
Advanced Certificate in Asset Finance and Leasing

Taxation and Accounting for Asset Finance.

Asset finance and leasing is a complex field that requires a strong understanding of taxation and accounting principles. In this explanation, we will cover key terms and vocabulary related to taxation and accounting in the context of an Advanced Certificate in Asset Finance and Leasing.

1. Asset finance: Asset finance refers to the use of financial instruments to fund the acquisition of tangible or intangible assets. This can include leasing, hire purchase, and asset-backed lending.

Example: A company may use asset finance to acquire a new piece of machinery that is critical to its operations but too expensive to purchase outright.

2. Leasing: Leasing is a form of asset finance where a company rents an asset from a lessor for a fixed period of time. The lessor remains the owner of the asset and is responsible for maintenance and insurance.

Example: A company may lease a vehicle from a leasing company for a period of three years.

3. Hire purchase: Hire purchase is a form of asset finance where a company hires an asset from a hire purchase company for a fixed period of time, with the option to purchase the asset at the end of the hire period.

Example: A company may hire purchase a piece of equipment for a period of five years, with the option to purchase the equipment at the end of the hire period for a predetermined price.

4. Asset-backed lending: Asset-backed lending is a form of asset finance where a company uses its assets as collateral for a loan.

Example: A company may use its inventory as collateral for a loan to fund its working capital needs.

5. Capital allowances: Capital allowances are a form of tax relief that allow companies to deduct the cost of certain assets from their taxable profits.

Example: A company may claim capital allowances on the cost of a new piece of machinery, which will reduce its taxable profits and therefore its tax liability.

6. Annual Investment Allowance (AIA): The AIA is a capital allowance that allows companies to deduct the full cost of certain assets from their taxable profits in the year of purchase.

Example: A company may claim the full cost of a new piece of machinery as an AIA, which will reduce its taxable profits and therefore its tax liability in the year of purchase.

7. Writing down allowances: Writing down allowances are a form of capital allowance that allow companies to deduct a percentage of the cost of certain assets from their taxable profits each year.

Example: A company may claim a writing down allowance of 18% per year on the cost of a new piece of machinery, which will reduce its taxable profits and therefore its tax liability each year.

8. Balance sheet: The balance sheet is a financial statement that provides a snapshot of a company's financial position at a particular point in time. It shows the company's assets, liabilities, and equity.

Example: A balance sheet may show that a company has assets of £100,000, liabilities of £50,000, and equity of £50,000.

9. Profit and loss account: The profit and loss account is a financial statement that shows a company's revenues, costs, and profits over a period of time.

Example: A profit and loss account may show that a company has revenues of £200,000, costs of £150,000, and profits of £50,000 over a period of one year.

10. Depreciation: Depreciation is the process of allocating the cost of a long-term asset over its useful life.

Example: A company may depreciate a piece of machinery over a period of five years, allocating one-fifth of the cost of the machinery to each year.

11. Accruals: Accruals are expenses that have been incurred but not yet paid.

Example: A company may have accrued wages payable to employees that have worked but not yet been paid.

12. Prepayments: Prepayments are expenses that have been paid but not yet incurred.

Example: A company may have prepaid rent for the next three months.

13. Capital expenditure: Capital expenditure refers to the cost of acquiring or improving long-term assets.

Example: A company may incur capital expenditure on the purchase of a new piece of machinery.

14. Revenue expenditure: Revenue expenditure refers to the cost of acquiring or improving assets that are used up within

a year.

Example: A company may incur revenue expenditure on the purchase of stationery.

15. Fixed assets: Fixed assets are long-term assets that are used in the business for more than one year.

Example: A company's fixed assets may include machinery, buildings, and vehicles.

16. Current assets: Current assets are assets that are expected to be converted into cash or used up within one year.

Example: A company's current assets may include cash, accounts receivable, and inventory.

17. Current liabilities: Current liabilities are debts that are due to be paid within one year.

Example: A company's current liabilities may include accounts payable, accrued wages, and short-term loans.

18. Long-term liabilities: Long-term liabilities are debts that are due to be paid after one year.

Example: A company's long-term liabilities may include long-term loans and mortgages.

19. Gearing: Gearing refers to the ratio of a company's long-term debt to its equity.

Example: A company with long-term debt of £100,000 and equity of £200,000 has a gearing ratio of 0.5 or 50%.

20. Return on capital employed (ROCE): ROCE is a measure of a company's profitability, calculated as its profit before interest and tax divided by its capital employed.

Example: A company with profits before interest and tax of £50,000 and capital employed of £200,000 has a ROCE of 25%.

In conclusion, this explanation has covered key terms and vocabulary related to taxation and accounting in the context of an Advanced Certificate in Asset Finance and Leasing. These terms and concepts are essential for understanding the financial aspects of asset finance and leasing, and for making informed decisions about asset acquisition and financing. By understanding these terms and concepts, learners will be better equipped to navigate the complex world of asset finance and leasing.