GLOSSARY

Abnormal gains This is a term used in process costing to describe and value the outputs from a process that are over and above the expected output from that process.

Abnormal losses This is a term used in process costing to describe and value outputs from a process that are below the expected output from that process.

Absorption costing The cost of products including all the direct costs of production and a proportion of the indirect costs of production based on normal levels of output.

Accountability Managers provide an account of how they have managed resources placed in their care. In this way, those appointing managers can assess how well their managers have looked after the resources entrusted to them.

Accounting The summarising of numerical data relating to past events and presenting this data as information to managers and other interested parties as a basis for both decision-making and control purposes.

Accounting equation Assets − liabilities = equity or assets = liabilities + equity. As equity includes the difference between income and expenditure, the equation can be expanded to assets + expenses = liabilities + equity + income.

Accounting rate of return An investment appraisal technique that averages the projections of accounting profit to calculate the expected rate of return on the average capital invested.

Accruals Expenses incurred during an accounting period but not paid for until after the accounting period end are still recognised as a liability in the statement of financial position and as an expense in the statement of profit or loss.

Accruals basis of accounting All income and expenditure are recognised in the accounting period in which they occurred rather than in the accounting period in which cash is received or paid.

Acid test ratio See Quick ratio.

Activity-based costing Overhead costs are allocated to products on the basis of activities consumed: the more activities that are associated with a particular product, the more overhead is allocated to that product and so the higher its cost and selling price will be.

Actual v. budget comparisons A comparison of planned outcomes with actual outcomes on a monthly basis as a means of exercising control over operations.

Adverse variances Unfavourable variances.

Agency problem This problem arises in situations in which one person (the agent) is appointed to undertake a task by the principal. Agency theory says that the agent will always act in their own best interests, not in the best interests of the principal.

AGM Annual general meeting.

Allowance for receivables The allowance for receivables is calculated as a percentage of trade receivables after deducting known irrecoverable debts. This allowance is an application of the prudence concept, assuming that not all trade receivables will pay what is owed. Also referred to as the provision for doubtful debts.

Annual general meeting A meeting held every year by limited liability companies at which shareholders consider and vote on various significant resolutions affecting the company.

ARR See Accounting rate of return.

Articles of Association A document that covers the internal regulations of a company and governs the shareholders' relationships with each other.

Assets Defined by the IASB Conceptual Framework as 'a present economic resource controlled by the entity as a result of past events'.

Attainable standard A standard that can be achieved with effort. This standard is neither too easy nor so difficult as to be unattainable.

Balance sheet Another term for the statement of financial position.

Bond A long-term loan to an organisation with a fixed rate of interest and a fixed repayment date.

Bonus issues An issue of shares to shareholders from retained earnings. A bonus issue does not raise any cash. Bonus issues are recorded in the statement of financial position at the par value of the shares issued.

Books of prime entry The first point at which a transaction is recorded in the accounting system. Books of prime entry are the sales day book, the sales returns day book, the purchase day book, the purchase returns day book, the cash book, the petty cash book and the payroll.

Break-even point The point at which sales revenue = fixed + variable costs. At the break-even point, an entity makes neither a profit nor a loss. Break-even point can be expressed in £s or units of sales. Break-even point cannot be used when

more than one product or service is produced and sold. The break-even point is calculated by dividing total fixed costs by the contribution per unit of sales.

Budget The expression of a plan in money terms. That plan is a prediction or a forecast of future income, expenditure, cash inflows and cash outflows.

Budgetary control Comparisons between budgeted and actual outcomes to determine the causes of variances between planned and actual results. The causes of differences are then identified to enable remedial action to be taken.

Budgeting The process of drawing up the budget.

Business entity Any organisation involved in business. Businesses may be sole traders, companies with limited liability or partnerships.

Business entity convention The business is completely separate from its owners. Only business transactions are included in the business's financial statements.

Cadbury Report The name by which the report of the Committee on the Financial Aspects of Corporate Governance published in 1991 is most commonly known.

Capital account The equity part of the statement of financial position for sole traders. The capital account is the sum of the opening capital balance plus the profit for the year (minus a loss for the year) minus any drawings made by the sole trader during the year.

Capital investment The acquisition of new non-current assets with the aim of increasing sales, profits and cash flows to the long-term benefit of a business.

Capital investment appraisal An evaluation of the long-term cash generating capacity of capital investment projects to assist decision makers in allocating scarce investment capital resources to projects to maximise long-run profits.

Carrying amount Cost or fair value of a non-current asset—the accumulated depreciation on that non-current asset. Net book value is an equivalent term that you might also come across to describe the result of deducting accumulated depreciation from the cost or fair value of a non-current asset.

Cash book A book of prime entry that records cash receipts and cash payments.

Cash budget A detailed summary on a month-by-month basis of budgeted cash receipts and cash payments.

Cash conversion cycle Inventory days + receivables days − payables days. Also known as the working capital cycle or the operating cycle.

Cash flow cycle The time it takes a business to convert inventory into a sale and to collect cash either at the point of sale or from trade receivables with which to pay trade payables.

Cash flows from financing activities One of the three sections in the statement of cash flows. This section represents the cash raised from the issue of share capital and loans and the cash spent in repaying borrowings and paying interest and dividends.

Cash flows from investing activities One of the three sections in the statement of cash flows. This section represents the cash spent on buying new non-current assets, the cash received from selling surplus non-current assets and the cash received from interest and dividends on investments made.

Cash flows from operating activities One of the three sections in the statement of cash flows. This section represents the cash generated from sales less the cash spent in both generating those sales and in running the organisation.

Comparability An enhancing qualitative characteristic of financial information. Information should be comparable over time. The usefulness of information is enhanced if it can be compared with similar information about other entities for the same reporting period and with similar information about the same entity for other reporting periods. Comparability does not mean consistency, although consistency of presentation and measurement of the same items in the same way from year to year will help to achieve comparability. Similarly, comparability does not mean uniformity of presentation.

Compensating error These arise when two or more errors cancel each other out.

Complete reversal of entries Transactions are posted to the correct accounts, but the debit and credit entries are reversed. Amounts debited and credited to the accounts to correct complete reversal of entry errors must be twice the original amount of the transaction, firstly to reverse the incorrect entry and then to add what should have been debited or credited originally.

Confidentiality One of the IESBA's five fundamental principles of ethics for professional accountants. This principle states that all information acquired by professional accountants in the course of their professional work must be kept confidential and not disclosed to other parties without the express permission of their clients or employers or in situations where there is a legal or professional duty to disclose such information.

Consistency The presentation or measurement of the same piece of accounting information on the same basis each year.

Contribution Selling price less the variable costs of making that sale.

Conversion cost This term is used in process costing to indicate the labour and overhead incurred in a process to turn raw materials into the output from the process. Conversion cost is added to the cost of raw materials added to the process to calculate the cost of completed units.

Corporate governance The system by which companies are directed and controlled.

Corporate social responsibility Social and environmental considerations are integrated into the management of the operations of an organisation. May be abbreviated to CSR.

Cost accounting '[The] gathering of cost information and its attachment to cost objects (for example a product, service, centre, activity, customer or distribution channel in relation to which costs are ascertained), the establishment of budgets, standard costs and actual costs of operations, processes, activities or products; and the analysis of variances, profitability or the social use of funds' (*CIMA Official Terminology*).

Cost allocation The process of allocating costs, both direct and indirect, to products or services.

Cost centre A division of an entity to which attributable costs are allocated.

Cost drivers The level of activity associated with each cost pool used to allocate costs to products under activity-based costing.

Cost object 'A product, service centre, activity, customer or distribution channel in relation to which costs are ascertained' (*CIMA Official Terminology*).

Cost of capital The level of return on an investment that is acceptable to a business given the level of risk involved. Also known as the hurdle rate of return.

Cost of sales The direct costs attributable to the sale of particular goods or services.

Cost pools The allocation of indirect costs of production associated with particular activities in an activity-based costing system.

Cost-volume-profit analysis A management accounting technique used to determine the relationship between sales revenue, costs and profit. Abbreviated to CVP.

Costing The process of determining the cost of products or services.

Creditor days See Payables days.

Creditors Persons to whom entities owe money. See also Payables.

Credits A term used in double-entry bookkeeping. Credit accounts represent liability, capital and income accounts. Credit entries to a credit account increase the balance on liability, capital and income accounts as well as reducing the balance on asset and expense accounts.

Current assets Short-term assets that will be used up in the business within one year. Examples include inventory, trade receivables, prepayments and cash.

Current liabilities Short-term liabilities due for payment within one year of the year-end date. Examples include trade payables, taxation and accruals.

Current ratio Current assets divided by current liabilities. Used in the assessment of an entity's short-term liquidity. This ratio should be used with caution in the evaluation of an entity's liquidity.

CVP See Cost-volume-profit analysis.

Debenture A long-term loan to an organisation with a fixed rate of interest and a fixed repayment date.

Debits A term used in double-entry bookkeeping. Debit accounts represent asset and expense accounts. A debit entry to a debit account will increase the balance on asset and expense accounts as well as reducing the balance on liability, capital and income accounts.

Debt ratio Total liabilities divided by total assets. An indicator of how reliant an entity is upon external parties to fund its assets.

Debtor days See Receivables days.

Debtors Persons who owe money to an entity. See also Trade receivables.

Depreciation The allocation of the cost of a non-current asset to the accounting periods benefiting from that non-current asset's use within a business. Depreciation is *not* a way of reflecting the market value of assets in financial statements and it does not represent a loss in an asset's value.

Direct cost The costs of a product or service that are directly attributable to the production of a product or the delivery of a service. Direct costs may be variable or fixed.

Direct labour efficiency variance The time taken to make the goods actually produced compared with the standard time that should have been taken to make those goods multiplied by the standard rate per hour.

Direct labour rate variance What labour hours actually cost compared with what the standard says the labour hours should have cost for the actual level of production achieved.

Direct material price variance What the materials for actual production cost compared with what the standard says they should have cost for that level of production.

Direct material usage variance The actual quantity of materials used to make the goods actually produced compared with the standard quantity that should have been used to make those goods multiplied by the standard cost per unit of material.

Direct method An approach to preparing the statement of cash flows that involves disclosing the gross cash receipts from sales and the gross cash payments to suppliers.

Directors Persons appointed by the shareholders at the annual general meeting to run a limited company on their behalf.

Discounting Future cash inflows and outflows are discounted to their present value using an entity's cost of capital.

Discounts allowed An allowance given to trade receivables against amounts owed to encourage early payment of amounts owed. A sales invoice presents two prices: the price after taking the discount into account and the price if the discount is not taken up. Sales are initially recorded at the discounted price. Discounts allowed not taken up by customers are added to the value of sales.

Discounts received Suppliers reward their customers with discounts for early payment or quantity purchases. Discounts received are a source of income in the statement of profit or loss, a deduction from cost of sales and a deduction from trade payables.

Distributable reserves Retained earnings available for distribution to shareholders as a dividend.

Distribution The distribution of retained profits to shareholders as a dividend. A distribution is not an expense of a company but a deduction from retained earnings.

Dividend A distribution of profits to shareholders.

Dividend cover A comparison of the total dividend for an accounting period to the profit after taxation and after preference dividends. This ratio is used to assess the expected continuity of dividend payments. The higher the ratio, the more likely the dividend payment will continue into the future.

Dividend per share The total dividend for a period divided by the number of ordinary shares in issue multiplied by 100 to give a figure of dividend per share in pence.

Dividend yield The dividend per share as a percentage of the current share price.

Double entry An accounting methodology which recognises that every transaction has two effects on the figures in the financial statements.

DPS See Dividend per share.

Drawings Amounts taken out of a business by a sole trader for personal rather than business use. Drawings are in effect a repayment of the amounts owed by the business to the owner. Drawings are not an expense but a deduction from capital. Drawings are not permitted in limited liability companies.

Dual aspect The recognition that each accounting transaction has a double effect on the amounts stated in the financial statements.

Duality principle Each transaction has an equal and opposite effect on two or more accounts.

Earnings per share The profit after taxation and after preference dividends divided by the number of ordinary shares in issue multiplied by 100 to give a figure of earnings per share in pence.

Economic resource A right that has the potential to produce economic benefits.

Efficiency ratios Measures of non-current asset turnover and revenue and profit per employee to determine how well an organisation has used its resources to generate profits.

EGM Extraordinary general meeting.

EPS See Earnings per share.

Equity The capital of an entity on its statement of financial position. Equity is, in theory, the amount the owners of the business would receive if all the business assets and liabilities were sold and settled at the amounts stated in the statement of financial position. Defined by the IASB Conceptual Framework as 'the residual interest in the assets of the entity after deducting all its liabilities'.

Equity share capital This is an equivalent term for ordinary share capital.

Equivalent units Expressing partially completed units in a process at the end of an accounting period as the equivalent number of fully completed units.

Error of commission A transaction is posted to the correct type of account (income, expense, asset, liability or capital) but the wrong account is debited or credited.

Error of omission A transaction is completely missed out of the double-entry record.

Error of original entry The correct accounts are debited and credited to the double-entry record, but the wrong amount is recorded.

Error of principle A transaction is posted to the wrong type of account.

Exceptional income Income and expenditure that arise from transactions that are not in the ordinary course of business.

Expenses Defined by the IASB Conceptual Framework as 'decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims'.

Extraordinary general meeting A meeting called by the directors of a limited company to request the approval of shareholders for certain business transactions. An extraordinary general meeting is any meeting of the shareholders as a body other than the annual general meeting.

Fair value The amount at which an asset could be sold or a liability settled in the open market.

Faithful representation A fundamental qualitative characteristic of financial information. Financial information must not only represent relevant economic phenomena (transactions and events), but it must also faithfully represent the phenomena that it purports to represent. Perfectly faithful representation of economic phenomena in words and numbers requires that the information presented must have three characteristics: it must be complete, neutral and free from error.

Favourable variances Differences between actual and budgeted results arising from higher income or lower expenditure.

Financial accounting The reporting of past information to parties external to the organisation.

First in first out A method of stock valuation. The units of product that were acquired at the earliest date are those that are sold first. In process costing, an assumption is made that the work in progress units at the start of the accounting period are the units that were completed first before any production of new units commenced.

Fixed cost A cost that does not vary in line with production or sales over a given period of time.

Fixed overhead expenditure variance The difference between the actual fixed overhead expenditure incurred and the budgeted level of fixed overhead expenditure.

Gearing ratio Long- and short-term borrowings divided by the total statement of financial position equity figure × 100%. A measure designed to help financial statement users assess whether an entity has borrowed too much money. The gearing ratio should be used in conjunction with the interest cover ratio in making this assessment.

General ledger See Nominal ledger.

Going concern A business that has sufficient demand for its products and sufficient sources of finance to enable it to continue operating for the foreseeable future.

Gross pay The contractually agreed rate of pay × the hours worked before any deductions for income tax (PAYE) or national insurance (NIC).

Gross profit Sales less the direct costs of making those sales.

Gross profit percentage The gross profit of an organisation divided by the sales figure × 100 %.

Historic cost The original cost of an asset or liability at the time it was purchased or incurred.

IAASB International Auditing and Assurance Standards Board.

IAS International Accounting Standard.

IASB International Accounting Standards Board.

Ideal standard The best that can be achieved. Ideal standards tend to be unrealistic and unachievable as they would only ever be attained in a perfect world.

IESBA The International Ethics Standards Board for Accountants.

IFRS International Financial Reporting Standard.

Income Defined by the IASB Conceptual Framework as 'increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims '.

Income statement An equivalent term for the statement of profit or loss.

Indirect cost Costs that cannot be attributed directly to units of production. Also known as overheads.

Indirect method An approach to preparing the statement of cash flows that ignores total inflows and outflows of cash from operations. Instead, the operating profit for a period is adjusted for increases or decreases in inventory, trade receivables, prepayments, payables and accruals and for the effect of non-cash items such as depreciation and profits and losses on disposal of non-current assets in order to determine the cash flows from operations.

Information asymmetry This arises in situations in which one party knows much more about a subject than another as a result of a principal delegating a task to an agent.

Insolvency The inability of an entity to repay all that it owes to its creditors.

Integrity One of the IESBA's five fundamental principles of ethics for professional accountants. This principle requires professional accountants to be straightforward and honest in all professional and business relationships.

Interest cover Trading profit divided by finance cost (interest payable). This ratio shows how many times interest payable on borrowings is covered by operating profit. The higher the ratio, the more likely entities will be able to continue paying the interest on their borrowings.

Internal rate of return The discount rate applied to the cash flows of a capital investment project to produce a net present value for the project of £Nil.

Inventory A stock of goods held by a business.

Inventory days Inventory divided by cost of sales × 365 days. This ratio measures the average stockholding period, the length of time an entity holds goods as stock before they are sold.

IRR See Internal rate of return.

Irrecoverable debts Trade receivables from which cash will not be collected. Irrecoverable debts are an expense in the statement of profit or loss, not a deduction from sales. Also known as bad debts.

ISA International Standard on Auditing.

Key factor = Limiting factor.

Last in, first out (LIFO) A method of stock valuation. The units of product that were acquired at the most recent date are those that are sold first.

Liabilities Defined by the IASB Conceptual Framework as 'a present obligation of the entity to transfer an economic resource as a result of past events'.

Limiting factor A scarcity of input resources, such as materials or labour, is referred to as a limiting factor in the production of goods or services. When input resources are scarce, entities calculate the contribution per unit of limiting factor to maximise their profits in the short term.

Liquidity The ability of entities to meet payments to their creditors as they become due.

Loan notes A long-term loan to an organisation with a fixed rate of interest and a fixed repayment date.

Management accounting Cost and management accounting is concerned with reporting accounting and cost information to users within an organisation to assist those internal users in making decisions and managing the business.

Margin of safety The difference between the current level of sales in units and the break-even point in units of sales.

Marginal cost The additional cost incurred in producing one more unit of product or delivering one more unit of service. Also known as the variable cost of production.

Materiality The IASB Conceptual Framework defines materiality thus: 'Information is material if omitting it or misstating it could influence decisions that . . . users . . . make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.'

Memorandum of Association This document covers a limited company's objectives and its powers and governs the relationship of the company with the outside world.

Money measurement The measurement of financial results in money terms.

National insurance Both employees and employers make national insurance contributions. For employees, this is a deduction from their salary and determines employees' entitlement to certain state benefits. For employers, national insurance contributions are levied on the value of each employee's gross pay. Often abbreviated to NIC.

Net present value The total of the discounted future cash inflows and outflows from a project. Projects with a positive net present value are accepted, while projects with a negative net present value are rejected.

Net profit The surplus that remains once all the expenses have been deducted from total income.

NIC See National insurance.

Nominal ledger Also known as the general ledger. The nominal ledger is an alphabetical listing of all the double-entry accounts of an entity.

Non-current asset turnover Revenue is divided by non-current assets to determine how many £s of sales are generated from each £ of non-current assets.

Non-current assets Assets held within the business long term for use in the production of goods and services. Non-current assets are retained within the business for periods of

more than one year and are not acquired with the intention of reselling them immediately or in the near future.

Non-current liabilities Liabilities due for payment more than 12 months from the statement of financial position date.

Normal level of production The expected level of production achievable within an accounting period. This level is used as the basis for allocating fixed overhead costs to products and in the valuation of inventory at the year end.

Normal losses The expected losses from a process. Normal losses are never given a monetary value.

Normal standard What a business usually achieves.

NPV See Net present value.

Objectivity One of the IESBA's five fundamental principles of ethics for professional accountants. This principle states that professional accountants should not compromise professional or business judgements as a result of bias, conflict of interest or the undue influence of others.

Operating cycle Another term for the cash conversion cycle or working capital cycle. See Cash conversion cycle.

Operating profit The profit that remains after all the costs of trading, direct (cost of sales) and indirect (distribution and selling costs and administration expenses), have been deducted from sales revenue.

Operating profit percentage Determines profitability on the basis of revenue less all operating costs before taking into account the effects of finance income, finance expense and taxation.

Opportunity cost Opportunity cost is the loss that is incurred by choosing one alternative course of action over another, the benefits given up to use a resource in one application rather than taking the next best alternative course of action. Opportunity cost is only a relevant consideration when resources are limited: when resources are unlimited there is no opportunity cost.

Ordinary share capital The most common form of share capital issued by companies conferring on holders the right to receive all of a company's profits as dividends and to vote at company meetings. Also known as equity share capital.

Par value The face value or nominal value of a share.

Payables = liabilities. A payable is an obligation to make a transfer of cash or other assets to another organisation or person in the future.

Payables days Trade payables divided by cost of sales × 365 days. This ratio measures the average period taken to pay outstanding liabilities to trade suppliers.

Payback The number of years it will take for the cash inflows from a capital investment project to pay back the original cost of the investment.

PAYE Pay as you earn. This is a deduction from gross pay to reflect the income tax due on each payment of wages or salary to an employee.

Performance ratios Ratios of particular interest to an entity's shareholders as they measure the returns to the owners of the business.

Period costs Fixed costs incurred in the administration, marketing and financing of an entity relating to the period in which they are incurred.

Periodicity The preparation of financial statements for a set period of time, usually one year.

Petty cash book A record of cash received from the bank and cash expenditure on small items such as stamps, office refreshments and cleaning. Petty cash is used to pay expenses to suppliers who do not offer credit terms to businesses.

Pre-emption rights The rights of existing shareholders to subscribe to new issues of share capital before those shares can be offered to non-shareholders.

Preference share capital Preference shares receive a fixed rate of dividend that is paid before the ordinary shareholders receive any dividend. Money subscribed for preference share capital is returned to preference shareholders before any amounts are returned to ordinary shareholders on the winding up of a company. However, preference shareholders have no right to vote in company general meetings.

Prepayments Amounts paid in advance for goods and services to be provided in the future. These amounts are recognised as prepayments at the statement of financial position date and as a deduction from current period expenses.

Present value The discounting of future cash inflows and outflows to express all cash flows in the common currency of today, thereby facilitating a fair comparison of projected cash inflows and outflows for evaluating different capital investment proposals.

Price/earnings ratio The current market price of a share divided by the latest earnings per share figure. The ratio provides an indication of how long it would take for that share to pay back its owner in earnings if the share were purchased today and earnings remained the same for the foreseeable future.

Prime cost The total direct cost of producing one product or one unit of service.

Process costing The collection and assignment of costs to products or outputs produced in a process. Process costing is used to value products or outputs that are indistinguishable from one another.

Production cost The total direct costs of producing one product or one unit of service plus the proportion of fixed production overheads allocated to products and services on the basis of the normal level of production.

Professional behaviour One of the IESBA's five fundamental principles of ethics for professional accountants. This principle states that professional accountants must comply with all relevant legislation and regulations and must avoid any actions that might bring discredit upon both themselves and the accounting profession as a whole.

Professional competence and due care One of the IESBA's five fundamental principles of ethics for professional accountants. This principle states that professional accountants should gain their qualification and then keep their professional knowledge and skills up to date to enable them to provide the requisite competence and professional levels of service to their clients or their employers.

Profit The surplus remaining after all expenses are deducted from total income.

Profit after tax The profit that remains once all the expenses and charges have been deducted from sales revenue and any other income for the accounting period added on. Also known as profit for the year or profit for the period.

Profit after tax percentage Profit for the year or period (= profit after tax) divided by revenue × 100%.

Profit and loss account Another term for the statement of profit or loss.

Profit before tax Sales – cost of sales – distribution and selling costs – administration expenses + finance income – finance expense.

Profit before tax percentage Profit before tax divided by revenue × 100%.

Profit for the year = Profit after tax.

Profit per employee Calculated by dividing the number of employees during an accounting period into the operating profit for the period.

Profitability An assessment of the profits made during an accounting period by comparing current period profits and profitability percentages to those of previous periods.

Prudence The process of exercising caution in the production of financial statements in the expectation of less favourable outcomes. Prudence is only exercised under conditions of uncertainty.

Purchase day book A listing of all purchase invoices by date, supplier, internal invoice number, gross amount, VAT and net amount. The net amount of each purchase invoice is categorised into different types of expenditure ready for posting to the nominal ledger accounts.

Purchase ledger A record of invoices and credit notes received from and cash paid to each trade payable. The purchase ledger is a record outside the double-entry system but the total of all individual purchase ledger balances should be equal to the closing balance on the trade payables control account.

Purchase listing This is an equivalent term for the purchase day book.

Purchase returns The cancellation of a purchase by returning goods to suppliers. The accounting effect of purchase returns is to reduce expenses in the statement of profit or loss and trade payables in the statement of financial position.

Purchase returns day book A listing of all credit notes (negative purchases) received from suppliers by date, supplier, internal credit note number, gross amount, VAT and net amount. The net amount of each credit note is categorised into different types of expenditure ready for posting to the nominal ledger accounts.

Purchase returns listing This is an equivalent term for the purchase returns day book.

Quick ratio Also known as the acid test ratio. The quick ratio compares current assets that are readily convertible into cash with current liabilities as a measure of an entity's short-term ability to pay what it owes over the next 12 months. This ratio should be used with caution in the evaluation of an entity's liquidity.

Ratio(s) The expression of the relationship(s) between two different figures.

Realisation Profits should not be anticipated until they have been earned through a sale.

Receivables Amounts of money owed to an entity by parties outside the organisation.

Receivables days Trade receivables divided by sales × 365 days. This ratio measures the average period taken to collect outstanding debts from credit customers.

Reducing balance A method of allocating depreciation on non-current assets to accounting periods benefiting from their use. This method uses a fixed percentage of cost in the first year of an asset's life and then applies the same percentage to the carrying amount of assets in accounting periods subsequent to year 1. The reducing balance method allocates a smaller charge for depreciation to each successive accounting period benefiting from a non-current asset's use. Residual value is ignored when calculating reducing balance depreciation.

Relevance A fundamental qualitative characteristic of financial information. To be relevant, information must be capable of making a difference in the decisions made by users. Relevant information may be predictive and assist users in making predictions about the future or it may be confirmatory by assisting users to assess the accuracy of past predictions. Relevant information can be both predictive and confirmatory.

Relevant costs The costs that will be incurred if a certain course of action is followed. Relevant costs are the costs that influence decision making.

Residual value The amount which the original purchaser of a non-current asset thinks that the asset could be sold for when the time comes to dispose of it.

Return on capital employed Operating profit (profit before interest and tax) divided by the equity of an entity plus any long-term borrowings × 100%.

Revenue Sales of goods and services made by an entity in the ordinary (everyday) course of business.

Revenue per employee Calculated by dividing the revenue for an accounting period by the number of employees employed during that accounting period.

Rights issues An issue of shares to existing shareholders at a discount to the current market price. This is not the issue of shares at a discount, which would be illegal under the Companies Act 2006.

ROCE See Return on capital employed.

Sales = revenue.

Sales day book A listing of all sales invoices by date, customer, invoice number, gross amount, VAT and net amount. The net amount of each sales invoice may be categorised into different types of sales ready for posting to the nominal ledger accounts.

Sales ledger A record of invoices and credit notes sent to and cash received from each trade receivable. The sales ledger

is a record outside the double-entry system but the total of all individual sales ledger balances should be equal to the closing balance on the trade receivables control account.

Sales listing = sales day book.

Sales price variance The difference between the standard selling price and the actual selling price multiplied by the actual quantity sold.

Sales returns The cancellation of a sale by a customer returning goods. The accounting effect of sales returns is to reduce sales in the statement of profit or loss and trade receivables in the statement of financial position.

Sales returns day book A listing of all credit notes (negative sales) by date, customer, credit note number, gross amount, VAT and net amount. The net amount of each credit note may be categorised into different types of sales ready for posting to the nominal ledger accounts.

Sales volume variance The actual sales – budgeted sales in units multiplied by the standard contribution per sale.

Sensitivity analysis Changing the assumptions on which forecasts are based to determine the effect of those changes on expected outcomes.

Share capital A source of very long-term financing for limited companies. All limited companies must issue share capital that will remain in issue for as long as the company exists.

Share premium The amount subscribed for shares in a limited company over and above the par value of each share.

Shareholders Owners of share capital in limited companies. Shareholders may be either ordinary shareholders or preference shareholders.

Stakeholder theory The theory that a business's moral and ethical values should be applied in the management of organisations for the benefit of all stakeholders rather than just for the benefit of shareholders.

Standard costing The costs and selling prices of products are estimated with a reasonable degree of accuracy. Comparisons of actual and standard outcomes are then undertaken to determine the variances between expected and actual outcomes with a view to revising standards where necessary.

Statement of cash flows A summary of the cash inflows and outflows of an entity for a given period of time.

Statement of financial position A summary of the assets, liabilities and equity of an entity at a particular point in time.

Statement of profit or loss A statement of income and expenditure for a particular period of time. Also referred to as the income statement or the profit and loss account. The statement of profit or loss also forms part of the statement of financial performance presented by entities.

Stewardship The process of looking after resources entrusted to a person.

Stock A different term for inventory.

Stock days See Inventory days.

Straight line A method of allocating the cost of non-current assets to the accounting periods benefiting from their use. The straight line method allocates the same charge for depreciation to each accounting period benefiting from a non-current asset's use within a business.

Sunk costs Sunk costs are past costs which have no influence over future decision making. Sunk costs represent expenditure that has already been incurred which no future action will change or alter.

Sustainability The long-term objective of business entities, aiming to remain in operational existence for the indefinite future.

T account Used in double entry to record and accumulate transactions. Each T account has a debit (left hand) and credit (right hand) side. The balance on each T account at the end of each accounting period is carried forward as an asset, liability or equity or written off to the statement of profit or loss as an expense or income.

Time value of money Money received today is worth more than money received tomorrow due to the impact of inflation and the uncertainty surrounding the receipt of money in future time periods.

Timeliness An enhancing qualitative characteristic of financial information. The decision usefulness of information is enhanced if it is available to users in time for it to be capable of influencing their decisions. While the decision usefulness of information generally declines with time, information that can still be used in identifying trends continues to be timely in the future.

Trade payables control account A summary account adding the opening credit balance of trade payables to the purchase day book totals for the accounting period and deducting the purchase returns day book totals, cash paid and discounts received in order to arrive at the closing trade payables balance at the end of the accounting period. The balance on the trade payables control account should be the same as the total of all the individual supplier balances on the purchase ledger.

Trade receivables Amounts owed to an entity by customers for goods and services supplied on credit.

Trade receivables control account A summary account adding the opening debit balance of trade receivables to the sales day book totals for the accounting period and deducting the sales returns day book totals, cash received and irrecoverable debts in order to arrive at the closing trade receivables balance at the end of the accounting period. The balance on the trade receivables control account should be the same as the total of all the individual customer balances on the sales ledger.

Trial balance A listing of all the debit and credit balances on the nominal ledger. The total debit balances should be equal to the total credit balances. If they are not then an error in the double-entry process has occurred.

Turnover The term used in financial statements in the UK to represent sales or revenue.

Understandability An enhancing qualitative characteristic of financial information. Understandability should not be confused with simplicity. Financial statements that excluded complex information just because it was difficult to understand would not result in relevant information that was faithfully presented. Reports that excluded such information

would be incomplete and would thus mislead users. Readers of financial reports are assumed to have a reasonable knowledge of business and economic activities in order to make sense of what they are presented with but when they are unable to understand the information presented, then the IASB recommends using an adviser. To help users understand information presented, that information should be classified, characterised and presented clearly.

Unfavourable variances Differences between actual and budgeted results arising from lower income or higher expenditure.

Unsecured Loans for which no assets of an entity have been pledged in the event that the entity fails to repay the amounts borrowed.

Variable cost The costs of a product or service that vary directly in line with the production of a product or delivery of a service. Also known as the marginal cost of a product or service.

Variable overhead efficiency variance The time taken to make the goods actually produced compared with the standard time that should have been taken to make those goods multiplied by the standard variable overhead rate per hour.

Variable overhead expenditure variance The variable overhead actually incurred in the production of goods compared with the standard expenditure that should have been incurred for the level of actual production.

Variances Differences between expected, forecast or budgeted and actual financial results.

Verifiability A qualitative characteristic of financial information that enhances the usefulness of information that is relevant and faithfully represented. Verifiability provides users with assurance that information is faithfully presented and reports the economic phenomena it purports to represent. To ensure verifiability, it should be possible to prove the information presented is accurate in all major respects. The accuracy of information should be capable of verification by observation or recalculation.

Weighted average cost A method of valuing closing inventory. The weighted average cost valuation divides the total costs incurred in an accounting period by the number of units produced or purchased during the same period to calculate the average cost of each unit of production or goods for resale. This average cost is then used to calculate the costs of goods for resale or finished goods and work in progress produced during the period.

Work in progress Units of production which are partially complete at the end of an accounting period. Units of work in progress are completed in the next accounting period.

Working capital Current assets less current liabilities.

Working capital cycle See Cash conversion cycle. This is another term for the cash conversion cycle which is also known as the operating cycle.