



## Glossary of Terms

**Profit and Loss** – This report shows the value of sales, purchases, direct costs and overheads and the difference between the sales and all costs is the profit/loss for the period (Annual or Month).

**Income and Expenditure** – This differs slightly to a Profit and Loss Account only in that the sales are described as income and the any costs are described as expenditure. This type of account is generally used where there are no purchases to speak of and for a Charity where there is no profit made.

**Balance Sheet** – This report gives the overall financial position showing the Assets and Liabilities at a particular time (Month end or Year End).

**Sales/Income** - Total of the Sales/Income during a period – there can be some analysis within this to show different types of sale/income (takings from Room Hire/Bar Takings/Sales of sweets).

**Purchases** – This describes the goods purchased to resell in order to make your profit. In the case of a manufacturing company this would describe the Raw materials or for a fashion shop the clothes purchased. As with the sales figure there can be an element of analysis within the purchases to enable statistical reporting at a later date.

**Gross Profit** - This is the difference between the sales figure and the purchase figure.

**Direct Expenses** – I like to describe these as the costs that you have to pay to make a profit (Some types of Wages, possibly Power).

**Overheads** – These are what you spend your profit on (admin wages, rent, etc)

**Net Profit/Loss** – This is the balance left after you have taken all of the costs into consideration.

**Expenditure** – All of the costs paid when you only need income and expenditure accounts.

**Fixed Assets (Tangible)** – These are the physical Assets of a business (machinery, Furniture, Property, vehicles)

**Depreciation** – When an Asset is purchased the whole value stays on the Balance Sheet but as all assets they reduce in value as they are used, depreciation is the means to reduce the value of the asset, set it off against tax and ensure that the Balance Sheet shows an accurate value .

**Fixed Assets (Intangible)** – These are the assets which are not physical but add value to a company (licences, knowledge, recipies)

**Current Assets** – ‘Floating’ Values (i.e. they change almost daily) which are in credit (Stocks, Petty cash balances, Bank Balances, Debtors).

**Stocks** – the value of the purchases which are unsold at the time the Balance Sheet is compiled.

**Debtors** – Value owed by customers at the time the Balance Sheet was compiled.

**Sundry Debtors** – Other money that is owed to you (tax rebates)

**Prepayments** - Generally goods or services which have been paid for in advance i.e. rates where you may pay the total in April but the payment is for the year, you can hold money on the Balance Sheet and only move it to the Profit and Loss when required.

**Current Liabilities** – ‘Floating Values’ which are in Debit (Bank overdrafts, PAYE, VAT, Creditors)

**Creditors** – Value owed to Suppliers at the time the Balance Sheet was compiled.

**Accruals** - The opposite from prepayments, this is where you have received goods and are waiting for an invoice (gas,telephone)

**PAYE/VAT** – This value when shown on the balance sheet is the total that has been collected from employees as a deduction from their wages or the net effect of VAT (VAT received from Sales and paid on Purchases) but has not yet been paid over to the Inland Revenue.

**Wages** – As with the PAYE/Vat above this is the difference between the wages calculated for payment but not yet paid.

**Long Term Liabilities** – There is a requirement in financial reporting to give an understanding of any liabilities and the timescale of repayments – a company may have a large loan if it has to be repaid on demand it is a cause for concern but if it is a long term loan say 5 yrs then the position is much more stable.

**Capital** – This is the value of the company and how it is split

**Share Capital** – Only applies to Limited Companies and is the value held by the shareholders.

**Shareholders** – Again only applies to Limited Companies - They are the people who have invested in the company and this figure shows the value of their investment.

**Reserves** – This is the total of the previous years profits/losses which are the value of the company

**Profit and Loss Account** – This is the current years profits/losses.

**Trial Balance** – This is a list of the balances for all of the Profit and Loss and Balance Sheet items – both credits and debits have to total the same value hence the name.