

Baker's Bookkeeping

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Glossary of Bookkeeping Terms

Accrual Amounts owed by the business at the end of an accounting period but not yet recorded in the books, such as electricity used in the period for which an invoice has not yet been received.

Advice Note Sent by a supplier to inform that goods will be delivered in response to an order.

Asset Property of the company such as buildings, equipment, cash etc.

Bad debt Amount owed to the business which the debtor cannot pay. If it cannot be collected it is treated as an expense and deducted from the debtors amount.

Balance Sheet Part of the Final Accounts of a business. Contains assets and liabilities.

Bank Reconciliation To compare the bank balance as recorded by the business with the relevant bank statement and explain or correct any differences.

Cash book A sub-division of the ledger for recording cash and bank transactions.

Capital Money owed to the owner of a business – Capital invested plus net profit.

Capital Allowance Effectively depreciation but rules are provided by HMRC on how this should be calculated for the purpose of tax returns.

Capital expenses Costs incurred on acquiring and improving fixed assets.

Capital income Finance invested in a business by the owner or and outside source.

Credit Note Issued by the supplier in the instance of some or all of the goods either failing to be delivered or returned due to being faulty.

Creditors Parties owed money by a business.

Current assets Assets that the business expects to turn into cash within a 12 month period.

Current liability a liability that has to be paid within a period of less than a year (e.g. suppliers outstanding invoices).

Debtors Parties who owe money to the business.

Depreciation Shows a reduction in the value of a fixed asset and is calculated using a variety of methods. This is shown as a revenue expense to the business and spreads the capital cost of the asset over a period of time.

Double Entry Method of bookkeeping believed to have been introduced in the 15th Century. Every transaction affects two account balances and involves two entries (a debit and a credit).

Drawings Money withdrawn from the business for the owner's personal use.

Final Accounts The end of year accounts of a company comprising the Trading, Profit & Loss Account and the Balance Sheet.

Fixed Asset An item expected to be in the company for at least two years such as a building, vehicle etc.

General ledger The ledger containing all accounts of the business other than those contained in the cash book, sales ledger or purchase ledger.

Gross Profit Sales minus purchases of materials that relate directly to the production of items sold.

Invoice Document issued by a supplier giving details of goods or services sold and the amount charged.

Journal Not strictly part of the accounts but used as a diary to give details of purchases of fixed assets, year-end adjustments and error corrections.

Ledger The main book used for recording a business's transactions. Even if the accounts are in fact held in a computer file, rather than a book, this is still known as a ledger.

Liability Money owed by a business .

Long-term liability a liability that only has to be paid over a term longer than one year (e.g. a bank loan).

Net current assets Current assets less current liabilities; often known as 'working capital'.

Net Profit In simple terms, total income earned minus total expenses incurred over a given period. Capital expenditure and capital income are not included in calculating net profit.

Petty cash book A subsidiary of the cash book where relatively small cash transactions are recorded.

Prepayment An amount paid in advance by a business at the end of an accounting period, such as a payment for insurance cover which still has three months to run.

Purchase Ledger Contains the accounts of suppliers who sell to the business on credit.

Reserve An accumulation of profits for a general or specific purpose.

Revenue Expenses Costs incurred during the normal day-to-day running of the business.

Revenue income Income earned from the normal trading or profit-making activities of a business.

Sales Ledger Contains the accounts of customers who buy from the business on credit.

Settlement Discount A discount offered on the condition that the bill be paid within a specified period.

Trade Discount A reduction in the price of goods, usually to a regular customer. Not usually recorded in the books.

Trading, Profit & Loss Account Part of the final accounts of a business showing sales, cost of sales and expenses which enable gross and net profit to be calculated.

Trial Balance Lists the accounts and balances of the business. Debit and credit balances are totalled to ensure that both sides are equal. If they are not, then an error exists in the recording of the transactions.

Turnover Amount of business income from sales.