



# KITCHEN TABLE CONSULTANTS



## **Glossary of Financial Terminology**

Certain financial terms often mean different things to different organizations depending on their own particular accounting policies. Financial terms will have slightly different interpretations in different industries. So as a general rule for all non-financial business people, if in doubt, ask for an explanation from the person or organization responsible for producing the figures and using the terms - you may be the only one to ask, but you certainly will not be the only one wondering what it all means.

### **Financial Foundations - Terms: Basics**

#### **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; eg, '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 stock, debtors and cash.

#### **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.  $\text{Asset} = \text{Liabilities} + \text{Equity}$  (net worth).

#### **Bank**

A financial institution licensed to receive deposits and make loans.

#### **Budget**

In a financial planning context the word 'budget' (as a noun) strictly speaking means an amount of money that is planned to spend on a particular activity or resource. This is typically over a year, although budgets apply to shorter and longer periods, and may refer to costs allocated to projects of flexible timescales.

#### **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.



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## **Cost of goods sold (COGS)**

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

## **Current Assets**

Cash and anything that is expected to be converted into cash within twelve months of the balance sheet date.

## **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.

## **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, buildings.

## **Fixed Cost**

A cost which does not vary with changing sales or production volumes, eg, building lease costs, permanent staff wages, rates, depreciation of capital items.

## **Fixed Expense**

An expense that will be the same total amount regardless of changes in the amount of sales, production, or some other activity.

## **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**

Sales less cost of goods or services sold. Also referred to as gross profit margin, or gross profit, and often abbreviated to simply 'margin'. Not to be confused with NET Profit.

## **Income Statement**

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

## **Interest**

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



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## **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 .

## **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.

## **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.

## **Revenue**

Income, also called sales. 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.



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## **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.

## **Financial Foundations - Terms: Advanced**

### **Accrual Accounting**

An accounting method where revenue and expenses are recorded when they are incurred.

### **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.

### **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.

### **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.

### **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.



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## **Depreciation**

The apportionment of cost of a (usually large) capital item over an agreed period, (based on life expectancy or obsolescence), for example, a piece of equipment costing 10k having a life of five years might be depreciated over five years at a cost of 2k per year. (In which case the P&L would show a depreciation cost of 2k per year; the balance sheet would show an asset value of 8k at the end of year one, reducing by 2k per year; and the cash flow statement would show all 10k being used to pay for it in year one.)

## **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.

## **Goodwill**

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

## **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.

## **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.

## **Inventory Cost or Basis or Market**

The valuation method of goods in stock.

## **Leverage**

The investment strategy of using borrowed money.



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## **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 capitalised (eg, short-term loans).

## **Net Current Assets**

Current assets less current liabilities.

## **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.

## **Quick Ratio**

Same as the Acid Test. 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.



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## **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.

## **Upside**

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

## **Variable Cost**

A cost which varies with sales or operational volumes, eg materials, fuel, 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**

Current assets less current liabilities, representing the required investment, continually circulating, to finance stock, debtors, and work in progress.