Glossary

accept or reject decision (p.31) a decision in which it is only possible to accept or reject an option.
Accounting Quadrant (p.47) a simple learning device for illustrating the basic principles upon which transactions are recorded and processed within the accounting system, and upon which the main financial statements are based.
Accounting Standards Board (ASB) (p.92) the ASB is the body that produces UK Financial Reporting Standards (FRS).
accrual (p.78) a liability, which shows that the business has already benefited from goods/services that have not yet been paid for, e.g. a telephone bill outstanding at the end of an accounting year.
allocation of fixed costs (p.36) sometimes called overhead recovery, these techniques allow allocation or 'recovery' of some amount of fixed costs within the cost of the product or service.
asset (p.48) a resource that a business owns or has a right to use.
asset turnover ratio (p.130) measures the efficiency with which assets have been used to generate sales.
audit (p.3) the statutory checking of financial records and statements by an auditor.
audit committee (p.230) oversees the relationship between the board and the internal and external auditors.
auditor's report (p.95) a formal statement in the company's annual report by its auditors on whether the accounts show a true and fair view (*q.v.*).

balance sheet (p.50) the financial statement that gives a snapshot of the assets and liabilities of a business at a particular point in time.
balance sheet gearing ratio (p.136) measures the proportion of debt to equity capital used by a business.
'best or worst' analysis (p.38) within decision analysis, an attempt to calculate the best and worst outcomes in order to provide the decision-maker with a sense of risk.
bookkeeping (p.68) the process of recording financial transactions in a systematic manner.
books of account (p.46) records of the financial transactions that have been undertaken by the business.
'bottom line' (p.58) the profit or loss figure displayed at the bottom of the profit and loss account (*q.v.*).
bottom-up budget (p.166) a budget set by involving of all levels of management.
break-even chart (p.15) a graphical representation of costs against revenues for an activity, to determine when break-even point (*q.v.*) is reached.
break-even point (p.12) the level of activity at which revenues exactly equal costs and neither profit nor loss is made.
budget process (p.158) a process that includes the preparation of budgets and the monitoring of actual performance against those budgets.
budgetary control (p.158) the use of budgets as a control on the activities of all areas of the business. Control is achieved through the monitoring of actual performance against agreed budgets.
budgeting (p.157) financial planning which reflects the impact of strategic and project plans over the short term (usually a period of one year). Budgets normally include financial projections for revenues, expenses, assets, liabilities and sources of finance.
budgets (p.156) organisational plans that are quantified in financial terms. Normally the budgets cover a period at least 12 months ahead.
business plan (p.156) an overall review of the strategy and plans for the business, including key targets and financial budgets.

capital expenditure (p.2) expenditure on fixed assets.
capital expenditure budget (p.163) the budgeted spend on fixed assets during the budget period.
carrying value (p.113) the amount at which an asset is shown in the accounts – this may have been subject to revaluation, devaluation and/or depreciation since the asset was first acquired.

cash budget (p.170) a detailed budget showing expected flows of cash in to and out of the bank account during the budget period.
cash-flow budget (p.170) an overall view of the business's cash flows – essentially a statement of changes between two balance sheets (*q.v.*). This budget indicates the total anticipated change to working capital and cash balances during the budget period.
cash-flow cycle (p.106) a representation of how cash is used in the operations of the business.
cash-flow statement (CFS) (p.50) a financial statement which gives a complementary view to the profit and loss account (*q.v.*) in explaining what has happened in terms of cash flows in and out of the business during the accounting period.
chairman's statement (p.116) a non-statutory address to shareholders by a company's chairman included with the annual report.
chairperson (p.230) senior director who acts as the chairperson of the board.
chief executive (p.230) senior executive director who directs the company on a day-to-day basis.
closing stock (p.73) the total stock held by the business at the end of the financial period.
comparability (p.97) the feature of accounting information which allows a user to compare between companies and between accounting periods within an organisation because the same principles and policies have been used in preparing the information.
concepts (p.96) general rules that people have agreed to abide by.
consolidated accounts (p.116) the annual report produced by a parent company giving the overview for a group of commonly owned companies.
contribution (p.11) the amount left over from revenues (after paying all variable costs) which 'contributes' towards paying for the fixed costs and giving the business a profit.
corporate (p.17) relating to a company or business activity.
corporate governance (p.229) controlling the direction of the activities of businesses to make them more accountable to a broader constituency than shareholders (*q.v.*) alone.
cost behaviour (p.10) the set of techniques and concepts that attempt to explain how business costs relate to levels of activity.
cost of capital (p.202) the overall opportunity cost of money for a business, weighted according to the various sources of funds used.
cost of goods sold (p.50) the input or purchase price of items sold during one accounting period.
cost-volume-profit (CVP) analysis (p.15) the graphical representation of costs, revenues, and profit levels (dependent variables) against activity or output (independent variable).
credit (p.57) in double-entry bookkeeping an entry on the right-hand side of the ledger, recording income or liabilities.
creditor turnover (p.134) measures how many days on average a business takes to receive funds from its creditors.
creditors (p.50) businesses or persons who supply the business with goods on credit terms; usually payable one month after delivery – in short, people or businesses to whom the business owes money.
current ratio (p1.31) a liquidity ratio – the ratio of current assets to current liabilities. It measures how easily a firm is able to meet its short-term financial obligations or in other words the extent of working capital held within a business.

debit (p.57) in double-entry bookkeeping an entry on the left-hand side of the ledger, assets or expenses (*q.v.*).
debtor turnover (p.133) measures how many days on average the business takes to collect money owing from its debtors.
debtors (p.52) persons or businesses to whom we sell goods on credit, i.e. people or businesses who owe money to the business.
decision analysis (p.28) the process of analysis that demonstrates the impact of a decision on the organisation.
decision usefulness (p.1) the extent to which a piece of financial information is used by users in making informed financial decisions.
deficit (p.50) the result when expenses are greater than revenues.
dependent variable (p.13) used within this book to describe the variable costs and revenues that will change according to changes in a measure of activity (the independent variable).
depreciation (p.57) the fall in the value of a fixed asset due to use.
directors (p.68) the senior managers involved in making policy and executive decisions about running the business. They may also be part-owners of the business or they may simply be employees who are responsible for reporting to the owners how they have managed the business.
directors' report (p.114) a part of the annual report which is a statement of various factual matters by the directors, largely in fulfilment of their obligations under the Companies Acts.
discounted cash flows (p.204) future cash flows that have been reduced (discounted) to allow

for the time that will elapse before they are received.

dividend per share (p.138) the amount of earnings per share declared as a dividend to the shareholders – a ratio of total dividend divided by the number of shares issued.

dividend yield ratio (p.139) the earnings per share expressed as a ratio of the share's market value.

dividends (p.50) payments to shareholders of the business from profits made, usually yearly or twice yearly.

earnings per share (p.138) the amount of profit after tax attributable to one share.

economic decisions (p.123) decisions for shareholders which involve the investment of funds in businesses.

equity (p.65) finance provided by shareholders, sometimes known as share capital (*q.v.*).

Exchequer (p.62) the government's finance department.

executives (p.229) board members who also work full time for the company.

expenses (p.41) resources used up in running the business, which might include rents, cost of goods sold, wages, energy costs, etc.

finance (p.91) the funding of a business – this may come from shareholders (equity or share capital), from various forms of borrowing (debt finance) or from past profits retained within the business (reserves).

financial accounting (p.46) recording and reporting of financial information to meet the external information needs of shareholders and other interested parties external to the business.

financial reporting standards (FRSs) (p.95) FRSs are the current non-statutory regulations by which UK professional accounting bodies state what is best practice in financial reporting.

financial year (p.50) for many companies the financial year will end on either 31 December or 31 March – the date to which they regularly prepare their accounts.

finished goods (p.74) fully completed goods, manufactured by the organisation but not yet sold. These form part of the asset called stock.

First In First Out (FIFO) (p.75) when a business makes lots of purchases of similar stocks this is a way of valuing stocks held at the end of the period. FIFO assumes that stocks are used in rotation so that the oldest stock (first in) is used first (first out) and so that what is left is valued at the most recent purchase price(s).

fixed assets (p.53) assets held by the business for more than one accounting year – they are used to create wealth for the business but are not for resale.

fixed costs (p.158) costs which tend to remain the same even though output may change. Fixed costs remain (generally) unchanged in total, but fixed costs per unit reduce as output rises because the same level of fixed costs are spread across more units.

flexed budget (p.176) the budgeted costs that should have been incurred based on a budget adjusted to actual output achieved.

flexing the budget (p.176) revising the budget in line with actual levels of output prior to calculating variances. Flexing allows for a comparison of like-with-like costs.

FTSE 100 index or 'footsie' (p.48) the *Financial Times* Stock Exchange 100 index is a list of the top 100 companies quoted on the Stock Exchange, by market capitalisation. It is an index (i.e. a relative measure) that rises and falls according to the average share price movements of its constituent 100 companies.

future incremental cash flows (p.28) an alternative term for relevant cash flows: 'future' because past flows cannot be changed by future decisions, 'incremental' because we are only concerned with the extra cash flows generated by the decision.

gearing (p.135) the degree by which the firm has been financed by debt relative to equity. A highly geared firm has a higher proportion of debt to equity finance. It may be in a vulnerable position if it is unable to make regular interest payments to the suppliers of the debt.

graphic analysis (p.12) graphs can often be used to illustrate the relationship between activity levels, costs, revenues and profits.

gross margin/gross profit margin (p.128) gross profit expressed as a percentage of sales revenue.

gross profit (p.63) the difference between the cost that goods are bought for, and their selling price.

historic cost (p.90) the original cost, or cost at the time that a transaction first took place – this may be quite different from what a good or service might cost at current prices.

holding company (p.116) also known as a parent company – a company which has control over subsidiary companies.

income statement (p.50) representation of a business's gain or loss over a period which makes an effort to explain the sources of earnings and the main areas of expenditure incurred. Also known as profit and loss account (*q.v.*).

independent variable (p.13) used within the text to describe measures of activity (e.g. sales, production). The dependent variables (e.g. costs and revenues) are expected to change in response to changes in the independent variable.

insolvency (p.145) when the business owns assets but does not have sufficient cash to meet immediate financial obligations.

interest (p.60) the cost to the business of using debt finance – normally calculated by taking a fixed percentage of the capital sum borrowed.

interest cover (p.136) measures how many times the business could have paid interest charges from the 'profit before interest' figure.

internal control (p.230) system of checks and balances designed to minimise fraud and sudden bankruptcy or insolvency within a business.

internal rate of return (IRR) (p.207) the cost of capital for any decision, which if applied would yield a net present value (*q.v.*) of zero.

International accounting standards (IASs) (p.95) IASs are the international pronouncements on best practice in financial reporting. Still used as a general term for international standards rather than national standards, the official name of the standards was changed in 2003 to IFRSs.

International Accounting Standards Board (IASB) (p.95) the IASB is the body that sets international accounting standards.

International financial reporting standards (IFRSs) (p.96) IFRSs is the current name for the international accounting standards produced by the IASB.

Last In First Out (LIFO) (p.76) when a business makes lots of purchases of similar stocks this is a way of valuing stocks held at the end of the period. For the purpose of valuing the stock on hand at the year end it assumes that the most recently purchased stocks (last in) are used first (first out) so that the oldest stock is what remains. In a time of inflation the effect might be to use outdated prices to value stock.

liabilities (p.50) amounts owed to others by the business – for example creditors, loans and owners' funds.

limited company (p.59) a legal entity created to run a business. Its owners' liabilities are limited to the amount they paid for their shares. See also public limited company.

limiting factor (p.31) the factor (e.g. sales, finance, scarce materials) that limits the activity of the organisation.

linearity assumption (p.175) within standard costing it is assumed that costs can be distinguished between variable and fixed elements, and hence can be drawn as a straight line on a graph.

liquidity (p.130) the amount of working capital held in resources which are cash or which are readily convertible to cash.

long-term decisions (p.37) a relative term, but generally within financial analysis regarded as decisions whose outcomes have an impact over more than one year. See also short-term decisions.

long-term incentive plans (p.234) a particular mix of remuneration designed to make directors perform over a longer time scale.

long-term loan (p.65) borrowing by the firm not due to be repaid for at least one year.

management accounting (p.4) the use of accounting information to meet the business's internal management needs.

margin of safety (p.15) the difference between the activity level at which break-even is achieved and the expected level of activity. Often expressed as a percentage of the expected level of activity.

marginal cost (p.16) the cost at the margin, or the cost of making and selling one extra unit. Will often (although not always) equate to the variable cost per unit.

mark up (p.11) the amount (or percentage) added by a retailer to the cost of goods in arriving at the selling price.

market capitalisation (p.48) market capitalisation or value is the economic value of monetary and other assets owned by the business.

master budgets (p.163) the 'top' layer of budget statements, including profit and loss budget, balance sheet budget, cash budget and cash-flow budget.

materiality (p.97) the threshold criteria set by the ASB (*q.v.*) for deciding if information is useful. Materiality means information must be of enough significance to affect the user's decision.

multinational conglomerates (p.97) a group of companies which are based in different countries and trade across national boundaries.

net assets (p.65) the net (total assets less total liabilities) assets represent the book value of the business.

net present value (NPV) (p.200) the equivalent present value of future cash flows taking into account the time value of money (*q.v.*) – i.e. future cash flows are less valuable than those received immediately.

net profit (p.58) the net excess of revenues over expenditure.

net profit to sales ratio (p.129) the ratio of net profit earned to the level of sales.

net realisable value (p.77) the net amount the business would receive if they were to sell the stock at its current market value excluding any costs of selling and distributing.

non-executive director (p.229) a part-time board member who is independent and does not work full time for the company.

opening stock (p.73) the total stock held by the organisation at the start of the financial period.

operating activities (p.110) the normal business transactions, as opposed to those which occur very rarely and not in the normal course of business.

operating budgets (p.164) a general term covering all cost budgets for departments, functions and sections of the business. Operating budgets are used to monitor managers' expenditure.

opportunity cost of money (p.202) money received in the future is less valuable than money received immediately, as the investor has been unable to invest that money in the intervening period.

opportunity costs (p.28) benefits sacrificed by choosing one alternative over another.

organisational goals (p.214) the strategic aims of the business, e.g. to maximise profit or to be the biggest in terms of sales or employees.

overhead recovery (p.36) the accounting technique that allocates (or recovers) fixed costs to products or services. Also known as allocation of fixed costs (*q.v.*).

paralysis-by-analysis (p.212) term used by some business commentators to describe an over-obsession with financial number-crunching at the expense of more qualitative analysis.

parent company (p.116) owner of one or more subsidiary companies, obliged to prepare consolidated accounts. Also known as a holding company (*q.v.*).

payback (p.200) technique that calculates how long it takes for an investment outlay to be recovered.

postulate (p.96) a truth which is not readily verifiable but is generally agreed.

prepayment (p.78) an asset which shows that expenditure that has already taken place was actually payment in advance for goods or services that will not be benefited from until a future accounting period. For example, where an insurance premium has been paid for a period that straddles one accounting period and the next, the prepayment is the part that relates to next year.

present value (p.203) a shortened form of the term net present value (*q.v.*).

price/earnings ratio (P/E ratio) (p.140) an investment ratio which relates market value of a share to earnings per share.

pricing theories (p.17) theories attempting to explain how organisations arrive at selling prices for products and services, including accounting, economic and behavioural theories.

principal budget factor (p.165) another term for 'limiting factor' or the main constraining factor on the budget during the budget period. Examples include demand for goods or services, finance, scarce labour or materials.

principle (p.96) a rule that has been empirically proven over time.

products and services (p.8) all firms provide a service or a tangible product to customers. Examples include food and drink, computers, entertainment, newspapers, educational courses, books, travel, clothes and cars.

profit and loss account (p.50) the financial statement that gives a view of the accumulated revenues earned less expenses incurred by a business over a period of time, usually one year.

profitability (p.125) the measure of financial success when revenues exceed expenses.

public limited company (plc) (p.58) a company permitted to issue shares to the general public and also to have its shares quoted on a stock exchange. An advantage of this is the extra finance made available for investment by the company.

published accounts (p.69) the package of publicly available information about a business, including the financial statements.

purchases (p.75) term that specifically identifies the total amount of goods/services bought for resale by the business during the accounting period (an element of cost of sales).

quick ratio (p.131) the ratio of current assets (minus stock) to current liabilities. Measures the extent of working capital available to meet short-term debts. Also known as the acid-test ratio.

ranking decision (p.31) decision that involves ranking of alternatives from best to worst.

raw materials (p.74) basic ingredients which the organisation incorporates into its finished product.

realised profits and losses (p.113) profits and losses from completed transactions which are gathered in the profit and loss account.

relevance (p.97) to be useful, information must be relevant to the decision-making needs of a particular user.

relevant cash flows (p.28) the cash flows that will be changed because of a particular course of action or decision.

relevant range (p.15) the levels of activity between which the firm would normally expect to operate.

reliablity (p.97) to be useful, information must be reliable. The user must have confidence in how it has been produced.

remuneration committee (p.230) committee that oversees the terms and conditions of remuneration offered to directors.

resolution (p.233) an item on the agenda of the annual meeting of shareholders.

retail business (p.53) business which does not manufacture but buys and sells goods on at a higher price than purchased.

retained profits (p.61) profits left over after paying out dividends and tax. Retained profits enable the company to expand.

return on capital employed (ROCE) (p.127) a profitability ratio – the ratio of profit earned before interest and tax to long-term capital, i.e. funds provided by shareholders and debt providers.

return on equity (p.125) a profitability ratio – the ratio of profit earned before tax to shareholders' funds.

revaluation (p.84) a voluntary adjustment to the value of an asset or liability in the accounts to show the item at a value that more accurately reflects current worth.

revenue (p.11) the value of sales of goods and services.

revenue recognition (p.68) 'recognition' in this context means putting something in the accounts for the first time, so 'recognising revenue' means deciding when to include revenue earned in the profit and loss account.

semi-variable costs (p.20) costs that have both a variable element and a fixed element.

services and products (p.9) all firms provide a service or a tangible product to customers. Examples include food and drink, computers, entertainment, newspapers, educational courses, books, travel, clothes, cars.

share capital (p.65) funds provided by the owners of the business.

share option (p.232) a contract which allows a person to buy shares at some time in the future at a particular price.

shareholder (p.46) person who has made a financial investment in a business – a part owner.

shareholders' funds (p.59) the total investment made by the owners directly via shares and indirectly by retained profits.

short-term decisions (p.37) a relative term but generally within financial analysis regarded as those decisions whose outcomes can be measured within one year. See also long-term decisions.

social role of accounting information (p.2) is when accounting information is used as the basis for the allocation of scarce resources throughout society.

standard cost (p.175) the budgeted cost of one unit of product or service.

standard costing (p.175) traditional name for the approach to record keeping that uses standard costs as a way of setting budgets.

statement of historical cost profits and losses (p.113) a secondary financial statement which highlights what the results would have been if there had been no revaluation of assets by the business.

statement of total recognised gains and losses (p.113) a financial statement which gives a wider view than the profit and loss account, in that it also includes unrealised gains and losses for the same period.

statements of standard accounting practice (SSAPs) (p.95) SSAPs were the original voluntary regulation documents by which UK professional accounting bodies strove to impose consistency on elements of financial reporting. Some SSAPs still exist but they are gradually being replaced by financial reporting standards (*q.v.*).

statutory (p.91) legal, or required by law.

stepped fixed costs (p.20) costs that are fixed within a range of activity, but which rise by some additional amount when a new level of activity is reached.

stewardship (p.46) the managers of the business are stewards who look after the owners' investment in the business.

Stock Market (p.69) the physical or virtual space where trading in new or second-hand company shares takes place. Also known as Stock Exchange.

stock turnover (p.132) measures how many times in one year stock has been replenished.

stock (p.52) current asset – either raw materials or finished goods held for resale to the business's customers.

subsidiary (p.116) a company that is controlled by another company. Usually this is established by the number of shares that are owned, but it may be determined by rights to sit on the board, etc.

sunk costs (p.30) costs that have already been incurred and therefore will not be changed whatever business decision is taken in the future.

suppliers (p.50) people who provide a business with stock, often on credit.

surplus (p.63) what is left after deducting both cash and non-cash expenses from the gross profit to give the level of profits.

tax (p.50) charge made by governments on businesses (usually related to profit) and individuals (often related to income).

time value of money (TVoM) (p.201) describes the opportunity cost of money, based on the idea that money received in the future is less valuable than money received immediately.

top-down budgets (p.166) budgets that are, primarily, set by the higher levels of management. Implies little involvement of lower levels of management in the budget-setting process.

transaction (p.46) financial economic exchange between firms and/or individuals.

true and fair view (p.50) term used by auditors to designate that accounts have been prepared following relevant regulations and making reasonable assumptions and judgements.

understandability (p.97) to be useful, information must be understandable to the reasonably well-informed user. A subjective statement but it affects the complexity of what can/should be provided.

unrealised profits and losses (p.113) profits and losses from transactions which are not necessarily complete and therefore cannot be included in the profit and loss account, such as revaluation of assets still owned by the business, but which will be included in the statement of total recognised gains and losses.

user view (p.1) people external to the business who will 'use' accounting information reported externally by the business.

value-free (p.2) means that the information process is completely free from bias and can present information on a 'clean' basis.

variable costs (p.158) costs which rise or fall in line with activity. Examples could be bought-in components, raw materials, power, and some forms of direct labour where labour is paid according to items produced.

variance analysis (p.173) technique in standard costing to calculate differences between expected and actual costs or revenues.

variances (p.173) used in accounting to refer to differences between budgets and actual performance levels.

wealth maximisation (p.213) it is sometimes assumed that companies are acting to maximise the wealth of the shareholder group. Although problematic, this assumption underpins much financial analysis.

weighted average cost (WAC) (p.77) when a business makes lots of purchases of similar stocks this is a way of valuing stocks held at the end of the period by the organisation. By averaging out the purchase price of all similar stocks purchased during the period, it gives an average price for items held at the end of the period.

what if? analysis (p.38) provides a means of further investigation into a decision by changing the variables to examine the impact of such changes on the decision outcome. Often carried out using spreadsheet software.

window dressing (p.230) accounting practices designed to present financial information in a legally correct but misleading form.

work in progress (p.74) unfinished goods in the course of manufacture, or services supplied by the organisation, at a point in time. These form part of the asset called stock.

working capital (p.65) funds invested in current assets, mainly stock, debtors and cash, that enable a business to operate on a daily basis.

working capital management (p.107) the process of ensuring that the business has enough cash available at the right times.