

Glossary of financial terms

accounts payable

The amounts that a person or organization owes to someone else in the normal daily business.

accounts receivable

The amounts that a person or organization is owed in the normal daily business, ie, excluding loans and liabilities.

acquisition

Another word for purchase. Normally used for very large amounts, such as buildings, factories or another company (verb: to acquire).

affiliate

A person or company which is in some way connected to another.

American Institute of Certified Public Accountants (AICPA)

The professional body of accountants in the USA.

amortization

The process to reduce the value of an intangible asset to zero, over a specified number of years (verb: to amortize).

assets

The things which a person or company owns and which are of value to the owner.

Balance Sheet

A written statement showing 1) the amount of money and property a company has and 2) the money received from shareholders and creditors.

Board (of Directors)

The top management of a company.

branch

The offices of a company which are located in various countries or cities. A branch is not a separate company.

budget

The fixing of the amounts to be spent in the future. Also, the official statement showing these amounts.

capitalization

When a company spends money on something which will last for more than one year. This amount is normally put into the Balance Sheet.

Certified Public Accountant (CPA)

The title given to state recognized accountants in the United States of America.

confidentiality

Not telling others about information which a business partner or client tells you.

consistency principle

The idea that accounts should be prepared on the same basis from one year to the next.

consolidation

The process of including the figures of subsidiaries and affiliates in the accounts of a holding company.

creative accounting

The manipulation of figures in the accounts, designed to give a better result for the company.

creditor

a person or organization to whom money is owed.

debt

An amount which has to be paid to another party. (See also: to service debt.)

deferred

The inclusion in the accounts of amounts which will have to be paid in the future, but which are based on current transactions.

depreciation

The process to reduce the value of an asset to zero, over a specified number of years (verb: to depreciate).

disposition

Another word for the sale of an asset.

dividend

The distribution of the profits of a company to its owners.

due diligence

The process of checking the finances and contracts of a company before the purchase of its assets or shares, to ensure all relevant information has been given.

expenditure

The money spent on buying assets, which will then be included in the Balance Sheet.

to expense

When used as a verb, this word means that an amount of money spent by a company can go directly into the Profit and Loss Statement.

gearing

The proportion of debt and equity ownership in a company or an asset.

Generally Accepted Accounting Principles (GAAP)

These are the rules which accountants are required to follow when preparing financial statements, which are not written into law.

going concern principle

The idea that financial information can only be reported correctly on the basis that the company will be able to operate in the future.

goodwill

The total value of a company minus the net value of the tangible assets.