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| **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. |
| **Asset turnover** | A measure of efficiency calculated by dividing sales revenue by average assets. |
| **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). |
| **Carrying value** | Written down value or book value which is the cost of the NCA less accumulated depreciation to date. |
| **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 cycle** | The sum of the stock turnover and debtors turnover expressed in days. |
| **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. |
| **Chart of Accounts** | An index to ledger accounts. |
| **Cheque Butt** | A record of cash paid or a record of the details of the cheque. |
| **Closing entries for expenses and revenues** | Revenues and expenses are closed at the end of the accounting period by transferring their balances to a summary account called the Profit & Loss Summary account. |
| **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. |
| **Contra entry** | An entry that offsets one debt against another. |
| **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. |
| **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. |
| **Creditors turnover** | A measure of how many days on average it takes to pay creditors. |
| **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 owner’s 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. |
| **Debtors turnover** | A measure of how many days on average debtors take to pay their debts. |
| **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. |
| **Efficiency ratios** | Measure how well management has employed the resources of the business. |
| **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). |
| **Favourable variance** | Actual receipts exceed budget receipts OR actual spending is less than budget payments. |
| **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 the first stock purchased by a business is the first stock that will be sold/ withdrawn or lost. |
| **Finance expenses** | Expenses associated with borrowing or supplying finance to customers. |
| **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. |
| **Gearing** | A measure of long term stability. The ratio of liabilities to assets. |
| **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. |
| **Gross profit ratio** | The gross profit as a percentage of sales revenue. |
| **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. |
| **Liquidity ratios** | Measure the ability of the business to pay its debts within the next 12 months. |
| **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. |
| **Materiality** | A qualitative characteristic that requires that reports should only report significant information. |
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| **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 profit ratio** | The net profit as a percentage of sales revenue. |
| **Net realizable value (NRV)** | Estimated selling price of stock less costs of selling it. It is the estimated net proceeds from selling the stock. |
| **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 |
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| **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. |
| **Occupancy expenses** | Expenses that are associated with occupying the premises. |
| **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). |
| **Period Cost** | A cost that contributes only to revenue in the current reporting period and is NOT added to the unit cost of the item as it is untraceable and immaterial. It is expensed in the current reporting period. |
| **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. |
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| **Post Reference** | The number of the ledger account based on the chart of accounts where the posting is made. |
| **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. |
| **Product Cost** | A cost that is added to the unit cost of an item of stock as it is traceable and material in amount. It is part of the value of stock and becomes part of cost of sales when the stock is sold. It contributes to future revenue and is expensed as the stock is sold. |
| **Profit or Loss Summary** | A clearing account where revenues and expenses are transferred and net profit or loss is calculated. |
| **Profit/Loss on sale NCA** | The difference between the carrying value and the proceeds from sale. It arises when the asset is either under or over depreciated. |
| **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. |
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| **Profitability ratios** | Measures the ability of a business to generate profit through the use of its assets and from its sales. |
| **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. |
| **Reducing Balance Method** | A method of depreciation which charges a larger amount of depreciation in the early years of an asset's life and less as it gets older. |
| **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. |
| **Return on assets** | The net profit as a percentage of the average assets. |
| **Return on investment** | The net profit as a percentage of the average owners equity. |
| **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). |
| **Sale of NCA** | A clearing account where the profit or loss on the sale o f a non current asset (NCA) is calculated. |
| **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. |
| **Stability** | The extent to which the financial structure of a business is reliant on debt as measured by the gearing ratio. |
| **Stability ratios** | Measure the level of financial risk in the long term examining the dependence on debt compared to equity. |
| **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. |
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| **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 turnover** | A measure of the number of times average stock is sold in a year also expressed in days. |
| **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. |
| **Straight line method** | A method of depreciation which charges an equal amount of depreciation over the life of the asset. |
| **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. |
| **Unfavourable variance** | Actual receipts are less than budget receipts OR actual spending is more than budget payments. |
| **Useful life** | The estimated productive life of an asset. |
| **Variance** | The difference between the budget results and the actual results. |
| **Vertical analysis** | The comparison of data from one part of a report to another. It highlights the relationship between items in a report. |
| **Working capital ratio** | A measure of liquidity calculated by dividing current assets by current liabilities. |
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