

Accounting Terms for Landcare Committees

A glossary of commonly used accounting terms

ACCRUAL ACCOUNTING - recognising income and expenses when they occur rather than when income is received or expenses are paid. Income is recognised at the time the service / goods are provided to clients. Expenses are recognised at the time the organisation acquires goods / services.

ASSET - a resource that is under the control of the organisation and from which future economic benefits are expected to flow to the entity.

AUDIT – a systematic process performed by an independent, external auditor. An audit provides a level of assurance that the financial records are 100% correct and are a true and fair reflection of the financial transactions.

BALANCE SHEET (also known as Statement of Financial Position) – shows assets, liabilities and equity, an overall position at a specific point in time. A Balance Sheet is a snapshot of the financial position of the organisation.

BANK RECONCILIATION – a form or document which compares the bank's records (e.g. bank statement) with an organisation's records in the Cash at Bank ledger account, for the same period.

CASH BASED ACCOUNTING – a cash accounting system is based on the receipt of money and the payment of money. Income is recognised when a payment is received. Expenses are recorded in the period where cash is paid.

CASH – cash on hand and on-demand deposits.

CASH FLOWS – inflows and outflows of cash and cash equivalents.

CASH FLOW STATEMENT (also known as Statement of Cash Flows) – show movements of cash for a given period of time. It records the receipts and payments for a specific period of time.

CHART OF ACCOUNTS – a list of the accounts used by an organisation in its accounting system – each account is assigned a unique number to identify it. A National Standard Chart of Accounts has been developed for non-profit organisations – visit www.finance.gov.au/search/node/National%20Standard%20Chart%20of%20Accounts/

CONTRACT - an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable at law.

CREDITOR – a person or company to whom money is owed.

CURRENT ASSET - cash or any asset that can be reasonably converted to cash within one year. Current assets have high liquidity. All other assets are classified as non-current assets.

CURRENT LIABILITY – a liability that is due to be settled within one year. All other liabilities are classified as non-current.

DEBTOR - a person or organisation that owes money to another party.



DEDUCTIBLE GIFT RECIPIENT - organisations that are entitled to receive income tax-deductible gifts and tax-deductible contributions are called deductible gift recipients (DGRs). To qualify as a DGR, an organisation must be either endorsed by the ATO or listed by name in the income tax law.

DEPRECIABLE AMOUNT - the cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.

DEPRECIATION (amortisation) - the gradual conversion of the cost of a tangible capital asset or fixed asset into an operational expense over the term of its useful life.

ENTITY - a business (including a person) or other unit that is being accounted for separately.

EQUITY – the money and other assets invested into an organisation by its owners, plus the profits, minus the losses incurred since its inception.

FAIR VALUE - the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

GENERAL LEDGER - a chronological accounting record a business uses to keep track of financial transactions.

INCOME - money that an individual or business receives in exchange for providing a good or service or through investing capital.

JOURNAL ENTRY - a formal accounting entry used to record a business transaction.

LIABILITY – liabilities can be thought of as the amounts owing to third parties or expenses incurred but not yet paid for, eg. the value of electricity used during last month but for which an invoice has not been received.

LIQUIDITY - the availability of cash in the near future after taking account of financial commitments over this period.

MATERIALITY - information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

NET SURPLUS OR PROFIT - the amount remaining after all expenses are deducted from income.

NOT-FOR-PROFIT ENTITY - an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

PETTY CASH – money set aside for small expenses such as coffee, stamps and small stationery items.

PROFIT AND LOSS STATEMENT - also known as income and expenditure statement) matches income earned *in a given period of time* with the expenses incurred for that same period. It shows surplus (profit) or deficit (loss) for that period. It shows profitability of the organisation's operations.

REVENUE - the gross inflow of economic benefits during a period, such as a financial year.

SOLVENCY - the availability of cash over the longer term to meet financial commitments as they fall due.

TAX CONCESSION CHARITY (TCC) - a TCC is a charity that is endorsed by the ATO to access one or more of the following tax concessions - income tax exemption; goods and services tax (GST) charity concessions; fringe benefits tax (FBT) rebate; or FBT exemption.

USEFUL LIFE: the period over which an asset is expected to be available for use by an entity .

Source: Australian Accounting Standards Board (AASB) 2015 and TAFE NSW's Financial Management and Legal Accountability Program.

DISCLAIMER: The information contained in this publication is based on knowledge and understanding at the time of March 2016. However, because of advances in knowledge, users are reminded of the need to ensure that information upon which they rely is up to date and to check currency of the information with the appropriate officer of QWALC or the user's independent advisor.