

## Accounting Terminology

### Editorial

This article covers important terminology embedded in the Level 3 Diploma syllabus although parts of it will be relevant to all our students.

The final question on recent level 3 diploma papers has focussed on accounting terminology.

Firstly let us consider the layout of a Balance Sheet of a Limited Company.

<b>Balance Sheet of Crescent Feeds Ltd</b>	
<b>as at 31 December 2006 (not in published format)</b>	
<b>Fixed Assets</b>	xx
Intangible Asset	xx
<b>Current Assets</b>	
Stocks	xx
Debtors and pre-payments	xx
Cash	xx
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	xx
<b>Less:</b>	
<b>Current Liabilities</b>	
Creditors and accruals	xx
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<b>Net Current Assets</b>	xx
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<b>Total Assets Less Current Liabilities</b>	xx
<b>Less Long Term Liabilities:</b>	
Loans	xx
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<b>Net Assets</b>	xx
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Share Capital	xx
Share Premium	xx
Revenue Reserves	xx
Revaluation Reserve	xx
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Shareholders' Funds	xx
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We will now consider some important definitions:

**Capital Employed** is defined as Total Assets Less Current Liabilities and can be clearly seen on the Balance Sheet format above. It can also be defined as Shareholders' Funds plus Long Term Liabilities.

**Shareholders' Funds** comprise Share Capital plus Reserves and are those funds attributable to the Ordinary Shareholders. It is often termed Equity.

**Asset:** An asset is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow. (International Accounting Standards Board (IASB))

**Liability:** A liability is a present obligation of the entity as a result of past events and from which future economic benefits are expected to flow (IASB)

**Equity:** is the residual interest in the assets of the entity after deducting all the liabilities. It is reflected in the Accounting Equation:  $\text{Assets} - \text{Liabilities} = \text{Ownership Interest}$

**Net Current Assets:** this comprises Current Assets minus Current Liabilities and was often previously described as Working Capital. Net Current Assets is the term used in the latest accounting standards and the one that should be used when presenting a Balance Sheet.

**Intangible Asset:** An appropriate example of an Intangible Asset is Goodwill. An Intangible Asset is defined as an asset that does not have a physical identity in that it is not tangible.

**Share Premium:** A share premium arises when shares are issued at a price in excess of their Nominal Value.

**Revaluation Reserve:** A revaluation Reserve arises when a Tangible Asset (usually Land and Buildings) has a revaluation in excess of its current carrying value (the Balance Sheet value or Written Down Value)

**Revenue Reserves** comprise the accumulation of retained earnings over time. It is the profit retained that is attributable to the Ordinary Shareholders.

**Net Assets** is simply Fixed Assets (tangible and intangible) plus Net Current Assets less Long Term Liabilities. It can also be said that Net Assets are equal to Shareholders' Funds.

I hope that this short paper has been of use and that you fully understand the meaning of these important terms relevant to Limited Company Accounts.