Accounting and Finance Glossary

ACCA - Association of Chartered Certified Accountants	Professional Accountancy body for accountants. Members may have qualified in public practice or whilst working for an organisation.
Accounting equation	This formula expresses the fundamental logic behind the Balance Sheet. Assets = Liabilities + Equity.
Accounts Payable	See Purchase Ledger
Accounts Receivable	See Sales Ledger
Accrual	An accrual is a sum included in the accounts to cover income or spending which belongs to the period covered by the accounts, but which was unpaid at the accounting date.
Accruals concept	This is a fundamental accounting convention. Basically, for a given accounting period, there must be a matching of the sales and the expenses incurred to achieve those sales. (the timing of the when the cash is actually received or paid over is ignored). Also called the "matching principle or concept")
Arrears	Bills which are overdue for payment. If you have not paid the last three months of rent, you would be three months in arrears.
Asset	Something valuable which a business owns or has the use of, such as factories, office buildings, vehicles, computers, stock
Associate Member	An Associate Member of a CCAB accountancy body is a fully qualified accountant who has passed a number of professional exams, roughly equivalent to degree level.
Audit	The process of checking the entries in the books to make sure that they agree with the original sales & purchase invoices and other prime documents.
Balance Sheet	The summary of all the assets, liabilities and equity of a business. It is usually at the end of each financial year.
Bought Ledger	See Purchase Ledger.
Budget	A plan expressed in terms of money. Usually relates to a year, but in medium term planning, it can refer to a number of years.
Capital	The amount of money that the owners have put into the business. Also, capital expenditure, relates to expenditure fixed assets (such as buildings, machinery) used in the business.
Capital Allowances	The tax equivalent of depreciation. The depreciation in the accounts is added back and instead, an allowance (which is usually a percentage, and depends on the asset) is claimable against any

	profits, before computing the tax due.
Capital Gains Tax	The tax liability which may arise if a fixed asset is sold at a profit. The computation can be complex since there are various Capital gains allowances and adjustments for inflation which depends on the type of asset and its age, amongst other factors.
Cash Book	A journal where a business's cash transactions (and sometimes bank transactions) are recorded.
Cash Flow	A report showing the actual flow of money in and out of the business. It is possible to be profitable but still have cash flow problems.
CIMA - Chartered Institute of Management Accountants	Professional Accountancy body for accountants. Members focus on accounting for business. Therefore, members have usually trained and qualified whilst working in an organisation's finance department.
CIPFA - Chartered Institute of Public Finance Accountants	Professional Accountancy body for accountants working in the public sector.
Committee of Accountancy Bodies (CCAB)	CCAB provides a forum in which matters affecting the profession as a whole can be discussed and co-ordinated and enables the profession to speak with a unified voice to government. The four professional accountancy bodies that are members in England are: CIMA, ICAEW, CIPFA, ACCA
Companies House (UK only)	The government department responsible for collecting and storing information about limited companies. A limited company must supply file its final accounts with Companies annually, or face penalties.
Corporation Tax (CT - UK only)	The tax paid by a limited company on its profits. In April 1999, Advanced Corporation Tax was abolished and large companies now pay their CT in instalments.
Cost accounting	An area of management accounting which deals with establishing the costs of running a business.
Credit Control	The managing of customer debt. The credit control function is concerned with credit checking of potential customers, "chasing payment" of a business's sales invoices, by letter or telephone. Sometimes a customer is put on "stop", which means no further
Credit Note	The opposite of a sales invoice, which wholly or partly cancels a sales invoice.
Creditors	Suppliers to whom the business owes money
Customer Account Profitability Analysis	Analysis of the financial impact of the different ways in which customers are serviced. (Identifying which customers are more

	profitable)
Debtors	Customers who own money to the business
Depreciation	The decrease in the value of an asset, to reflect the use and passage of time. It can be calculated on a "straight line" basis (an equal amount over a set number of years) or a reducing balance (a set percentage of the previous year's balance) The value
Dividends	Payments to the shareholders of a limited company
Double-entry book-keeping	Accepted method of accounting for transactions. Each transaction is recorded as a debit and credit, to show where it came from and where it went, so that the system is self balancing.
Drawings	Money taken out of a business by its owner(s) for personal use.
Expenses	The cost of goods or services directly related to the running of the business. It excludes capital items (such as machinery, buildings and so on)
Fixed Assets	Assets (such as buildings, machinery) which are used in the business but not consumed during the day to day running of the business fixed assets. They are depreciated over a number of accounting periods (the length of time depending on the nature of the
Gross loss	The net balance of the trading account (if it has a debit balance)
Gross margin	The difference between the selling price and the cost of production. It is normally expressed as a percentage.
Gross profit	The net balance of the trading account (if it has a credit balance)
ICAEW - Institute of Chartered Accountants England & Wales	Professional Accountancy body for accountants. Members have usually, although not exclusively, qualified by working under a training contract in public practice. Normally qualified for audit.
Imprest System	A method for controlling petty cash. A fixed sum (the imprest) of cash is put in the petty cash box. As it is spent, the receipts (or petty cash vouchers) are collected. When this is almost all spent, it is topped back up to the imprest amount. At any
Intangible assets	Non-physical assets, such as a loan or endowment policy
Invoice	A prime document, either a sales invoiced issued by the business or a purchase invoice received by the business. If a purchase invoice is lost, it is usual to request a copy invoice. It is bad practice to pay on a statement.
Liabilities	Money that the business owes to its suppliers, bank and other debtors. It normally consists of all the accounts on the right hand side of a (horizontal) balance sheet.

Long term liabilities	Normally these refer to long term loans; debts which last more than one year.
Management Accounting	Accounts and reports which 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 the Inland Revenue and any other parties not directly concerned with the running of the business.
Matching principle	See accruals concept
Net of Tax	The price less any tax.
Net profit	The value of sales less the cost of sales.
Overheads	The costs involved in running a business which cannot be directly attributed to a particular product or service. Examples may include business rates and telephone costs.
P.A.Y.E	Pay as you earn. The system of income tax where an employee's tax and national insurance contributions are deducted from the gross pay by the employer before being paid.
Payment in Advance	A charge taken into account when preparing the financial statements, which are for, benefits to be received in a period after the accounting date.
Performance Indicators	Method of measuring an organisations performance with the purpose of external comparison to other organisations or for internal use as a way of monitoring improvement, efficiency or similar. For example, businesses may measure their Earnings per Share (EPS)
Petty Cash	A small amount of cash held by the business to pay for incidental items where a cheque or credit payment is not appropriate.
Petty Cash Voucher	A document used to record an item of petty cash expenditure, where an original receipt was not obtained.
Profit and Loss Account	A summary of revenue and expense accounts which shows the current profit or loss of a business for a particular accounting period, (usually prepared at the end of the financial year)
Profit margin	The percentage difference between the cost of a product and the price it is sold at. It is also referred to as the "mark-up".
Pro-forma invoice	An invoice that requires payment in advance of the goods or services being received.
Provision	An amount recorded in the accounts for an expected future liability. A charge taken into account when preparing the financial statements, which are for, benefits to be received in a period after the accounting

	date.
Purchase Ledger	The account in the nominal ledger which contains the total purchases. The Accounts Payable ledger (sometimes called the "purchase ledger" or "bought ledger", holds the detail of payments to the business's suppliers.
Raw Materials	The materials bought in by a manufacturing business in order to make its products.
Rebate	The amount of refund you may get if you have paid for a service and then cancelled it.
Reconciling	The process of checking entries made in the accounts with a statement from a third party (e.g. a bank statement or a supplier statement). It is also one of the processes an auditor would carry out.
Reserves	Reserve accounts usually reserve or apportion some of a business's capital against future purchases or liabilities (such as the replacement of capital equipment or estimates of bad debts). Some types of reserve can only be spent if certain conditions are met.
Retained earnings	The amount of money left in the business after its owner(s) have taken their share of the profits.
Retainer	A sum of money paid in order to ensure the availability of a person's or company's services.
Revenue	Sales and other taxable income.
Sales	Income from sales of goods or services. See also Revenue
Sales Ledger	The account in the nominal ledger which contains the total sales. The Accounts Receivable ledger (also called the "sales ledger", holds the detail of payments to the business's customers.
Self Assessment	If you are self employed or receive and untaxed income, you need to register with the SARS. You are responsible for calculating your own income tax and for filing your tax return by the proper dates.
Shareholders	The owners of a limited company.
SME	Small and Medium Enterprises.
Sole trader	Self-employed owner of a business where the owner is legally liable for all the debts of the business (i.e., the business is not a limited company)
Stock Taking	Physically checking the total quantity & value of the stock held by a business. This includes raw materials, work-in-progress and finished goods (where applicable).

Tangible assets	Physical Assets of a business.
Trading account	An account which shows the gross profit or loss of a manufacturing or retail business, i.e. sales less the cost of sales.
Trial Balance	A statement pulling together all the balances in the accounts, usually prior to preparing the full accounts.
Turnover	Sales.
Value Added Tax (VAT)	An indirect tax on the final consumer. VAT is increases the price of goods. The standard rate is 14%. VAT registered businesses have to account for their input (VAT paid on supplies) and output (VAT) charged on sales. The difference is paid over.
Work in Progress	The value of partly finished goods manufactured by the business.
Write-off	Depreciating an asset to zero value in the accounts. Also, writing off a bad debt (non collectable amount owing to the business) to zero.
Zero Based Budget (ZBB)	Starting a budget off from zero and justifying every cost.