Glossary of Terms

- **Depreciation**: Depreciation is an accounting practice used to spread the cost of a tangible or physical asset, such as a piece of machinery or a fleet of cars, over its useful life. The amount an asset is depreciated in a given period of time is a representation of how much of that asset's value has been used up.
- **Section 179:** Section 179 of the United States Internal Revenue Code, allows a taxpayer to elect to deduct the cost of certain types of property on their income taxes as an expense, rather than requiring the cost of the property to be capitalized and depreciated. CLA shared a great article that gives an in-depth explanation of Section 179.
- **Cost-segregation study**: Typically, non-residential real property depreciates over 39 years for federal income tax purposes. A cost segregation analysis identifies the components of a building and separates the applicable costs into their proper asset classifications, essentially “slicing the pie”. This generally results in significantly shorter tax lives for these components, such as 5-year, 7-year, and 15-year property that is depreciated at an accelerated rate in the year the building is placed in service.
- **FIFO Inventory Valuation Method**: FIFO means "First In, First Out." It's an asset management and valuation method in which older inventory is moved out before new inventory comes in. The first goods to be sold are the first goods purchased. FIFO assumes that assets with the oldest costs are included in the income statement's Cost of Goods Sold (COGS). The remaining inventory assets are matched to assets that were most recently purchased or produced.
- **LIFO Inventory Valuation Method**: LIFO, (Last In First Out) is a method of accounting used to value inventory. If a business uses LIFO, then it can deduct the cost of the most recently acquired inventory as part of Cost of Goods Sold when it sells an item of inventory. This allows the more expensive inventory to be expensed first. In an inflationary period, these methods will result in a higher deduction as inventory is sold because the newer, more expensive inventory is expensed first.
- **Uniform capitalization (UNICAP)**: Normally, taxpayers subject to UNICAP must capitalize certain direct and indirect costs allocable to property produced or acquired for resale to the basis of that property — and relieve that cost once the inventory item is ultimately sold.
- **Cash Method**: If your accounts receivable exceeds accounts payable and accrued expenses, the cash method may provide an opportunity to lower taxable income by deferring recognition of income until the cash is received.
- **Accrual-Basis Accounting**: Accrual accounting records revenue and expenses when transactions occur but before money is received or dispensed.
- **Cash-Basis Accounting**: Cash basis accounting records revenue and expenses when cash related to those transactions is actually received or dispensed.

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