

Accounting Glossary

Accounts

1. These are detailed records of all the money that a person or business receives and spends.
2. A record of money, goods or services received or given showing a balance.
3. The department of a company that handles the accounts of the business.

Account

1. An arrangement with a bank or similar organisation where a person is able to leave his or her money and take out some or all of it when needed.
2. An arrangement with a shop or business to buy goods or services on credit. (Credit is the taking receipt of goods or services before paying, on the trust that payment will be made in the future.)

Accounting

The activity of keeping detailed, systematic records of activities and events of a business or person expressed in terms of money. These activities and events specifically relate to the transfer of value and are known as “transactions”. The main purpose of accounting is to provide decision makers with accurate financial information.

Accounting Books of Entry

In bookkeeping there are several different books in which accounting information is recorded. This would apply to both manual and computerized systems. These books include: Cash Receipts Journal, Cash Payments Journal, Petty Cash, Accounts Payable, Accounts Receivable, General Ledger and Inventory Control.

The Cash Books, Accounts Payable, Accounts Receivable and Inventory Control all fall under the heading of Original Books of Entry in that the original information is first entered into these books.

The General Ledger is then The Book of Final Entry in that the monthly totals recorded in the Original Books of Entry are then posted to the General Ledger.



In most companies, these books are closed off at the end of each month, so that financial reports can be generated and the management can be advised on profits or losses.

Cash Book

This is a book (either manual or computerized), which keeps a record of each money transaction in and out of the bank. On the payment side, details of cheques written, debit orders and so on are recorded showing: The date of the transaction, cheque number, to whom the payment was made, what the payment was for and the amount paid. On the deposit side, other details are recorded: The date, name of the person or business making the deposit, what they are paying for and the amount.

General Ledger

A manual or a computerized book in which all of a company's financial transactions, movement of stock and any financial transaction which would affect the company's financial position, are recorded. It is the complete set of a company's accounts. These accounts would include things like Stationery Account, Bank Account and the Accounts Payable Account. It is into these accounts that the information from the original books of entry are posted or transferred. The information needed in order to compile a Trial Balance and Balance Sheet comes from the General Ledger. (See Balance Sheet & Trial Balance.)

Accounts Payable (Creditors)

This is the book into which all purchasing details (those things bought by the company on credit) are entered. Later this information is posted to the General Ledger. Details would include the name of the creditor, the category of items purchased, such as Stationery, (on a computerized system, this would be a code - which represents the Stationery Account or a name (Brilliant Accounting allows both name and code) and the amount spent and owing to the creditor. (See Creditor.)

Accounts Receivable (Debtors)

This book contains details of the company's sales, including the name of the debtor, invoice number and amount of the sale owing to the company. (See Debtor.) This is a control account within Brilliant Accounting and monitors all the detailed information relevant to the customer.

Petty Cash Journal

Petty cash is the cash money made available to a company to purchase items too small to pay by cheque. (The word "petty" means: having little value, small.) These payments and receipts are recorded in the Petty Cash Journal.

Inventory Control

This book contains the records of the company's stock movements, both in and out of the company. This control account controls stock coming into and going out of the company in one ledger account called Stock. When stock comes in via a Goods Received Voucher it increases the value and number of stock items in the stock account and when you sell items via an Invoice it reduces the value and number of stock items in the stock account. This will then give you a balance of stock items and the value.

Assets

Items of value owned by a person or business. In a company this would include items such as furniture and equipment (e.g. computers, machinery, stock).

□ Fixed Assets: These are assets purchased with the intention of using them to provide a service that will generate income for the business. Buildings, land, motor vehicles and equipment are examples of fixed assets.

□ Current Assets: Cash or items that can be easily converted into cash within a short space of time (such as, stock) are known as current assets.

Age Analysis

Age is the length of time that a person or thing has existed. Age analysis is an explanation or description of something that has been carefully examined and broken down into its parts; in accounting, it refers to an accounting schedule, which shows month-by-month what amounts are owed by or owed to the company.

A company has an age analysis for both Accounts Payable and Accounts Receivable and, in each case, one would be able to see how much money is owed by/owed to the company for the current month, outstanding for 30 days, 60 days, 90 days, etc. This will be listed by the creditor's or debtor's name. This schedule will also show totals for Current, 30 days, 60 days, 90 days, and so on. In this way, the totals outstanding for these periods can be clearly noted.

Example of an Age Analysis:

NAME	60 DAYS	30 DAYS	CURRENT	TOTAL
ATLAS CO.	500.00		200.00	700.00
NOKIA		100.00	100.00	200.00
SAIAGE	600.00	400.00	100.00	1100.00
METRO			200.00	200.00
Total	1100.00	500.00	600.00	2200.00

Balance Sheet

This is a written statement of assets, liabilities and capital of a business at a particular point in time. It details the balance of income and expenditure of the preceding period. (Capital: money provided by shareholders plus retained income – i.e., profits.)

Credit/Debit

There is no fixed definition for the words credit or debit in accounting terms with the exception of: a credit is any right-hand entry to an account; a debit is any left-hand entry to an account. (See Double Entry Bookkeeping System.) The reason is, there are different rules that apply when crediting or debiting an account. The rules are given below:

□ Asset accounts increase with a debit entry.

□ Asset accounts decrease with a credit entry.

So, a R1 000 cash purchase of stock would result in a credit of R1 000 to the Bank Account and a corresponding debit to the Stock Account.

□ Liability accounts increase with a credit entry.

□ Liability accounts decrease with a debit entry.

Example: A company buys R10 000 of furniture on credit from ABC Office Co; the Furniture Account is debited and ABC Office Co is credited.

□ Owner's equity increases with a credit entry (see definition of Owner's Equity).

□ Owner's equity decreases with a debit entry.

Example: The owner contributes R50 000 to the company. The Bank Account is debited with R50 000 and the Capital Account is credited with the same amount.

Because income and expenditure affect Owner's Equity, it follows that income accounts are credited (as it increases owner's equity) and expense accounts are debited (it decreases owner's equity). See Owner's Equity.

Credit

1.The amount of money that a person has available from which to draw on from the bank or elsewhere.

2.The power to buy goods or services before payment (based on the trust that payment will be made at a later date).

3.In bookkeeping, credit is any right hand entry into an account. (See Double Entry.)

Creditor

A person or company to whom money is owed, also known as a Payable.

Credit Note

1.This is a document given to a customer when goods that were bought and paid for are returned. The credit note states that the customer has the right to take goods to the value of that credit note without paying for them (since he paid for them originally).

2.It is a written advice by a company to a customer that the customer's account has been credited with the value on the credit note. This could be for goods returned, overcharges, gift voucher, etc.

Cheque

A cheque is a printed form on which is written an amount of money to be paid and to whom this amount is to be paid. It is an order to the recipient's bank by the person or company who gave the cheque to pay the stated amount of money from the giver's bank account to the specified recipient.

Debit

Any entry into the left-hand side of an account. [See: Double Entry Bookkeeping System and Credit/Debits.]

Debtor

A person or business that owes money to another. Example: When you sell goods on credit to a customer, he/she is a debtor.

Delivery Note

When goods have been ordered from a company by arrangement that company will deliver to the buyer. A document known as a Delivery Note is issued by the company to the driver of the delivery vehicle. The driver will need to have this document signed by the receiver as proof that the delivery did occur and as an acknowledgment that the condition of the goods was satisfactory. Details that are always reflected on a Delivery Note are the name of the purchasing party, items being purchased and quantities. It may or may not reflect the value of the goods.

Double Entry Bookkeeping System

A system of bookkeeping in which there are always two bookkeeping entries for each accounting transaction – one debit and one credit. In a manual set of books one can see there are two columns: the debit is always entered in the left-hand column and the credit is always entered in the right-hand column. This is not necessarily visible on computerised accounting systems.

Financial Year

This applies to the 12-month accounting period for a company. This can be any 12-month period within which the company chooses to operate. One company, for example, might decide that their financial year begins in March of each year and ends in February the following year, while another company might decide that their financial year begins in July of each year and ends in June the following year. At the end of the financial year, the books of the company are closed and analysed to establish profits/losses and what income tax will need to be paid.

Fiscal Year

The word fiscal describes something that relates to government money.

Fiscal Year simply means the government financial year. In South Africa, it begins March of one year, ending February the following year.

Income Tax

In South Africa every person who works and earns more than a stipulated amount per annum must contribute a portion of every Rand earned to state expenses by way of Income Tax. The percentage of income that must be paid to the state varies according to how much one earns. The most commonly used method by Revenue Services of collecting this money is by way of PAYE, which is a system whereby companies are responsible for deducting tax from their employees on a monthly

basis and then paying this over to Revenue Services. [See: PAYE.]

Interest

Money paid for the use of money. If one pays money into a bank or some other institution, that business is in essence using that money to generate profit for themselves. In return for this and by agreement, the company pays out a percentage of the original amount – this is known as interest. Interest is applied to money both invested and borrowed.

In other words, when one invests money in a bank (specifically investment accounts) one gets back an additional amount over and above the original sum paid in. This additional amount is known as interest and is calculated on the basis of percentage of the value of the amount invested. Likewise, if a person borrows money from a bank or lending company, he or she one is charged a percentage of the value of the loan. This charge is the interest. When a debtor fails to pay a company money owed within the specified payment terms, the company can charge interest because their money is being used by the debtor.

Invoice

- 1.(noun) A list of goods or services delivered to a company or person, which includes the goods item by item, their prices and a total.
- 2.(verb) To make and/or send an invoice for goods or services delivered to a company or individual.

Journal Entry

This is a corrective entry into the Original Book of Entry, where one General Ledger account is debited and another is credited. Details of the correction or change are recorded together with the amount and later, these details are posted to the General Ledger. Journal Entries usually have their own numbering system to identify them as corrective entries.

Example: while processing the Waltons Account, R100.00 was entered erroneously into the computer so that in the General Ledger the Walton's account had an additional debit and the Stationery account R100 credit. To correct this, a journal entry was done in Accounts Payable, crediting the Waltons account with R100.00 and debiting the Stationery account with R100.00. This

information was then posted to the General Ledger.

Journal

A Book of Original Entry into which the daily business transactions of a company are first entered, noting all transaction details and which account they belong under. These transactions are later posted in the General Ledger as part of the double entry bookkeeping system.



Loss

In business, a loss is a condition where one has spent more than one has earned. [See: Profit.]

Not Negotiable

As negotiate means to transfer (a cheque, etc.) to another or to convert (a cheque, etc) into cash, so Not Negotiable means that this (cheque, for example)

is not able to be negotiated or changed into something else. Not Negotiable, when written on a cheque, means:

1. Cannot be transferred to another person or account name, but can only be deposited into the account of the person or business named on the cheque.
2. Cannot be cashed.

Owner's Equity

The money provided by the owner to his business, called Capital Contribution, gives the owner an interest in the business. This is called owner's equity. Income has the effect of increasing owner's equity while expenses decrease owner's equity.

PAYE (Pay As You Earn)

In South Africa, this is the system established by the government to collect income tax from employees. This system works on the basis that each company or employer becomes an agent for the S.A. Revenue Services and is held responsible for deducting and collecting employee's income tax on behalf of the government, then paying these deductions over to Revenue Services.

Payment Terms

When buying on credit from a company, that company allows a period of time before the debtor must settle his account. This is known as payment terms and it can vary from customer to customer. For example, one customer may be given payment terms of 30 days while another may only get 14 days.

Payroll

The list of employees receiving pay, with the amount payable to each as well as the total sum to be paid for that period (week, month, etc).

Post-Dated Cheque

A cheque on which the date written is later than the date it was actually written. This is usually done to allow a period of time to elapse before the cheque can be cashed. For example, a cheque written on 1 January is dated 15 January, meaning the cheque can only be cashed on 15 January.

Prime

1. Best quality, quantity or value.

2. In financial circles it means the best published interest rate charged for credit. For example, if one had an overdraft with a bank, one would be charged interest for the amount of money overdrawn; if this interest was charged at the prime overdraft rate it would mean that one is paying the lowest interest rate available.

Profit

The amount by which a company's income exceeds its expenses and costs.

Reconcile/Reconciliation

1.To cause or bring about agreement between people or things.

2.In accounting, to reconcile is to make (one account) agree with another, especially where:

a)A transaction has begun but has not yet been completed.

Example: On a bank reconciliation, to make the balances shown on the bank statement and the Cash Book agree. When reconciling this, the situation may be that cheques have been written (and recorded in the Cash Book) but have not yet been debited from the bank account. In this instance, the value of outstanding the cheques would have to be deducted from the balance on the bank statement to get a true balance, which should agree with the Cash Book balance.

a)Where there are unresolved issues, such as queries.

Example: When reconciling a creditor account, the balances shown on the creditor's statement and that creditor's account in Accounts Payable is made to agree (or match). To do this, any bills (creditor's invoices) on the creditor's statement which are under query must be deducted from the creditor's statement. This gives the creditor's statement a corrected balance; this balance should agree with the Accounts Payable balance.

Statement

1.A printed document showing how much money has been paid into and taken out of a bank account.

2.A document issued by a company to a debtor showing exactly how much is owed by the debtor. It summarises the current month's transactions (invoices and payments), as well as any previous month's amounts as yet unpaid.

State's Revenue

A government's annual income from which public expenses are paid.

Tax

1.(noun) An enforced contribution by individuals and companies to the State's Revenue. (See: State's Revenue.)

2.(verb) To impose (require to be paid) a tax on income, goods etc.

Tax Invoice

A tax invoice is an invoice where, in addition to the normal charged for sales, VAT is charged on the total value of the sales and this charge is reflected on the invoice. In South Africa, these invoices must state clearly "TAX INVOICE" and it must reflect the company's VAT registration number. [See VAT section below.]

Companies are permitted to claim back the value of VAT they have paid to other businesses. This is done by deducting the total value of VAT received by customers less the total value of VAT paid out. In order to legally claim VAT for money paid out, the company or individual **MUST** have a valid Tax Invoice, otherwise the company or individual is not permitted to claim.

Transaction

A business deal, from beginning to completion. Selling something would be a transaction. Buying something would be another transaction.

Trial Balance

At the end of each month a trial balance is drawn up. It is a list of all General Ledger accounts, giving the names of the accounts and the balances shown

for each in the General Ledger. The purpose is to ensure that accounts with debit balances are equal to accounts with credit balances. If not, there is an error. This is based on the double-entry accounting system where every transaction has two entries, debit and credit, into two different accounts.

VAT (Value Added Tax)

This is a method of taxing sales used in South Africa and by some other countries in the world. The system works on the basis that every point of sale generates VAT on their invoices to their customers. For example, a stationery manufacturer charges VAT to the distributor. The distributor then charges VAT to the retail store, who in turn charges VAT to the end-user.

Not every trader will necessarily charge VAT. A person whose total value of taxable sales exceeds the limit set by the local Receiver of Revenue must register for and charge VAT. A person with taxable sales under the minimum amount set by the local Receiver of Revenue may register voluntarily but, once registered, **MUST** charge VAT.

The amount added as VAT on invoices does not belong to the company charging it. It belongs to and must be paid to the government via the tax-collecting agency (in South Africa known as the South African Revenue Services).

There are currently three VAT rates:

- Standard rate – 14%
- Zero rate – 0% On certain basic food products.
- Exempt – Usually, certain import products are exempt. To find out what is exempt from VAT, acquire a local South African Revenue Services guidelines manual.

Year End

This refers to the closing of the accounting books at the end of the financial year. It includes all actions necessary to finalise all accounts in such a way that a Balance Sheet can be drawn up.

Revision #1

Created 1 August 2023 21:40:59 by Paige

Updated 1 August 2023 21:41:23 by Paige