

Glossary – Financial Definitions

Assets: All items of value owned by a business or individual, such as cash, inventories, land, buildings.

Balance Sheet: The financial statement that provides a snapshot of everything a business has and owes at one point in time. The total assets of the business equal the total of its liabilities and owner's equity.

Break-even: Break-even point represents the volume of sales at which total revenue equals total costs. Break-even calculations are a means of calculating the break-even point.

Cash Flow: The movement of cash into and out of the business.

Cash Flow Budget: (Cash Budget) Shows cash flows (cash received and cash paid out) for a specified period of time

Current Assets: Those assets, such as cash, account receivable and inventories, which are likely to be turned into cash within one year.

Current Liabilities: The amounts owed, such as accounts payable, wages and taxes, that will normally be paid within one year.

Current Ratio: Current assets divided by current liabilities. This ratio is an indication of how easily a business can meet its current debts.

Debt Capital: Funds which are borrowed to run a business – from yourself, other individuals or financial institutions.

Debt-to-Equity Ratio: A measure of how much debt your business has in relation to amount of equity. A high level of debt to equity means greater risk for lenders.

Equity Capital: Money invested in the business by owners.

Fixed Assets: Assets, such as buildings, machinery and land that are unlikely to be turned into cash or sold within one year.

Fixed Costs: Costs of doing business that remain unchanged, regardless of the level of sales. These could include rent, salaries and utility bills.

Gross Profit: Net sales less the cost of goods sold.

Income Statement: The financial statement that looks at a business's revenues, less expenses, to calculate net income for a certain period of time.

Liquidity: A term that describes how readily assets can be converted into cash.

Long Term Liabilities: The amounts owed which will not be payable within one year, such as mortgages and long-term loans.

Net Worth: Indicates a owner's equity in a business, calculated by deducting total liabilities from total assets. Similarly, the net worth of an individual is calculated by deducting all personal liabilities from personal assets.

Operating Loan: A short term loan to finance working capital needs - that is, accounts receivable and inventory.

Term Loan: A loan you obtain for a specified length of time (term) to finance the purchase of a fixed (or long-term) asset.

Working Capital: Current assets less current liabilities.