**Glossary of some basic Accounting Terms**

As with any topic, there is a wealth of jargon and terminology specifically associated with financial management.

It is helpful for you to understand these terms when reading financial statements or when talking to finance professionals such as bank managers.

This knowledge will make you feel more confident and comfortable. The most basic and useful of these terms are set out below.

|  |  |
| --- | --- |
| Term | Meaning / Definition |
| Accrual accounting | Recognising income and expenses when they occur rather than when they are received or paid for |
| Accounting entry | The basic recording of business transactions as debits and credits |
| Accounting period | A period for which financial statements are prepared — normally monthly and then annually |
| Asset | Anything having a commercial value that is owned by the business |
| Break even | The amount, in either units or dollar value, that the business needs to achieve before a profit is generated |
| Budget | A financial plan for a business (setting out money the business forecasts it will receive and spend); typically done once a year |
| Capital expenditure | The amount of money that is allocated or spent on assets |
| Cash accounting | Accounting for transactions as they are received or paid |
| Cash conversion rate | The overall number of days to convert your trade from the cash outflow at the beginning of the working capital cycle to cash received at the end of the cycle |
| Cash f low | The flow of cash into and out of the business |
| Cost of goods sold | The total cost of all goods sold (COGS) during the period |
| Creditors | The money you owe your suppliers |
| Current assets | Assets that are likely to be turned into cash within a 12-month period |

|  |  |
| --- | --- |
| Term | Meaning / Definition |
| Current liabilities | Liabilities that are required to be paid within a 12-month period |
| Debtors | The money owed to you by your customers |
| Depreciation | The write-off of a portion of a fixed asset’s  value in a financial period |
| Drawings | Assets of monetary value (they can be cash or other assets) permanently taken out of the business by the owner(s) of the business |
| Expenses | The costs associated with earning the business income |
| Financial ratio | A method used to measure the financial health of a business and compare the operations of that business with similar businesses in the same industry |
| Financial statements | Financial statements (profit and loss statement, balance sheet and statement of cash flows) record the financial performance and health of your business for a given period |
| Forecasting | Predicting the future financial performance of a business |
| Inventory | The stock that a business holds to sell |
| Intangibles | Assets that don’t have a physical form (e.g.  patents, goodwill) |
| Liability | The amount the business owes external stakeholders |
| Margin | Profit from sales before deducting overheads |
| Mark-up | The percentage by which the sales price exceeds the cost |
| Net Surplus or *Contributed Surplus or Capital Surplus* | Is the amount of capital from the issuance of shares above the par value. Source: Investopedia |
| Owners’ equity | The amount of capital contributed by the owners to form the business or added later |
| Overheads | Costs not directly associated with the products or services sold by the business |
| Profit | Revenue minus expenses |

|  |  |
| --- | --- |
| Term | Meaning / Definition |
| Purchase order | A commercial document issued by a buyer to a seller, indicating the type, quantities and agreed prices for products or services the seller will provide to the buyer |
| Receivables | Amounts that are owed to a business; also known as debtors |
| Revenue | The income the business earns from its operations |
| Retained profit | Profits that have not been distributed to the owners |
| Reserves | Retained profits that are held for a specific purpose or the result of a revaluation of assets |
| Working capital | The excess of current assets over current liabilities |
| Work in progress | Stage at which an order has been taken from the customer and the business is in the process of "working" to complete the order |

**Source:** [**www.interest.co.nz**](http://www.interest.co.nz/)