

FACTSHEET 4

Basic Accounting Terminology

If you're lost or mystified when you see a set of business accounts then here are some very basic points to help you .

Profit & Loss Account

The profit and loss account of a business shows how much it has bought and sold during a period (normally an accounting year) and what profit has been made after all business overheads . Such profits can be distributed to the business owners as drawings or as dividends where the business is a limited company . Profits can also be retained in the business .

Balance Sheet

The balance sheet is a statement of a business's assets and liabilities at a particular date . In other words it is a statement of what the business owns and what it owes . In a typical balance sheet there will be references to :

- Assets
At any time a business normally has two main types of asset :
 - Fixed assets such as buildings , plant , equipment and vehicles . These are kept in the business to be used over a number of years .
 - Current assets such as cash , stock of materials , debtors and bank balances .

- Liabilities
Liabilities are amounts that the business owes to other organisations and people :
 - Current liabilities are creditors where the amounts fall due within one year and would typically included supplier balances , Vat and Paye & Nic liabilities , bank overdraft , etc
 - Long Term liabilities are creditors where the amount is due to be repaid after more than one year such as bank borrowing , hire purchase commitments .

Although care has been taken in the production of this material it represents a brief summary of the topic only . Accordingly , Iain Allan & Co , shall not be liable for any actions , failures to act , or negligence on the part of those to whom the material is disseminated , which results in any liability , loss , claim or proceedings whatsoever and howsoever caused by , on behalf of , or against any person

- Working Capital
Current assets less current liabilities are referred to as net current assets or working capital . This is the amount of capital that finances the day to day trading operations of the business .

Interpreting Accounts

If you want to understand a business , you first have to study the Accounts . A skilfully interpreted set of Accounts can yield valuable insights into the operations of a business . But always bear in mind that :

- The circumstances of a business can change very quickly and accounts can become out of date
- Accounts often undervalue some resources such as brand names , management skills and strategy
- Asset vales are often distorted because of the 'historic cost convention'

For further advice and before taking any action please give me a call .

Although care has been taken in the production of this material it represents a brief summary of the topic only . Accordingly , Iain Allan & Co , shall not be liable for any actions , failures to act , or negligence on the part of those to whom the material is disseminated , which results in any liability , loss , claim or proceedings whatsoever and howsoever caused by , on behalf of , or against any person