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[www.bookkeepers.org.uk](http://www.bookkeepers.org.uk)

## **Basic Terminology and Accounting Concepts**

**Trainee bookkeepers are faced with a whole new vocabulary. At all stages of the ICB examinations, terminology is introduced relating to concepts, systems, methods and techniques. Here are some key terms that you will need at the start of your journey studying bookkeeping and accounting, knowledge of which will stay with you throughout your career.**

### **Account**

Record of monetary transactions in a structured manner and kept as part of the accounting system.

### **Accounting Equation**

Assets – liabilities = ownership interest

### **Accruals or Matching Concept**

This is the principle that revenues and costs are matched against each other and are charged to the primary financial statement – the profit and loss account – for the period to which they relate, not the period in which they are received or paid.

### **Assets**

The UK Accounting Standards Board's Statement of Principles defines these as 'Rights or other access to future economic benefits controlled by an entity as a result of past transactions or events.'

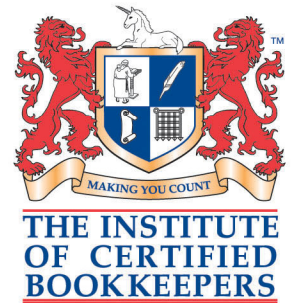
### **Fixed Assets**

These are any asset, 'tangible' or 'intangible', acquired and held by a business for the purpose of 'adding value' to business activity in the long term and not held for resale in day-to-day trading, for example, land, buildings, plant and machinery and 'goodwill.'

### **Current Assets**

Cash plus other assets (such as stock, debtors, and any short-term investments) that are held and converted to cash in the short-run course of trading.

### **Net Current Assets *see* Working Capital**



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### **Balance Sheet**

A statement that shows the financial position of a business at a point in time. It discloses assets, liabilities and accumulated funds as owners' contributions and retained profit. It is supposed to show a true and fair view of the financial position at a given date.

### **Bank reconciliation statement**

This reconciles, at a point in time, the balance in the cashbook with the balance on the bank statement.

### **Bookkeeping**

The recording of financial transactions, classified and kept in books of account, either manually or by computerised methods.

### **Consistency**

This means that the accounting treatment of items must be applied consistently from one accounting period to another. This applies to areas such as depreciation and stock valuation.

### **Control Account**

A total account maintained as a memorandum account, used as a reconciliation device on a division of the ledger. So, when debits or credits are posted to individual accounts in the sales ledger, the total of these is posted to the sales ledger control account. The balance on the control account should equal, at any time, the total of balances on the individual accounts.

### **Current Liabilities**

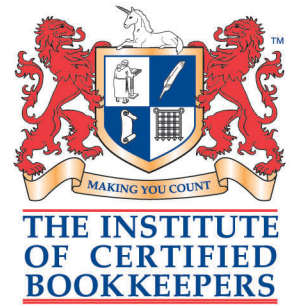
Those liabilities falling due within a year. This will also include any portion of a long-term loan that is payable during that year.

### **Double Entry Bookkeeping**

The most common of all bookkeeping systems, this is based on the principle that each financial transaction involves the giving and receiving of benefit.

### **Financial Accounting**

CIMA defines this as 'The classification and recording of monetary transactions of an entity in accordance with established principles, accounting standards and legal requirements and presentation of a view of the effect of those transactions during and at the end of an accounting period.'



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### **Going Concern**

Expresses the idea that a business entity will continue to operate in the foreseeable future.

### **Ledger**

A group or series of accounts put together constitute a ledger. For example, a number of supplier accounts (creditors) would make up the purchase ledger. The main divisions of the ledger are:

- General or nominal ledger
- Sales ledger
- Purchase ledger
- Cash Book

### **Nominal Account**

A monetary record of revenues, expenditures and certain assets and liabilities classified by their nature – eg. Purchases, sales, wages, overheads, stocks or capital.

### **Petty Cash Account**

A financial record of relatively small cash receipts and payments. Usually dealt with under the imprest system.

### **Prudence**

This is based on the principle of conservatism and means that a business should not lay claim to profit before it has been earned with reasonable certainty but should anticipate and write off losses it expects to incur.

### **Trial Balance**

A list of account balances taken from the divisions of the ledger in a double entry system. The total debit balances should equal the total credit system.

### **Working Asset or Net Current Assets**

The excess of current assets over current liabilities, this is the pool of liquid resources that is used to conduct day-to-day 'value-adding' activities.