



Serving Pinellas County, Florida

Bulletin Number 101

(Issued August 2006)

GLOSSARY OF BUSINESS TERMS

ACCOUNTS RECEIVABLE AGING – the classification of customer accounts receivable according to the date of sale. The aging schedule reveals patterns of delinquency and shows where collection efforts should be concentrated. The longer accounts are left unpaid, the more likely they become uncollectible. Aging evaluations can help prevent losses on future sales, since old customers who fail to pay may begin buying from other sources of supply and will leave bad debts on the aged accounts in your business.

AMORTIZATION – is the repayment of a loan by installments; an accounting procedure allowing gradual repayment (retirement) of a debt by means of systematic payments of principal and interest over a period of the estimated life of the asset on which the loan is made or secured. It is also a method of spreading out certain kinds of business costs over a period of years. Similar to depreciation, but usually the recovery period is period.

ASSETS – anything of value that is owned by a business or an individual. Assets are financial, such as cash; physical, such as real property; tangible, such as a patent; or intangible, such as goodwill. An asset embodies probable future benefit and the ability to contribute directly or indirectly to future income.

ASSUMPTIONS – are predictions about future circumstances and future activities. If predicting sales, an informed guess is made about how many customers you will have and how many sales you will make to those customers.

BALANCE SHEET – a summary of your assets (what you own), your liabilities (what you owe), and what you’re worth (the differences between assets and liabilities) on a given date, usually the close of a month.

BREAK-EVEN POINT – The amount (volume) of sales needed to cover all expenses (fixed and variable) before any profit is earned. The number of units that must be sold at a specified price to cover all contributing costs. Zero profit; a lower volume causes losses; a higher volume causes profits.

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BUY-SELL AGREEMENT – An agreement among partners or shareholders in which one party will sell and another party will buy a business interest at a stated price upon occurrence of a stated event, i.e., the death or disability of one participant.

CAPITAL -wealth (money or property) owned or used in business by a firm or individual to produce more wealth. In a start-up business, capital is the amount of money invested by the owner, before borrowing from others.

CAPITAL EQUIPMENT – the assets of a company that are used in the production process, such as machinery. Most often capital equipment refers to long-term assets, but it can include short-term assets as well. Such equipment will not be sold in the normal course of business but will be used, worn out or consumed over time as business is conducted.

CASH FLOW - is essentially the movement of money into and out of your business; it's the cycle of cash inflows and cash outflows that determine your business' solvency.

CASH FLOW ANALYSIS - is the study of the cycle of your business' cash inflows and outflows, with the purpose of maintaining an adequate cash flow for your business, and to provide the basis for cash flow management.

COLLATERAL - assets given as security for a loan; something of value such as an asset pledged to a lender as security for a loan or debt. If the borrower fails to repay or defaults on the loan according to the terms, the lender has the legal right to seize the collateral and take legal title to the property. The borrower can sell the collateral to repay the loan.

CONSUMER LOAN – Money borrowed by a customer (consumer), usually to finance the purchase of a product or service at the time of the sale. Also called a personal loan.

CORPORATION - a legal entity, chartered by a state of the United States or by the federal government that is separate and distinct from the persons who own it, as an artificial business person. A corporation can own property, engage in contracts, incur debts, pay taxes, sue or be sued. A corporation: has limited liability whereby owners can only lose the amount invested; can expand ownership by sale of additional shares of stock; can easily transfer ownership through the sale of shares of stock; continues to exist beyond the life of individual owners; has centralized management in a board of directors, president, secretary and treasurer. Corporations are subject to regulation in the state where incorporated and in the states where they do business. Special corporate income tax rates apply; dividends are paid to shareholders from earnings of the corporation.

COST OF GOODS SOLD - the sum of expenditures for materials and labor necessary to produce the products/services sold. They include the clear-cut cost factors of factory output. In accounting, the beginning inventory plus purchases minus ending inventory equals the cost of goods sold.

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CURRENT ASSETS - cash or other assets that are likely to be converted into cash, usually within a year, through sale, exchange or expense during the normal course of business. Examples include cash, inventory and accounts receivable. Also called liquid assets.

CURRENT LIABILITIES – is any debt, loan, trade credit or other obligation due for payment within one year.

CURRENT RATIO - current assets divided by current liabilities; a measure of the ability of a small business to pay short-term debts from readily available funds. A high current ratio will allow safe operation of a small business whose cash flow is less dependable.

CURRENT PORTION OF LONG-TERM DEBT – the loan principal payments due during the next twelve months.

DEBT – refers to money borrowed. Money, goods or services that one party (debtor) is obliged to repay to another (creditor) in accordance with an expressed or implied agreement. Debt may be secured or unsecured.

DEBENTURE - an unsecured long-term note as evidence of a debt.

DEMOGRAPHICS - population statistics that are arranged to isolate socio-economic factors of potential customers. Demographic information that is available from most government bodies is very useful to a small business for marketing, advertising and other related matters.

DEMOGRAPHIC SEGMENTATION – a marketing analysis that targets groups of prospects by factors such as sex, age, marital status, occupation, family size and education.

DIRECT MARKETING – Sale of products by a producer to customers by the use of mail rather than middlemen such as wholesalers and retailers. Also commonly used for business-to-business sales.

DISTRIBUTION - that part of the marketing function involved with getting the product from the factory to the customer.

DISTRIBUTION CHANNEL – is the chain of intermediaries linking the producer of a good to the consumers.

EQUITY - in business, the owner's investment in the business; the amount owned by the owners; the owner's interest or value remaining after payment of all debts and charges. In a start-up business, the amount of money provided by the owner at the outset; often in conjunction with the amount borrowed as a loan. Normally, with greater owner's equity, the business is more stable. It is the same as net worth in a business.

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FIXED ASSETS - an accounting term that describes tangible property, used in the operation of a business such as buildings, machinery, fixtures, furniture and equipment. But fixed assets do not include items normally consumed in the course of business operation or production.

FIXED COSTS - any cost that occurs as time passes regardless of the volume of production or sales, such as rent, real estate taxes, insurance, office staff or interest. Such an expense does not vary with volume of sales or production. As opposed to variable costs.

GROSS PROFIT – equals to net sales less the cost of goods sold. The profit before overhead (operating expenses) has been deducted. It is the same as gross margin.

GROSS PROFIT RATE - a measure of profitability of a business; a measure of the ability to pay overhead since all costs associated with obtaining and selling are subtracted out; divide gross profit by gross sales and express as a percent. When compared to other periods, it measures the efficiency of the purchasing and marketing functions.

GUARANTEE – is to take responsibility for payment of the debt of another person if the other person fails to repay. A guarantee is a contingent liability of the grantor.

INCOME STATEMENT - detailed statement of income, expenses and taxes for a business, revealing the operating position of the business over a period of time. Thus the income statement displays whether the business has made a profit during the accounting period or sustained a loss during the accounting period. The income statement and the balance sheet at the end of an accounting period, together, constitute the primary Financial Statements for a company. Also called operating statement; profit & loss statement; P&L.

INVENTORY - the collective quantity of goods, property or products on hand in a company; an itemized list or catalog of goods. Also the value of such goods or products. In manufacturing, inventory includes raw materials, work in process, finished goods and supplies. In retail or wholesale, inventory includes the products available for sale and may include supplies and personal property.

INVENTORY TURNOVER - a measurement of the rate at which products are purchased by a business then resold to customers. Inventory turnover is often expressed as the ratio of annual sales divided by ending inventory. Small companies should compare their inventory turnover with industry averages. A low turnover rate might indicate excess stock is on hand, tying up cash, indicating sluggish sales, ineffective buying or vulnerability to falling prices.

LEASEHOLD IMPROVEMENTS - Improvements to rented property that are made and paid for by the lessee but become the property of the lessor at the expiration of the lease term. These improvements include remodeling for efficiency or appearance.

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LEVERAGE - the impact of borrowed funds on investment return; the employment of a smaller investment to generate a larger rate of return through borrowing. High leverage means the owner has made a small investment and the lender has made a large loan.

LIMITED LIABILITY COMPANY - A type of corporation that is owned by a limited number of shareholders in a small business. Although laws differ among the states, characteristics usually include: a board of directors is not required, transfer of shares is restricted and shares are usually evidenced only by notation on the register instead of certificates.

LIQUIDITY - the amount of cash and cash equivalents in a business compared to the amount of debt; a term that describes the solvency of a business-its ability to repay debts with available cash.

LOAN AGREEMENT - document that states limitations and authorized actions as long as money is owed to (usually) a bank. A loan agreement may place restrictions on the owner's salary, dividends, amount of other debt, working capital limits, sales, and the number of additional personnel or other factors.

LOANS - money owed to another person or business, such as a bank. A secured loan is a debt obligation that is guaranteed by a pledge of assets or other collateral. If the debt is not repaid, the holder of the note may take title to the asset that was used as collateral. An unsecured loan is a debt instrument, such as a note, that has no collateral value. The note is backed only by the trust that the debtor will repay, not by any security or collateral.

LONG-TERM DEBT - a liability due in a year or more, such as a mortgage, note or bond, as shown on a balance sheet. Interest and partial principal may be repaid in periodic payments, such as a mortgage. Or interest may be paid periodically over the term of the loan, as a bond, with the principal amount paid at maturity.

MARGIN – In finance, the difference between selling price and some level of cost. Most often in small business, margin refers to sales less cost of goods sold expressed in dollars, called gross profit, gross margin or gross profit margin. In economics, the difference between one value and another value. In bank financing, the difference between the current market value of collateral and the loan amount. In purchasing shares of stock, the amount of money that must be deposited in an account at a stock brokerage for the purchase of shares of stock, with the remainder being borrowed from the broker. The stock becomes the collateral for the borrowed money. Sometimes expressed as the percent of the total amount that must be paid by the purchaser.

MARKUP – An amount by which the retail selling price of a product is greater than the purchased price or the cost of the services rendered, such as in retailing or wholesaling. Also called initial markup. Many times markup refers to the percent (rather than the amount) that the selling price is greater than the purchased price, such as a markup of 40 percent.

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MARKET ANALYSIS – Research aimed at predicting or anticipating the salability and profitability of a product or service, based on technical data about the product and the potential market. A study to define a company's market. A forecast of market direction with a view toward sharing or exploiting new trends.

MURPHY’S LAW – "Whatever may go wrong, will go wrong."

NET WORTH – is the amount owned by the owners; the amount by which assets exceed liabilities; the book value of the investments plus retained earnings. Also called equity; owner’s equity. For a corporation, net worth is known as stockholders’ equity. For a partnership, the value of the total of all the shares of all the partners. For a proprietorship, net worth is known as owner’s equity. For an individual, net worth is also called personal net worth, the total value of all possessions (assets), such as cash, checking account balance, stocks, bonds, house, car and personal property minus all debts such as a mortgage, loans and revolving credit accounts.

NOTE – a business loan, usually short term; a written promise to pay, stating the amount, the interest rate, the time, the method of payment and the obligation to repay. A note is evidence of a debt. A note may be secured or unsecured. It is also called promissory note.

MARKETING STRATEGY - the overall long-range vision or scheme of masterminding the future course or direction of the marketing plan. Selection of the product mix and customer profile for maximum profit potential. Four elements (the 4 "Ps") are often cited as important to effective market strategy, i.e., product, price, promotion and place (distribution).

MARKET SHARE - the percentage of industry sales that are sold by a single company or are attributable to an individual product.

MARKET SIZE. - the total dollar amount of the potential sales to all customers in a given market.

NET PROFIT – for a business, total sales less cost of goods sold and less overhead and other expenses. Net income after taxes is the amount earned by the owners of the business; in the vernacular, **the bottom line**. For an individual, gross income less expenses incurred to produce the income. Usually, expenses incurred for the production of income are deductible for tax purposes. It is equal to gross profit minus expenses.

NET SALES - an accounting term consisting of gross sales less returns, allowances.

OPERATING EXPENSES - The cost of doing business over a period of time. On an income statement, the expenses which must be met no matter what level of sales has occurred, i.e., rent, utilities, maintenance, administrative and clerical. Operating expenses are fixed expenses and overhead expenses, as opposed to cost of goods sold and other variable expenses.

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OVERHEAD – In a business, the expenses and costs that are not directly associated with the production or sale of goods and services. The normal costs of being in business, such as office, rent, utilities, insurance, advertising, accounting and legal expenses. As opposed to the cost of goods sold that directly relate to the products or services for sale. Also called indirect cost, burden, overhead cost.

PARTNERSHIP – is an association of two or more persons who carry on a business for profit as co-owners. A partnership can hold title to real property in the name of the partnership, holding by tenancy in partnership. One tax advantage of this form of ownership is that the partnership itself does not pay taxes. However, the partnership must file a partnership information return (Form 1065) showing how much income the partnership distributes to each partner. Then each partner is responsible for paying his or her own tax.

POSITIONING - the relationship of a single product or an entire company to others in a specific market; your product/company sales compared to the sales of another; your product/company sales expressed as a percent of the total sales in the market. With the knowledge of your product's or company's current market position, a strategy can be devised to improve your company's market position. Descriptive terms are often applied to the market position, such as leader, challenger or follower.

PRINCIPAL - in general, the owner of a privately held business or the major party, buyer or seller in a transaction. In finance, the basic amount invested in a security, exclusive of earnings or interest. A deposit on which interest is either earned or owed. The face amount of a debt instrument. The balance of an obligation, separate from interest.

PROFITABILITY RATIOS – ratios that show how profitable your business is, such as gross profit margins.

PRO FORMA - a projection of what may result in the future from actions in the present. In accounting, a balance sheet or income statement for a future time, where amounts are based on assumptions of future hypothetical events. Many simply refer to "pro forma," meaning a pro-forma balance sheet or projected income statement.

PROFIT - in a financial situation, a positive sum after expenses are deducted from income of a business as shown on an income statement; the monetary gain obtained from the use of capital in a transaction; the proceeds from property or investment; the opposite of a loss..

QUICK RATIO - cash, liquid cash equivalents and accounts receivable (current assets less inventory) divided by current liabilities (immediate debts due); a measure of the liquidity of a business. It helps to answer the question, "If sales stopped, could the business meet current obligations with assets that are readily convertible into cash to pay the obligations?" A quick ratio of 1:1 or better is usually satisfactory. Also called acid test ration or current ratio.

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RETAINED EARNINGS – are net profits (earnings) in the company that accumulates as additional equity in the business after dividends are paid to stockholders. Also called earned surplus; undistributed earnings. Retained earnings are distinguished from contributed capital.

SENSITIVITY ANALYSIS –a test of the impact of changing key assumptions in your financial projections. For example, what if sales were 10% less or expenses 20% more than expected? Also know as What if? Analysis.

SOLE PROPRIETORSHIP - a form of business ownership in which one person owns the entire business, earns all profits and assumes all losses. As contrasted with corporate or partnership businesses. Taxes for a sole proprietorship are reported on IRS Form 1040, Schedule C.

SOURCES AND USES OF FUNDS STATEMENT – A financial statement similar to a cash-flow statement that shows: 1) summarized transactions that increase working capital and 2) summarized transactions that decrease working capital. For a small business, a cash-flow statement is more meaningful.

SUB-CHAPTER “S” CORPORATION - a corporation that is taxed as a partnership by the IRS, provided it has 25 or fewer shareholders and meets certain other requirements. Thus a small corporation can distribute income directly to shareholders, avoiding the corporate income tax but enjoying the advantages of the corporate form. An “S” corporation avoids the double taxation of corporate ownership.

TAKEOVER - the acquisition of one company by another, sometimes a hostile situation, by a large creditor at the objection of the current owner.

TARGET MARKET - that segment of the market that is identified as the primary customer. The specific individuals or firms, distinguished by socio-economic, demographic, and/or interest characteristics, that are the most likely potential customers for the goods or services of a business.

TERM LOANS - a debt due to be paid over a period of time, as opposed to be paid entirely at one time in one lump sum.

VARIABLE COSTS - a cost that is dependent on quantity of output; a cost that varies in proportion to the quantity produced and is incurred as a direct result of operation of the business. Theoretically, variable costs are zero if there is no production. As opposed to fixed costs.

WIDGET – A hypothetical product name used as an example during explanation of accounting, finance or economic theory. The symbolic American gadget.

WORKING CAPITAL - in accounting, current assets less current liabilities equals working capital; also called net working capital; net current assets. This measure serves

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as an indication of the amount of readily available funds that can be used in operation of the business. As such, working capital finances day-to-day business operation (called the cash conversion cycle), allowing bills to be paid while awaiting payment of cash for sales.

Glossary definitions were extracted from the Small Business Dictionary. For a more complete list, please visit <http://www.small-business-dictionary.org>.