

Glossary

Account	A record in an accounting system that summarises changes in an asset, liability, owners equity, revenue or expense item.
Accounting Equation	The equation that the balance sheet is based on, that the value of assets must equal the sum of the value of liabilities and owners equity.
Accrual Accounting	A system whereby profit is determined by matching expenses incurred with revenues earned.
Accrued expense	An expense that has been incurred (used) in earning revenue but has NOT been paid. It is a current liability as it will be paid within 12 months.
Accrued revenue	Revenue earned but NOT received. It is a current asset because a benefit is owing that is due within 12 months.
Administrative expenses	Expenses associated with running the office.
Asset	Items with future economic benefits controlled by the business entity as a result of past transactions.
Bad debts	A debt that is irrecoverable and is 'written off' as an expense.
Balance	The amount remaining in an account.
Balance day	The end of the reporting period.
Balance day adjustments	Adjustment s to revenues and expenses on balance day to match the revenue earned with the expenses incurred.
Balance Sheet	An accounting report that states the assets, liabilities and owners equity of a business at a particular point in time.
Bench mark	A point of comparison. Something by which to gauge success or failure.
Budget	A financial plan of action to control the operations of a business and evaluate its performance.
Capital	The owner's original contribution of assets to the business.
Capital expenditure	A capital cost that contributes to revenue in future periods (or product cost).
Cartage Inward	Transport costs in getting the stock from the supplier to the point of sale.
Cash	Cash on hand and cash in the bank and other equivalent investments of cash.
Cash Flow	Cash Flow refers to the inflows and outflows of cash, the amounts and their timing.
Cash Flow Statement	A report that summarizes the cash inflows and outflows and calculates the net cash flow and cash balance.
Cash Payments Journal	A journal that records all cash outflows.
Cash Receipts Journal	A journal that records all cash inflows.
Cheque Butt	A record of cash paid or a record of the details of the cheque.
Closing Entry	An entry that takes the balance of an account and transfers it to another account.
Conservatism	The principle that estimated losses should be recorded as soon as they are anticipated but estimated gains are NOT recorded until they are realized.
Consistency	The application of the same accounting procedure or method in each reporting period.
Control account	An account in the general ledger that summarizes information of a common nature or combines accounts into one account.
Correcting Entry	Entry to correct an error recorded in the ledger.

Glossary

Cost of Goods Sold	The cost price of stock plus any other costs associated with getting stock into a position and condition for sale (eg. Cartage inward)
Cost of Sales	The cost price of stock sold.
Credit	An increase in liabilities or owners equity, or decrease in assets.
Credit Note	A document that is evidence of the return of stock.
Creditor	A person to whom a business owes money.
Creditors Control	An account in the general ledger that summarizes all transactions related to creditors and gives a summary of the balances owing from all creditors.
Creditors Subsidiary Ledger	A detailed record of transactions for EACH individual creditor.
Cross Reference	The corresponding account when making a ledger entry.
Current Asset	An asset that has benefits only within the next 12 months or an asset is used up or turned into cash within 12 months.
Current expenditure	An expenditure that only contributes to revenue in the current period eg. Wages. It is also called a revenue expenditure or period cost. It is usually a recurring cost and is recorded in the income statement as an expense.
Current Liability	A liability that has to be paid or an obligation due within 12 months.
Debit	Increase in assets, decrease in liabilities or decrease in owners equity.
Debtor	A person who owes a business money.
Debtors Control	An account in the general ledger that summarizes all transactions related to debtors and gives a summary of all the balances owing from all debtors.
Debtors Schedule	A listing of debtor balances in the debtors subsidiary ledger.
Debtors Subsidiary Ledger	A detailed record of transactions for EACH individual debtor.
Depreciation	The allocation of the cost of a non current asset over its estimated useful life or that part of the asset that has been used up (consumed) in earning revenue.
Discount expense (allowed)	Amount allowed off a debt for prompt payment by a debtor.
Discount Revenue (received)	Amount allowed off a debt for prompt payment to a creditor.
Double entry	An accounting system where a transaction has a debit and credit.
Drawings	Assets that the owner of a business has taken out for personal use. It is a reduction in Owner's equity as it reduces the owner's interest in the net assets of the business.
Efficiency	The ability of the business to produce sales revenue using assets as measured by the asset turnover.
Entity Principle	The personal affairs of the owner are separate from the business records.
Expenses	An outflow of economic benefit in the form of a decrease in assets or an increase in liabilities that results in a decrease in owners equity other than distributions to the owner (drawings).
First in first out (FIFO)	When recording the cost price of stock for a sale or withdrawal of stock by the owner or through a stock loss/gain, a system is needed to assign a cost price. FIFO is an assumption that states that <u>the first stock purchased by a business is the first stock that will be sold/ withdrawn or lost.</u>
Finance expenses	Expenses associated with borrowing or supplying finance to customers.

Glossary

Financing activities	Cash flows that result from changes in liabilities and owners equity.
Fixtures & Fittings	A non-current asset that is part of a building but can be detached or removed.
Footing	A temporary form of balancing an account.
General Journal	A book of original entry which records non-cash, non-recurring transactions that don't belong in the Special Journals.
General Ledger	A collection of accounts based on double entry accounting.
Going Concern Principle	The business is assumed to have perpetual or continuous life.
Gross Profit	The difference between sales revenue and cost of goods sold.
Historical Cost	The original invoice price of the asset plus additional capital expenditure. Its value can be verified.
Historical Cost Principle	Assets are recorded at their original cost.
Horizontal analysis	The comparison of the same data across years or to another business or the budget.
Income Statement	An accounting report that shows the revenues, expenses and net profit or loss of a business for the reporting period.
Investing activities	Cash flows that result from the purchase or sale of non-current assets.
Journal	A 'book of original entry' that precedes the ledger. It records transactions from original (source) documents.
Ledger	The collective record of transactions in a double entry system.
Liability	Future sacrifices of economic benefit that the business is obliged to make to other entities.
Liquid asset	Cash or an asset easily converted into cash.
Liquidity	The ability of the business to pay its short term debts using liquid assets.
Lower of cost and net realizable value (NRV)	A conservative rule that dictates the stock should be valued at historical cost or NRV, whichever is lower. In doing so, stock is written down to the lower figure.
Mark up	A percentage of the cost of stock that is added on to determine the selling price.
Matching	Expenses incurred in earning revenue are deducted from the revenue earned for the reporting period.
Matching Concept	This is the concept of only deducting costs that have contributed to revenue in the reporting period.
Memorandum (Memo)	A note that records internal events.
Monetary Unit Principle	In the records and reports, values are expressed in dollars and it is assumed the value of the dollar is constant.
Mortgage	A non-current liability that is secured against property i.e. a loan.
Narration	A brief description of why the entry was made (or narrative).
Negative cash flow	Cash outflows from all activities exceed cash inflows from all activities.
Net cash flow	The overall change in cash flow for the period.
Net Profit	The excess of revenue over expenses for a particular reporting period. Alternatively, the increase in net worth of a business excluding the effects of additional capital and drawings.
Net Worth	The difference between the value of assets and liabilities. It represents the investment of the owner in the business or the owner's claim on the assets of the business. i.e. A-L or Net Assets

Glossary

Non-Current Asset	An asset that has benefits extending beyond the next 12 months or an asset that is not used up or turned into cash within 12 months.
Non-Current Liability	A liability that does not have to be paid or an obligation not due within 12 months.
Non-financial data	Information useful in assessing the performance of the business that does NOT involve ratio analysis or financial information eg. Quality of goods, customer satisfaction.
Opening Journal Entry	Entry on the first day of operations to create the balances for the ledger accounts.
Operating activities	Cash flows that result from the day-to-day trading operations of the business.
Order Form	This is a request sent to the supplier or from a customer. It is not evidence of a transaction and is not a document of original entry.
Overdraft (Bank)	An amount by which a bank account is overdrawn. A facility where a bank allows a person or business to use more funds than they have in their account. Interest is charged only on overdrawn funds and there is no fixed repayment schedule or term.
Owners Equity	The residual interest of the owner in the assets of the business or the net worth of the business i.e. (Owners Equity = Assets -Liabilities).
Perpetual Inventory method	A system to record stock movements by maintaining an ongoing record of stock movements where the cost price of stock is able to be identified for each transaction through the use of a Stock Card.
Positive cash flow	When cash outflows from all activities is less than cash inflows from all activities.
Posting	The process of recording information from a journal to a ledger.
Prepaid expense	An expense that has been paid but has NOT been used. It relates to the next reporting period. It is a current asset because a benefit is owing to the business in the next 12 months in the form of a service.
Prepaid revenue	Revenue received but unearned. It is a current liability as there is a sacrifice of economic benefit in the form of an obligation to provide goods or a service in the next 12 months.
Profitability	A comparison of net profit against an investment base such as owner's investment or total assets, and can be used to examine how well a business has used its investment in assets.
Profit	Under accrual accounting, it is revenue earned exceeding expenses incurred, and is expressed as a dollar amount.
Purchases Invoice	A document that is evidence of a credit purchase of stock and is the document of original entry for the purchases journal.
Purchases Journal	A record of all transactions involving the purchase of stock on credit.
Relevance	A qualitative characteristic of the reports where only information that is useful or will influence decision making is reported.
Reliability	A qualitative characteristic of the reports where accounting information reported can be verified by reference to an original document.
Reporting Period	The period of time over which transactions and other financial events are recorded and reported (or accounting period, financial year).
Reporting Period Principle	This assumes that it is possible to divide the 'economic life of a business' into artificial cut-off points in order to measure the performance of a business over the relevant time period.
	The life of the business is divided into time periods for reporting purposes.
Revenue	An inflow of economic benefit in the form of an increase in assets or decrease in liabilities that results in an increase in owners equity, other than from contributions by the owner (additional capital).

Glossary

Sales Invoice	A document that is evidence of a credit sale of stock and is the document of original entry for the sales journal. It is issued by the seller/ supplier.
Sales Journal	A record of all transactions involving the sale of stock on credit.
Sales returns	Stock returned by a customer. Negative revenue in the income statement.
Selling expenses	Expenses associated with promoting the product.
Special Journal	A journal that records transactions of a similar nature eg. Credit Sales are recorded in the Sales Journal; Cash receipts are recorded in the Cash Receipts Journal.
Stock (or Inventory)	Anything purchased for re-sale.
Stock Card	A record of stock movements with a continuous balance of what stock ought to be on hand.
Stock Control	This is a summary account that records all transactions relating to stock. It combines all items of stock into a single account.
Stock Gain	This occurs when the physical stock take is more than the balance of the stock card.
Stock Loss	This occurs when the physical stock take is less than the balance of the stock card.
Stock of material	Materials on hand that have been paid for but are unused. It is a current asset because a benefit is owing to the business in the next 12 months in the form of a service eg. Office Supplies.
Stock or purchase returns	Stock returned to suppliers.
Stock take	A physical count of the quantity of stock on hand used to verify the accuracy of the stock card.
Stock Write down	A general journal entry that reduces the value of stock on hand to its estimated net realizable value (NRV) when it is lower than historical cost.
Sundries	A column in a cash journal for receipts or payments that occur infrequently.
Sundry creditor	An amount owing as a result of the purchase of a non -current asset on credit OR an amount owing on a service consumed. Not the result of purchasing stock on credit.
Transaction	A financial event with someone outside the business.
Trial Balance	A list of account balances to check that debits equal credits.
Understandability	The reports present accounting information in a manner that is clear to those using the report.