

# **OxfordAQA**

## **International AS/A-level**

### **Accounting (9615)**

## **Subject specific vocabulary**

Used in our International GCSE/AS and A-level exams

The following subject specific vocabulary provides definitions of key accounting terms that are relevant to our A-level Accounting (9615) specification.

Your students should be familiar with and understand these terms.

## Absorption costing

A costing method that charges all production costs to cost units.

## Accountant

A professional responsible for the preparation and analysis of financial statements.

## Accruals

The concept that states that revenues and expenditures should be matched to the time period in which they were earned or incurred.

## Accrued revenues

Income that has been earned, but the money for which has not yet been received.

## Accumulated depreciation

Also known as provision for depreciation. The total depreciation charged on a non-current asset from acquisition to date.

## Accumulated fund

The capital fund of a non-profit making organisation which is the total of surpluses less deficits to date.

## Acquisition

The term given to the purchase of a non-current asset.

## Activity based costing

A costing method that charges overheads to cost units based on cost drivers.

## Additional incomes

Also known as other income. Revenue that comes from places other than the selling of the core products or services.

## Adverse variance

A difference between a standard and actual cost that has a negative impact on profit (eg costs are higher than expected).

## Allocation

Charging costs directly to the relevant cost centre.

## Allowance for doubtful debts

Also known as provision for doubtful debts. An estimated amount set aside by a business to account for an expected amount of irrecoverable debt.

## **Annum**

A term that means annually or yearly.

## **Apportionment**

Sharing overheads between cost centres in proportion to their use. This could be done on a basis such as floor value.

## **Appropriation account**

The part of the Income Statement that shows how profits are distributed to partners.

## **Arithmetical error**

An error which causes debits and credit to not equal in the trial balance.

## **Arrears**

Amounts that are due but have not yet been paid / received.

## **Asset**

A resource owned by a business.

## **Audit report**

A document prepared by an independent auditor that expresses if they believe the financial statements to be true and fair.

## **Auditors**

Qualified accountants who independently check a company's financial statements to ensure that they are true and fair.

## **Authorised share capital**

The maximum amount of share issue that a company has agreed can be issued.

## **Bank reconciliation statement**

A statement that explains the difference between the balance of the bank account recorded in the cash book and the balance shown on the bank statement.

## **Bank statement**

The source document that evidences all bank transactions.

## **Batch**

A number of items that are produced at the same time.

## **Board of directors**

A group of elected or appointed individuals who oversee the management of a company.

## **Bonus issue**

The issuing of additional shares to existing shareholders at no cost.

## Bookkeeper

The person who records the financial transactions within the books of prime entry and the ledgers.

## Books of prime entry

The books in which information from source documents are summarised and organised. They are the first place in which transactions are recorded.

## Break-even chart / graph

A diagram which shows the point at which a business will make neither a profit or loss (at the point where the total revenue and total costs lines intersect).

## Break-even point

The point at which revenue is equal to total cost meaning neither a profit nor loss is made. Can also be defined as the point at which total contribution covers total fixed costs.

## Budget

A financial plan for a specific accounting period e.g. monthly, quarterly or yearly.

## Budget centre

A department, product or project for which a separate budget is prepared.

## Business entity

The concept which states that transactions recorded in an organisation's accounts can only relate to that organisation. All personal transactions must be recorded separately.

## Capital expenditure

Amounts spent on the purchases of non-current assets. This can also include any costs incurred in buying the asset (e.g., legal charges, installation costs etc.) and amounts spent on improving (upgrading) the non-current asset.

## Capital gearing

The accounting ratio that assesses the proportion of finance that comes from fixed return sources.

## Capital income

Income from sources other than regular day-to-day operations e.g. from the sale of non-current assets.

## Capital intensive

A business that uses a lot of non-current assets e.g. machinery compared to labour to produce goods and services.

## Capital reserves

These are amounts set aside out of profits that are made from the non-trading activities of a business. They are not available to use for payment of cash dividends.

## Carriage inwards

The delivery costs of the goods purchased by a business.

## Carriage outwards

The delivery costs of the goods sent to the customer.

## Cash

Money that is available for spending.

## Cash budget

A financial plan of receipts (cash inflows) and payments (cash outflows).

## Cash discounts

A discount that is given to customers to encourage early payment of amounts owed.

## Cash equivalents

Short term highly liquid investments that can be easily converted to cash.

## Cash receipts

The source document which evidences a cash purchase.

## Casting error

An error made in addition.

## Cheque counterfoils

The source document which evidences a cheque issued.

## Closing inventory

The value of inventory held at the financial year end.

## Companies Act

A piece of legislation that sets out the law relating to company accounts.

## Compensating error

When an error on the debit side cancels an error made on the credit side.

## Computer equipment

Includes physical hardware (e.g. keyboard, monitor etc.) and software (programs to run a specific task e.g. accounting packages).

## Confidentiality

The fundamental ethical principle that states that information should be kept private unless permission to share has been given or there is a legal or professional duty to disclose.

## Conflict of interest

A situation where an individual's personal interest may influence their professional judgment.

## Consistency

The concept that states that the same accounting policies should be used in each accounting year unless there is valid reason for change.

## Contra entries

Two entries made that are offset against one another.

## Contribution per unit

The difference between the selling price and the variable cost of a unit.

## Corporate governance

The set of rules and practices put in place to help ensure that a company is managed in an accountable and ethical manner.

## Corporate social responsibility (CSR)

A company's commitment to operating in a way that is environmentally and socially responsible.

## Corporation

A legal entity that is separate from its owners.

## Cost

The concept that states that assets should be recorded at their cost valuation (the amount they were bought for).

## Cost centre

The departments in an organisation where costs are charged could include assembly, manufacturing, maintenance, canteen, warehouse etc.

## Cost driver

A factor that causes changes in costs e.g. the cost of setting up production would have as a cost driver the number of machine set-ups.

## Cost of capital

The discount factor used in the calculation of net present value.

## Cost of sales

Also known as cost of goods sold. The cost of the inventory that has been sold within the financial year.

## Cost pool

Used to separate costs into groups by considering the cause of the cost.

## Credit

An entry made into the right side of a ledger account. This represents either an increase in liabilities, income or capital. It also represents a decrease in assets or expenses.

## Credit note

The source document which evidences a return has been made.

## Credit transfers

Electronic payments made through a bank account.

## Current assets

Assets that are expected to be converted into cash within one financial year.

## Current liabilities

Debts that are due to be repaid within 12 months.

## Current ratio

A liquidity ratio that measures a company's ability to pay its current liabilities.

## Debenture

A long-term loan issued by a company to raise capital.

## Debit

An entry made into the left side of a ledger account. This represents either an increase in drawings, assets or expenses. It can also represent a decrease in liabilities or income.

## Deed of partnership

Also known as a partnership agreement, this is a legal document that outlines the rules that the partners must agree to follow. It can detail information including how profit will be split, if salaries are to be paid, if interest on drawings is to be charged and if interest on capital is to be received.

## Depreciation

The fall in value of a non-current asset over its useful economic life.

## Direct costs

Costs that can be directly attributed to a unit of production.

## Direct debit

A method of authorising a business to automatically collect a regular payment from your bank account.

## Director's remuneration

The rewards package given to directors including salary and bonuses.

## Discount allowed

A cash discount which is given to trade receivables for paying with the agreed terms.

## Discount factor

A number used in calculating the present value of a future cash flow.

## Discount received

A cash discount which is given to a business by a trade payable for paying with the agreed terms.

## Dishonoured cheques

A cheque that has been rejected by the bank eg, there are insufficient funds in the issuer's account.

## Disposal

When a non-current asset is sold.

## Distributable

To give out e.g. a distributable profit is the amount of profit that can legally be paid out in dividends.

## Dividend

A share of a company's profit paid to shareholders.

## Dividend cover

An investor ratio that measures how many times the dividends could have been paid out of the profit after tax.

## Dividend yield

An investor ratio which shows the dividend per share expressed as a percentage of the market price of the share.

## Donations

The gift of money or assets. A source of income for a non-profit making organisation.

## Double entry bookkeeping

A system which records all financial transaction on the basis that each has an equal credit and debit.

## Drawings

The resources that an owner takes out of the business for personal use.

## Duality

The concept that states that for every transaction there must be an equal debit and credit entry.

## Earnings per share

The investor ratio which measures the company's potential dividends, that it could pay to shareholders.

## Equity

Also known as capital. The resources that have been invested into the business by the owner(s). For a company this is the sum of all issued ordinary shares, capital and revenue reserves.

## Error of commission

When an entry has been made in the correct class of account, but under the wrong name.

## Error of complete reversal

Where the account that should have been debited has been credited and vice versa.

## Error of omission

Where a whole transaction has not been recorded /omitted in the books.

## Error of original entry

Where an error is made when recording details incorrectly (inaccurately) from the source document into the books of prime entry.

## Error of partial omission

Where either the debit or credit side of a transaction has not been recorded, resulting in a single entry.

## Error of principle

Where an entry is made into the wrong class of account.

## Expenses in relation to revenue

A profitability ratio that compares overheads to sales revenue.

## Extract

A portion of a document e.g. an extract of the Statement of financial position to show total assets would be the top half of the statement i.e. Non-current assets and current assets.

## Factory cost of finished goods

Also known as production cost of goods completed. The cost of manufacturing the goods completed.

## Favourable variance

A difference between a standard and actual cost that has a positive impact on profit (e.g. costs are lower than expected).

## Financial accounting

The area of accounting that focuses on preparing financial statements for external users.

## Financial ratios

Calculations that are used to help analyse financial performance.

## Financial statements

The set of final accounts created ie, the income statement, the statement of financial position and for a company also the statement of changes in equity.

## Fixed capital account

A ledger account that records the capital contributed by a partner.

## Fixed costs

Costs that do not change in relation to output.

## Fluctuating capital account

A ledger account that combines the fixed capital and current accounts of the partners.

## Forecast

A prediction or estimate.

## General journal

The book of prime entry that records the transactions that are not recorded in the other books of prime entry.

## General ledger

The ledger which records all accounts other than those of customers and suppliers.

## Going concern

The concept that states accounting records should be prepared on the assumption that the business will continue to trade for the foreseeable future.

## Gross profit

The difference between the revenue earned and the cost of the inventory that has been sold.

## Gross profit margin

The ratio that measures the gross profit as a percentage of sales revenue.

## Guarantor

An individual who promises to repay a debt (loan/mortgage) in the event that the borrower is unable to repay the debt.

## IAS 1

The International Accounting Standard (IAS) that outlines the requirements of the presentation of financial statements.

## IAS 7

The International Accounting Statement (IAS) that outlines the requirements of the statement of cash flows.

## Income and expenditure account

An account produced by non-profit making organisations which shows a summary of all the income and expenditure to calculate the surplus/deficit made for the period.

## Income statement

One of the financial statements. It is put together to calculate profit for the year. Note: the term Income statement was amended by IAS1 to Statement of profit and loss and other comprehensive income. However, the term Income statement is retained with a two-statement approach. Oxford AQA will therefore will retain the term Income statement.

## Incremental budgeting

A budgeting technique whereby budgets are prepared by taking the current period's budgeted or actual figures and adjusting it by incremental amounts.

## Indirect costs

Costs that cannot be directly traced to or identified with a particular product or service.

## Input /output

Input is what is put in /operated on by a process/system. Output is what is produced.

## Instalments

One of several parts. Often used when describing debt repayments when the amount owing is repaid in equal amounts until the debt is settled.

## Integrity

Being honest and truthful.

## Interest cover

Is a measure of the ability to pay interest from the profit of a business.

## Interest on capital

A reward given to partners for investing capital within the business.

## Interest on drawings

A charge applied to discourage partners from taking excessive drawings.

## Interim dividend

A dividend paid to shareholder part way through the financial year.

## Interrelationship

The way in which different sub variances are related to one another.

## Inventory

The items, goods or materials a business holds for the purpose of selling them to customers or using them in the production of goods for sale.

## Investors

Someone who invests money with the hope of a financial return.

## Investor ratios

Ratios that are used to access investment opportunities.

## Irrecoverable debt

An amount owed to the business from a trade receivable, which has been written off.

## Irrecoverable debt recovered

When an amount previously written off, is received.

## Labour budget

A budget that estimates the quantity and cost of labour required for a specific period.

## Labour efficiency variance

The difference between actual hours used and the standard hours expected to be used, at the standard rate paid.

## Labour intensive

A production process that requires a significant amount of human labour compared to machinery or technology. Employees can be skilled (experienced) or unskilled (unqualified).

## Labour rate variance

The difference between actual rate paid and the standard rate expected to be paid.

## Labour variance

The difference between the standard expected cost and the actual cost of labour.

## Ledgers

The books in which the double entry ledger accounts are recorded within.

## Liability

Money that a business owes (a debt).

## Life membership

A person who makes a one-off payment to become a member of a non-profit making organisation for the rest of their life.

## Limited liability

The maximum amount that an owner can lose this is the total value of their capital. Personal assets are protected.

## Liquidation

When a company stops operating and sells its assets to repay its liabilities.

## Liquid capital ratio

A liquidity ratio that measures a company's ability to pay its current liabilities, without considering the value of inventory.

## Liquidity

The ability to turn assets into cash to be able to pay current liabilities.

## Loan

An amount borrowed, usually from a bank. It must be repaid over a period of time, usually with interest.

## Management accounting

The area of accounting that focuses on providing information to help managers make informed business decisions.

## Manufacturing account

A financial statement produced by manufacturing organisations to calculate the cost of goods produced in a period.

## Margin of safety

The difference between the current level of sales and the break-even point.

## Marginal cost

The cost of producing one extra unit.

## Markup

The ratio that measures the gross profit as a percentage of cost of sales.

## Master budget

A budgeted income statement and budgeted statement of financial position.

## Material price variance

The difference between actual price paid and the standard price expected to be paid, for the materials used.

## Material usage variance

The difference between actual materials used and the standard materials expected to be used, at the standard price paid.

## Material variance

The difference between the standard expected cost and the actual cost of materials.

## Materiality

The concept that states that if the amount is insignificant, normal accounting policies do not have to be followed, as it would not lead to misleading information.

## Money measurement

The concept that states that all information recorded in financial accounting must be in monetary form.

## Mortgage

A loan which is used to buy property.

## Net present value

A capital investment appraisal technique used to calculate the net inflows whilst considering the time value of money.

## Net realisable value

The estimated selling price of inventory, after deducting any costs incurred to achieve the price set.

## Nominal value

This is the face (original) value of a share.

## Non-current assets

Resources of value that are bought to use to help generate profit. They are not expected to be turned into cash within 12 months. Can include property (premises), plant and equipment, machinery, office equipment, machinery, fixtures and fittings, motor vehicles etc.

## Non-current liabilities

Debts that have over a year in which to be paid back.

## Non-executive

The name given to a director who does not have day to day management responsibilities. An executive director is a director who is actively involved in the day-to-day activities.

## Objectivity

The concept that states where possible, accountants should use factual information, not opinions.

## Opening inventory

The value of inventory held at the start of the financial year (brought down from the previous financial year).

## Optimum use of scarce resources

The planning of resources to achieve the maximum benefit from the limited resources available.

## Ordinary shares

Shares which are sold to shareholders who in return for their investment, become part owners of the company.

## Other payables

Also known as accrued expenses. An amount owed for an expense that has been used in this financial year, but which has not yet been paid.

## Outstanding

Not yet paid or processed.

## Over-absorption

A situation where the overhead costs applied to production are higher than the actual overhead costs incurred.

## Overcast / Overstated / Overvalued

The recording of an amount over its actual value.

## Overdraft

A source of finance that allows a business to go below zero in their bank account, up to an agreed limit.

## Overhead absorption rate

The rate at which overheads are absorbed into the cost unit. It is either based on direct machine hours (if capital intensive) or direct labour hours (if labour intensive).

## Part exchange

When a non-current asset is traded in to help cover the cost of a replacement.

## Partnership

A business set up by two or more people.

## Partnership Act 1890

A piece of legislation that a partnership must follow if no deed of partnership has been created. It states that profits and losses should be shared equally, no partner is entitled to a salary, no interest on drawings should be charged, no interest on capital should be paid and the interest rate for a partner loan should be at 5%.

## Payables ledger

The ledger which records the accounts of the trade payables.

## Payback

The capital investment appraisal technique that calculates the time it is expected to take for a project to recover the cost of the investment.

## Payback period

The length of time it is estimated to take for net cash inflows to cover the cost of an investment.

## Paying-in slip counterfoils

The source document that evidences a deposit made at the bank.

## Posting error

When one side of the transaction is posted to the wrong side of the account. Eg, a debit entry is accidentally recorded as a credit entry. The credit entry has been correctly recorded.

## Prepaid revenues

When amounts are paid in advance of an income being earned.

## Price earnings

The investor ratio which measures the market price of the share as a proportion of the earnings per share.

## Prime cost

The total direct costs of production, includes direct materials, direct labour and direct expenses.

## Private limited company (Ltd)

A company in which shares are not traded on the stock exchange.

## Production budget

A budget that estimates the number of units a company will produce in a specific period.

## Professional behaviour

The fundamental ethical principle that states that accountants should act in a way that upholds the ethical standards of the accounting profession.

## Professional competence and due care

The fundamental ethical principle that states that accountants should only undertake work for which they have the necessary knowledge and skills.

## Profit for the year

The total profit made in a year.

## Profit for the year after tax

The profit for the year after deducting corporation tax.

## Profit for the year before tax

The profit for the year before deducting corporation tax.

## Profit from operations

The profit for the year before considering finance charges and taxation.

## Profit in relation to revenue %

A profitability ratio that expresses a company's profit as a percentage of its sales revenue.

## Profitability

The ability of a company to earn profits.

## Prudence

The concept that states that assets and profits should be understated rather than overstated.

## Provision for unrealised profit

The profit that has not yet been realised on unsold inventory of a manufacturing organisation.

## Public limited company (PLC)

A company in which shares are traded on the stock exchange.

## Purchase budget

A budget that estimates the quantity and cost of materials and inventory a company will need to purchase in a specific period.

## Purchase invoices

The source document which evidences a credit purchase.

## Purchase returns

Also known as returns outwards; refers to goods returned to the supplier.

## Purchases

Raw materials or inventory that have been bought with the intention of being sold.

## Purchases journal

The book of prime entry that details credit purchases.

## Purchases returns journal

The book of prime entry that details return outwards.

## Rate of inventory turnover

A ratio that measures how many times a company sells and replaces its inventory over a period.

## Rate of inventory turnover (days)

A ratio that measures how many times a company sells and replaces its inventory over a period in days.

## Realisation

The concept that states that revenues should only be recorded when a sale has been agreed.

## Receipts and payments account

An account produced by non-profit making organisations which shows a summary of all money received and paid during an accounting period.

## Receivables ledger

The ledger which contains the accounts of the trade receivables.

## Reducing balance method of depreciation

A depreciation method where the depreciation expense is calculated as a percentage of the remaining book value of the asset each year.

## Regulatory framework

The set of rules and regulations that govern the accounting profession and business practices.

## Repay /Repayable/Repaid/Repayment(s)

Pay back/ The amount that must be paid back / Paid back (refunded) / The act of paying back.

## Residual

Remainder, amount left over. The residual value is the amount that a non-current asset can be sold for at the end of its useful life.

## Retained earnings

The profits of a company that have not been paid out as dividends to shareholders.

## Return on capital employed %

A ratio which calculates the amount of profit created in relation to the capital invested in the business.

## Revaluation

The process of revaluing assets to reflect its current value (revalued amount).

## Revenue

The amounts earned by a business through providing a service or selling a product.

## Revenue expenditure

Money spent on running costs. It also includes repairs and maintenance costs.

## Revenue income

Revenues that are recorded on the income statement.

## Revenue reserves

Profits that have been retained within the business.

## Revenue variance

The difference between the standard expected revenue and actual revenue.

## Rights issue

A method of raising additional capital by offering new shares to existing shareholders at a discounted price.

## Royalties

An amount paid for the right to make a product.

## Sale or return

When a supplier sends inventory to a business. The sale is not realised at this point meaning the supplier owns the inventory.

## Sales budget

A budget that estimates the amount of sales revenue a company expects to generate in a specific period.

## Sales invoice

The source document which evidences a credit sale.

## Sales journal

The book of prime entry that details credit sales.

## Sales price variance

The difference between actual price charged and the standard rate expected to be charged, for the actual units sold.

## Sales returns

Also known as returns inwards; refers to when customers return goods to the business after a sale has been made.

## Sales returns journal

The book of prime entry that details returns inwards.

## Sales variance

The difference between the standard sales revenue and the actual sales revenue for the product or service.

## Sales volume variance

The difference between actual quantity sold and the quantity expected to be sold at the standard price.

## Schedule of non-current assets

A note to the published accounts that details information regarding the non-current assets owned by a company. It includes details of purchases and disposals of non-current assets.

## Scrap

To get rid of something that is no longer useful.

## Semi-variable costs

Costs that have both a fixed and variable element. Eg, a phone bill as the tariff is fixed, but additional charges such as extra data are variable.

## Service business

A business that doesn't sell a physical product but supplies a service. Eg, an accounting firm.

## Settlement

The action or process of settling an account.

## Share issue

The process by which a company raises capital by issuing new shares to investors.

## Share premium

The difference between the issue price of a share and the nominal value.

## Sole trader

A business that has one owner. It may have employees.

## Source documents

These are the documents that provide proof of a financial transaction.

## Standard cost

A budgeted cost.

## Standing order

An instruction to the bank to allow a regular fixed payment to be taken by a third party.

## Statement of cash flows

A financial statement that explains why operating profit and operating cash are different amounts and explains the net cash flows for investing and trading activities.

## Statement of changes in equity

A primary financial statement that shows for each component of equity a reconciliation of the opening and closing amounts.

## Statement of financial position

A financial statement that shows a company's financial position at a specific point in time. It details assets, liabilities and capital.

## Stepped costs

A cost that remains fixed up until a certain level of output. At this point the cost will increase, and then remain fixed until another level of output.

## Stock take

The physical check of quantity and condition of inventory.

## Straight line method of depreciation

A depreciation method where the depreciation charge is the same amount each year (unless non-current assets are bought or sold).

## Subscriptions account

A ledger account that records regular payments to belong to a non-profit making organisation.

## Suspense account

A temporary ledger account that is opened when arithmetical errors have occurred. It is used to correct these errors.

## Target profit

The profit figure that a business aims to achieve during a specific period.

## Three column cash book

The ledger which records the cash and bank ledger accounts side by side. It also acts as the book of original entry for cash discounts (discount allowed and discount received).

## Till roll

The source document which evidences cash sales / takings.

## Total contribution

The total amount of revenue left over after variable costs have been covered. This amount will go towards the payment of fixed costs. Once fixed costs are covered the amount will go towards total profit.

## Trade discounts

A discount that is agreed at the time of sale. Given for reasons such as to encourage bulk buying or offered to a business who are in the same industry.

## Trade payable days

A ratio that measures the average time a business takes to pay its suppliers.

## Trade payables

Suppliers from whom the business has bought from on a credit basis.

## Trade payables ledger control account

An account that summarises all transactions which relate to trade payables. Its closing balance shows the total amount owed to trade payables.

## Trade receivable days

A ratio that measures the average time it takes a business to collect payment from its credit customers.

## Trade receivables

Customers who have bought on a credit basis.

## Trade receivables ledger control account

An account that summarises all transactions which relate to trade receivables. Its closing balance shows the total amount owed by trade receivables.

## Trading business

A business that sells a physical product.

## Transposition error

An error where two digits in a number are accidentally swapped. The difference between the two amounts will be divisible by nine.

## Trial balance

A summarised list of all the debit and credit balances, brought forward from the ledger accounts.

## Under-absorption

A situation where the overhead costs applied to production are lower than the actual overhead costs incurred.

## Undercast/Understated/Undervalued

The recording of an amount under its actual value.

## Unequal posting error

When the debit and credit recorded for a transaction are for unequal amounts.

## Unlimited liability

The owner(s) are responsible for all business debts. Their personal assets are at risk.

## Variable costs

Costs that change in direct relation to output.

## Variance

A difference between the budgeted and actual amount.

## Variance analysis

The process of investigating and explaining the reasons for variances between budgeted and actual amounts.

## Wastage

Material lost in production.

## Wholesaler

A business that buys in large quantities from manufacturers and sells in large quantities to retailers.

## Work in progress

Goods that have been partially completed.

## Zero based budgeting

A budgeting technique whereby all budgets are set at zero. Managers must gain approval for any spending.