AQA
Questions matter

Subject specific vocabulary

The following subject specific vocabulary provides definitions of key accounting terms used in our A-level Accounting (7127) specification.

Your students should be familiar with, and gain understanding from all these terms.

Absorption costing

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

Accountant

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

Accruals

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

Accrued expenses

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

Accrued revenues

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

Activity based costing

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

Additional incomes

Revenues that come 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.

Apportionment
Sharing overheads between cost centres. 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.

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.

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
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.

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
The resources that have been invested into the business by the owner(s).

Capital expenditure
Amounts spent on the purchases of non-current assets. This can also include any costs involved in buying the asset (eg, legal charges) and amounts spent on improving 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.

Capital intensive
A business that uses a lot of non-current assets compared to labour.

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 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.

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.

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

Cost driver
A factor that causes changes in costs.

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

Cost of sales/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 debits
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.

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.

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
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 omission
Whereby a whole transaction has not been recorded in the books.

Error of original entry
Where an error is made when recording details from the source document in the books of prime entry.

Error of partial omission
Whereby either the debit or credit side of a transaction has not been recorded, resulting in a single entry.

Error of principle
Whereby an entry is made into the wrong class of account.

Error of reversal
Whereby the account that should have been debited has been credited and vice versa.

Expenses in relation to revenue
A profitability ratio that compares overheads to sales revenue.

Favourable variance

A difference between a standard and actual cost that has a positive impact on profit (eg, 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 that records the capital contributed by a partner.

Fixed costs

Costs that do not change in relation to output.

Fluctuating capital account

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

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 non routine transactions.

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.

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 statement

One of the financial statements. It is put together to calculate profit for the year.

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.

Integrity

Being honest and truthful.

Interest cover

The interest cover ratio considers the margin of safety (or cover) of profit over the finance costs 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.

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 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.

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).

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

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, with interest.

Management accounting

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

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 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.

Non-current liabilities
Debts that have over a year in which to be paid back.

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.

Over-absorption

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

Overdraft

A source of finance that allows a business to go below £0 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 expenses

Expenses have not been used within the financial year but have been paid for.

Prepaid revenues

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

Price earnings

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

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 before tax

The profit for the year before deducting corporation tax.

Profit for the year after tax

The profit for the year after deducting corporation tax.

Profit from operations

The profit earned 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.

Provision for doubtful debts
An estimated amount set aside by a business to account for an expected amount of irrecoverable debt.

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

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 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.

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.

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.

Remittance committee

A group that is responsible for ensuring that the remuneration paid to directors supports business objectives and comply with regulations.

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.

Returns inwards

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

Returns outwards

Also known as purchase returns; refers to the inventory returned to the supplier.

Revaluation
The process of revaluing assets to reflect its current value.

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.

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 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.

Sales price variance

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

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 standard hours 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.

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.

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 flow

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 financial statement produced by companies that outlines changes to capital and revenue reserves.

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.

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).

Suspense account

A temporary ledger account that is opening 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.

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 company takes to pay its suppliers.

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

Trade receivable days
A ratio that measures the average time it takes a company to collect payment from its credit customers.

Trade receivables
Customers who have bought on a credit basis.

Trading business
A business that sells a physical product.

Transposition error
An error where two digits in a number are accidentally swapped.

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.

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.

Zero based budgeting

A budgeting technique whereby all budgets are set at £0. Managers must gain approval for any spending.

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