Glossary Of Accounting Terms

A	**Account Payable**	An amount due for payment to a supplier of goods or services. Also described as a trade creditor.
	Account Receivable	An amount due from a customer. Also described as a trade debtor.
	Accounting Period	Time period for which financial statements are prepared (e.g. year).
	Accounting Policies	Accounting methods which have been judged by business enterprises to be most appropriate to their circumstances and adopted by them for the purpose of preparing their financial statements.
	Accruals	If during the course of a business certain charges are incurred but no invoice is received then these charges are referred to as accruals (they 'accrue' or increase in value). A typical example is interest payable on a loan where you have not yet received a bank statement. These items (or an estimate of their value) should still be included in the profit & loss account. When the real invoice is received, an adjustment can be made to correct the estimate. Accruals can also apply to the income side. Don’t worry, you do not need to calculate your own accruals. We will ask you for some extra information when it is your year end and calculate any accruals for you accordingly.
	Administrative Expenses	Costs of managing and running a business.
	Allocate	To assign a whole item of cost, or of revenue, to a simple cost centre, account or time period.
	Amortisation	Process similar to depreciation, but usually applied to intangible fixed assets.
	Annual Report	A document produced each year by limited liability companies containing the accounting information required by law to Companies House. Larger companies also provide information and pictures of the activities of the company.
	Articles of Association	A document setting out the relative rights of shareholders in a limited liability company.

	Assets	Anything owned by the company having a monetary value; eg, 'fixed' assets like buildings, plant and machinery, vehicles and potentially including ‘intangibles’ like trade marks and brand names, and 'current' assets, such as stock, debtors and cash.
	Associated Company	One company exercises significant influence over another, falling short of complete control.
	Audit	An audit is the independent examination of, and expression of opinion on, financial statements of an entity. Audits are only required by a company that does not qualify as a small company, has a turnover larger than £6.5 million and has a balance sheet total of more than £3.26 million.
B	**Bad Debt**	It is a sales invoice that a credit customer (debtor) is unable to pay in full. If you have any bad debts (e.g. your client has closed their business and hasn’t paid you in full) just let us know and we shall make the necessary adjustments in your accounts for you.
	Balance Sheet	The Balance Sheet is one of the essential measurement reports for the performance and health of a company. The balance sheet is a 'snapshot' in time of who owns what in the company, and what assets and debts represent the value of the company. (It can only ever be a snapshot because the picture is always changing.) The balance sheet is where to look for information about short-term and long-term debts, gearing (the ratio of debt to equity), reserves, stock values (materials and finished goods), capital assets, cash on hand, along with the value of shareholders' funds. The term 'balance sheet' is derived from the simple purpose of detailing where the money came from, and where it is now. The balance sheet equation is fundamentally: (where the money came from) Capital + Liabilities = Assets (where the money is now). Hence the term 'double entry' - for every change on one side of the balance sheet, so there must be a corresponding change on the other side – it must always balance. The Balance Sheet does not show how much profit the company is making (the P&L does this), although pervious years' retained profits will add to the company's reserves, which are shown in the balance sheet.
C	**Called-up Share Capital**	The value of unpaid (but issued shares) which a company has requested payment for.
	Capital	An amount of finance provided to enable a business to acquire assets and sustain its operations.
	Capital Expenditure	Spending on fixed assets of a business.
	Cash	Cash on hand (such as money held in a cash box or a safe) and deposits in a bank that may be withdrawn on demand.

	Cash Accounting	This term describes an accounting method whereby only invoices and bills which have been paid are accounted for. However, for most types of business in the UK, as far as HMRC are concerned as soon as you issue an invoice (paid or not), it is treated as revenue and must be accounted for. An exception is VAT: HMRC normally require you to account for VAT on an accrual basis, however there is an option called 'Cash Accounting' whereby only paid items are included as far as VAT is concerned (e.g. if most of your sales are on credit, you may benefit from this scheme).
	Cashflow Statement	The cashflow statement shows the movement and availability of cash through and to the business over a given period, usually a trading year, and often also monthly and cumulatively.
	Companies House	The title given to the government department which collects and stores information supplied by limited companies. A limited company must supply Companies House with a statement of its final accounts every year (e.g. trading and profit and loss accounts, and balance sheet). These are your abbreviated accounts that we prepare for our company clients.
	Consistency	The measurement and display of similar transactions and other events is carried out in a consistent way throughout an entity within each accounting period and from one period to the next, and also in a consistent way by different entities.
	Cost of Sales (COS)	Commonly arrived at via the formula: opening stock + stock purchased - closing stock. Cost of sales is the value, at cost, of the goods or services sold during the period in question, usually the financial year, as shown in a Profit and Loss Account (P&L). In all accounts, particularly the P&L (trading account) it's important that costs are attributed reliably to the relevant revenues, or the report is distorted and potentially meaningless. We will work out what we think your cost of sales are, e.g. if you manufacture chairs, timber purchases will be a cost of sale.
	Credit	A column in a journal or ledger to record the 'From' side of a transaction (e.g. if you buy some petrol using a cheque then the money is paid from the bank to the petrol account, you would therefore credit the bank when making the journal entry).
	Credit Note	A document sent to a customer of a business cancelling or reducing the customer's debt to the business, usually because the customer has returned defective goods or has received inadequate service. A typical example is where you issue an invoice for £100, the customer then returns £25 worth of the goods, so you issue the customer with a credit note to say that you have reduced what the customer owes you by £25.
	Creditor	A person or organisation to whom money is owed by the entity.

	Current Asset	These include money in the bank, petty cash, money received but not yet banked, money owed to the business by its customers, raw materials for manufacturing, and stock bought for re-sale. They are termed 'current' because they are active accounts. Money flows in and out of them each financial year and we will need frequent reports of their balances if the business is to survive (e.g. 'do we need more stock and have we got enough money in the bank to buy it?').
	Current Liability	These include bank overdrafts, short term loans (less than a year), and what the business owes its suppliers. They are termed 'current' for the same reasons outlined under 'current assets' in the previous paragraph.
D	**Debenture**	This is a type of share issued by a limited company. It is the safest type of share in that it is really a loan to the company and is usually tied to some of the company's assets so should the company fail, the debenture holder will have first call on any assets left after the company has been wound up.
	Debit	A column in a journal or ledger to record the 'To' side of a transaction (eg. if you are paying money into your bank account you would debit the bank when making the journal entry).
	Debtor	A person or organisation that owes money to the entity
	Default	Failure to meet obligations as they fall due for payment.
	Deferred Taxation	The obligation to pay tax is deferred (postponed) under tax law beyond the normal date of payment.
	Depreciation	The apportionment of cost of a (usually large) capital item over an agreed period, (based on life expectancy or obsolescence), for example, a piece of equipment costing £10k having a life of five years might be depreciated over five years at a cost of £2k per year. (In which case the P&L would show a depreciation cost of £2k per year; the balance sheet would show an asset value of £8k at the end of year one, reducing by £2k per year; and the cashflow statement would show all £10k being used to pay for it in year one.)
	Director(s)	Person(s) appointed by shareholders of a limited liability company to manage the affairs of the company.

	Director's Loan	A director's loan, or current account, with his or her company represents from the company's viewpoint transactions between the company and the director. It is like a bank account in that it can be in credit (or what the company owes to the director) or in debit (or what the director owes to the company). Similarly there might be an agreement to pay interest, in either direction, depending on whether the account is in credit or overdrawn. Unlike a bank account however, the value of items other than cash can be debited or credited. For example, the account might reflect: • The transfer of ownership of any personal asset to the company; • The transfer of ownership of any business asset to the director; • The entitlement to dividends from the company; • Payment by the company of personal expenditure; • Payment by the director of business expenditure; • Remuneration voted; • Loans to the director; • Repayment of loans by the director. If an asset is transferred, the value shown is that placed on it by the company and is not necessarily the open market value at the date of transfer. The company should always have a record of the transactions with its directors. The balance at the end of the company's accounts year will be shown in the balance sheet to the statutory accounts. The balance might be either specifically identified or be part of other creditor or debtor balances. Your Director's Loan balance is shown on your Balance Sheet that you receive with your monthly management accounts. It appears further down the Balance Sheet under 'Creditors'. If the figure is in brackets (it's a credit balance) then this is money that you are able to take at any time tax free from your business. However if it is not in brackets (a debit balance) then you have an overdrawn Director's Loan account, and this is money that you owe to your Limited company and must pay back before the year end.
	Dividend	A dividend is a payment made per share to a company's shareholders by a company based on the profits of the year (but not necessarily all of the profits) arrived at by the directors and voted at the company's annual general meeting. A company can choose to pay a dividend from reserves following a loss-making year, and conversely a company can choose to pay no dividend after a profit-making year, depending on what is believed to be in the best interests of the company.
	Drawings	Cash taken for personal use, in sole trader or partnership business. This will often include the private proportion of expenses that are partially business and partially private. We calculate this adjustment for you.
E	**Equity**	The value of the business to the owner of the business (which is the difference between the business's assets and liabilities).

	Expense	Goods or services purchased directly for the running of the business. This does not include goods bought for re-sale or any items of a capital nature.
F	**Financial Reporting Standard**	Title of an accounting standard issued by the UK *Accounting Standards Board* as a definitive statement of best practice (issued from 1990 onwards – predecessor documents are Statements of Standard Accounting Practice, many of which remain valid).
	Financial Statements	Documents presenting accounting information which is expected to have a useful purpose.
	Fixed Asset	These consist of anything which a business owns or buys for use within the business and which still retains a value at year end. They usually consist of major items like land, buildings, equipment and vehicles but can include smaller items like tools or computers.
	Fixtures & Fittings	This is a class of fixed asset which includes office furniture, filing cabinets, display cases, warehouse shelving and the like.
G	**Gearing**	The comparison of a company's long term fixed interest loans compared to its assets. In general two different methods are used: 1. Balance sheet gearing is calculated by dividing long term loans with the equity (or proprietor's net worth). 2. Profit and Loss gearing: Fixed interest payments for the period divided by the profit for the period.
	Going Concern Basis	The assumption that the business will continue operating into the foreseeable future.
	Goodwill	This is an extra value placed on a business if the owner of a business decides it is worth more than the value of its assets. It is usually included where the business is to be sold as a going concern.
	Gross Margin Ratio	Gross profit as a percentage of sales.
	Gross Profit	Sales minus cost of sales before deducting administration and selling expenses.
H	**HM Revenue and Customs (HMRC)**	The UK government's tax-gathering organisation.
I	**Income Statement**	Financial statement presenting revenues, expenses, and profit. Also called profit and loss account.
	Incorporation, date of	The date on which a company comes into existence.
	Intangible Assets	Assets of a non-physical or financial nature. Assets such as a loan, trademark or an endowment policy are good examples.
	Investors	Persons or organisations which have provided money to a business in exchange for a share of ownership.

	Invoice	A term describing an original document either issued by a business for the sale of goods on credit (a sales invoice) or received by the business for goods bought (a purchase invoice).
J	**Journal(s)**	A book or set of books where your transactions are first entered.
	Journal entries	A term used to describe the transactions recorded in a journal.
K	**Key Performance Indicators**	Quantified measures of factors that help to measure the performance of the business effectively.
L	**Liabilities**	General term for what the business owes. Liabilities are long-term loans of the type used to finance the business and short-term debts or money owing as a result of trading activities to date. Long term liabilities, along with Share Capital and Reserves make up one side of the balance sheet equation showing where the money came from. The other side of the balance sheet will show Current Liabilities along with various Assets, showing where the money is now.
	Liquidity	The extent to which a business has access to cash or items which can readily be exchanged for cash.
	Long-term Liabilities	These usually refer to long term loans (i.e. a loan which lasts for more than one year such as a mortgage).
M	**Management Accounting**	Accounts and reports are tailor made for the use of the managers and directors of a business (in any form they see fit - there are no rules) as opposed to financial accounts which are prepared for HMRC and any other parties not directly connected with the business.
	Memorandum (for a company)	Document setting out main objects of the company and its powers to act.
N	**Net Assets**	These are assets minus liabilities. Total assets (fixed and current) less current liabilities and long-term liabilities that have not been capitalised (e.g, short-term loans).
	Net Book Value	Cost of non-current (fixed) assets minus accumulated depreciation.
	Net Profit	Net profit can mean different things so it always needs clarifying. Net strictly means 'after all deductions' (as opposed to just certain deductions used to arrive at a gross profit). Net profit normally refers to profit after deduction of all operating expenses, notably after deduction of fixed costs or fixed overheads. This contrasts with the term 'gross profit' which normally refers to the difference between sales and direct cost of product or service sold and certainly before the deduction of operating costs or overheads. Net profit normally refers to the profit figure before the deduction of corporation tax, in which case the term is often extended to 'net profit before tax'.
	Nominal Value (of a share)	The amount stated on the face of a share certificate as the named value of the share when issued.

	Notes to the Accounts	Information in financial statements that gives more detail about items in the financial statements.
O	**Operating Activities**	Te principal revenue-producing activities of the business and other activities that are not investing or financing activities.
	Ordinary Shares	Shares in a company which entitle the holder to a share of the dividend declared and a share in net assets on closing down the business.
	Overheads	These are the costs involved in running a business. They consist entirely of expense accounts (e.g. rent, insurance, petrol, staff wages etc.).
P	**Partnership**	Two or more persons in business together with the aim of making a profit.
	Petty Cash	A small amount of money held in reserve (normally used to purchase items of small value where a cheque or other form of payment is not suitable).
	Prepayment	An amount paid for in advance for a benefit to the business, such as insurance premiums or rent in advance. Initially recognised as an asset, then transferred to expense in the period when the benefit is enjoyed. (Also called a prepaid expense.) Just like accruals, we calculate these for you (if any) when we prepare your year-end accounts.
	Profit	Calculated as revenue minus cost of sales and expenses.
	Profit and Loss Account	One of the three principal business reporting and measuring tools. The P&L is essentially a trading account for a period, usually a year, but also can be monthly and cumulative. It shows profit performance, which often has little to do with cash, stocks and assets. The P&L typically shows sales revenues, cost of sales, a gross profit margin, fixed overheads and or operating expenses, and then a profit before tax figure (PBT). Basically the P&L shows how well the company has performed in its trading activities.
	Pro-forma Invoice	An invoice sent that requires payment before any goods or services have been dispatched.
	Provision	A liability of uncertain timing or amount.
	Provision for Doubtful Debts	An estimate of the risk of not collecting full payment from credit customers, reported as a deduction from trade receivables (debtors) in the balance sheet.
	Prudence	A degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that gains and assets are not overstated and losses and liabilities are not understated.
	Public Limited Company (Plc)	A company which has limited liability and offers its shares to the public.
	Purchases	Total of goods and services bought in a period.
R	**Raw Materials**	This refers to the materials bought by a manufacturing business in order to manufacture its products.

	Receipt	A term typically used to describe confirmation of a payment - if you buy some petrol you will normally ask for a receipt to prove that the money was spent legitimately.
	Reconciling	The procedure of checking entries made in a business's books with those on a statement sent by a third person. We perform your bank reconciliation for you when we receive your bank statements.
	Reducing Balance Depreciation	Method of computing depreciation in which the written down or book value (purchase price - accumulated depreciation) of a capital asset is reduced by a fixed percentage rate. This method results in larger depreciation amounts in the earlier years of an asset's useful life and progressively lower amounts in later years, and is employed where the usage of an asset remains generally uniform despite the asset's age.
	Registrar of Companies	An official authorised by the government to maintain a record of all annual reports and other documents issued by a company.
	Reserves	The accumulated and retained difference between profits and losses year on year since the company's formation.
	Residual Value	The estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
	Retained Earnings	Accumulated past profits, not distributed in dividends, available to finance investment in assets
	Retained Profit	Profit of the period remaining after dividend has been deducted.
	Revaluation Reserve	The claim which owners have on the assets of the business because the balance sheet records a market value for an asset that is greater than its historical cost.
	Revenue	The sales and any other taxable income of a business (e.g. interest earned from money on deposit). Also known as sales or turnover.
S	**Sales**	Income received from selling goods or a service. Also known as revenue or turnover.
	Sales Invoice	Document sent to customers recording a sale on credit and requesting payment.
	Secured Loan	Loan where the lender has taken a special claim on particular assets or revenues of the company.
	Self Assessment	A new style of income tax return introduced for the 1996/1997 tax year. If you are self-employed, or receive an income which is un-taxed at source, you will need to register with HMRC so that the relevant self assessment forms can be sent to you. The idea of self assessment is to allow you to calculate your own income tax. In practice we do that for you when we prepare your tax return.

	Share Capital	The name given to the total amount of cash which the shareholders have contributed to the company.
	Share Certificate	A document providing evidence of share ownership.
	Share Premium	The claim which owners have on the assets of a company because shares have been purchased from the company at a price greater than the nominal value.
	Shareholders	Owners of a limited liability company.
	Shareholders' Funds	The name given to total of share capital and reserves in a company balance sheet.
	Shares	The amount of share capital held by any shareholder is measured in terms of a number of shares in the total capital of the company.
	Sole Trader	An individual owning and operating a business alone.
	Statement	A list of transactions showing the net amount remaining due to a third party such as a bank or trade creditor.
	Stock	A word with two different meanings. It may be used to describe an inventory of goods held for resale or for use in business. It may also be used to describe shares in the ownership of a company. The meaning will usually be obvious from the way in which the word is used.
	Straight-line Depreciation	Depreciating something by the same (i.e. fixed) amount every year rather than as a percentage of its previous value. Example: a vehicle initially costs £10,000. If you depreciate it at a rate of £2,000 a year, it will depreciate to zero in exactly 5 years.
	Suspense or Unallocated Account	A temporary account used to force a trial balance to balance if there is only a small discrepancy (or if an account's balance is simply wrong, and you don't know why). A typical example would be a small error in petty cash. In this case a transfer would be made to a suspense account to balance the cash account. Alternatively a temporary account to which unexplained transactions or those with inadequate details are allocated until better details are obtained. Once we know what happened to the money, a transfer entry will be made in the journal to credit or debit the suspense account back to zero and debit or credit the correct account.
T	**Tangible Fixed Assets**	Assets of a physical nature. Examples include buildings, motor vehicles, plant and equipment, fixtures and fittings.
	Trade Creditors	Persons who supply goods or services to a business in the normal course of trade and allow a period of credit before payment must be made.
	Trade Debtors	Persons who buy goods or services from a business in the normal course of trade and are allowed a period of credit before payment is due.
	Transaction	Two or more entries made in a journal which when looked at together reflect an original document such as a sales invoice or purchase receipt.

	Trial Balance	A statement showing all the accounts used in a business and their balances.
	Turnover	The income of a business over a period of time (usually a year). Also known as sales or revenue.
U	**Unallocated Account**	A temporary account used by us to allocate items that we do not know what the item relates to. A typical example is an entry on the bank statement that we do not have a purchase invoice or receipt for. Also called suspense
	Unsecured Loan	Loan in respect of which the lender has taken no special claim against any assets.
V	**Value Added Tax (VAT)**	Value Added Tax is a sales tax which increases the price of goods. The UK VAT standard rate is 20%. VAT is added to the price of goods so in the UK, an item that sells at £10 will be priced £12 when 20% VAT is added.
W	**Working Capital**	Finance provided to support the short-term assets of the business (stocks and debtors) to the extent that these are not financed by short-term creditors. It is calculated as current assets minus current liabilities.
	Work-in-progress (WIP)	Cost of partly completed goods or services, intended for completion and recorded as an asset. May also be work completed in full but not yet invoiced.

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