

Glossary of Accounting Terms

Accountant's Report

A report by a firm of accountants confirming that the annual accounts have been properly prepared. This is an alternative to an **audit** and is available for charitable companies with income below £500,000, although it is not required for those with an income below £90,000.

Accrual

An amount owed for an expense incurred before the year end, but not invoiced until the following year. For example a gas or electricity bill.

Accruals Basis

A method of preparing accounts where income and expenditure is included when it is earned or incurred, rather than when the actual cash is received or paid. It is required for charities with total income over £100,000.

Asset

Money, goods or property that an organisation owns and can obtain benefit from in the future. This includes bank and cash balances, **debtors**, stock, equipment, and buildings.

Audit

External examination of the financial statements of an organisation by a registered **auditor**. A report will be issued by the auditor expressing an opinion on the accounts. This is required for charities with total income above £500,000 and gross assets more than £2.8m.

Auditor

A firm of accountants that is registered to be able to carry out **audits**. The auditor must be independent to the organisation.

Balance Sheet

A statement within the accounts that shows the **assets** and **liabilities** of an organisation at a particular date. It in effect shows what the business has on the one hand and where the funds came from on the other hand.

Book-keeping

Recording the detail of day to day transactions of the organisation.

Capital

The amount of funds directly invested by the owners into the business. It can also include any profit earned by the business not taken by the owners as drawings.

Capital Expenditure

Money spent on purchasing **fixed assets**.

Cash Flow Forecast

A monthly estimate of when cash will actually be received and paid in the

coming year, to see if expected income will coincide with when expenses will have to be paid.

Credit

In **double entry book-keeping** a credit is an item of sales or an increase in a **liability**.

Creditor

The amount of goods and services purchases during the year that remains unpaid at the end of the year. For the purchases to be recognised as a deduction in the profit and loss account, then the amount owed by the business must be recognised as a liability on the balance sheet.

Current Asset

An **asset** that is cash or is expected to be converted into cash within the normal course of business. For example, bank and cash balances, stock or **debtors**.

Current Liability

An amount owed by the organisation that is due to be paid within one year.

Debit

In **double entry book-keeping** this is an item of expenditure or an increase in an **asset**.

Debtor

The amount of sales that remain uncollected at the end of an accounting period. For the sales to be recognised in measuring profit, then the amount owed to the business must be recognised as an asset on the face of the balance sheet.

Depreciation

A way of spreading the cost of a **fixed asset** over its expected life. It is an expense in the accounts for each year of the expected life of the asset.

Direct Cost / Cost of Sales

Purchases of all goods made for the purpose of marking up and resale at a profit.

Drawings

The amount of cash withdrawn by the owners for their own private subsistence. This is normally offset against the owners **capital** balance

Financial Statements

The accounts of the organisation. These will include a Trading Profit and Loss Accounts, Balance Sheet and related notes.

Financial Year

The period for which an organisation produces their annual accounts. This will usually be twelve months and often goes from 1 April to 31 March.

Fixed Asset

An **asset** that will be used within the organisation year after year. These may include buildings, furniture, computer equipment or vehicles. They have been purchased NOT for resale but for retention and use over estimated useful life.

Liability

Amounts owed to others by the organisation. These may include **creditors** and loans or overdrafts.

Overheads

Costs that are incurred within the organisation, such as rent or administration salaries. They are not directly traceable to any particular sale of goods but which have been necessarily incurred in the conduct of the business. Examples: Rent, Rates, Insurances, Light & Heat, Telephone.

Prepayment

An item that has been paid for before the end of the year, but which relates to the following year. For example, rent paid in advance, or an insurance premium that covers a number of months of the new year.

Profit and Loss Account

A summary of the income earned and expenditure incurred during the year, prepared on the **accruals basis**. Profit represents the amount by which assets have increased during the year due to good trading practices (viz. Selling goods at a profit margin and controlling overheads).

Reserves

Profits accumulated by a company not distributed to the owners viz the shareholders.

Share Capital

Represents the amount of cash directly introduced into a company in exchange for shares. In small private companies, this is often Eur 100.