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| **Accounting Term** | **Textbook Definition** | **Layman’s Terms** |
| **Asset** | An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. (FRS 102) | Something that you own that you own or fully control that gives you the right to money (e.g. rent arrears) or a benefit in the future or something you can use for your own benefit (e.g. a computer). |
| **Liability** | A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. (FRS 102) | An obligation to someone else to give them money (e.g. a bank loan). |
| **Turnover or Revenue** | Revenue is income that arises in the course of the ordinary activities of an entity and is referred to by a variety of names including sales, fees, interest, dividends, royalties and rent. (FRS 102) | The money due to you for your normal business activities – but not including money from sales of fixed assets (see below), loans received and shares received. |
| **Tangible Fixed Asset** | Assets that:   1. are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and 2. are expected to be used during more than one period; (FRS 102) | An asset (see above) that will last more than a year. This includes houses, cars, machines, computers etc. |
| **Current Asset** | An asset that is expected to consumed, sold or exhausted within the normal operations of a business within a year. | Assets that either are money or are likely to become money within a year. Or another asset that will be used up in a year |
| **Reserves** | The aggregate amount of past earnings not paid to shareholders. | For a Housing Association the total reserves are the sum total of all surpluses or deficits that the Association has made since it started. |
| **Cash flow** | The total amount of money being transferred into and out from a business, particularly with regard to its effect on liquidity. | The effect on the bank balance of the total money going in and out of the bank. A cash inflow is money coming in, cash outflow money going out. |
| **Liquidity** | The degree to which an asset or security can be bought or sold in the market without affecting the asset’s price. | A measure of how easy it is to turn an asset (see above) into cash. Some assets (like houses) can be worth a lot of money, but it would take time to convert them into cash. A business needs some liquidity in order to meet its bills as they fall due. |
| **Gearing** | A measure of an entity’s financial leverage and shows the extent to which its operations are funded by lenders versus shareholders. | For a housing association – the proportion of bank borrowing to reserves. The higher the borrowing the higher the ‘gearing’. |
| **Leverage** | The ratio of a company’s loan capital (debt) to the value of its ordinary shares (equity) ; gearing | Another word for gearing. |
| **Fixed Rate Borrowing** | A debt instrument where the rate of interest payable does not vary during the fixed rate period. | A loan where the interest rate paid does not vary. |
| **Variable Rate Borrowing** | A debt instrument where the rate of interest payable changes based on a reference rate such as base rate or LIBOR. | A loan where the interest rate varies depending on either LIBOR or the Bank of England Base Rate. |
| **Interest Rate Cover** | A ratio used to determine how easily an entity can pay interest on outstanding debt. | The amount of times that a business could pay the interest on its borrowings from its operating profits. |
| **LIBOR** | London Interbank Offered Rate – the average rate estimated by the leading banks in London that the average bank would be charged if borrowing from another bank. It is published daily and is one of the primary benchmark rates for short-term interest around the world. | The rate that banks lend to one another at. |
| **Base Rate** | The minimum lending rate of the Bank of England for lending to other banks. | The minimum rate that the bank of England will lend at. |
| **Net Present Value (NPV)** | The sum of the present values of a series of cash flows over a period of time. | The amount that a series of cash flows over a period of time is worth in today’s money – e.g. if you were to receive £1 today and another £1 in a year’s time – the second pound is not worth as much as the first because prices will go up so you will be able to buy less with it and there is more of a risk in not getting it in a year’s time – so the net present value of the £2 would be something like £1.95. |
| **Discount Rate** | In calculating a net present value – the rate at which the cash flows are reduced to take account of the time value of money and risk. Generally the discount rate will be the weighted Average Cost of Capital (WACC) of the entity. | The rate at which the cash flows are reduced in calculating net present value (see above). The higher the risk, the more the discount. |
| **True & Fair View** | Expression used in auditing to indicate that that in the auditor’s opinion the financial statements give correct and complete information about a company’s financial situation. | Accounts should be accurate (true) and not misleading (fair). |
| **Depreciation** | The objective of depreciation is to reflect the consumption of economic benefits that occurs through the use of a fixed asset. In general the cost of a fixed asset (less any residual value) should be recognised as an expense over the period of its useful economic life | The accounting price for the use of a fixed asset. It is a mechanism for spreading the cost of a fixed asset over its life – rather than all at once, or not at all. |
| **Solvency** | The degree to which the current assets of an entity exceed its current liabilities. Can also refer to the ability of an entity to meet its long-term financial obligations. | The ability of a business to pay its bills when they are due to be paid. |
| **Going Concern** | A business that will continue to function without the threat of liquidation for the foreseeable future (usually taken as 12 months) is a going concern | The accounting assumption that a business will continue into the future (at least 12 months) unless it is known / strongly suspected that it will not. |
| **Accrual Accounting** | Accounting for revenue or expenditure that is due but for which the entity expects to bill or be billed in a future accounting period | The accounting principle that you record transactions in the period they occur – not when they are billed. For example – rent is recorded as income when it is due not when it is paid. |
| **Prepayment** | An asset representing cash paid out to a counterparty for goods or services to be received in a future accounting period. | An asset (see above) that is created when you pay something in advance (e.g. insurance) |
| **Provision** | A liability of uncertain timing or amount. | A liability (see above) where the exact amount and/or the time when you have to pay it is unknown. |
| **Contingent Liability** | A liability that may be incurred by an entity depending on the outcome of an uncertain future event. | A probable or possible liability (e.g. a legal case). |

Disclaimer

The tables above are intended to provide useful guidance with regard to accounting terminology but are not intended to be a substitute for professional advice should that be required. Business transactions can be complex and accounting of these equally so – the layman’s definitions above are intended to give a simplified version of the rules, but as a result may not be absolutely complete.