

Glossary of Accounting Terms

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The Ontario Organizational Development Program's (OODP's) Glossary of Accounting Terms is not an exhaustive list of definitions related to the financial oversight function of an AIDS Service Organization's Board of Directors but is offered to help you understand terms that you may come across as you review financial statements. Keep it with you to look up terms as you come across them in your Board work!

Accounts payable

Amounts owed to others for goods or services received but not yet paid for.

Accounts receivable

Amounts owed by others for goods or services provided but not yet paid for.

Accrual accounting

An accounting method that:

- recognizes *revenue* not when the funds are received, but when the conditions are met for it to be earned, e.g. if you are funded for a printed resource, it is 'earned' when the printed resource is produced; and
- recognizes *expenses* when goods or services have been received, regardless of when they are paid for.

Accrued expense/ liability

An expense/liability that is recorded when goods/services have been received before the end of a fiscal period, but which will not be billed until the next fiscal period. For example, in March, you order and receive paper from a vendor you use frequently. The vendor doesn't invoice you and therefore you don't pay them until April. In March the expense is set up as an accrued expense/liability. Another common example is if your 2-week pay period straddles two fiscal years. Your staff have worked the first week in one fiscal year, but you haven't paid them for it. That one week of the two-week pay period is set up as an accrued expense/ liability.

Amortization

An accounting method for spreading out the cost of a large-value capital asset over its expected useful life. The value of the assets is reduced each year by the amount of the annual amortization. This is commonly done for computer equipment. For example, an organization might buy 10 computers for a total of \$20,000, but they are all amortized over five years, equally. In this example, if the organization used revenue for those computers in the first year, and they purchased them in that same year, they would have to allocate both the revenue and the expenses throughout each year of their estimated useful life (here, each of the five years). The organization would therefore not record \$20,000 in either revenue or expense in the first year, but rather \$4,000 for each year of the amortization schedule.

Asset

An item of value that the organization owns or controls.

Audit

A regular year end audit is an examination of the organization's financial statements by an independent accountant to determine that the statements have been presented fairly in accordance with the applicable accounting standards, usually the Canadian Accounting Standards for Not-for-profit Organizations. There are other kinds of audits, such as forensic audits, which would take a deeper dive into the books, possibility to determine if there has been fraud.

Auditor's report

Written communication issued by an independent accountant describing the scope of their work, the process they followed and the degree of responsibility they have taken. To demonstrate the responsibility that the auditor is required to assume, an auditor's report includes a statement that the audit was conducted in accordance with generally accepted auditing standards. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement (*see definition of "materiality"*).

Capital asset

A long-lived non-monetary asset (e.g. land, building, equipment) held for use in operations.

Cash

Bank balances, currency, and negotiable cheques and money orders.

Clean (unqualified) opinion

Audit opinion stating that the financial statements are fairly presented in accordance with generally accepted auditing standards. To be “clean” or “unqualified, the audit must have no scope limitations (*see definition of “scope limitation”*), and the statements must be free of material misstatement (*see definition of “materiality”*).

Commitments

Payments that the organization is contractually obligated to make in future periods.

Contingent liability

Potential liability (*see definition of “liability”*) arising from a past transaction or a subsequent event (*see definition of “subsequent event”*).

Current asset

An asset that the organization can reasonably expect to convert into cash, sell or consume in operations within one year. Examples of current assets include money in a bank account or an investment that will mature in less than one year.

Current liability

Liability (*see definition of “liability”*) that is due and payable within one year. Examples include accounts payable, wages owed, short-term loans, and taxes.

Deferred revenue

Amounts received in advance for services that are expected to be performed in a future fiscal period. These are recorded as a liability (*see definition of “liability”*) until they can be recognized as revenue in a future period.

Economic dependence

Reliance on one or two sources for a substantial portion of an entity’s revenues, or on one or two suppliers to undertake a substantial portion of its operations. The risks of economic dependence are that operations may be unduly influenced by these sources or suppliers, or that their absence may create a serious organizational crisis.

Expense

Cost incurred in the course of operations.

Financial statements (versus financial report)

This generally refers to *audited* financial statements, as distinguished from an interim or year-end financial *report*, produced by the Executive Director (ED) or finance staff, which has not undergone the verification of an audit.

Going concern

Assumption that the organization can remain in operation for the foreseeable future.

Investment

Asset held to produce a return in interest, dividends and/or capital gains.

Liability

Debts or obligations owed to others.

Long-term asset

Asset intended to be held for more than one year.

Long-term liability

Long-term liabilities are debts or financial obligations an organization must pay over a period longer than one year, such as a mortgage on a building that the organization owned.

Management letter

A communication from the auditor to the board or its designate, which identifies weaknesses in internal controls and/or other matters of concern, along with recommendations for improvement. The management letter results from the audit but is separate from the auditor's report. It is possible that the auditor's report gives an opinion that the statements have been presented fairly in accordance with generally accepted auditing standards, but that the auditor may still find weaknesses in internal controls and/or other matters of concern. Organizations are normally not required to submit management letters to funders, but there may be exceptions to this if that is in a funder agreement.

Materiality

Level of misstatement that makes it probable that the judgment of a reasonable person relying on the financial statements would change or be influenced.

Net assets

Total assets minus total liabilities.

Notes to (audited) financial statements

Set of disclosures to explain and provide context to the content of audited financial statements.

Prepaid expense

Cost incurred in advance for services that are expected to be used in a future fiscal period. An example would be the payment for an insurance policy where the term goes beyond the end of the current fiscal period.

Qualified opinion

Audit opinion stating that the financial statements are fairly presented in accordance with the applicable accounting standards, except for the effect of the matter to which a qualification relates. An example of a qualification is where an auditor cannot definitively say that all cash donations have been recorded. When they make this kind of qualification, they are not alleging fraud in their opinion; they are simply noting that there is no possible audit procedure (or internal control) that would allow them to definitively say that all cash donations have been recorded.

Related party

Any party that can exercise significant influence over the organization, including directors, members of management and their immediate families, organizations under common control or having shared directors or management, and businesses owned by any of these parties. Auditors scrutinize transactions with these parties to ensure they are properly disclosed and to check for potential or actual conflicts of interest.

Revenue

Amounts earned by or donated to the organization through its operations during the fiscal period.

Scope limitation

Inability of the auditor to obtain all the evidence required for the desired level of assurance. A problematic example of a scope limitation is when an auditor states that management limited their access to essential documentation. A non-controversial example would be if the offices were flooded and some accounting records were destroyed.

Statement of cash flows

Statement categorizing the sources and uses of cash during a fiscal period and reconciling the beginning and ending cash balance.

Statement of financial position

Statement showing the organizations assets, liabilities and net assets at the specified date. This used to be called a “balance sheet”.

Statement of net assets

A statement that shows how and why net assets have changed over a fiscal period.

Statement of operations

Statement summarizing the effect of revenues and expenses over a fiscal period. This used to be called a “profit and loss statement” or an “income statement”.

Subsequent Event

Material event that occurs after the end of the accounting period and before the date of issue of an entity's financial statements. This is important because it might affect how one might read the financial statements. An example might be that the organization has lost a funder after the end of the fiscal year, but before the financial statements are issued.

Sources:

70 Essential Accounting and Finance Terms You Need to Know. Doane Grant Thorton LLP, 2023

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