

# Glossary of key terms

**accounting adjustments** Accounting entries that do not arise from the basic transactions of cash and invoices. Adjusting entries are made for depreciation, bad and doubtful debts, closing stocks, prepayments, and accruals.

**accounting period** The period covered by the accounting statements of an entity.

**accounts payable** Also called trade creditors, is the money owed to suppliers for goods and services.

**accounts receivable** Also called trade debtors, is the money owed to entities by customers.

**accruals** Allowances made for costs and expenses payable within one year of the balance sheet date but for which no invoices have yet been recorded.

**accruals concept** The principle that revenues and costs are recognised as they are earned or incurred, are matched with one another, and are dealt with in the profit and loss account of the period to which they relate, irrespective of the period of receipt or payment. Where a conflict arises, this concept is subservient to the prudence concept.

**assets** Rights or other access to future economic benefits controlled by an entity as a result of past transactions or events (FRS 5).

**bad debt** A debt which is considered to be uncollectable and is, therefore, written off either as a charge to the profit and loss account or against an existing doubtful debt provision.

**balance sheet** A statement of the financial position of an entity at a given date disclosing the assets, liabilities and accumulated funds such as shareholders' contributions and reserves, prepared to give a true and fair view of the financial state of the entity at that date.

**bank reconciliation** A detailed statement reconciling, at a given date, the cash balance in an entity's cash book with that reported in a bank statement.

**bookkeeping** Recording of monetary transactions, appropriately classified, in the financial records of an entity, either by manual means, or otherwise.

**cash book** A book of original entry that includes details of all receipts and payments made by an entity. The details normally include transaction date, method of payment or receipt, amount paid or received, bank statement value (if different), name of payee or payer, general ledger allocation and coding.

**cash flow statement** A statement which summarises the inflows and outflows of cash for a period, classified under the following standard headings (FRS 1):

- operating activities
- returns on investment and servicing of finance
- taxation
- investing activities
- liquid funds
- equity dividends
- financing.

- cash payment** A cash payment is the transfer of funds from a business to a recipient (for example, trade creditor or employee).
- cash receipt** A cash receipt is the transfer of funds to a business from a payer (for example, a customer).
- closing stocks** All trading companies buy stock with the intention of reselling, at a profit, to a customer. At the end of each accounting period, the company will have unsold stock that will be sold during a subsequent accounting period. That unsold stock is termed 'closing stock' and is deducted from opening stock plus purchases (to derive cost of sales), and will appear in the balance sheet as stocks (within current assets).
- computerised accounting system** This is a system that maintains business transactions on a computer on a long-term basis.
- consistency concept** The principle that there is uniformity of accounting treatment of like items within each accounting period and from one period to the next.
- cost** The amount of expenditure (actual or notional) incurred on, or attributable to, a specified thing or activity. To cost something is to ascertain the cost of a specified thing or activity. Cost also relates to a resource sacrificed or forgone, expressed in a monetary value.
- depreciation** A measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, effluxion of time or obsolescence through technological or market changes (FRS 11 and FRS 15). Depreciation should be allocated so as to charge a fair proportion of the total cost (or valuation) of the asset to each accounting period expected to benefit from its use.
- double-entry bookkeeping** The system of bookkeeping based on the principle that every financial transaction involves the simultaneous receiving and giving of value, and is therefore recorded twice.
- doubtful debt** A debt for which there is some uncertainty as to whether or not it will be settled, and there is a possibility that it may eventually prove to be bad. A doubtful debt provision may be created for such a debt by charging it as an expense to the profit and loss account.
- doubtful debt provision** An amount charged against profit and deducted from debtors to allow for the estimated non-recovery of a proportion of the debts.
- general ledger** Also called the nominal ledger, contains all accounts relating to assets, expenses, revenue and liabilities.
- liabilities** An entity's obligations to transfer economic benefits as a result of past transactions or events (FRS 5).
- periodicity concept** The requirement to produce financial statements at set time intervals. This requirement is embodied, in the case of UK corporations, in the Companies Act.
- prepayments** Prepayments includes prepaid expenses for services not yet used, for example rent in advance or electricity charges in advance, and also accrued income. Accrued income relates to sales of goods or services that have occurred and have been included in the profit and loss account for the trading period but have not yet been invoiced to the customer.
- profit and loss account (or income statement)** The profit and loss account shows the profit or loss generated by an entity during an accounting period by deducting all expenses from all revenues. It measures whether or not the company has made a profit or loss on its operations during the period, through producing and selling its goods or services.
- purchase invoice** A document received from a supplier by an entity showing the description, quantity, prices and values of goods or services received.
- purchase invoice daybook** A list of supplier invoices recording their dates, gross values, values net of VAT, the dates of receipt of the invoices, the names of suppliers, and the general ledger allocation and coding.
- purchase ledger** The purchase ledger contains all the personal accounts of each individual supplier or vendor, and records every transaction with each supplier since the start of their relationship with the company.
- sales** Also called turnover or revenue, sales are amounts derived from the provision of goods or services falling within the company's ordinary activities, after deduction of sales returns, trade

discounts, value added tax, and any other taxes based on the amounts so derived (Companies Act 1985/1989).

**sales invoice** A document prepared by an entity showing the description, quantity, prices and values of goods delivered or services rendered to a customer.

**sales invoice daybook** A list of customer invoices recording their dates, gross values, values net of VAT, the names of customers, and the general ledger allocation and coding.

**sales ledger** The sales ledger contains all the personal accounts of each individual customer, and records every transaction with each customer since the start of their relationship with the company.

**trial balance** The list of account balances in a double-entry accounting system. If the records have been correctly maintained, the sum of the debit balances will equal the sum of the credit balances, although certain errors such as the omission of a transaction or erroneous entries will not be disclosed by a trial balance.