

Glossary of key terms

- accruals** Allowances made for costs and expenses payable within one year of the balance sheet date but for which no invoices have yet been received.
- amortisation** In the same way that depreciation applies to the charging of the cost of tangible fixed assets over their useful economic lives, amortisation is the systematic write-off of the cost of an intangible asset, relating particularly to the passage of time, for example leasehold premises (FRS 11 and FRS 15).
- asset** A right or other access to future economic benefits controlled by an entity as a result of past transactions or events (FRS 5).
- capital expenditure** The cost of acquiring, producing or enhancing fixed assets.
- cash** Cash in hand and deposits repayable on demand with any bank or other financial institution. Cash includes cash in hand and deposits denominated in foreign currency (FRS 1).
- consolidated accounts** The consolidated financial statements which present financial information for the group as a single economic entity, prepared using a process of adjusting and combining financial information from the individual financial statements of a parent undertaking and its subsidiary undertakings (FRS 2).
- cost of sales** The sum of direct cost of sales, adjusted for closing stocks, plus manufacturing overhead attributable to the sales. Direct costs include the wages and salaries costs of time worked on products, and the costs of materials used in production. Manufacturing overheads include the wages and salaries costs of employees not directly working on production, and materials and expenses incurred on activities not directly used in production but necessary to carry out production. Examples are cleaning materials and electricity costs.
- creative accounting** A form of accounting which, while complying with all regulations, nevertheless gives a biased (generally favourable) impression of a company's performance.
- creditor** A person or an entity to whom money is owed as a consequence of the receipt of goods or services in advance of payment.
- current assets** Cash or other assets, for example stocks, debtors and short-term investments, held for conversion into cash in the normal course of trading.
- current liabilities** Liabilities which fall due for payment within one year. They include that part of long-term loans due for repayment within one year.
- debenture** The written acknowledgement of a debt by a company, usually given under its seal, and normally containing provisions as to payment of interest and the terms of repayment of principal. A debenture may be secured on some or all of the assets of the company or its subsidiaries.
- debt** One of the alternative sources of capital for a company, also called long-term debt or loans.
- debtors** Money that is owed to the company by customers, usually called trade debtors.
- dividend:** An amount payable to shareholders from profits or distributable reserves. Dividends are normally paid in cash, but scrip dividends, paid by the issue of additional shares, are permissible. Listed companies usually declare two dividends each year, an interim dividend based on the mid-year profits, and a final dividend based on annual profit.
- equity** The total investment of the shareholders in the company, the total wealth. Equity comprises capital, premiums, and retained earnings.
- fixed assets** Any asset, tangible or intangible, acquired for retention by an entity for the purpose of providing a service to the business, and not held for resale in the normal course of trading. This includes, for example, equipment, machinery, furniture, fittings, computers, software, and motor vehicles, that the company has purchased to enable it to meet its strategic objectives; such items are not renewed within the operating cycle.
- general ledger** Also called the nominal ledger, contains all accounts relating to assets, expenses, revenue and liabilities.
- goodwill** The difference between the value of a business as a whole and the aggregate of the fair values of the separable net assets (FRS 10). Goodwill is normally recognised on the purchase of a business, when the price paid for the net

assets acquired exceeds their fair values. Where the fair value of the separable net assets exceeds the value of the business as a whole, the difference is termed negative goodwill.

- intangible assets** Assets, except for investments in subsidiary companies, which do not have a physical identity and include software, patents, trademarks, and goodwill (FRS 10).
- liabilities** An entity's obligations to transfer economic benefits as a result of past transactions or events (FRS 5).
- net assets** The excess of the book value of assets over liabilities, including loan capital. This is equivalent to net worth, which is used to describe the paid-up share capital and reserves.
- net profit (or profit after tax)** Profit before tax less corporation tax.
- net realisable value** The amount for which an asset could be disposed, less any direct selling costs (SSAP 9).
- off balance sheet financing** The funding of operations in such a way that the relevant assets and liabilities are not disclosed in the balance sheet of the company concerned.
- operating cycle** The operating cycle, or working capital cycle, is calculated by deducting creditor days from stock days plus debtor days. It represents the period of time which elapses between the point at which cash begins to be expended on the production of a product and the collection of cash from the customer.
- prepayments** Prepayments include 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.
- provision** Amount charged against profit to provide for an expected liability or loss even though the amount or date of the liability or loss is uncertain (FRS 12).
- reserves** Retained profits or surpluses. In a not-for-profit entity these are described as accumulated funds. Reserves may be distributable or non-distributable.

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 Acts 1985/1989).

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.

share A fixed identifiable unit of capital which has a fixed nominal or face value, which may be quite different from the market value of the share.

share capital Capital is the number of existing shares in the company multiplied by the nominal value of the shares.

share premium The difference in price between the original nominal value and the price new investors will have to pay for shares issued by the company.

stocks Stocks, according to SSAP 9, are goods held for future use comprising

- goods or other assets purchased for resale
- consumable stores
- raw materials and components purchased for incorporation into products for sale
- products and services, in intermediate stages of completion (work in progress)
- long-term contracts
- finished goods.

subsidiary companies A subsidiary company, defined by the Companies Act 1985/1989, is a company for which another company – the parent company – is

- directly a member of it and controls the composition of its board of directors; or
- holds or controls, either by itself or in agreement with other shareholders, a majority of the voting rights; or
- has the right to exercise a dominant influence over it.

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.

window dressing A creative accounting practice in which changes in short-term funding have the effect of disguising or improving the reported liquidity position of the reporting organisation.

working capital Also called net current assets, is the capital available for conducting day-to-day operations of an organisation; normally the excess of current assets over current liabilities.