

GUIDA ACCOUNTANCY

The A-Z of Accountant Speak



TAKING THE MYSTERY OUT OF YOUR ACCOUNTS

Because You Have Better Things To Do With Your Time!

WELCOME TO GUIDA ACCOUNTANCY

My name is **John Lawrence**.

My aim is to transform the outdated stereotype of the grey-haired man in the grey suit Accountant (apart from the grey hair that is!)

To my clients I am someone in their corner, a spare pair of hands with a brain attached, a silent partner, their outsourced Chief Financial Officer.



Hello, **I am Ida**, and I am Head of Mindfulness and Wellbeing.

My first career choice was to train as a Guide Dog but I was bitten by another dog and had to leave the training program and be rehomed. So, on to my second career.

My job here at Guida Accountancy is to provide inspiration and joy as well as maintaining dad's physical and mental wellbeing.



www.guidaaccountancy.co.uk

The A-Z of Accountant Speak



Many business owners that I speak to have told me they do not like contacting their accountant.

Generally, I have found, it is for one or more of the following 3 reasons:

1. They don't understand what their accountant is talking about
2. They do not want to be charged for every conversation and consider their accountant to be an unnecessary expense
3. They don't like their accountant!

If any of these are true, then you have the wrong accountant!

I deal with points two and three by offering a friendly, helpful and approachable service on a fixed fee basis. I believe your accountant should be someone you can talk to, be friends with, and who talks your language.

I also believe your accountant should be a **vital part of your business**, providing you with advice and guidance every step of the way. That is why I offer a complimentary **'Getting to Know Each Other'** meeting so we can see how I can help you and your business.

Nevertheless, **there are words that accountants use** that may not be generally understood by every business owner. Hardly surprising, since if I spoke to a car mechanic about the workings of my car's engine, I would have no idea what he or she was talking about!

So, here is my **A-Z of accounting language** to help you understand the numbers in your business — admittedly with a few cheats included and some letters have more than one term to explain.

The A-Z of Accountant Speak

A Assets

Accountants and banks often talk about the assets of your business. Assets are what the business owns, the cash it has, the stock it is holding and what it is owed by customers. Assets are split into 2 categories, Fixed and Current.

Fixed assets are items that remain in the business for a long period of time such as property, furniture and motor vehicles.

Current assets are items that are or can be easily turned into cash, such as stock, customer debts and of course money in the bank.



B Balance Sheet

It is often said the Balance Sheet shows the value of the business, it is a rough guide but rarely the true value. The Balance sheet is a summary of all the assets the business has less all the liabilities (or creditors – see below).

This gives the Balance Sheet value. Businesses should always aim to have more assets than liabilities, this is called a positive balance sheet.

C Creditors

Creditors (or liabilities) are the sums of money that your business owes to suppliers, banks, HMRC, HP for example. These are split into 2 categories too.

Current liabilities and long-term liabilities. Current liabilities are amounts that need to be paid within the next 12 months. Long-term liabilities are amounts that need to be paid in 12 months or more.

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C Cashflow

Cashflow is one of, if not the most important consideration for a business owner, and yet so rarely planned for.

It is the actual money in and money out of the business — very different from profit as it measures the timing of cash and includes payments that are not part of a company's profit calculation.

It can be the downfall of even very profitable businesses who just can't get the money from their sales in quickly enough to settle their debts.

One of the most common questions I get asked is 'why do my accounts show a good profit level but I have no money in the bank?' The answer is always to look at your cashflow.



D Debtors

These are amounts that are owed to your business. The most common is trade debtors, being what your customers owe you.

D Dividends

Amounts paid by the company to its shareholders as a reward for their investment and, in the case of owner-managed businesses, as a reward for the success of the business.

Dividends are generally more tax efficient than a salary but not always — speak to your accountant!

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E Equity

Equity is another term for the value of the balance sheet (for small businesses anyway), calculated by subtracting all liabilities from all assets.

Again, often considered to be the company's value but that is not usually true. It is however often used as a measure of the long-term stability of a company, which is important when looking for bank loans or external finance.

F Financial Statements

This is the official accountant's term for your annual accounts. They consist of 2 main items, the Profit & Loss Account and the Balance Sheet. Larger businesses need to include a Cashflow statement too.

Additional notes are included to help readers understand some of the figures in the statements. Certain notes must appear as they are required by law.

G Gross Profit

The difference between what you sell your goods or service for and the amount it costs. Costs should include not only the purchase of the item but also delivery to the customer, the cost of your sales team if you have one, and any production costs (staff wages and materials for example).

This is such an important number to know, yet too few businesses do..

H Historical Cost

This is a term used in the accounting policies section of the year-end accounts and is a method of valuing fixed assets.

The initial value is the original purchase price of the asset (referred to as the historical cost). It provides consistency and is easily traceable through the original invoice or paperwork.

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I Insolvent

Insolvent means a company cannot pay their creditors (or liabilities) as they become due because it has insufficient cash available. Some, particularly Banks, consider a company to be insolvent if its Balance Sheet shows current liabilities being higher than current assets.

J Journal

A method of entering transactions into the bookkeeping system. Being used less and less as software becomes more automated but still a useful tool to correct mistakes and enter transactions that do not go through your bank account.

K Knowledge

A bit of a cheat this one. A vital part of a successful business is knowledge. Knowledge of how your business works, your customers, your suppliers and your numbers. Knowledge is power. Know your numbers and you're on your way.

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L Liquidity

Liquidity is the ability of a company to turn its assets into cash.

It is a realistic measure as it does not just use the face value of figures in the accounts but adjusts them for items such as slow paying customers or stock that is not moving quickly.

It requires an honest assessment by the management but provides a very good indication of a company's ability to pay its debts when due.

M Management Accounts

Throughout the year a business will maintain its bookkeeping records. The next step is to produce Management Accounts.

These are periodic sets of accounts, usually monthly or quarterly, that the management uses to assess the business performance.

They are less formal than year-end accounts but particularly useful for providing up to date information and results, enabling earlier action to be taken if things are not going so well or, just as importantly, to know what is being successful.

Banks will normally insist on Management Accounts, firstly when assessing any lending proposal and then ongoing throughout the term of any loan.

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M Making Tax Digital

HMRC's system of on time reporting of tax and VAT. Currently most VAT registered businesses must report their VAT returns using MTD compliant software.

The system will be expanded in the future to include income tax and corporation tax reporting. This is due to come in from 2021 at the earliest.

HMRC believe they will increase tax revenue as a result of MTD and also increase efficiency. For businesses it has resulted in additional software and compliance costs.



N Net Profit

The amount by which the businesses income exceeds its costs is the net profit. This is prior to any corporation tax and dividends paid.

A loss is made when costs exceed income. This is another key figure and often the one that business owners are most keen to know.

O Overheads

Generally, costs that are not included in the manufacturing or selling process. Includes staff wages, rent, heating and administration costs amongst others. It is important to know these for calculating sales prices, so that your gross profit is sufficient to exceed overhead costs and thus make an overall profit.

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P Profit & Loss Account

The profit and loss account, or income and expenditure statement as it is sometimes referred to, shows the sales, and expenses relating to the period, usually one year.

The result is the net profit.

It shows income and expenses that are due for the year, not necessarily, indeed rarely, what has been received and paid for.



Q Quickbooks

Quickbooks provide bookkeeping and payroll software for businesses. It has been around for many years but has transitioned well to become one of the leading providers of cloud-based software. This means you can access it from anywhere (with internet access) and do not need to load software onto your computer.

R Reconciliation

I will always tell my clients that a bank reconciliation is the most important part of bookkeeping.

It is the agreement of your bookkeeping records to your bank statement. Get this right and you have the basis of good bookkeeping. If it is not done it can distort your results until your accountant puts it right when doing the year-end accounts. It can also cost you if the accountant has to go through an entire year's statements to correct it.

S Sage

Another bookkeeping and payroll software provider. Probably the biggest provider historically but fell behind newer providers and others that adapted more quickly to cloud-based systems. Still very popular with bigger businesses but smaller ones are moving elsewhere.

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T Turnover

In simple terms the sales a business makes, excluding any VAT it charges.

Often referred to as revenue, it includes sales that have not yet been paid for by the customer. Obviously important, but not the best measure of success.

U Useful Life

Referred to when calculating depreciation of a fixed asset, it is an assessment of how long an asset will be of use to the business. Sometimes this is fairly easy to assess and sometimes not.

V Valuation

As mentioned before the value of a business is often taken as its balance sheet value, but this is not normally correct. A business has other assets that are not shown on its balance sheet but are worth something to any potential buyer.

This usually increases the value of a business beyond the balance sheet.

This would be such things as its reputation, its customers, and future business already agreed, amongst other things. All these are referred to as 'Goodwill'.



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W Working Capital

This is very similar to liquidity and is an indication of a company's ability to pay its debts when they become due. It is different in that it uses face value figures. It is simply "working capital = current assets — current liabilities". Banks are often very keen on this figure because it is easy to work out. But as it does not take account of the reality of the speed of customer payments or stock movement for example it can be quite deceptive.

W Work in Progress

Used mainly in manufacturing and construction businesses, it is the value of goods that are in the process of being made.

It should include the cost of materials and labour used to get the item to its current state. Often referred to as goods that are on the factory floor.

X Xero

Probably the fastest growing and most successful of the new cloud-based bookkeeping systems. Although a relatively new player, when compared to the likes of Sage and Quickbooks, it has proved very popular with both accountants and businesses.

Z Zoom

Ok, so I'm struggling a bit with the letter Z. Zoom is not really anything to do with accountancy. It is another piece of software that allows face to face meetings with individuals or groups through your computer.

Proving very useful and growing rapidly it may represent a big part of future business communication. This is not an exhaustive list, I'm sure there are other terms that are not everyday speak that I have not mentioned here. The important point is that your accountant should be able to explain things clearly to you and not get frustrated if they need to explain it again.

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Conclusion

I believe in talking to my clients to help them understand the numbers in their business. Numbers are my thing.

They may not be yours; I know and understand they are not everybody's cup of tea.

But knowing your numbers is vital if you want a successful business. So, it's essential to be able to talk to someone you know and trust who can help demystify your numbers for you.

That's where I come in...

If you want an accountant that you are happy to talk to, please feel free to arrange a complimentary, no-obligation 'DISCOVERY' conversation.

Let me (and Ida!) work with you to make your numbers work for you.

Simply click below to
book in your free call.

[Book A Call](#)



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