

# Glossary of Business Terms

## A

### accounts

'Accounts' is a generic term for the financial documents that companies in the UK are required to file each year. Most companies filings will include a Profit & Loss account, a Balance Sheet, a Director's Report and Auditor's Statement. Limited companies have up to 10 months after the financial year end to file accounts for that year, so the first accounts for a new company are due 22 months after incorporation. PLCs must file within 7 months of year end.

95% of companies file their accounts on time.

Companies that do not file accounts on schedule incur fines from Companies House on a sliding schedule, and will eventually be dissolved if they do not comply.

### annual return

Summarises current directorships and company/capital structure. Filed annually.

### annual return date

The Annual Return should be filed within 28 days of this date each year.

### audit

An audit is the official inspection of a company's accounts by a qualified accountant as required by Companies House each year to ensure that the company balance sheet reflects the true state of its affairs.

### authorised capital

The total amount of share capital that a company is allowed to issue.

## B

### balance sheet

The balance sheet looks at two financial aspects, ASSETS - which the company owns, and LIABILITIES which the company owes. Whilst the Profit & Loss account is the culmination of a years activities, the Balance Sheet looks at the company's assets and liabilities on one day - in effect a snapshot.

## C

### cash flow

The movement of cash in and out of a business. Cash is usually required to pay a company's bills and commitments.

A company with negative cash flow has less cash coming in as receipts than going out in payments. Negative cash flow can bankrupt a business that may actually be running profitably.

certificate of incorporation

The company's 'birth certificate' as issued by Companies House on the day of incorporation.

charge

A loan taken out by the company, usually against some form of security. The satisfaction of secured charges should be filed by the Company Secretary but very often this is overlooked.

collection period

How long, on average, a company takes to pay its' debts.

companies house

Companies House is an executive agency of the Department of Trade and Industry, and has five main functions:

the registration of new companies

the registration of documents required to be delivered under companies, insolvency and related legislation

the provision of company information to the public

dissolution and striking off companies from the register

ensuring that companies comply with their obligations in connection with the above functions.

company name

As registered at Companies House. Only one company can hold this name at any one time. A company can change it's name at any time, unlike it's number which is permanent.

county court judgement

A CCJ is an order from a County Court that the company must pay an outstanding debt.

When settling debts companies often overlook notifying the court so a judgement may appear unsettled when the debt has actually been paid.

creditor

An individual or organisation to which the company owes money - most commonly a supplier.

current ratio

The Current Assets divided by Current Liabilities. If greater than 1 then assets are greater than liabilities, less than 1 then liabilities are greater than assets. A very useful indicator, especially of cash flow. See also Liquidity Ratio.

D

debenture

A security issued by a company on which the interest is payable whether or not the company makes a profit. Companies issue securities in order to raise capital. The loan is usually secured by the general credit worthiness of the company rather than any specific item.

debtor

An individual or organisation that owes the company money. This sum of these figures is counted as a current asset.

dividend

Monies paid out to shareholders.

director

Directors are officers of the company and manage it in behalf of the shareholders. Every company must have at least one director. The secretary may be a director but not the sole director.

dissolution

Once a company is struck off the Companies Register it ceases to exist and is dissolved. The company will be dissolved when the Registrar publishes a notice to that effect in the London Gazette. At the time of striking off a letter will be issued to the contact name on Form 652a confirming the proposed date of dissolution.

dormant

A company is dormant during a period if it has had no "significant accounting transactions" during the period, (ie transactions which are required to be entered into its accounting records).

Many dormant companies may pass a special resolution exempting themselves from the need to have their accounts audited, and from the duty to appoint auditors.

A dormant company is not exempt from filing accounts but the accounts to be filed are much simpler than for a trading company.

E

employee

An individual who works for the company directly. Not a contractor or freelancer. Companies incur PAYE and National Insurance liabilities on behalf of their employees.

## G

### gearing

Usually expressed as a percentage, it is the ratio of borrowings to shareholders funds. If over 100% then total borrowings are greater than shareholders funds and the company would be vulnerable to interest rate rises.

## I

### incorporation date

The day Companies House recognised the company's existence and issued a Certificate of Incorporation - in effect the company's 'birth certificate'. All transactions conducted from this day forwards qualify the owners for limited liability.

### intangible assets

Assets which have no material existence i.e. goodwill.

### issued capital

The amount of a company's share capital that has been issued to members/shareholders.

## L

### liquidation

The process of turning all of a company's assets into cash, usually done in order to pay off liabilities.

### liquidity ratio

Current Assets, less Stock, divided by Current Liabilities. Because stock, which can be hard to liquidate or overstated in the accounts, is removed from the equation this is a more testing index than Current Ratio.

## M

### mortgage

A mortgage is a secured charge for which the lender has stipulated property (real estate) as security.

## N

### nominal capital

The total share capital that could be invested into the company by its owners.

## O

### overdraft

Short term outstanding amount on the current account at the bank. A current liability.

P

plc

A public limited company is a company which is registered as such and complies with the following:

it must state that it is a public limited company both in its memorandum and in its name. The memorandum must contain a clause stating that it is a public limited company and the name must end with "Public Limited Company" or "PLC" (or the Welsh equivalents "Cwmni Cyfyngedig Cyhoeddus" or "CCC").

the memorandum must be in the form specified in Table F of the Companies (Tables A to F) Regulations 1985, or as near to that form as circumstances permits.

it must have an authorised share capital of at least £50,000.

before it can commence business, it must have allotted shares to the value of at least £50,000 a quarter of which, £12,500, must be paid up in cash. Each share allotted must be paid up to at least one quarter of its nominal value together with the whole of any premium.

Companies House regulations regarding PLCs are more stringent than for other limited companies. In particular a PLC has only seven months from year end to file accounts. Private companies have 10 months.

PLC has access to capital markets and can offer its shares for sale to the public through a recognised Stock Exchange, and can issue advertisements offering any of its securities for sale to the public. In contrast a private company may not offer to the public any shares in that company.

However there is no requirement for a PLC to have stock market listing.

pre-tax profit

The residue (or loss) after all expenses (wages, rent, raw materials etc) have been subtracted from turnover.

profit & loss

The P&L deals with sales, cost of sales, and the profit & loss a company has made in a period of time, usually a financial year.

profit margin

The ratio by which a company's income exceeds its outgoings. A company that spends £1000 on goods and sells them for £1200 is making a 20% profit margin.

R

receiver

A person appointed to collect and manage the assets of a company, or partnership in serious financial difficulties. In the case of bankruptcy, the assets may be sold and distributed by a receiver to creditors.

receivership

A company in the hands of the receiver is in receivership.

registered office

The legal address of the company as recorded at Companies House. An appointed representative of the company should always be available here to receive mail. May be the main trading address of the company or could be the address of the company's accountants, solicitors or associated company. Must be an address in the UK.

S

secretary

The name of the person responsible for maintaining company records and minutes of board meetings. Every company must have a named company secretary who can be a person or another company. The secretary may be a director but not the sole director.

SIC code

A US Standard Industrial Classification code. An aid to marketing applications by identifying the subject business activities as a code.

share capital

The part of the capital of a company held by a member (shareholder). Shares may be numbered and are issued as units of definite face value; shareholders are not always called on to pay the full face value of their shares, though they bind themselves to do so.

shareholder

These are the owners of the company. Shareholders can be people or other companies or businesses. Companies House uses the more official term 'member'.

shareholders funds

Take Current Liabilities and Long Term, Liabilities FROM Total Assets to establish what is left, and this residue belongs to the owners.

striking off

The process of removing a company from the Companies Register as held at Companies House.

This can either be requested by the company itself, or initiated by Companies House themselves. The most common cause is non-filing of accounts and lack of response from mail sent by Companies House.

stock

Goods owned by the company, usually raw material for the manufacturing process. Stock is a current asset.

T

tangible fixed assets

Assets which can be realised for cash after one year i.e. material goods such as Fixtures & Fittings or property.

trading address

An address of business premises of a company. This is not always available as the company is not required by law to file this information. This may or may not be a different address to the Registered Office.

turnover

Total invoiced sales net of VAT.

V

VAT

Value Added Tax is a sales tax set at 17.5% of value within the UK. Most goods and services supplied within the UK are liable to VAT.

Companies must charge VAT when supplying within the UK. A company that is VAT registered may reclaim VAT on purchases.

There is no VAT on exports beyond the UK.

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