the same industry. A high ratio may mean that sales are being lost because a company is under stocked and/or customers are buying elsewhere. A low ratio may mean that inventories are obsolete or stagnant. The industry average is approximately 12.6.

Sales to Net Working Capital: Formula: Sales / Net Working Capital. The Sales to Net Working Capital ratio is an efficiency ratio that measures the number of times working capital turns over annually in relation to net sales. A high turnover rate may indicate that the business relies extensively upon credit granted by suppliers or the bank as a substitute for an adequate margin of operating funds and/or over-trading (an excessive sales volume in relation to the investment in the business). This ratio should be reviewed in conjunction with the Assets to Sales ratio and the Inventory Turnover ratio. Note: Working Capital is Current Assets reduced by Current Liabilities.

Selected Allocation of Overhead Method: A method of allocating both fixed and variable overhead individually by profit center (department). This method considers overhead to be driven by the sale of goods, cost of MESO, or cost of direct labor. It requires the manager to decide how each account will be calculated with regard to those three factors.

SIC: Standard Industry Classification. Used by the federal government to classify and group organizations and collect financial data.

Solvency: The degree in which an organization is able to pay debt obligations as they come due. Also see Solvency Ratios.

State Unemployment Tax: Money paid to the state by the employer. This money is not deducted from the employee’s pay. Most states collect money and use it to provide workers with unemployment benefits.
HVAC Accounting and Bookkeeping Terms

**Stocks:** Securities that represent the ownership interest in a corporation.

**T-Account:** A two-column form, used by bookkeepers, to record debits and credits for an account.

**Taxes Payable:** The aggregate amount of money owed for federal, state, and other income taxes.

**Terms:** A shorthand way of expressing when you expect to receive payment from a customer, or when a vendor expects to receive payment from you. Terms show the number of days (or date) by which payment is due, and can include a discount for early payment. Example: 1% 10 Net 30 means “Payment due in 30 days with a 1% discount if paid within 10 days.”

**Total Assets to Total Liabilities:** A solvency ratio that measures assets compared to liabilities. This ratio is useful for determining the firm’s ability to satisfy creditors in the event of liquidation, secure credit, and pay debt. A low asset to liability ratio may suggest excessive debt. Formula: Total Assets / Total Liabilities.

**Total Liabilities to Net Worth:** Formula: (Total Liabilities / Net Worth) x 100. The Total Liabilities to Net Worth ratio is a solvency ratio that shows how all of the company’s debt relates to the equity of the owners or stockholders. The higher the ratio, the less protection there is for the creditors of the business. The industry median is approximately 130.2%.

**Total Net Worth:** Another term for Owner’s Equity. Is the net worth of an organization, or the amount of total assets that belong to the owner(s). Formula: Total Assets reduced by Total Liabilities.

**Training and Education:** The total company cost of seminars, technical books, classes, and related travel and living costs specific to training and education.

**Travel and Entertainment:** All company expenses for travel and entertainment except those relating directly to the sales effort, which should be charged to advertising and promotion.

**Unapplied Labor:** The amount paid to the direct labor force that is not charged to jobs.

**Unapplied Materials:** The expense of any materials for which the company pays that are neither on hand nor have been charged to jobs by the end of the period. This account normally reflects that difference (debit or credit) between the book inventory value and the actual inventory value found when a physical inventory is taken.

**Under-Billings:** Also referred to as Work In Excess Of Billing. Contract work that has been completed but not actually billed for. Example: You have completed 50% of a contract, but have actually billed the customer for just 10% of the total contract amount. In other words, 40% of the contract amount (unbilled) would be considered under-billing and would be classified as an asset.

**Unearned Compensation:** In tax accounting, income received other than from one’s personal labor. Not to be confused with Unearned Income.

**Unearned Income:** Money received for work that has not yet been performed. Examples: Job deposits or down payments for work that has not yet been started or that progress does not equal the amount of money that has been paid to date.

**Uniforms:** Total cost of purchasing, renting, leasing, maintaining, and cleaning company uniforms. Field and office personnel are included.

**Utilities:** The Company’s expense for heat, lights, water, sewer, trash, and/or other utilities. This account excludes telephone expenses.

**Vacation and Holiday Pay:** Money paid to workers while on vacation or during certain holidays. Most HVAC companies offer full-time workers one week or more of vacation pay and five holidays or more, at a rate equal to 100% of their standard compensation.
**Value (Business Value):** Fair market value is the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both having reasonable knowledge of relevant facts, and with both seeking their maximum economic self-interests.

**Value Added:** The value added to a product by form, time, place, and possession utility. Form Example: Converting sheet metal into a plenum. Place Example: When you import products into an area that has demand for that product, you are adding value through the process of importation.

**Variable Overhead:** Variable overhead represents expenses that generally increase/decrease to a significant degree in proportion to a sales increase/decrease. Examples: Worker’s Compensation, general liability insurance, other insurance, payroll taxes, bonuses, vacation pay, pension funds, profit sharing, etc.

**W**

**Work in Progress:** Partially completed products and services.

**Worker’s Compensation (Office):** Worker’s Compensation insurance for office personnel. The price of this policy is determined by applying a certain rate to the company’s total office payroll expenses. Total payroll generally includes all bonuses in addition to standard payroll. This rate is determined by the industry type of the respective company.

**Worker’s Compensation (Technicians):** Worker’s Compensation insurance for service and installation technicians. The price of this policy is determined by applying a certain rate to the company’s total payroll expenses. Total payroll generally includes all bonuses in addition to standard payroll. This rate is determined by the industry type of the respective company.

**Working Capital:** Capital (money) used to pay normal and everyday expenses. Formula: Current Assets reduced by Current Liabilities.

**X**

**X-Factor:** A component of the dual overhead burden calculator. It is derived from the $MESO\text{ to } Labor$ ratio and is “corrected” through a sophisticated, polynomial formula. The actual formula is a proprietary secret.

**Z**

**Z-Score:** The sum of four or more factored ratios used in the prediction of bankruptcy, financial, and credit analysis.