

ACCOUNTANCY TERMS IN PLAIN ENGLISH

A GUIDE FOR CLIENTS

Accountancy can sometimes feel like a different language, full of jargon and acronyms that make your head spin. But fear not! Here's our light-hearted guide to demystify 50 common terms and help business owners like you get to grips with their numbers. We always aim to avoid using accountancy jargon but if there's anything you don't understand, please just ask. It's what we're here for.

1 Accounts Payable

What it sounds like: An endless list of bills.

What it really means: Money your business owes to suppliers. Think of it as your "to-pay" list.

Example: You bought office chairs on credit – the amount you owe the supplier sits in accounts payable.

2 Accounts Receivable

What it sounds like: Fancy for "waiting for cash."

What it really means: Money owed to you by customers. Your "to-be-paid" list.

Example: You invoiced a client for design work, but they haven't paid yet. That's accounts receivable.

3 Accruals

What it sounds like: Building up something.

What it really means: Costs or revenues that are recorded when they happen, not when the money actually changes hands.

Example: You've delivered services in March but won't get paid until April. That's an accrual.

4 Amortisation

What it sounds like: Something to do with loans?

What it really means: Spreading the cost of an intangible asset over time.

Example: You pay off a patent's cost gradually over its useful life.

5 Assets

What it sounds like: Something important you've got.

What it really means: Things your business owns that have value.

Example: Your laptop, company van, or even the cash in your business bank account.

6 Audit

What it sounds like: A financial inspection.

What it really means: A thorough check of your accounts to ensure accuracy and compliance.

Example: HMRC might audit your business if something looks unusual in your tax return.

7 Balance Sheet

What it sounds like: A gymnastics move!

What it really means: A snapshot of your business's finances – what you own, owe, and what's left.

Example: Imagine it like a financial selfie for your business.

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Break-even Point

What it sounds like: The moment your hard work starts paying off.

What it really means: The point where your business's income equals its expenses – no profit, no loss.

Example: If your monthly costs are £5,000, you need at least that in sales to break even.

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Budget

What it sounds like: A financial diet.

What it really means: A plan for how your business will spend and earn money.

Example: You budget £500 a month for marketing to keep expenses in check.

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Capital

What it sounds like: A city, maybe London, Madrid, Paris...?

What it really means: The money invested in your business by you or others.

Example: That initial chunk of cash you put in to start your business.

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Capital Allowances

What it sounds like: Tax perks.

What it really means: A way to claim tax relief on certain business assets.

Example: Bought a new van for your business? You can claim a portion of its cost as a capital allowance.

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Cashflow

What it sounds like: A river of money.

What it really means: The movement of money in and out of your business.

Example: If more is going out (bills) than coming in (sales), you've got a cashflow problem.

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Chart of Accounts

What it sounds like: A map for your finances.

What it really means: A list of all the accounts your business uses to record transactions.

Example: Think of it as the categories in your accounting system, like "Office Supplies" or "Travel Expenses."

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Corporation Tax

What it sounds like: A punishment for being incorporated.

What it really means: The tax your company pays on its profits.

Example: You'll pay between 19% and 25% as corporation tax depending on how much profit you make.

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Current Assets

What it sounds like: Things you can grab quickly.

What it really means: Assets that can be converted to cash within a year.

Example: Cash, stock, or accounts receivable.

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Deferred Income

What it sounds like: Money that's delayed.

What it really means: Money you've received but haven't earned yet.

Example: A client paid upfront for a 12-month subscription; you'll earn it month by month.

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Depreciation

What it sounds like: Losing value over time (like your car).

What it really means: The decrease in value of an asset over time.

Example: That fancy printer you bought loses value each year; depreciation accounts for this.

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Director's Loan

What it sounds like: Borrowing from yourself.

What it really means: Money you've lent to or borrowed from your company.

Example: Took £2,000 from the business account for personal use? That's a director's loan.

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Dividends

What it sounds like: Your reward for being a shareholder.

What it really means: A share of the profits paid to company owners.

Example: If your company has £5,000 profit, you might pay yourself £2,000 as dividends.

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Double-entry Accounting

What it sounds like: Twice the effort.

What it really means: A bookkeeping method where every transaction affects at least two accounts.

Example: When you buy a laptop, your "Cash" account decreases, and your "Assets" account increases.

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EBITDA

What it sounds like: Something tech companies throw around.

What it really means: Earnings Before Interest, Tax, Depreciation, and Amortisation. It's just a fancy way to measure your business's performance without certain costs getting in the way.

Example: Think of it as your profit before the complicated bits.

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Equity

What it sounds like: Your home's value?

What it really means: The part of your business you (or others) own after debts are deducted.

Example: If your business is worth £20,000 and owes £5,000, your equity is £15,000.

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Expenses

What it sounds like: Things that drain your bank account.

What it really means: Costs of running your business.

Example: Rent, utilities, staff salaries, or even coffee for the office.

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Fixed Costs

What it sounds like: Costs that don't budge.

What it really means: Business expenses that stay the same regardless of how much you sell.

Example: Rent, insurance, and salaries are fixed costs.

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Fiscal Year

What it sounds like: Something to do with fish?

What it really means: A 12-month period your business uses for accounting purposes.

Example: Your fiscal year might run from 1st April to 31st March.

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Goodwill

What it sounds like: Being nice to your customers.

What it really means: The extra value of your business beyond its assets, often tied to reputation.

Example: If you sell your business for more than its physical assets, that extra is goodwill.

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Gross Income

What it sounds like: Total earnings before the fun begins.

What it really means: All the money your business makes before expenses.

Example: If you've earned £20,000 in sales, that's your gross income.

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Gross Profit

What it sounds like: Big money, before deductions.

What it really means: Sales minus the cost of goods sold.

Example: You sold a dress for £50, and it cost you £20 to make. Your gross profit is £30.

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Hire Purchase

What it sounds like: Renting to own.

What it really means: Paying for an asset in instalments while using it.

Example: You get a van for £300 a month over three years, and it's yours at the end.

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Insolvency

What it sounds like: A scary word.

What it really means: When your business can't pay its debts on time.

Example: If you owe more than you own and can't pay your bills, you might be insolvent.

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Inventory

What it sounds like: A stockpile of goods.

What it really means: Items your business has ready to sell.

Example: Your inventory includes the 100 candles in your storeroom.

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Invoice

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What it sounds like: A formal demand for payment.

What it really means: A document requesting payment for goods or services.

Example: "Here's your invoice for the website design work – it's due in 14 days."

Liabilities

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What it sounds like: Things weighing you down.

What it really means: What your business owes.

Example: Loans, credit card debt, or unpaid invoices to suppliers.

Limited Liability

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What it sounds like: A safety net for owners.

What it really means: If your company goes under, your personal assets (like your house) are protected.

Example: Your liability is limited to the amount you invested in the business.

Net Profit

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What it sounds like: The leftover cash.

What it really means: Gross profit minus all other expenses.

Example: After deducting rent, salaries, and bills, you're left with your net profit.

Net Worth

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What it sounds like: Your value in the business world.

What it really means: What's left after you subtract what you owe from what you own.

Example: If your business owns £50,000 in assets and owes £20,000, your net worth is £30,000.

Overheads

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What it sounds like: Things hanging over you.

What it really means: Ongoing costs of running your business that aren't directly tied to creating a product or service.

Example: Electricity, water, and office rent are overheads.

Payroll

38

What it sounds like: A roll of cash.

What it really means: The total amount your business pays to employees.

Example: Your monthly payroll might include wages, taxes, and pension contributions.

PAYE

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What it sounds like: A pay-as-you-go scheme.

What it really means: Pay As You Earn. It's the system for collecting income tax and National Insurance from employees.

Example: If you're on a salary, PAYE deducts your taxes before you see your wages.

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PAYE Reference

What it sounds like: A membership number.

What it really means: The unique code HMRC gives to employers for PAYE.

Example: You'll need this reference to submit payroll details.

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Profit Margin

What it sounds like: How much you're making.

What it really means: The percentage of profit you make on sales.

Example: Sold something for £100 and made £20 profit? Your profit margin is 20%.

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Reconciliation

What it sounds like: Making peace with your bank statement.

What it really means: Comparing your accounts with your bank statements to ensure everything matches.

Example: If your records show £1,000 in the bank but the statement says £900, reconciliation helps find the error.

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Retained Earnings

What it sounds like: Profits you've kept.

What it really means: Profits you've reinvested in the business instead of paying out.

Example: Rather than taking dividends, you leave £5,000 in the business for growth.

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Revenue

What it sounds like: All the money you're bringing in.

What it really means: Total sales income before any costs are deducted.

Example: If you sold 50 cakes at £10 each, your revenue is £500.

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Tax Code

What it sounds like: A secret formula.

What it really means: A number that tells your employer how much tax to deduct.

Example: If your tax code is 1257L, you're entitled to a £12,570 tax-free allowance.

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Trial Balance

What it sounds like: A test run for your finances.

What it really means: A report showing all your accounts and their balances to check if your books are balanced.

Example: If your total debits equal your total credits, your trial balance is spot on.

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Turnover

What it sounds like: A pie? Or staff leaving?

What it really means: Another word for revenue.

Example: "Our annual turnover was £250,000 last year."

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VAT

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What it sounds like: A tax you can't escape.

What it really means: Value Added Tax. A tax you collect from customers and pass on to HMRC.

Example: Sold something for £120? That's £100 plus £20 VAT at 20%.

Variable Costs

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What it sounds like: Expenses that change with your mood.

What it really means: Costs that increase or decrease depending on your sales or production.

Example: The more cupcakes you bake, the more you'll spend on flour and sugar.

Working Capital

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What it sounds like: Money that's on the move.

What it really means: The cash available to cover your day-to-day operations.

Example: If your current assets are £20,000 and your liabilities are £15,000, your working capital is £5,000.



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