GLOSSARY

A

ABN
Shorthand for Australian Business Number. This is a new business identifier which serves as a GST registration number and will be used for other purposes such as the *Pay As You Go system.

ACCOUNT
A formal record that represents a single aspect of business such as money, assets and resources.

ACCOUNTS PAYABLE
The amount owed to suppliers for goods or services.

ACCOUNTING PERIOD
The time period of when financial statements are prepared. Most accounting periods are calculated on a monthly, quarterly or yearly basis.

ACCOUNTS RECEIVABLE
The amount due from invoices issued to clients or customers when payment has not been received.

ACCRUAL METHOD
Where accounting records are kept based on invoices raised and bills due for payment. This compares with the cash basis which reports based on cash received and payments made.

ACCRUALS
Expenses that have been incurred but not paid, such as salaries or the interest payable on a loan. Estimates of these items should be included in profit and loss accounts and adjusted when the invoice is received.

AGING
When accounts receivable are sorted by age. Aging is often used to focus on accounts that are overdue. Typical periods are 30, 60 and 90+ days.

AMORTISATION
A regular repayment of an asset over a fixed time period. For example, if a $12,000 loan is amortized over one year without any interest, the monthly repayments will be $1,000.

ANNUAL REPORT

Often called Annual Financial Statements that includes the company's balance sheet, trading statement, profit and loss statement and notes to the accounts.

APPRECIATION

When an asset increases in value. For example, if an investment (eg share or property) was purchased for $1,000, but goes up in value to $1,100 the next year, the appreciation is $100. Appreciation is the opposite of depreciation.

ARREARS

Bills that haven't been paid. For example, rent that is three months late is considered three months in arrears.

ASSETS

Things of value that a business either owns or is due, such as physical property, money, vehicles, stocks and certain rights. ***Fixed Assets*** include land, buildings, machinery, vehicles and long-term investments that can't be turned into cash without affecting the day-to-day operation of a business. ***Current Assets*** include cash, accounts receivable and inventory that can be turned into cash quickly. ***Intangible or Non-Current Assets*** include patients, copyright, trademarks, licenses or anything that has value but can't be touched physically.

AUDIT

The process of reviewing financial records to verify their accuracy and completeness. Internal auditing is performed by accountants within an organisation while independent auditing is performed by an outside party.

B

BAD DEBT

Invoices owen to the business where the client or cutomer is unable to pay due to liquidation or bankruptcy.

BALANCE SHEET

A statement that discloses the financial position of a business with a summary of the entity's assets and liabilities. Balance sheets are usually prepared at the end of each financial year

BANKRUPTCY

When an individual has more liabilities than assets and can't meet the payment requirements. The individual can declare bankruptcy or one of their creditors may force them into bankruptcy.

BUSINESS ACTIVITY STATEMENT (BAS)

This is a form which is used as the return for GST and various other taxes, such as wine equalisation tax, luxury car tax, FBT instalments, income tax withholding and instalments, and deferred company tax instalments.

C

CAPITAL
Money invested by business owners in order to acquire assets and begin operation.

CAPITAL GAINS TAX
When an investment is sold for a profit, the profit may be subject to capital gains tax.

CASH ACCOUNTING
The accounting method that reports income based on cash received and expenses based on payments made.

CASH FLOW
The amount of money that is generated by the business throughout a specific accounting period.

CASH FLOW FORECAST
The predicted cash flow of an upcoming financial period.

CHART OF ACCOUNTS
A list of the different classifications used by a business to detail their income, expenses, assets and liabilities.

CHARGE BACK
When a cardholder cancels a credit or debit card transaction before it has been processed.

COST-BASED PRICING
A pricing method where companies base their fees on the cost of manufacturing.

COST CENTRE
When companies split up expense accounts into separate departments to determine which department is spending the most money.

CREATIVE ACCOUNTING
A questionable way of making the accounts appear more or less appealing to shareholders than they actually are.

CREDIT
Business credit is when a supplier agrees to allow the buyer to pay after (typically 30 to 60 days) receiving the goods. In bookkeeping a credit is how income is entered and also how liabilities are taken up in accounting records.

CREDIT NOTE
A document that is sent to a customer which cancel's their debt. Usually issued for defective goods or poor service.

CREDITORS
Suppliers that a business owes money to.

CURRENT ASSETS
Assets than can be turned into cash quickly. Examples include money in the bank, money owed (accounts receivable), petty cash, raw materials and stock.

CURRENT LIABILITIES
Obligations that must be settled within a year or are essential to the day-to-day operation of a business. Examples include bank overdrafts, short-term loans and bills owed to suppliers.

D

DEBTORS DAYS
The number of days on average that it takes for your clients or customers to pay their invoices.

DEBTORS
Customers who owe money to a business.

DEFERRED EXPENDITURE
Expenses that aren’t relevant or included in the present accounting period are declared deferred expenditure as non-current assets. They are transferred to a profit and loss account only when the expenditure is effectively utilised in the business.

DEFERRED INCOME
Income that is received or recorded before it is earned.

DEFICIT
When liabilities exceed assets.

DEPRECIATION
When the value of an asset decreases with time. Depreciation is usually a percentage and calculated at the end of each financial year.

DRAWINGS
Money that is taken by a company owner for their own personal use. Not to be confused with wages.

E

EARNED INCOME
The amount of wages, salary or service fees earned as compensation for products or services.

EBIT
An abbreviation for “earnings before interest and tax.”

EBITDA
An abbreviation for “earnings before interest, tax, depreciation and

amortization."

EQUITY
The owners' share of a company. On a balance sheet equity represents the shareholders' investment and retained earnings or losses. Or it represents the net worth of a company minus the total liabilities.

EXPENDITURE
Anything that is purchased for a business –stock, payment of salaries, etc. Expenditure affects income and profits and usually involves cash transactions.

F

FINANCIAL STATEMENTS
Documents that present financial data such as balance sheets, profit and loss statements and cash flow.

FINANCIAL YEAR
A period of 12 consecutive months chosen by a business as their accounting year. The financial year begins on 1st July and closes on the 30th of June the following year.

FIXED ASSET
An asset with a lifespan that exceeds one year, such as vehicles, property, machinery and other long-term investments.

FIXED COST
A cost that remains the same, such as salaries and rental agreements.

FORECAST
An estimate of the future finances of a company based on assumptions of past performance.

G

GENERAL LEDGER
A accounting system for compiling all of a company's accounting information. It provides all of the required data for preparing financial statements.

GOODWILL
The value assigned to the business that is its intrinsic value. Goodwill usually only arises when part of a business acquisition.

GROSS MARGIN
The difference between the cost of a product or service and the selling price expressed as a percentage. For example, if a product is sold for $100, but costs $70 for manufacture the gross margin would be 30%.

GST
Shorthand for goods and services tax.

GST-FREE
If a supply is GST-free, this means that no GST is payable on it. GST-free can relate to supplies such as international travel, health, education and donations. GST-Free can also relate to income such as export sales.

H

HISTORICAL COST
The original price of an asset, stock or material.

I

INCOME
The money a business receives for its commercial activities.

INCOME STATEMENT
A financial statement that summarizes revenue, expenses and profit. Also known as a profit and loss statement.

INCORPORATION
The date in which a business is legally established.

INPUT TAX CREDIT
This is a credit for the GST payable on your business inputs. To claim the credit, you must be registered and be carrying on an enterprise. Input tax credits are offset against the GST you charge on sales in each tax period.

INVENTORY
The supply of stock or goods that a business has for sale.

INVESTMENT
The purchase of products or services that could increase profit e.g. shares and real estate.

J

JOURNAL ENTRY
Entries in the accounting system to reflect transactions that may not affect cash or to correct erros in the processing of cash transaction entries.

JOINT VENTURE
A business structure where two or more business entities combine together to undertake a specific business project. Most joint ventures are carried out as business partnerships and make both parties responsible for the whole operation.

K

KEY PERFORMANCE INDICATORS
A quantified measurement used to calculate the performance of a business.

L

LEASING
A rental agreement that grants a person or business the use of an asset for a certain amount of time.

LEDGER
A financial record that keeps track of business transactions.

LIABILITIES
Debts or obligations that are owed from one entity to another for money, goods or services. ***Current liabilities*** are amounts that are due within one year and usually include loans and taxes, etc. ***Long-term liabilities*** are obligations that aren't due for more than one year such as mortgages and bonds.

LONG-TERM LIABILITIES
Financial obligations that aren't due for more than one year. Examples include mortgages and long-term loans.

LOSS
When expenditure exceeds revenue.

M

MANAGEMENT ACCOUNTING
When reports are tailored to suit the needs of company managers or directors. The purpose of management accounting is to help management make better decisions.

MARGIN
The difference between revenue and expenses.

N

NET ASSETS
The value of cash and assets minus liabilities.

NON-CURRENT ASSETS
Assets that don't meet the criteria of a fixed or current asset. Non-current assets can't be touched. Examples include trademarks and copyrights, etc.

O

OPERATING ACTIVITIES
The principal non-investment activities that keep a business operational.

OPERATING CYCLE
The period of time between the purchase of goods or services and the final delivery.

OVERHEADS
The cost of running a business. Costs associated with production or sales are not included in overheads, only costs that consist of expense accounts, such as salary and rent.

PAY AS YOU GO - P.A.Y.G
This is the system for withholding tax. People subject to PAYG withholding will generally not be subject to GST, except where they have entered into a voluntary agreement in an input taxed industry. PAYG Withholding relates to taxes deducted from salaries and wages paid to staff. PAYG Income tax

instalment is an estimate of income tax payable for the year.

PRE-PAYMENTS
An amount paid for in advance, such as insurance or rent for the forthcoming year. Pre-payments usually last for a certain period of time and will expire on a fixed date.

PROFIT
The overall revenue of a business minus expenses.

PROFIT AND LOSS STATEMENT
A financial statement which shows the revenue, expenses and profit for a certain financial period.

R

RECEIPT
A confirmation of payment, usually in written form.

REPLACEMENT COST
A measure used to calculate the cost of replacing an asset or liability.

RETURN ON INVESTMENT (ROI)
A profitability ratio most frequently calculated by dividing the gain from the investment by the cost of the investment. ROI is a very popular metric due to its simplicity. If an investment doesn't have a positive ROI, it should not be undertaken.

REVENUE
The income of a business. Examples include sales from goods or services, and earnings from interest and dividends.

RISK
The possibility of financial loss. High risk investments require a higher return than low risk investments.

S

SALES
The total income received from selling goods or services.

SECURED LOAN
A loan where the borrower pledges a particular asset in exchange for a loan. The lender then uses this asset as collateral.

STOCK
Goods that are manufactured for sale or purchased for re-sale. Stock can also refer to shares within a limited company.

STOCK HOLDING PERIOD (INENTORY DAYS)
The average number of days in which inventory is held before a sale.

STRAIGHT-LINE DEPRECIATION

A method of estimating the financial wear-and-tear of an asset based on its expected use. The amount of straight-line depreciation is the asset price divided by the estimated number of useful years remaining. For example, the straight-line depreciation of an asset worth $5,000 that is expected to last five years is $1,000.

T

TANGIBLE ASSETS

An asset of a physical nature, such as buildings, vehicles and machinery.

TAXATION

The levying of tax by the government against a person or business.

TAX INVOICE

This is a special type of invoice that contains specified items of information including the supplier's Australian Business Number (ABN). Generally, you must hold a tax invoice for a purchase or acquisition at the time you lodge your GST return for the period in which the claim for an input tax credit is made.

V

VALUATION

A process which involves determining the worth of a company's assets.

VARIANCE

The difference between the estimated cost and the actual cost. An adverse variance is when the actual cost exceeds the planned cost; while a favourable variance is when the actual cost is cheaper than the planned cost.

W

WAGES

Payments made to employees for their services. Wages are classified as business expenses.

WORKING CAPITAL

The excess of current assets minus current liabilities. In most circumstances working capital is defined as the cash, accounts receivable and stock, minus the accounts payable. As a business grows the need for more working capital increases.

Amanda Fisher is a Chartered Accountant who is passionate about helping business owners understand their numbers.

Amanda has worked principally with successful small to medium sized business owners for over 30 years so she understands first hand the challenges and stresses of running a business.

Amanda helps business owners to unscramble their numbers for improved cash flow and better business outcomes.