Glossary of Financial Terminology

Accrual Accounting
An accounting method where revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is actually exchanged. This approach contrasts with cash accounting, where transactions are recorded only when payment is made or received. It allows for the representation of revenues and expenses on the Profit & Loss (P&L) statement prior to, or sometimes after, the actual exchange of funds.

Amortization
Paying off of debt with a fixed repayment schedule in regular installments over a period of time, for example with a mortgage or car loan. It can also refer to the reduction in value of an intangible asset over time, similar to depreciation.

Amortization Table
A table detailing each periodic payment on an amortizing loan, as generated by an amortization calculator.

Angel
An angel investor is an affluent individual who injects capital for startups in exchange for ownership equity or convertible debt.

A/P
A financial report for Accounts Payable shows which vendors you owe money to.

A/R
A financial report for Accounts Receivable shows which customers owe you money.

Assets
Anything owned by the company having a monetary value; e.g., 'fixed' assets like buildings, plant and machinery, vehicles (these are not assets if rented and not owned) and potentially including intangibles like trademarks and brand names, and 'current' assets, such as inventory, stock, debtors and cash. It must be owned by the business and not by the business owner individually to be considered an asset.

Balance Sheet
The Balance Sheet is a 'snapshot' in time of who owns what in the company, and what assets and debts represent the value of the company. (It can only ever be a snapshot because the picture is always changing.) Balance Sheet includes Assets, Liabilities, and Equity. Assets = Liabilities + Equity (net worth).

Bank
A financial institution licensed to receive deposits and make loans.

Budget
A budget, in a financial planning context, refers to an estimated plan of income and expenditures for a certain period. This includes both projected revenue to be earned and the costs anticipated to be incurred on specific activities or resources. While it often covers a year, divided monthly, budgets can also apply to various periods, including shorter or longer spans, or be tailored to projects with flexible timelines. The purpose of a budget is to provide a structured financial framework for planning and managing both incoming and outgoing financial flows.

Cash Accounting
An accounting method where revenue is recorded during the period they are received, and expenses are recorded in the period in which they are actually paid.

Cash Flow
The movement of cash in and out of a business from day-to-day direct trading and other non-trading or indirect effects, such as capital expenditure, tax and dividend payments.

Cash Flow Cycle
In management accounting, it measures how long a firm will be deprived of cash if it increases its investment in resources in order to expand customer sales.

Cash Flow Statement
The cash flow statement shows the movement and availability of cash through and to the business over a given period, certainly for a year, and often also monthly and cumulatively.

Cost of goods sold (COGS)
The directly attributable costs of products or services sold, (usually materials, labor, and direct production costs). Sales less COGS = gross profit.

Current Assets
Inventory, cash, and anything that is expected to be converted into cash within twelve months of the balance sheet date.

Current Ratio
The relationship between current assets and current liabilities, indicating the liquidity of a business, ie its ability to meet its short-term obligations. Also referred to as the Liquidity Ratio.

Current Liabilities
Money owed by the business that is generally due for payment within 12 months of balance sheet date. Examples: creditors, bank overdraft, taxation.

Depreciation
The allocation of cost of a (usually large) capital item over its useful life, accounting for wear and tear, aging, or obsolescence. For example, a piece of equipment costing $10k with a lifespan of five years might be depreciated at a rate of $2k per year. In this case, the P&L would show a depreciation cost of $2k per year. On the balance sheet, the equipment would retain its original purchase value of $10k throughout its life, while an accumulated depreciation account—recorded as a contra asset account—increases by $2k each year. This process effectively reduces the net book value of the asset on the balance sheet by $2k annually. The cash flow statement would show all $10k in the first year.

Direct Costs
A price that can be completely attributed to the production of specific goods or services.

Dividend
A dividend is a payment made per share, to a company's shareholders by a company, based on the profits of the year, but not necessarily all of the profits, arrived at by the directors and voted at the company's annual general meeting.

Earnings before...(EBITDA)
There are several 'Earnings Before..' ratios and acronyms: EBT = Earnings Before Taxes; EBIT = Earnings Before Interest and Taxes; EBIAT = Earnings Before Interest after Taxes; EBITD = Earnings Before Interest, Taxes and Depreciation; and EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortization. (Earnings = operating and non-operating profits (eg interest, dividends received from other investments). Depreciation is the non-cash charge to the balance sheet which is made in writing off an asset over a period. Amortization is the payment of a loan in installments.

Equity
On a company's balance sheet, the amount of the funds contributed by the owners (the shareholders) plus the retained earnings (or losses). Also, the value of the shares issued by a company.

Fixed Assets
Assets held for use by the business rather than for sale or conversion into cash, eg, fixtures and fittings, equipment, and buildings.

Fixed Cost
A cost that does not vary with changing sales or production volumes, eg, building lease costs, permanent staff wages, rates, and depreciation of capital items. Also known as a Fixed Expense, a term which is often used more specifically within the context of financial planning and budgeting.

Goodwill
Any surplus money paid to acquire a company that exceeds its net tangible assets value.

Gross Margin
A company's total sales revenue minus its cost of goods sold (COGS), divided by total sales revenue, expressed as a percentage.

Gross Profit
Profit after deducting direct COGS before accounting for operating expenses, interests, taxes, and other expenses. Also referred to as gross profit margin and often abbreviated to simply 'margin.' Not to be confused with NET Profit.

Hockey Stick
A line chart in which a sharp increase or decrease occurs over a period of time. The line connecting the data points resembles a hockey stick.

Income Statement
A financial statement that reports a company's financial performance over a specific accounting period. AKA Profit and Loss.

Initial Public Offering (IPO)
An Initial Public Offering (IPO being the Stock Exchange and corporate acronym) is the first sale of privately owned equity (stock or shares) in a company via the issue of shares to the public and other investing institutions.

Interest
Money paid regularly at a particular rate for the use of money lent or for delaying the repayment of a debt.

Inventory Cost or Basis or Market
The valuation method of goods in stock.

Leverage
The investment strategy of using borrowed money.

Liabilities
General term for what the business owes. Liabilities are long-term loans of the type used to finance the business and short-term debts or money owing as a result of trading activities to date.

Liquidity Ratio
Indicates the company's ability to pay its short-term debts, by measuring the relationship between current assets (ie those which can be turned into cash) against the short-term debt value. (current assets/current liabilities) Also referred to as the Current Ratio.

Net Assets (also called total net assets)
Total assets (fixed and current) less current liabilities and long-term liabilities that have not been capitalized (eg, short-term loans).

Net Current Assets
Current assets less current liabilities.

Net Profit
Net profit can mean different things so it always needs clarifying. Net strictly means 'after all deductions' (as opposed to just certain deductions used to arrive at a gross profit or margin). Net profit normally refers to profit after deduction of all operating expenses, notably after deduction of fixed costs or fixed overheads. This contrasts with the term 'gross profit,' which normally refers to the difference between sales and direct cost of product or service sold (also referred to as gross margin or gross profit margin) and certainly before the deduction of operating costs or overheads. Net profit normally refers to the profit figure before deduction of corporation tax, in which case the term is often extended to 'net profit before tax' or PBT.

Net Worth
A measure of what an entity is worth, defined as assets minus liabilities.

Operating Profit
The profit earned from a company's normal core business operations.

Ordinary Income
Income which can be from wages, salaries, tips, commissions, bonuses, and other types of compensation from employment, interest, dividends, or net income from a sole proprietorship, partnership, or LLC.

Overhead
An expense that cannot be attributed to any one single part of the company's activities.

Partner
Two or more owners who agree to share profits and are liable for any debts or losses in a company.

Private Equity
Private equity is capital that is not noted on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, typically with an already established and profitable business model.

Profit and Loss Statement (P&L)
The P&L is essentially an accounting for a period of time usually a year, but also can be monthly and cumulative. It shows profit performance. The P&L typically shows sales revenues, cost of sales/cost of goods sold, generally a gross profit margin (sometimes called 'contribution'), fixed overheads and or operating expenses, and then a profit before tax figure.

Quick Ratio
Also known as the Acid Tes Ratio. The relationship between current assets readily convertible into cash (usually current assets less stock) and current liabilities. A sterner test of liquidity.

Ratios
Accounting or financial ratios provide a way of expressing the relationship between one accounting data point and another, to provide a useful comparison.

Restricted Funds
These are funds used by an organization that are restricted or earmarked by a donor for a specific purpose, which can be extremely specific or quite broad, eg., endowment or pensions investment; research (in the case of donations to a charity or research organization); or a particular project with agreed terms of reference and outputs such as to meet the criteria or terms of the donation or award or grant.

Retained Earnings
The amount of net earnings not paid out as dividends, but retained by the company to be reinvested in its core business, or to pay debt.

Return on Investment (ROI)
A profitability measure that evaluates the performance of a business by dividing net profit by net worth . Return on investment, or ROI, is the most common profitability ratio. There are several ways to determine ROI, but the most frequently used method is to divide net profit by total assets.

Revenue
Income, also called sales. It can also include other business income not from sales.

Revenue vs. Sales
Revenue of a business can include other income from investments, licenses, or interest on debts as well as sales income.

Rolling Cash Flow
A relatively simple Excel spreadsheet setting out on a line-by-line basis the weekly cash receipts and payments for the next 13 weeks into the future.

Sales
In accounting, sales refer to the operating revenues earned by a company by selling their products or services.

Shareholder
An individual, group or organization that owns one or more shares in a company.

Statement of Assets and Liabilities
A financial statement that outlines assets and liabilities. AKA Balance Sheet.

Statement of Earnings
A financial statement that contains all items of income and expense for a particular accounting period. AKA Profit and Loss.

Upside
The forecasted dollar amount or percentage increase in the price of an investment.

Variable Cost
A cost that varies with sales or operational volumes, e.g., materials, fuel, and commission payments.

Variable Expense
A corporate expense that changes in proportion with production output.

Venture Capital
Capital invested in a project in which there is a substantial element of risk, typically a new or expanding business.

Working Capital
Capital invested in a project in which there is a substantial element of risk, typically a new or expanding business.