

Accounting period

A regular period of time, such as a quarter or year, for which a financial statement is produced.

Accounts payable

Debts owed to creditors.

Accounts receivable

Debts owed to a business, usually due from customers for goods or services purchased from the business.

Appreciation

An increase in the value of an asset.

Asset

Any useful or valuable thing owned by an individual, corporation or other organisation.

Assign

To transfer ownership of an asset to another party by signing a document.

Audit

Inspection and verification of financial accounts, records and accounting procedures.

Balance sheet

Financial statement showing assets on the left side and liabilities on the right. A balance sheet provides an overview of a company's financial position at the given time.

Balloon payment

The last payment on a loan, significantly larger than previous installments, which pays the loan in full.

Break-even point

Volume of sales at which total costs equal total revenues. Sales above this volume generate profits.

Broker

Individual or company authorised to

buy or sell something for another party without ever owning the goods.

Business Plan

A detailed description of a new or existing business, including the company's product or service, marketing plan, financial statements and projections, and management principles.

Capital

Property of a business, such as money, used to conduct its business.

Capital expenditure

Purchase of long-term assets, especially of equipment, used in manufacturing a product

Cash flow

Incoming cash less outgoing cash during a given period.

Collateral

Property that is offered to secure a loan or other credit and that becomes subject to seizure upon default.

Commercial credit

Short-term credit extended by a seller to the buyer to finance the purchase of a product or service.

Compensating balance

Money required by a bank to be left in a deposit account as part of a loan agreement.

Compound interest

Interest earned on previously accumulated interest as well as the principal.

Corporation

Form of business ownership that is a legal entity on its own in which stockholders and the board of directors are in control.

Credit bureau

Company that compiles and maintains information on consumer credit and provides the information to potential creditors for a fee.

Credit rating

Evaluation of an individual or corporation's history of repaying past loans. Credit ratings are used as a benchmark to assess the future ability of a creditor to pay back loans.

Current ratio

Calculation of current assets divided by current liabilities, measuring the ability of a company to pay its current obligations from current assets.

Current assets

Cash or other assets that the business expects to use in the operation of the company within one year.

Current liabilities

Debts that the business expects to pay within one year.

Debt ratio

Calculation of total liabilities divided by total liabilities plus capital, measuring the debt level of the business (leverage).

Debenture

Debt secured by the creditor based on the general creditworthiness of the debtor, as opposed to security based on specific assets.

Default

Failure of a borrower to make interest and/or principal payments when due.

Depreciation

Decrease in the value of equipment from wear and tear and the passage

of time. Depreciation on business equipment is generally deductible for tax purposes.

Distribution

Payment made to the owner(s) of an asset, such as stock dividends or funds in a retirement plan.

Dividend

Distribution of earnings to shareholders.

Equity

In banking, the difference between the market value of an asset and the amount of claims (such as mortgages) against it. In investing, equity refers to financing by means of shareholders investing in a venture, usually through stock. Equity financing is the major alternative to debt financing (borrowing).

Escrow

Temporary deposit with a third party of assets by agreement between two parties to a contract. The money is released when the conditions of the contract have been met.

Extraordinary items

Unusual or nonrecurring event that must be explained to shareholders.

Factoring

Type of accounts receivable financing in which receivables are assigned to a factoring company which is responsible for collecting the receivables.

Fiduciary

Person or company entrusted with assets owned by another party (beneficiary), and is responsible for investing the assets until they are turned over to the beneficiary.

Financial projections

Estimates of the future financial performance of a company.

Fiscal year

Any 12-month period used by a company or government as an accounting period.

Grace period

Time allowed a debtor in which legal action will not be undertaken by the creditor when payment is late.

Gross profit

Revenues of the business before consideration of operating expenses, calculated by subtracting cost of goods sold from net sales.

Guarantee

Pledge by a third party to repay a loan in the event that the borrower cannot.

Income statement

Financial statement that provides a historical perspective about a company's revenues, costs, and profitability for a specific time period. Also called profit and loss statement.

Indemnity

Obligation of one party to reimburse another party for losses which have occurred or which may occur.

Inventory

Value of a business' raw materials, work in process, supplies used in operations, and finished goods.

Investor

Individual who takes an ownership position in a company, thus assuming risk of loss in exchange for anticipated returns.

Leverage

The process of incurring debt in order to continue or expand the scope of a business operation. An enterprise is said to be highly leveraged if it relies heavily on debt financing as opposed to equity financing.

Liability

Any obligation to pay another party now or in the future.

Lien

Legal right to hold property of another party or to have it sold or applied in payment of a claim.

Line of credit

A financial institution's promise to lend up to a specific amount during a specific time frame.

Liquid assets

Those assets of a business which are easily convertible into cash.

Liquidation

Sale of the assets of a business to pay off debts.

Local development corporation

A local organisation designed to improve the economy of the area by inducing businesses to locate there. A local development corporation usually has financing capabilities.

Marginal cost

Additional cost associated with producing one more unit of output.

Net income

Sum remaining after all expenses have been met or deducted: net profit or net loss.

Net worth

Excess of assets over debt.

Operating expenses

Costs associated with the day-to-day activities of the business.

Operating profit/loss

Income (or loss) before taxes and extraordinary items (resulting from transactions other than those in the normal course of business) are deducted.

Overhead

Business expenses not directly related to a particular good or service produced. Examples are insurance, utilities, and rent.

Partnership

A company owned by two or more people, who are jointly and personally liable for debts and assets of the company. General partners, who have control, have unlimited liability; limited partners have limited liability.

Prime Rate

The interest rate that banks charge their best commercial customers. Rates charged to other borrowers are often expressed in terms of the prime rate plus a specified number of percentage points.

Principal

The currently unpaid balance of a loan, not including interest owed.

Profit sharing

Compensation arrangement whereby employees receive additional pay or benefits when the company earns or increases profits.

Receivables

Unsettled claims and transactions representing money owed to a creditor, usually the result of a sale of the creditor's product or service.

Also referred to as Accounts Receivable and listed as a current asset on the balance sheet.

Retained earnings

Net profits kept to accumulate in a business after dividends are paid.

Seasonality

Changes in business, employment or buying patterns which occur predictably at given times of the year.

Seed money

Funds used to start a new business or to finance a new venture by an existing firm.

Simple interest

Interest paid only on the principal of a loan. No interest is paid on interest accrued during the term of the loan.

Sole proprietorship

Business or financial venture in which the owner has full control and unlimited liability.

Speculation

Purchase of an asset with the expectation of selling it quickly for a large gain.

Variable cost

Any costs which change significantly with the level of output.

Venture capital

Money used to purchase an equity stake in a new or existing enterprise; equity, risk or speculative investment capital. This funding is usually provided to new or existing firms that exhibit potential for above-average growth.