ACCOUNTING TERMS
Demystified

CASHFLOW manager

For many small business owners, accounting can sometimes feel like a different language.

And when that happens, it sure isn't comforting.

Having a good understanding of bookkeeping terms is crucial to understanding your business as a whole, and especially so as it grows in size.

The good news is, we've compiled this handy guide on some of the most common accounting terms that you'll come across in your business journey.

A.

Accounting period

The duration of time when financial statements are prepared. Accounting periods can vary, but most are calculated on a monthly, quarterly or annual basis.

Accrual accounting

This is a method of accounting that records income when an invoice is sent to a customer – rather than when the money is actually received. Similarly, when a bill is received it is recorded as an expense even when money has not yet changed hands. This method is opposed to **Cash Accounting.**

Accounts payable

A payable is an amount that needs to be paid to suppliers for goods or services, tax payments, bills for utilities or similar. Generally, accounts payable is a record of all short-term (fewer than 12 months) bills, invoices and other liabilities that are still owed.

Accounts receivable

Receivables are the amounts due to arrive soon. After selling or providing a service to a customer (who can be called a 'debtor' in the context of a business), the accounts receivable is the record of the amount of money owed for the goods or services that have been provided.

Arrears

Invoices or bills that haven't been paid. A common phrase is "in arrears", which usually appears with the length of time a bill is late.

Assets

Put simply, assets are things that can be owned. Whether it's cash, or objects that can be sold for cash (for example, equipment or property), assets are objects of value. There are different types of assets, including fixed assets (like vehicles and machinery - things that will impact the day-to-day operations of a business if they're sold), current assets (cash or inventory), and intangible assets (non-physical items that have value, like copyright or trademarks).

Audit

This is a process where financial records are closely checked to make sure that everything has been accounted for correctly and comprehensively. Internal auditing may be performed by accountants within a business, while independent auditing is a check by an outside party (like an auditor or a tax official).

B.

Bad debts

These are debts that are unlikely to be paid in the short term. Companies recognise bad debts, and these can sometimes be deducted as an expense.

Balance sheet

A record featuring the financial information about a business at a particular time. Balance sheets typically include a record of the business's assets, liabilities and net assets as of a specific date.

Bank reconciliation

This practice is done to keep track of money if the financial records of a business appear to be different to the records kept by the bank. Bank reconciliation will carefully analyse both the records, making comparisons and identifying any differences between
the accounts.

Balloon payment

In the context of a loan agreement, a balloon payment is a final lump sum payment that is larger than the previous repayment instalments.

Bankrupt

A state that an individual or company can experience if it has more liabilities than it has assets. Creditors usually declare bankruptcy. In the case of a limited liability company, the term "insolvent" is used.

C.

Capital

Cash or property owned by a business. Generally, business owners will purchase capital with money to acquire assets.

Cash accounting

A type of accounting system that records income and expenses only when money has changed hands - rather than when an invoice or bill is issued. This system of accounting is opposed to Accrual accounting.

Capital gains tax

A type of tax that a profit may be subject to when that profit came from the sale of certain types of assets, such as shares, property and various other assets.

Cash flow

The amount of money being generated by a business over a specific time period.

D.

Debtor

A person or business that owes money to another business.

Default

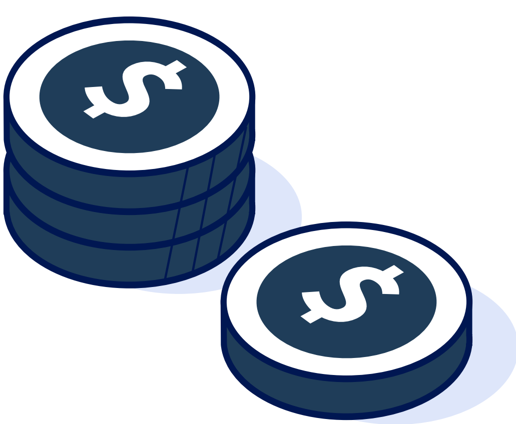
When a loan or other debt can't be paid, a default has occurred. It could be by a company who fails to pay a loan to another business, or meet a financial obligation to one of their creditors.

Deficit

This can refer to a number of different situations when earnings are negative. For example, when expenses exceed revenues, liabilities exceed assets, or imports exceed exports.

Depreciation

When the value of an asset decreases over time, the process of depreciation is happening. It is usually expressed as a percentage and is calculated at the end of each financial year.



E.

Expenditure

Any money that is spent for business purposes, like stocks or the payment of salaries. This usually involves transactions of cash, and affects income and profits.

Equity

The owners' share of a company is equity. It is calculated by deducting liabilities from assets.

Excise duty

An indirect tax that is placed on certain types of goods produced or manufactured in Australia, including, but not limited to, alcohol, petrol, tobacco and coal.

F.

Financial statement

A record of the financial position of a business during a particular period. This typically includes a profit and loss statement, cash flow statement and a balance sheet.

Fixed interest rate

A type of interest rate on a loan. A fixed interest rate means the interest rate stays the same either for the entire term of the loan or for a set duration of the term.

Forecast

Predictions that help to plan a more accurate budget, including a list of expected future financial transactions.

Fringe benefits

Benefits, other than money, that may be included as part of a salary package. For example, laptops or company vehicles.

G.

Gross income

The total amount of money that a business makes, before deducting expenses.

H.

Hire-purchase

A specific type of contract which outlines the purchase of a good through an initial deposit. These contracts will see the person who made the purchase rent the good and pay it back in instalments (plus interest charges), until the final payment is made, the ownership of the good then transfers to the purchaser.

I.

Insolvent

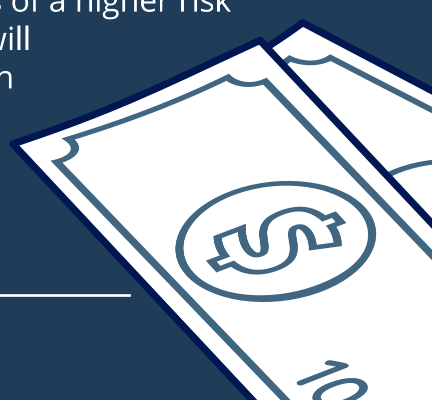
When a company or business is insolvent, they have more liabilities than assets and they are unable to pay their debts.

Intangible assets

Assets that are not physical and have no fixed value, like intellectual property rights or goodwill.

Interest rate

The cost of borrowing money or the amount you will earn (if you are the one setting an interest rate) is expressed as a percentage of the loan. Interest rates vary, but generally if a loan is of a higher risk level, the interest rate will be higher. Two common types of interest rates are variable rate and fixed rate.



L.

Liability

An amount owed, usually a financial expense.

M.

Margin

Expressed as a percentage, a margin is the difference between buying and selling prices, and tells you how much of your income is gross profit.

Markup

Expressed as a percentage, a markup is the difference between your buying and selling prices. It tells you how much you increase the prices of the things you sell from their original prices.

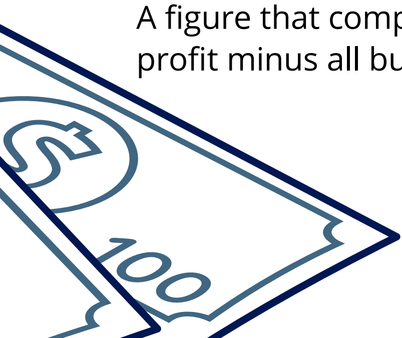
N.

Net assets

A figure that comprises total assets minus total liabilities.

Net profit

A figure that comprises the total gross profit minus all business expenses.



P.

Profit

A figure that comprises the total revenue of a business minus the total expenses.

Profit and loss statement

A statement that details the incomes and expenses of a business. Profit and loss statements can be used to identify gross and net profits.

R.

Return on investment

A calculation that determines how efficient a business is at creating profit from the original equity invested by the owners or shareholders.

Revenue

The amount a business has earned before tax and other expenses or deductions.

S.

Stocktaking

A process that typically occurs on a continual, regular basis that involves physically counting the supplies actually held by a business to confirm stock records and accounts.

T.

Tax invoice

A document that requests the money required for the supply of goods or services at a certain price. Tax invoices are required to claim GST credits.

V.

Variable cost

Used in the context of goods being produced or the demand for products or services, this is a cost that changes based on how circumstances change.

Variable interest rate

This is used in the context of loans. A variable interest rate means the interest rate of a loan changes to align with market conditions, for as long as it takes for the loan to be paid off.

W.

Working capital

Money that a business can access on a day-to-day basis for their expenses.

Looking for a term that's not here?

[Check the Australian Government's business finance glossary.]

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