

We hope that the following list of definitions is useful to you. It is by no means a definitive list and will probably grow during the history of this site. Most of the terms require far longer statements to explain them fully but we have tried to make them as simple as possible.

GLOSSARY OF BOOKKEEPING TERMS

Accrual An expense due but not yet recorded in the books, such as wages paid in arrears.

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

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 that bank statement and explain or correct any differences.

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

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

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.

Debtors Parties who owe money to the business.

Depreciation Shows a reduction in the value of a fixed asset. Shown as an expense to the business and various methods are used.

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Drawings Money withdrawn from the business for the owner's personal use.

Expenses Costs incurred for the purpose of running the business. This does not include the purchase of a fixed asset.

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.

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

Liability Money owed by a business.

Net Profit In simple terms, sales minus expenses but there are other items in the equation.

Prepayment Payment for a service which covers a period beyond the business year end, such as insurance cover which still has three months to run.

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

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.