Glossary of key terms

accountancy The practice or profession of accounting.

accounting The classification and recording of monetary transactions, the presentation and interpretation of the results of those transactions in order to assess performance over a period and the financial position at a given date, and the monetary projection of future activities arising from alternative planned courses of action.

accounting concepts The principles underpinning the preparation of accounting information. Fundamental accounting concepts are the broad basic assumptions which underlie the periodic financial accounts of business enterprises.

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

accounting policies The specific accounting bases selected and consistently followed by an entity as being, in the opinion of the management, appropriate to its circumstances and best suited to present fairly its results and financial position (SSAP 2 and Companies Act).

accounting standard Authoritative statement of how particular types of transaction and other events should be reflected in financial statements. Compliance with accounting standards will normally be necessary for financial statements to give a true and fair view (ASB).

Accounting Standards Board (ASB) A UK standard-setting body set up in 1990 to develop, issue and withdraw accounting standards. Its aims are to 'establish and improve standards of financial accounting and reporting, for the benefit of users, preparers and auditors of financial information'.

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 concept The principle that revenues and costs are recognised as they are earned or incurred, and so matched with each other, and 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.

annual report and accounts A set of statements which may comprise a management report (in the case of companies, a directors' report), an operating and financial review (OFR), and the financial statements of the entity.

audit A systematic examination of the activities and status of an entity, based primarily on investigation and analysis of its systems, controls and records. A statutory annual audit of a company is defined by the ASB as an independent examination of, and expression of an opinion on, the financial statements of the enterprise.

auditor A professionally qualified accountant who is appointed by, and reports independently to, the shareholders, providing an objective verification to shareholders and other users that the financial statements have been prepared properly and in accordance with legislative and regulatory requirements; that they present the information truthfully and fairly, and that they conform to the best accounting practice in their treatment of the various measurements and valuations.

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.

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

business entity concept The concept that financial accounting information relates only to the activities of the business entity and not to the activities of its owners.

cash flow statement A statement that 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.

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.

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.

financial accounting Financial accounting is the function responsible for the periodic external reporting, statutorily required, for shareholders. It also provides such similar information as required for Government and other interested third parties, such as potential investors, employees, lenders, suppliers, customers, and financial analysts.

financial management The management of all the processes associated with the efficient acquisition and deployment of both short and long-term financial resources. Within an organisation financial management assists operations management to reach their financial objectives.

going concern concept The assumption that the entity will continue in operational existence for the forseeable future.

historical cost concept A basis of accounting prescribed by the Companies Act for published accounts that uses a system of accounting in which all values are based on the historical costs incurred.

internal control As defined in the Cadbury Report, it is the whole system of controls, financial or otherwise, established in order to provide reasonable assurance of

(a) effective and efficient operation
(b) internal financial control
(c) compliance with laws and regulations.

limited company A limited liability company is one in which the liability of members for the company's debts is limited to the amount paid and, if any, unpaid on the shares taken up by them.

management accounting The application of the principles of accounting and financial management to create, protect, preserve and increase value so as to deliver that value to the stakeholders of profit and not-for-profit enterprises, both public and private. Management accounting is an integral part of management, requiring the identification, generation, presentation, interpretation and use of information relevant to

- formulating business strategy
- planning and controlling activities
- decision-making
- efficient resource usage
- performance improvement and value enhancement
- safeguarding tangible and intangible assets
- corporate governance and internal control.

materiality concept Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic that information must have if it is to be useful.

money measurement concept Most quantifiable data is capable of being converted, using a common denominator of money, into monetary terms. The money measurement concept holds that accounting deals only with those items capable of being translated into monetary terms, which imposes a limit on the scope of accounting reporting to such items.

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.

profit and loss account (or **income statement**) 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.

prudence concept The principle that revenue and profits are not anticipated, but are included in the profit and loss account only when realised in the form either of cash or of other assets, or the ultimate cash realisation can be assessed with reasonable certainty; provision is made for all known liabilities (expenses and losses) whether the amount of these is known with certainty or is a best estimate in the light of information available.

qualified accountant A member of the accountancy profession, and in the UK a member of one of the six professional accountancy bodies: CIMA; ICAEW; ICAS; ICAI; ACCA; CIPFA.

realisation concept The principle that increases in value should only be recognised on realisation of assets by arms-length sale to an independent purchaser.

Registrar of Companies Government official agency that is responsible for initial registration of new companies and for collecting and arranging public access to the annual reports of all limited companies.

separate valuation concept In determining the aggregate amount of any item, the amount of each individual asset or liability that falls to be taken into account shall be determined separately (Companies Act 1985).

substance over form concept Where a conflict exists, the structuring of reports to give precedence to the representation of financial reality over strict adherence to the requirements of the legal reporting structure.

treasury management The corporate handling of all financial matters, the generation of external and internal funds for business, the management of currencies and cash flows, and the complex strategies, policies and procedures of corporate finance.

true and fair view The requirement for financial statements prepared in compliance with the Companies Act to 'give a true and fair view' overrides any other requirements. Although not precisely defined in the Companies Act this is generally accepted to mean that accounts show a true and fair view if they are unlikely to mislead a user of financial information in giving a false impression of the company.