Intro to Finance Language Pack

Background to the pack

The Finance Language pack is designed to be user friendly no matter what your finance and accounting experience is to date.

The pack seeks explain common terms and phrases in a simple way with practical examples where possible.

Core accounting language (1)

Statutory accounts – the financial statements that are legally required to be prepared and filed at Companies House. Usually the accounting period is a year. However, there can be longer or shorter periods of account. They are due for filing 9 months after the accounting period.

Management accounts – accounts prepared to help make decisions. Often, they are prepared on a monthly basis

Journals – adjustments made to ensure that the accounts are showing the correct position. Your accountant will process these

Profit & Loss (P&L) – this shows the performance of the company

Balance sheet – shows how healthy a company is through either a net asset or net liability position

Core accounting language (2)

Assets – the business **owns or controls** its assets which have value and will help it in the future. Examples include cash, equipment, stock, or money customers or clients owe

Liabilities – what the business **owes others.** Examples include loans, supplier balances due and taxes due.

Equity – assets – liabilities. Equity is what's left for the owner.

The matching concept – revenue and expenses should both be recorded in the period that they relate to rather than the time that they are paid. This can result in adjustments being made at year end.

Cashflow terms

Cashflow – shows the cash inflows and outflows of a company over a period

Liquidity - how quickly a company's assets can be turned into cash

Working capital – what the business has available for day to day operations. It's short-term assets less short-term liabilities

Burn rate – how fast you spend cash every month

Budgeting and forecasting terms (1)

Budget – set in advance of the year based on what your expectations of the year

Forecast – revised during the year based on the actuals and additional information that becomes available during the year

Variance analysis – a review and comparison of the actuals against the budget aimed at trying to understand the causes of the variances.

Sensitivity analysis – shows the impact of a change in one assumption on performance

Scenario planning – creating different versions of the future eg base case, best case, worst case

Budgeting and forecasting terms (2)

Funding gaps – the money you need that you don't have to fund your plans

Tax & compliance vocabulary

Corporation tax – the tax a company pays on its profits. There are some adjustments to the 'accounting profit' as different items are allowable and disallowable for tax purposes. The corporation tax return is due a year after the accounting period, but the tax is due earlier (9 months + 1 day after the accounting period)

VAT – tax that's added to what is bought or sold. The rate charged depends on the goods or services.

PAYE, NIC, SSP – these are associated with payroll. PAYE is pay as you earn. NIC is national insurance contributions. SSP is statutory sick pay.