Financial Terms Glossary

Term	Definition
Accounting	Is a general term that refers to the overall process of tracking your business's income and expenses and then using these numbers in various calculations and formulas to answer specific questions about the financial and tax status of the business.
Account	A collection of financial information grouped according to customer or purpose. For example, if you have a regular customer, the collection of information regarding that customer's purchases, payments and debts would be called his or her "account." A written record of an account is called a statement.
Accounts Payable	Are amounts that your business owes. For example, unpaid utility bills and purchases your business made on credit would be included in your accounts payable.
Accounts Receivable	Are amounts owed to your business that you expect to receive. Accounts receivable includes sales your business made on credit.
Accrual Basis of Accounting	Is where revenue and expenses are recorded in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period. This is the accounting basis that generally is required to be used in order to conform to generally accepted accounting principles (GAAP) in preparing financial statements for external users.
Accrued Assets	Are assets from revenues earned but not yet received
Accrued Expenses	Are expenses incurred during an accounting period for which payment is postponed.
Accrued Income	Is income earned during a fiscal period but not paid by the end of the period.
Accrued Interest	Is interest earned but not paid since the last due date.
Accrued Liability	Are liabilities which are incurred, but for which payment is not yet made, during a given accounting period. Some examples in a manufacturing environment would be wages, taxes, suppliers/vendors, etc.
Actuarial	Relates to statistical calculation especially of life expectancy, eg, insurance industry actuarial tables.
Current Assets	Relate to any other current assets. Does not include prepaid items.
Current Liabilities	Include any other current liabilities, including bank overdrafts and accrued expenses.
Other Expenses (net)	Includes miscellaneous other income and expenses (net), such as interest expense, miscellaneous expenses not included in general and administrative expenses, netted against recoveries, interest income, dividends received and miscellaneous income.

Financial Terms Glossary

Term	Definition
Non-current Assets	Are prepaid items and any other non-current assets.
Annualise	Is a statistical technique whereby figures covering a period of less than one year are extended to cover a 12-month period. The technique, to be accurate, must take seasonal variations into consideration.
Asset Availability	Is the stated condition or availability of an asset for useability. The subject asset is not available if it is already in use, at capacity, undergoing maintenance, broken, etc.
Asset Earning Power	Is a common profitability measure used to determine the profitability of a business by taking its total earning before taxes and dividing that by total assets.
Assumption	Generally, is one or more beliefs or unconfirmed facts that contribute to a conclusion. Specifically, it is the act of taking on the responsibility or assuming the liabilities of another.
Attrition	A reduction in numbers usually as a result of resignation, retirement, or death.
Audit	Is an examination of a company's accounting and financial records and supporting documents by: a) an accounting professional, such as a Certified Public Accountant, or, b) an ATO examination of an individual or corporation's tax return to verify its accuracy.
Bad Debt	Is an open account balance or loan receivable that has proven to be uncollectable and is written off.
Balance of payments / balance of trade	Is the difference between a country's total export dollar value and its total import dollar value, generally or with respect to a particular trading partner. A positive balance means a net inflow of capital, while a negative means capital flows out of the country.
Balance Sheet	Is an itemised statement that lists the total assets and the total liabilities of a given business to portray its net worth at a given moment of time. The amounts shown on a balance sheet are generally the historic cost of items and not their current values.
Bank Reconciliation	Is the verification of a bank statement balance and the depositor's chequebook balance.
Bookkeeping	Refers to the task of recording the amount, date and source of all business revenues and expenses. Bookkeeping is essentially the starting point of the accounting process. Only with accurate bookkeeping numbers can meaningful accounting be done.

Financial Terms Glossary

Term	Definition
Budget	Is an itemised listing of the amount of all estimated revenue which a given business anticipates receiving, along with a listing of the amount of all estimated costs and expenses that will be incurred in obtaining the above mentioned income during a given period of time. A budget is typically for one business cycle, such as a year, or for several cycles (such as a five year capital budget).
Business Plan	Is a written plan used to chart a new or ongoing business' strategies, sales projections, and key personnel in order to obtain financing and / or to provide a strategic foundation under which a business can grow.
Capital	Is total amount of money or other resources owned or used to acquire future income or benefits.
Capital Asset	Is a long-term asset that is not purchased or sold in the normal course of business. Generally, it includes fixed assets, eg, land, buildings, furniture, equipment, fixtures and furniture.
Capital Budget	Is the estimated amount planned to be expended for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods. The capital budget, however, is limited to the expenditures that will be made within the fiscal year comparable to the related operating budgets.
Capital Expenditure	Is the amount used during a particular period to acquire or improve long-term assets such as property, plant or equipment.
Capital Gain or Loss	Is the difference between the market and book value at purchase or other acquisition and that realised from the sale or disposition of a capital asset.
Capital Improvement	Is the increase in the total amount of money or other resources owned or capable of being used to acquire future income or benefits.
Capital Investment	See Capital expenditure.
Capitalisation	Is the statement of capital within the firm - either in the form of money, common stock, long-term debt, or in some combination of all three. It is possible to have too much capital (in which case the firm is overcapitalised) or too little capital (in which case the firm is undercapitalised).
Capital Lease	Is a lease obligation that has to be capitalised on the balance sheet. It is characterised by: it is non-cancellable; the life of lease is less than the life of the asset(s) being leased; and, the lessor does not pay for the upkeep, maintenance, or servicing costs of the asset(s) during the lease period.

Financial Terms Glossary

Term	Definition
Cash Flow	From operations is the sum of the entire individual operating activity cash flow line items, less cash realised from the sale of extraordinary items, eg, fixed assets.
Cash in Advance	Is when full payment is due before the merchandise is shipped. Least risk to seller, most risk to buyer.
Cash Inflows	Are any current or expected revenues or savings directly associated with an investment.
Cash Outflows	Are the initial costs and other expected outlays associated with an investment.
Cartified Financial Statements	Are financial statements that have undergone a formal audit by a certified public accountant and usually contain statements of certification by the CPA.
Chart of Accounts	Is a systematic listing of all accounts used by a company
Consolidated Financial Statement	Is the end financial statement that accounts for all assets, liabilities and operating accounts of a parent and all subsidiaries.
Cost Accounting	Is a managerial accounting activity designed to help managers identify, measure, and control operating costs.
Cost-benefit Analysis	Is the method of measuring the benefits anticipated from a decision by determining the cost of the decision, then deciding whether the benefit outweighs the cost of that decision.
Cost Centre	Is a section of an organisation that only has costs associated with it, ie, it normally does not produce revenue, eg, Accounting, Purchasing, Personnel, etc.
Creative Accounting	Is slang for the concept of maintaining accounts giving possibly illegal or dubious benefits to the entity for which the accounts are maintained.
Credit	In accounting, is an accounting entry system that either decreases assets or increases liabilities.
Creditors	Are the entities to which a debt is owed by another entity.
Current Means	Usually, within a one-year (12-month) period. Used to describe items on the balance sheet, eg, assets and liabilities.
Current Assets	Are those assets of a company that are reasonably expected to be realised in cash, or sold, or consumed during the normal operating cycle of the business (usually one year). Such assets include cash, accounts receivable and money due usually within one year, short-term investments, government bonds, inventories, and prepaid expenses.

Financial Terms Glossary

Term	Definition
Current Cost Accounting	Is a system of accounting which adjust for changing pricing.
Current Debt to Total Debt	Shows Current Liabilities as a percent of Total Debt.
Current Liabilities	Are liabilities to be paid within one year of the balance sheet date.
Debit	Is a record of an indebtedness; specifically: an entry on the left-hand side of an account constituting an addition to an expense or asset account or a deduction from a revenue, net worth, or liability account.
Debt Ratio	Measures the percent of total funds provided by creditors. Debt includes both current liabilities and long-term debt. Creditors prefer low debt ratios. The lower the ratio, the greater the cushion against creditor's losses in liquidation. Owners may seek high debt ratios, either to magnify earnings or because selling new stock would mean giving up control. Owners want control while "using someone else's money."
Deep Pockets	Is a person or an organisation having substantial financial resources.
Deferred	In accounting, is any account where the asset or liability is not realised until a future date, eg. annuities, charges, taxes, income, etc. The deferred item may be carried, dependent on type of deferral, as either an asset or liability.
Deferred Asset	Is an amount owed to an entity that is not expected to be received by that entity within one year from the date of the balance sheet.
Deferred Payment Credit	Is a type of a letter of credit where payment is made at a specified interval after collection papers are submitted.
Deferred Development Costs	is the non-recognition of costs of development until such or some condition(s) are satisfied.
Depreciation	Is the amount of expense charged against earnings by a company to write off the cost of a plant or machine over its useful live, giving consideration to wear and tear, obsolescence, and salvage value. If the expense is assumed to be incurred in equal amounts in each business period over the life of the asset, the depreciation method used is straight line (SL). If the expense is assumed to be incurred in decreasing amounts in each business period over the life of the asset, the method used is said to be accelerated. Two commonly used variations of the accelerated method of depreciating an asset are the sum-of-years digits (SYD) and the double-declining balance (DDB) methods. Frequently, accelerated depreciation is chosen for a business' tax expense but straight line is chosen for its financial reporting purposes.

Financial Terms Glossary

Term	Definition
Direct Cost	Is that portion of cost that is directly expended in providing a product or service for sale and is included in the calculation of COST OF GOODS SOLD, eg. labour and inventory.
Direct Expense	Is that portion of expense that is directly expended in providing a product or service for sale and is included in the calculation of COST OF GOODS SOLD, eg. labour and inventory.
Equity	Is, normally, ownership or percentage of ownership in a company or items of value.
Estate	Is the entire group of assets owned by an individual at the time of his or her death. The estate includes all funds, personal effects, interests in business enterprises, titles to property-real estate and chattels, and evidences of ownership such as stocks, bonds and mortgages owned, notes receivable, etc. All claims against an estate must be duly filed with the Executor or Administrator of the estate, and approved by the court of law under which the will is being probated or the line of heritage is being determined before the indebtedness may be satisfied.
Financial Accounting	Is the area of accounting concerned with reporting financial information to interested external parties.
Financial Analysis	Is analysis of a company's financial statement, usually by accountants or financial analysts.
Financial Results	Usually refer to the summary financial results provided in compliance to the GAAP guidelines. They can cover any period(s), but usually cover either: single month, quarter, or annual periods.
Fiscal	Is an accounting period of 12 months.
Fiscal Year	Is the declared accounting year for a company, but it is not necessarily in conformance to a calendar year (January through December). However, it does cover twelve months, 52 weeks, 365 days. For example, the Australian government fiscal year ends June 30, ie. July 1 through June 30 is their fiscal or accounting year.
Fixed Assets	Are those assets of a permanent nature required for the normal conduct of a business, and which will not normally be converted into cash during the ensuring fiscal period. For example, furniture, fixtures, land, and buildings are all fixed assets. However, accounts receivable and inventory are not.
Fixed Assets (net)	Are all property, plant, leasehold improvements and equipment, net of accumulated depreciation or depletion.

Financial Terms Glossary

Term	Definition
Fixed Assets (net) / net worth	Measures the extent to which the owner's equity has been invested in plant and equipment (net fixed assets). A lower ratio indicates proportionately smaller investment and a better "cushion" for creditors in case of liquidation. This may be important if the fixed assets are not easily used in other businesses. The presence of substantial leased fixed assets (not shown on the balance sheet) may deceptively lower this ratio. This ratio is also referred to as FIXED/WORTH.
Fixed Asset Turnover	Measures management's ability to generate revenues from investments in fixed assets. Fixed Asset Turnover considers only the firm's investment in property, plant and equipment and is extremely important in high asset firms such as manufactures. Generally, the higher this ratio, the smaller the investment required to generate sales, thus the more profitable the firm.
Fixed Costs	Are operating expenses that are incurred to provide facilities and organisations that are kept in readiness to do business without regard to actual volumes of production and sales. Fixed costs remain relatively constant until changed by managerial decision. Within general limits they do not vary with business volume. Examples of fixed costs consist of rent, property taxes, and interest expense.
Fixed Expenses	Are those expenses that must be paid each month and do not fluctuate with the sales volume.
Flat Lease	Is a lease where the cost is fixed for a specific period of time.
G&A	Usually refers to the indirect overhead costs contained within the General and Administrative expense / cost categories.
General Ledger	is the accounting record that shows all the financial statement accounts of a business.
Group Accounts	Are the financial statements of a group of companies. These are usually presented in the form of consolidated accounts.
Income	Is money received by a person or organisation because of effort (work), or from return on investments.
Income Taxes Payable	Are income taxes due including current portion of deferred taxes.
Indirect Cost	Is that portion of cost that is indirectly expended in providing a product or service for sale and is included in the calculation of COST OF GOODS SOLD, eg. rent, utilities, equipment maintenance, etc.
Infrastructure	Is the resources (as personnel, buildings, or equipment) required for an activity.
Insolvency	Occurs when a business is unable to pay debts as they fall due.

Financial Terms Glossary

Term	Definition
Inventory	Is anything constituting inventory for the firm.
Just-in-time (jit)	Is a management philosophy that strives to eliminate sources of manufacturing waste by producing the right part in the right place at the right time.
Ledger	Is a physical collection of related financial information, such as revenues, expenditures, accounts receivable and accounts payable. Ledgers used to be kept in books preprinted with lined ledger paper – which explains why a business's financial information is often referred to as the "books" – but are now commonly computer files that can be printed out.
Losses	Are costs that provide no benefit to an organisation.
Management Accounting	Is the area of accounting concerned with providing internal financial reports to assist management in making decisions.
Materials	Are physical goods (and their cost) used in the manufacture of a product, often separated into DIRECT MATERIAL (that which goes directly into the product such as cream into ice cream, or steel into cars) and INDIRECT MATERIAL (that which is used in maintaining the manufacturing environment such as cleaning fluids or oil for lubrication of manufacturing equipment). Indirect materials are usually part of the overhead component of cost. The term material, when used without the direct or indirect qualifier, usually refers to direct materials.
Net	In general, is the figure remaining after all relevant deductions have been made from the starting or gross, amount.
Net Change in Cash	Is calculated by adding cash from operating, investing, and financing activities and foreign exchange effects from the Statement of Cash Flows.
Net Contribution	Is the amount remaining after all relevant deductions have been made to the gross amount, eg, Net Contribution to Margin.
Net Income	Is the difference between businesses total revenue and its total expenses. This caption and amount is usually found at the bottom of a company's Profit and Loss statement. Same as Net Profit.
Net Operating Loss (NOL)	Is experienced by a business when business deductions exceed business income for the fiscal year. For income tax purposes, a net operating loss can be used to offset income in a prior year, or a taxpayer can elect to forego the carry back and carry the net operating loss forward.

Financial Terms Glossary

Term	Definition
Net Present Value (NPV)	Is a method used in evaluating investments, whereby the net present value of all cash outflows (such as the cost of the investment) and cash inflows (returns) is calculated using a given discount rate, usually REQUIRED RATE OF RETURN. An investment is acceptable if the NPV is positive. In capital budgeting, the discount rate used is called the HURDLE RATE and is usually equal to the INCREMENTAL COST OF CAPITAL.
Net Profit	Is the company's total earnings, reflecting revenues adjusted for costs of doing business, depreciation, interest, taxes and other expenses. Same as Net Income.
Net Profit Margin (After Tax)	Measures profitability as a percentage of revenues after consideration of all revenue and expense, including interest expenses, non-operating items, and income taxes.
Net Profit Margin (Pre-Tax)	Incorporates all of the expenses associated with ordinary business (excluding taxes) thus is a measure of the overall operating efficiency of the firm.
Net Purchases	Are those items purchased less returns, discounts and allowances on those purchases.
Net Worth	Is the difference between Total Liabilities and Total Assets. Minority interest is included here.
Non-current Assets	Includes PPE (property, plant and equipment) as opposed to current assets which includes cash, cash equivalents (e.g. securities, short-term notes, etc.), inventory and accounts receivable.
NPV	Is an acronym for Net Present Value.
Operating Lease	Is a short-term, cancellable lease.
Opportunity Cost	Is widely used in business planning in evaluating capital investment. A company measures the projected return against the anticipated return it would receive on a highest yielding alternative investment that contains a similar risk profile.
Overhead	Is the costs associated with providing and maintaining a manufacturing or working environment. For example: renting the building, heating and lighting the work area, supervision costs and maintenance of the facilities. Includes indirect labour and indirect material.
Performance Indicators	Are those empirical data points that indicate how well, or poorly, an entity is performing against preset goals and objectives. Normally, in business or strategic planning, a company will set targets over a specified period that the business believes are attainable and track performance over time to those targets or objectives.

Financial Terms Glossary

Term	Definition
Petty Cash	Normally, is an account and location where tangible cash is stored for usage in purchasing or the reimbursing of inexpensive out-of-pocket expenditures.
Profit and Loss Statement (P&L)	Is also known as an income statement. It shows your business revenue and expenses for a specific period of time. The difference between the total revenue and the total expense is your business net income. A key element of this statement, and one that distinguishes it from a balance sheet, is that the amounts shown on the statement represent transactions over a period of time while the items represented on the balance sheet show information as of a specific date (or point in time).
Receipt	Is a written record of a transaction. A buyer receives a receipt to show that he paid for an item. The seller keeps a copy of the receipt to show she received payment for the item. Receipts are sometimes called sales slips
Replacement Value	Is a valuation similar to an adjusted book value analysis. Replacement value is different than liquidation value in that it uses the value of the replacement value of assets, which is usually higher than book value. Liabilities are deducted from the replacement value of the assets to determine the replacement value of the business.
Revenue	Is the monetary amount of annual sales, including returned merchandise and discounts, ie, it is the top monetary figure from which costs are subtracted to determine net income.
Royalty	Is a payment for the right to use intellectual property or natural resources.
Sales Invoice	Is a document that records the sale of goods or services from a vendor to a customer
Seed Capital / Money	Is an angel investor or venture capitalist's first contribution toward the financing or capital requirements of a "start-up" business. It frequently takes the form of a loan, often subordinated, or an investment in convertible bonds or preferred stock.
Soft Costs	Are those extraneous costs that are not readily foreseen or budgeted for, eg. legal fees, loan fees and interest, etc.
Spreadsheet	Is (1) A multicolumn sheet of paper used for performing numeric work, especially accounting and business related weekly or monthly summaries. (2) A computer application program that supports a user in numeric manipulation, especially in column / row format.
Standard Cost System	Is an accounting system designed to properly allocate costs of direct labour, indirect labour, materials, overhead, and selling/ general/administrative accounts on a unit basis for the purpose of accurately costing products and the subsequent control of those costs in managing the production, marketing, purchasing, and administrative functions of the business.

Financial Terms Glossary

Term	Definition
Statements	Is a formal written summary of outstanding (unpaid) invoices. Unlike an invoice, a statement is not generally used as a formal request for payment, but is more of a reminder to a customer or client that payment is due
Strategic Planning	Is the activity of defining what you want to accomplish in your business and then identifying the path that will allow you to reach your goal in the most efficient and sensible manner.
SWOT (Strengths, Weaknesses, Opportunities, and Threats)	Identifies factors that may affect desired future outcomes of the organisation. The SWOT model is based on identifying the organisation's internal strengths and weaknesses, and threats and opportunities of the external environment, and consequentially identifying the company's distinctive competencies and key success factors. These, along with considerations of societal and company values, lead to creation, evaluation, and choice of strategy. SWOT's objective is to recommend strategies that ensure the best alignment between the external environment and internal situation.
Top Down	Is a concept of analysing a subject, such as costs or revenue, starting from the highest level working towards the bottom.
Total Assets	Is the total of all assets; both current and fixed.
Total Asset Turnover	Measures management's efficiency in managing all of a firms assets - specifically the generation of revenues from the firm's total investments in assets. This ratio is extremely important in high asset firms such as manufacturers. Generally the higher this ratio, the smaller the investment required to generate sales, thus the more profitable the firm.
Total Current Assets	Are the total of cash & equivalents, trade receivables, inventory and all other current assets.
Total Current Liabilities	Is the total of notes payable-short term, current maturities-LTD, trade payables, income taxes payable, and all other current liabilities.
Total Liabilities & Net Worth	Is the sum of all liability items and Net Worth.
Trend Analysis	A method of comparing results from one period to another. Eg month to month or year to year.
Trust Fund	Is a fiduciary relationship calling for a trustee to hold the title to assets, usually monetary, for the benefit of the beneficiary.
Variable Costs	Are those costs associated with production that changes directly with the amount of production, eg, the direct material or labour required to complete the build or manufacturing of a product.

Financial Terms Glossary

Term	Definition
Variable Expenses	Are those business costs that usually fluctuate dependent upon manufacturing or sales volume.
Zero Based Budget	Is where the expenses or costs of the prior year are not taken into consideration when establishing expense or budgetary levels looking forward. Each expense category starts from zero. All expenses or cost levels within the budget must be justified or re-justified as being necessary; thus "zero-base".