Accounting Glossary of Terms

Accountants are responsible for the preparation of financial statements such as income statements and statements of financial position

Accounting concepts are broad principles that guide the preparation of financial statements so that they are relevant, reliable, comparable and understandable

Accrual is an expense for services that have been used but not yet invoiced to the business at the end of the accounting period

Accumulated depreciation (also called provision for depreciation') means the accumulated depreciation on non-Current assets

Asset is anything that is owned by a business, eg. physical objects such as land, buildings, vehicles, equipment, machinery, furniture and inventory; cash or money in the bank account; and customers who owe money to the business (trade receivables)

Auditors are appointed by the directors to check the financial statements that have been produced by the directors or other employees of the company

Authorised share capital is the maximum share capital that a company can issue

BACS is the most common method of credit transfer - Bankers Automated Clearing Services

Bank loan is a fixed amount that must be repaid, plus interest, over a stated amount of time in equal monthly instalments

Bank overdraft means that the bank account has a negative balance

Bonus issue involves issuing free shares to existing shareholders out of capital or revenue reserves

Bookkeepers are responsible for recording day-to-day transactions in the books of prime entry and in the ledgers

Budget is a plan of the future income and/or expenditure of a business

Capital expenditure is expenditure on the purchase, alteration or improvement of non-current assets

Capital gearing = non-current liabilities capital employed X 100

Capital reserves (revaluation reserve and share premium) are created because of non-trading profit

Cash book is the book of prime entry that is used to record bank receipts and bank payments, as well as cash discount allowed and cash discount received

Cash budget shows the forecast inflows (receipts) and outflows (payments) and calculates the predicted bank balance at the end of each period

Cash discount is offered to encourage quick payment

Companies Acts are UK laws that state how UK companies should be run and what should be included in their financial statements

Contribution per unit = Selling price - Variable cost per unit

Contribution sales ratio = Contribution per unit / State Selling price

Cost of sales = Opening inventory + Purchases - Purchase returns + Carriage in - Closing inventory

Credit notes are issued to show that goods have been returned and that they do not need to be paid for

Credit transfers are receipts or payments made electronically in or out of a bank account

Current assets are resources that are owned by a business that are already cash or are intended to be cash within the next 12 months

Current liabilities are amounts owed by the business that must be repaid within one year

Current ratio = Current assets + Current liabilities

Debentures are long-term loans to a company from investors that may be secured on the assets of the company

Debit card transactions are payments made using a debit card. The bank statement will show the payee and the amount paid

Direct debit is an arrangement where a business authorises its bank to allow another business to transfer money from its bank account on pre-arranged dates

Directors are employees who are responsible for the day-to-day running of the company

Directors' remuneration means salaries and other payments made to the company directors

Dishonoured cheques (also called returned cheques) are cheques that have been returned by the bank because there is not enough money in the account to make the payment. These can either be cheques paid by the business or cheques received by the business

Dividend is a portion of a company's earnings distributed to its shareholders

Equity is the total monetary value of a company represented by issued share capital and reserves ==> Equity = Issued share capital + Capital reserves + Revenue reserves

Expenses in relation to revenue = Expenses+ Revenue * 100

External stakeholders are suppliers, customers, lenders, HMRC and the local community

Finance cost is interest payable on non-current liabilities such as bank loans, mortgages and

Debentures

Financial accounting uses historical information to produce financial statements

Financing activities include cash received from issuing shares (including share premium), cash received from new loans or debentures, repayment of loans, debentures or shares and dividends paid

Fixed cost is a cost that does not immediately change due to a change in output or the number of goods sold

General journal is the book of prime entry that is used to record non-routine transactions

General ledger includes T-accounts for every item that will appear in the financial statements

Goodwill is an intangible asset that is the difference between the value of the business as a whole and the net value of its assets and liabilities

Gross profit = Revenue - Cost of sales

Gross profit margin = Gross profit + Revenue * 100

Income due is an amount due to a business that has not been received at the end of the financial year

Income includes sales revenue, capital, rent received, discount received and any other sources of income

Income received in advance is a payment received in advance of the accounting period to which it relates

Incremental budgeting means adding a small percentage to the previous year's budget or actual

Performance

Internal stakeholders are the owners of the business and managers and other employees

Inventory turnover ('days') = Average inventory / Cost of sales * 365 days

Inventory turnover ('times) = Cost of sales / Average inventory

Invoice is the document that the seller gives to the buyer when it supplies goods or services on credit. It includes details of the goods and services supplied and the amount to be paid

Irrecoverable debt is a debt that will not be paid - the business will not receive the amount owed by a customer who has been sold goods on credit

Irrecoverable debt recovered is when a former trade receivable, whose account had been written off as an irrecoverable debt, makes a payment

Issued share capital is the amount of share capital that a company has issued, shown at nominal value

Labour budget calculates the labour hours and labour costs of the employees who are involved in the production process

Liability is anything that is owed by a business, e.g. amounts owed to suppliers ('trade payables) or bank overdraft or bank loan

Limited company is a separate legal entity that is owned by shareholders and controlled by directors

Limited liability means that the amount of money that shareholders can lose is limited to what they paid for their shares; they do not have to provide any more money to pay the company's debts

Liquid capital ratio = Current assets - Inventory - Current liabilities

Lodgements are amounts that have been banked

Management accounting focuses on planning, control and decision making. It provides information for internal rather than external stakeholders

Margin of safety = Actual level of sales- Break-even point

Marginal cost is the cost of producing one extra unit

Mark-up = Gross profit Cost of sales * 100

Mortgage is a bank loan that is used to buy property and is secured on that property

Net assets = Total assets - Total liabilities

Net book value = Cost - Provision for depreciation

Net current assets = Current assets - current liabilities

Net realisable value means the selling price of inventory minus any expenses incurred in getting

the goods into a saleable condition

Non-current assets are resources owned by the business that it intends to keep for more than one year

Non-current liabilities are amounts owed by a business that will be fully repaid after more than one year

Operating activities include profit from operations, depreciation profit or loss on disposal of non-current assets, changes in inventory, trade receivables and trade payables, interest paid and tax paid

Operating profit = Gross profit + Other income - Expenses

Outstanding cheque means the same as 'unpresented' cheque

Owner's capital is money introduced by the existing owner of the business

Payables ledger includes T-accounts for each credit supplier

Prepayment is an expense that has been paid in advance and relates to the next accounting period

Production budget calculates the number of units that must be produced to meet the budgeted level of sales

Profit for the year for a sole trader = Gross profit + Other income - Expenses

Profit for the year for a limited company = Operating profit - Finance cost - Tax

Profit in relation to revenue = Profit for the year before tax + Revenue * 100

Provision for depreciation (also called accumulated depreciation) means the accumulated depreciation on non-current assets

Provision tor doubtful debts is an estimate by a business of the likely amount of its trade receivables figure that may become irrecoverable

Purchases budget calculates the quantity and value of goods that need to be bought

Purchases journal is the book of prime entry that Lists the invoices for credit purchases

Purchases ledger control account shows the total owed to the credit suppliers of a business

Purchases returns journal is the book of prime entry that lists the credit notes received by the business

Receivables ledger includes T-accounts for each credit customer

Reducing balance depreciation = Net book value x Percentage given

Return on capital employed = Operating profit / Capital employed * 100

Revaluation means the increase or decrease in the value of non-current assets, inventory or trade receivables

Revaluation reserve is created when a non-current asset such as land and buildings is revalued at a higher value than was previously shown

Revenue expenditure is expenditure on running costs

Revenue reserves (retained earnings) are the accumulated profits from trading activities that have been retained in the company rather than paid out to shareholders

Rights issues involve shares being offered to existing shareholders at a price a little below the market value but often above their nominal value, which creates share premium

Running costs include purchases, carriage, rent, wages, rent, light and heat, bills for electricity, gas and telephone, and any other expenses

Sale or return means that the sale of goods from one business to another is not recognised until the second business has sold those goods to its own customers

Sales budget records predicted levels of sales in units and in revenue

Sales journal is the book of prime entry that lists the invoices for credit sales

Sales ledger control account shows the total owed by the credit customers of a business

Sales returns journal is the book of prime entry that lists the credit notes issued by the business

Share capital is money invested by shareholders, which makes them the owners of a limited company

Share premium is created when shares are issued at a higher amount than their nominal value

Sole trader is a business that is owned and controlled by one person

Stakeholders are people or organisations that are affected by the performance of a business

Standing order is an instruction from a business to its bank to make fixed payments at regular intervals, e.g. a loan repayment

Straight line depreciation (method 1) = (Cost - Expected residual value) + Expected years of useful life

Straight line depreciation (method 2) = Cost * Percentage given

Suspense account is a temporary T-account that is used if the trial balance doesn't balance

Total contribution = Contribution per unit * Number of units sold

Trade discount is given for buying in bulk

Trade payable days = Trade payables Credit purchases * 365

Trade receivable days = Trade receivables Credit sales * 365

Trial balance is a list of all the balances in the general ledger under the headings 'debit' and 'credit, where the total debit balances should be equal to the total credit balances

Unlimited liability is when sole traders or partners are responsible for paying any debts that the business is unable to pay, even if that means selling their own personal assets

Unpresented payments and unpresented receipts are items that have been entered in the cash book but are not yet shown on the bank statement

Variable cost is a cost that immediately changes in proportion to the level of output or number of goods sold

Variance is the difference between a budgeted figure and the actual figure

Zero-based budgeting is when budgets are set at zero and managers have to justify every item of expenditure