Glossary of key terms

bad debt A debt which is or 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.

corporation tax Tax chargeable on companies resident in the UK, or trading in the UK through a branch or agency, as well as on certain unincorporated associations (FRS 16).

depreciation provision The amount of depreciation that has cumulatively been charged to the profit and loss account, relating to a fixed asset, from the date of its acquisition. Fixed assets are stated in the balance sheet at their net book value (or written down value) which is usually their historical cost less the cumulative amount of depreciation at the balance sheet date.

doubtful debt A debt for which there is some uncertainty as to whether or not it will be settled, and for which 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.

earnings per share (eps) Profit after tax less preference share dividends divided by the number of ordinary shares in issue measures the return per share of earnings available to shareholders.

exceptional items Material items which derive from events or transactions that fall within the ordinary activities of the reporting entity individually or, if a similar type, in aggregate and which need to be disclosed separately by virtue of their size or incidence if the financial statements are to give a true and fair view (FRS 3).

extraordinary items Material items possessing a high degree of abnormality that arise from events or transactions that fall outside the ordinary activities of the reporting entity and which are not expected to recur. They do not include exceptional items, nor do they include prior period items merely because they relate to a prior period (FRS 3).

finished product Finished product or finished goods are manufactured goods ready for sale or despatch.

first in first out (FIFO) Assumes that the oldest items or costs are the first to be used. It is commonly applied to the pricing of issues of materials, based on using first the costs of the oldest materials in stock, irrespective of the sequence in which actual material usage takes place. Closing stocks are therefore valued at relatively current costs.

gross margin (GM) Gross margin (or gross profit) is the difference between sales and the total cost of sales.

last in first out (LIFO) Assumes that the last item of stock received is the first to be used. In the UK it is a little-used method of pricing the issue of material using the purchase price of the latest unit in stock. It is used more often in the USA as a method of valuing stock using indices to charge most recent prices against profits.

non-related company A company in which a business has a long-term investment, but over which it has no control or influence. If control exists then the company is deemed to be a subsidiary.

operating profit Gross profit, or gross margin, plus/less all operating revenues and costs, regardless of the financial structure of the company and whatever exceptional events occurred during the period.

profit before tax (PBT) Operating profit plus or minus net interest.

public limited company A company limited by shares or by guarantee, with a share capital, whose memorandum states that it is public and that it has complied with the registration procedures for such a company. A public company is distinguished from a private company in the following ways: a minimum issued share capital of £50,000; public limited company, or plc, at the end of the name; public company clause in the memorandum; freedom to offer securities to the public.

raw materials Goods purchased for incorporation into products for sale.

retained profits Profits that have not been paid out as dividends to shareholders, but retained for future investment by the company.

turnover Also called sales or revenue, 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).

work in progress Products or services in intermediate stages of completion.