

Glossary of Business Terms

(List is separated by Accounting & Finance Terms. Note, terms may be repeated)

Accounting Terms

Account -- a record of financial transactions; usually refers to a specific category or type, such as travel expense account or purchase account.

Accountant -- a person who trained to prepare and maintain financial records.

Accounting -- a system for keeping score in business, using dollars.

Accounting period -- the period of time over which profits are calculated. Normal accounting periods are months, quarters, and years (fiscal or calendar).

Accounts payable -- amounts owed by the company for the goods or services it has purchased from outside suppliers.

Accounts receivable -- amounts owed to the company by its customers.

Accrual basis, system, or method -- an accounting system that records revenues and expenses at the time the transaction occurs, not at the time cash changes hands. If you buy a coat and charge it, the store records or accrues the sale when you walk out with the coat, not when you pay your bill. Cash basis accounting is used by individuals. Accrual basis accounting is used by most businesses.

Accrued expenses, accruals -- an expense which has been incurred but not yet paid for. Salaries are a good example. Employees earn or accrue salaries each hour they work. The salaries continue to accrue until payday when the accrued expense of the salaries is eliminated.

Aging -- a process where accounts receivable are sorted out by age (typically current, 30 to 60 days old, 60 to 120 days old, and so on.) Aging permits collection efforts to focus on accounts that are long overdue.

Amortize -- to charge a regular portion of an expenditure over a fixed period of time. For example if something cost \$100 and is to be amortized over ten years, the financial reports will show an expense of \$10 per year for ten years. If the cost were not amortized, the entire \$100 would show up on the financial report as an expense in the year the expenditure was made. (*See Expenditure and Expense.*)

Appreciation -- an increase in value. If a machine cost \$1,000 last year and is now worth \$1,200, it has appreciated in value by \$200. (The opposite of depreciation.)

Assets -- things of value owned by a business. An asset may be a physical property such as a building, or an object such as a stock certificate, or it may be a right, such as the right to use a patented process.

Current Assets are those assets that can be expected to turn into cash within a year or less. Current assets include cash, marketable securities, accounts receivable, and inventory.

Fixed Assets cannot be quickly turned into cash without interfering with business operations. Fixed assets include land, buildings, machinery, equipment, furniture, and long-term investments.

Intangible Assets are items such as patents, copyrights, trademarks, licenses, franchises, and other kinds of rights or things of value to a company, which are not physical objects. These assets may be the most important ones a company owns. Often they do not appear on financial reports.

Audit -- a careful review of financial records to verify their accuracy.

Bad debts -- amounts owed to a company that are not going to be paid. An account receivable becomes a bad debt when it is recognized that it won't be paid. Sometimes, bad debts are written off when recognized. This is an expense. Sometimes, a reserve is set up to provide for possible bad debts. Creating or adding to a reserve is also an expense.

Balance sheet -- a statement of the financial position of a company at a single specific time (often at the close of business on the last day of the month, quarter, or year.) The balance sheet normally lists all assets on the left side or top while liabilities and capital are listed on the right side or bottom. The total of all numbers on the left side or top must equal or balance the total of all numbers on the right side or bottom. A balance sheet balances according to this equation: $Assets = Liabilities + Capital$.

Bond -- a written record of a debt payable more than a year in the future. The bond shows amount of the debt, due date, and interest rate.

Book value -- total assets minus total liabilities. (See also net worth.) Book value also means the value of an asset as recorded on the company's books or financial reports. Book value is often different than true value. It may be more or less.

Breakeven point -- the amount of revenue from sales which exactly equals the amount of expense. Breakeven point is often expressed as the number of units that must be sold to produce revenues exactly equal to expenses. Sales above the breakeven point produce a profit; below produces a loss.

Capital -- money invested in a business by its owners. (See equity.) On the bottom or right side of a balance sheet. Capital also refers to buildings, machinery, and other fixed assets in a business. A capital investment is an investment in a fixed asset with a long-term use.

Capitalize -- to capitalize means to record an expenditure on the balance sheet as an asset, to be amortized over the future. The opposite is to expense. For example, research expenditures can be capitalized or expensed. If expensed, they are charged against income when the expenditure occurs. If capitalized, the expenditure is charged against income over a period of time usually related to the life of the products or services created by the research.

Cash -- money available to spend now. Usually in a checking account.

Cash flow -- the amount of actual cash generated by business operations, which usually differs from profits shown.

Chart of accounts -- a listing of all the accounts or categories into which business transactions will be classified and recorded. Each account usually has a number. Transactions are coded by this number for manipulation on computers.

Contingent liabilities -- liabilities not recorded on a company's financial reports, but which might become due. If a company is being sued, it has a contingent liability that will become a real liability if the company loses the suit.

Cost of sales, cost of goods sold -- the expense or cost of all items sold during an accounting period. Each unit sold has a cost of sales or cost of the goods sold. In businesses with a great many items flowing through, the cost of sales or cost of goods sold is often computed by this formula: $Cost\ of\ Sales = Beginning\ Inventory + Purchases\ During\ the\ Period - Ending\ Inventory$.

Credit -- an accounting entry on the right or bottom of a balance sheet. Usually an increase in liabilities or capital, or a reduction in assets. The opposite of credit is debit. Each credit in a balance sheet has a balancing debit. Credit has other usages, as in "You have to pay cash, your credit is no good." Or "we will credit your account with the refund."

Debit -- an accounting entry on the left or top of a balance sheet. Usually an increase in assets or a reduction in liabilities. Every debit has a balancing credit.

Deferred charges -- see prepaid expenses.

Deferred income -- a liability that arises when a company is paid in advance for goods or services that will be provided later. For example, when a magazine subscription is paid in advance, the magazine publisher is liable to provide magazines for the life of the subscription. The amount in deferred income is reduced as the magazines are delivered.

Depreciation -- an expense that is supposed to reflect the loss in value of a fixed asset. For example, if a machine will completely wear out after ten year's use, the cost of the machine is charged as an expense over the ten-year life rather than all at once, when the machine is purchased. Straight line depreciation charges the same amount to expense each year. Accelerated depreciation charges more to expense in early years, less in later years. Depreciation is an accounting expense. In real life, the fixed asset may grow in value or it may become worthless long before the depreciation period ends.

Discounted cash flow -- a system for evaluating investment opportunities that discounts or reduces the value of future cash flow. (*See Present Value*)

Dividend -- a portion of the after-tax profits paid out to the owners of a business as a return on their investment.

Double entry -- a system of accounting in which every transaction is recorded twice -- as a debit and as a credit.

Earnings per share -- a company's net profit after taxes for an accounting period, divided by the average number of shares of stock outstanding during the period.

80 - 20 rule -- a general rule of thumb in business that says that 20% of the items produce 80% of the action -- 20% of the product line produces 80% of the sales, 20 percent of the customers generate 80% of the complaints, and so on. In evaluating any business situation, look for the small group which produces the major portion of the transactions you are concerned with. This rule is not exactly accurate, but it reflects a general truth, nothing is evenly distributed.

Equity -- the owners' share of a business.

Expenditure -- an expenditure occurs when something is acquired for a business -- an asset is purchased, salaries are paid, and so on. An expenditure affects the balance sheet when it occurs. However, an expenditure will not necessarily show up on the income statement or affect profits at the time the expenditure is made. All expenditures eventually show up as expenses, which do affect the income statement and profits. While most expenditures involve the exchange of cash for something, expenses need not involve cash. (*See Expense*)

Expense -- an expenditure which is chargeable against revenue during an accounting period. An expense results in the reduction of an asset. All expenditures are not expenses. For example, a company buys a truck. It trades one asset - cash - to acquire another asset. An expenditure has occurred but no expense is recorded. Only as the truck is depreciated will an expense be recorded. The concept of expense as different from an expenditure is one reason financial reports do not show numbers that represent spendable cash. The distinction between an expenditure and an expense is important in understanding how accounting works and what financial reports mean. (To expense is a

verb. It means to charge an expenditure against income when the expenditure occurs. The opposite is to capitalize.)

Fiscal year -- an accounting year than begins on a date other than January 1.

Fixed asset -- see asset.

Fixed cost -- a cost that does not change as sales volume changes (in the short run.) Fixed costs normally include such items as rent, depreciation, interest, and any salaries unaffected by ups and downs in sales.

Goodwill -- in accounting, the difference between what a company pays when it buys the assets of another company and the book value of those assets. Sometimes, real goodwill is involved - a company's good reputation, the loyalty of its customers, and so on. Sometimes, goodwill is an overpayment.

Income -- see profit.

Interest -- a charge made for the use of money.

Inventory -- the supply or stock of goods and products that a company has for sale. A manufacturer may have three kinds of inventory: raw materials waiting to be converted into goods, work in process, and finished goods ready for sale.

Inventory obsolescence -- inventory no longer salable. Perhaps there is too much on hand, perhaps it is out of fashion. The true value of the inventory is seldom exactly what is shown on the balance sheet. Often, there is unrecognized obsolescence.

Inventory shrinkage -- a reduction in the amount of inventory that is not easily explainable. The most common cause of shrinkage is probably theft.

Inventory turnover -- a ratio that indicates the amount of inventory a company uses to support a given level of sales. The formula is: $\text{Inventory Turnover} = \frac{\text{Cost of Sales}}{\text{Average Inventory}}$. Different businesses have different general turnover levels. The ratio is significant in comparison with the ratio for previous periods or the ratio for similar businesses.

Invested capital -- the total of a company's long-term debt and equity.

Journal -- a chronological record of business transactions.

Ledger -- a record of business transactions kept by type or account. Journal entries are usually transferred to ledgers.

Liabilities -- amounts owed by a company to others. *Current liabilities* are those amounts due within one year or less and usually include accounts payable, accruals, loans due to be paid within a year, taxes due within a year, and so on. *Long-term liabilities* normally include the amounts of mortgages, bonds, and long-term loans that are due more than a year in the future.

Liquid -- having lots of cash or assets easily converted to cash.

Marginal cost, marginal revenue -- marginal cost is the additional cost incurred by adding one more item. Marginal revenue is the revenue from selling one more item. Economic theory says that maximum profit comes at a point where marginal revenue exactly equals marginal cost.

Net worth -- total assets minus total liabilities. Net worth is seldom the true value of a company.

Opportunity cost -- a useful concept in evaluating alternate opportunities. If you choose alternative A, you cannot choose B, C, or D. What is the cost or loss of profit of not choosing B, C, or D? This cost or loss of profit is the opportunity cost of alternative A. In personal life you may buy a car instead of taking a European vacation. The opportunity cost of buying the car is the loss of the enjoyment of the vacation.

Overhead -- a cost that does not vary with the level of production or sales, and usually a cost not directly involved with production or sales. The chief executive's salary and rent are typically overhead.

Post -- to enter a business transaction into a journal or ledger or other financial record.

Prepaid expenses, deferred charges -- assets already paid for, that are being used up or will expire. Insurance paid for in advance is a common example. The insurance protection is an asset. It is paid for in advance, it lasts for a period of time, and expires on a fixed date.

Present value -- a concept that compares the value of money available in the future with the value of money in hand today. For example, \$78.35 invested today in a 5% savings account will grow to \$100 in five years. Thus the present value of \$100 received in five years is \$78.35. The concept of present value is used to analyze investment opportunities that have a future payoff.

Price-earnings (p/e) ratio -- the market price of a share of stock divided by the earnings (profit) per share. P/e ratios can vary from sky high to dismally low, but often do not reflect the true value of a company.

Profit -- the amount left over when expenses are subtracted revenues. *Gross profit* is the profit left when cost of sales is subtracted from sales, before any operating expenses are subtracted. *Operating profit* is the profit from the primary operations of a business and is sales minus cost of sales minus operating expenses. *Net profit before taxes* is operating profit minus non-operating expenses and plus non-operating income. *Net profit after taxes* is the bottom line, after everything has been subtracted. Also called income, net income, earnings. Not the same as cash flow and does not represent spendable dollars.

Retained earnings -- profits not distributed to shareholders as dividends, the accumulation of a company's profits less any dividends paid out. Retained earnings are not spendable cash.

Return on investment (ROI) -- a measure of the effectiveness and efficiency with which managers use the resources available to them, expressed as a percentage. *Return on equity* is usually net profit after taxes divided by the shareholders' equity. *Return on invested capital* is usually net profit after taxes plus interest paid on long-term debt divided by the equity plus the long-term debt. *Return on assets used* is usually the operating profit divided by the assets used to produce the profit. Typically used to evaluate divisions or subsidiaries. ROI is very useful but can only be used to compare consistent entities -- similar companies in the same industry or the same company over a period of time. Different companies and different industries have different ROIs.

Revenue -- the amounts received by or due a company for goods or services it provides to customers. Receipts are cash revenues. Revenues can also be represented by accounts receivable.

Risk -- the possibility of loss; inherent in all business activities. High risk requires high return. All business decisions must consider the amount of risk involved.

Sales -- amounts received or due for goods or services sold to customers. *Gross sales* are total sales before any returns or adjustments. *Net sales* are after accounting for returns and adjustments.

Stock -- a certificate (or electronic or other record) that indicates ownership of a portion of a corporation; a share of stock.

Preferred stock promises its owner a dividend that is usually fixed in amount or percent. Preferred shareholders get paid first out of any profits. They have preference.

Common stock has no preference and no fixed rate of return. *Treasury stock* was originally issued to shareholders but has been subsequently acquired by the corporation.

Authorized by unissued stock is stock which official corporate action has authorized but has not sold or issued. (Stock also means the stock of goods, the stock on hand, the inventory of a company.)

Sunk costs -- money already spent and gone, which will not be recovered no matter what course of action is taken. Bad decisions are made when managers attempt to recoup sunk costs.

Trial balance -- at the close of an accounting period, the transactions posted in the ledger are added up. A test or trial balance sheet is prepared with assets on one side and liabilities and capital on the other. The two sides should balance. If they don't, the accountants must search through the transactions to find out why. They keep making trial balances until the balance sheet balances.

Variable cost -- a cost that changes as sales or production change. If a business is producing nothing and selling nothing, the variable cost should be zero. However, there will probably be fixed costs.

Working capital -- current assets minus current liabilities. In most businesses the major components of working capital are cash, accounts receivable, and inventory minus accounts payable. As a business grows it will have larger accounts receivable and more inventory. Thus the need for working capital will increase.

Write-down -- the partial reduction in the value of an asset, recognizing obsolescence or other losses in value.

Write-off -- the total reduction in the value of an asset, recognizing that it no longer has any value. Write-downs and write-offs are non-cash expenses that affect profits.

FINANCE TERMS

Accounts payable - a record of all short-term (less than 12 months) invoices, bills and other liabilities yet to be paid. Examples of accounts payable include invoices for goods or services, bills for utilities and tax payments due.

Accounts receivable - a record of all short-term (less than 12 months) expected payments, from customers that have already received the goods/services but are yet to pay. These types of customers are called debtors and are generally invoiced by a business.

Accounts receivable finance - see *Factoring*.

Accrual accounting - an accounting system that records transactions at the time they occur, whether the payment is made now or in the future.

Amortization - the process of expensing for intangible assets such as goodwill and intellectual property over a period of time. See also *Depreciation*.

Assets - are things you own. These can be cash or something that can be converted into cash such as property, vehicles, equipment and inventory.

Audit - a physical check performed by an auditor or tax official on a business' financial records to check that everything is accounted for correctly.

Bad debts - money owed to you that is unlikely to be paid to you in the foreseeable future.

Balance sheet - a snapshot of a business as of a particular date. It lists all of a business' assets and liabilities and works out the net assets.

Balloon payment - a final lump sum payment due on a loan agreement. Loans with a larger final 'balloon payment' have lower regular repayments over the term of the loan.

Bank reconciliation - a cross-check that ensures the amounts recorded in the cashbook match the relevant bank statements.

Bankrupt - an individual is bankrupt when they cannot pay their debts and aren't able to reach an agreement with their creditors.

Bankruptcy - a process where an individual is legally declared bankrupt and their assets and financial affairs are administered by an appointed trustee.

Benchmark - a set of conditions against which a product or business is measured.

Benchmarking - the process of comparing your business to similar businesses in your industry.

Bill of sale - a legal document used in the purchase of property or other assets that details what was purchased, where the purchase took place, and for how much.

Bookkeeping - the process of recording the financial transactions of a business.

Bootstrapping - where a business funds growth purely through personal finances and revenue from the business.

Bottom line - see *Net profit*.

Break-even point - the exact point when a business' income equals a business' expenses.

Budget - a listing of planned revenue and expenditure for a given period.

Capital - wealth in the form of money or property owned by a business.

Capital cost - a one-off substantial purchase of physical items such as plant, equipment, building or land.

Capital gain - is the amount gained when an asset is sold above its original purchase price.

Capital growth - an increase in the value of an asset.

Cash - includes all money that is available on demand including bank notes and coins, petty cash, certain cheques, and money in savings or debit accounts.

Cash accounting - an accounting system that records transactions at the time money is actually received or paid.

Cash book - a daily record of all cash, credit or cheque transactions received or paid out by a business.

Cash flow - the measure of actual cash flowing in and out of a business.

Cash incoming - money that is flowing into the business.

Cash outgoing - money that is flowing out of the business.

Chart of accounts - an index of the accounts a business will use to classify transactions. Each account represents a type of transaction such as Asset, Liability, Owner's equity, Income, and Expense.

Chattel Mortgage - is similar to a hire-purchase agreement although the business owns the asset from the start. Chattel mortgages require regular ongoing payments and typically provide the option of reducing the payments through the use of a final 'balloon' payment.

Collateral - see *Security*.

Commercial bill - (also known as a bill of exchange) is a form of commercial loan that can be offered on an interest only basis, or reducing basis. Commercial bills typically require some sort of security and suit short-term funding needs such as inventory.

Contingent liability - a liability that only needs to be paid if a particular event or circumstance occurs.

Cost of goods sold - the total direct costs of producing a good or delivering a service.

Credit - a lending term used when a customer purchases a good or service with an agreement to pay at a later date (e.g. an account with a supplier, a store credit card or a bank credit card).

Creditor - a person or business that allows you to purchase a good or service with an agreement to pay at a later date. A creditor is also anyone who you owe money to, such as a lender or supplier.

Credit limit - a dollar amount that cannot be exceeded on a credit card or the maximum lending amount offered for a loan.

Credit rating - a ranking applied to a person or business based on their credit history that represents their ability to repay a debt

Credit history - a report detailing an individual's or business' past credit arrangements. A credit history is often sought by a lender when assessing a loan application.

Crowd funding - Is a way of financing your business idea through donations of money from the public. This is usually done online, through a crowd funding website.

Current asset - an asset in cash or that can be converted into cash within the next 12 months.

Current liability - a liability that is due for payment in the next 12 months.

Debit - in double-entry bookkeeping a debit is an entry made on the left hand side of a journal or ledger representing an asset or expense.

Debt - any amount that is owed including bills, loan repayments and income tax.

Debt consolidation - the process of combining several loans or other debts into one for the purposes of obtaining a lower interest rate or reducing fees.

Debt finance - money provided by an external lender, such as a bank or building society.

Debtor - a person or business that owes you money.

Debtors finance - See *Factoring*.

Default - a failure to pay a loan or other debt obligation.

Depreciation - the process of expensing an asset over a period of time. An asset is depreciated to spread the cost of the asset over its useful life.

Disbursements - money that is paid out by a business.

Discount - a reduction applied to a full priced good or service. See also *Markdown*.

Double-entry bookkeeping - is a bookkeeping method that records each transaction in two accounts, both as a debit and a credit.

Drawings - personal expenses paid for from a business account.

Drip pricing - Is when one price is presented at the beginning of an online shopping experience and gradually, incremental fees and charges are added (or 'dripped') as you progress, for example, when buying a plane ticket. Drip pricing can result in the customer paying a higher price for a service or product than they first thought. As a business owner, you are required to show fees and charges at the beginning of an online shopping process and not gradually add them in.

Employee share schemes: An employee share scheme (ESS) is where you give your employees the opportunity to buy shares in your company. It is also known as an 'employee share purchase plan' or an 'employee equity scheme'.

Encumbered - an encumbered asset is one that is currently being used as security or collateral for a loan.

Equity - the value of ownership interest in the business, calculated by deducting liabilities from assets. See also *owner's equity*.

Equity finance - is money provided to a business in exchange for part ownership of the business. This can be money invested by the business owners, friends, family, or investors like business angels and venture capitalists.

Excise duty - an indirect tax levied on certain types of goods produced or manufactured in Australia including petrol, alcohol, tobacco and coal.

Facility - a predetermined arrangement such as an account offered by a financial institution to a business (e.g. a bank account, a short-term loan or overdraft).

Factoring - (also known as debtors finance and accounts receivable finance) — is when a factor company buys a business' outstanding invoices at a discount. The factor company then chases up the debtors. Factoring is a way to get quick access to cash, but can be quite expensive compared to traditional financing options.

Finance - money used to fund a business or high value purchase.

Financial year - a twelve month period typically from 1 July to 30 June.

Financial statement - a summary of a business' financial position for a given period. Financial statements can include a profit & loss, balance sheet and cash flow statement.

Fixed asset - a physical asset used in the running of a business.

Fixed cost - a cost that cannot be directly attributed to the production of a good or service.

Fixed interest rate - when the interest rate of a loan remains the same for the term of the loan or an agreed timeframe.

Float - is when a private company offers shares in the company to the public for the first time. See *Initial public offering*.

Forecast - a prediction of future financial transactions. Forecasts are often used to help plan a more accurate budget.

Fringe benefits - non-monetary benefits such as company cars and mobile phones, included as part of a salary package.

Fully drawn advance - is a long term loan with the option to fix the interest rate for a period. These loans are usually secured and can be used to fund a new business or equipment.

Goodwill - an intangible asset that represents the value of a business' reputation.

Gross income - the total money earned by a business before expenses are deducted.

Gross profit - (*also known as net sales*) the difference between sales and the direct cost of making the sales.

Guarantor- a person who promises to pay a loan in the event the borrower cannot meet the repayments. The guarantor is legally responsible for the debt.

Hire-purchase - a type of finance contract where a good is purchased through an initial deposit and then rented while the good is paid off in instalments plus interest charges. Once the good is fully paid the ownership of the good transfers to the purchaser. See also *Rent to buy*.

Initial public offering (IPO) - when a company first offers shares on the stock market to sell them to the general public. Also known as floating on the stock market.

Insolvent - a business or company is insolvent when they cannot pay their debts as and when they fall due.

Intangible assets - non-physical assets with no fixed value, such as goodwill and intellectual property rights.

Interest - the cost of borrowing money on a loan or earned on an interest-bearing account.

Interest rate - a percentage used to calculate the cost of borrowing money or the amount you will earn. Rates vary from product to product and generally the higher the risk of the loan, the higher the interest rate. Rates may be fixed or variable.

Inventory - an itemized list of goods or materials a business is holding for sale.

Investment - an asset purchased for the purpose of earning money such as shares or property.

Invoice - a document provided to a customer to request payment for a good/service received.

Invoice finance - is finance offered based on the strength of a business' accounts receivable. This form of financing is similar to factoring, except that the invoices or accounts receivables remain with the business. See also *Factoring*.

Liability - a financial obligation or amount owed.

Line of credit - an agreement allowing a borrower the ability to withdraw money from an account up to an approved limit.

Liquidate - to quickly sell all the assets of a company quickly and convert them into cash.

Liquidation - the process of winding up an insolvent company. An appointed administrator will do this by ceasing business operations, selling assets, and paying creditors and shareholders.

Liquidity - how quickly assets can be converted into cash.

Loan - a finance agreement where a business borrows money from a lender and pays it back in instalments (plus interest) within a specified period of time.

Loan to value ratio (LVR) - your loan amount shown as a percentage of the market value of the property or asset that will be purchased. The ratio helps a lender work out if the loan amount can be recouped in the event a loan goes into default.

Margin - the difference between the selling price of a good or service and the profit. Margin is generally worked out as a gross margin percentage which shows the proportion of profit for each sales dollar. See also *Mark up*.

Margin call - when the value of a property or asset falls below a certain LVR. For higher risk loans such as margin loans, the lender will request further payment to bring the LVR back to the agreed percentage. See also *Loan to value ratio (LVR)*.

Mark down - a discount applied to a product during a promotion/sale for the purposes of attracting sales or for shifting surplus/discontinued products. See also *Discount*.

Mark up - the amount added to the cost price of goods, to help determine a selling price. Essentially it is the difference between the cost of the good/service and the selling price, but it does not take into account what proportion of the amount is profit. See also *Margin*.

Maturity date - when a loan's term ends and all outstanding principal and interest payments are due.

Net assets - (*also known as net worth, owner's equity or shareholder's equity*) is the total assets minus total liabilities.

Net income - the total money earned by a business after tax and other deductions are taken out.

Net Profit - (*also known as your bottom line*) is the total gross profit minus all business expenses.

Net Worth - See *Net assets*.

Overdraft facility - a finance arrangement where a lender allows a business to withdraw more than the balance of an account.

Overdrawn account - a credit account that has exceeded its credit limit or a bank account that has had more than the remaining balance withdrawn.

Overheads - the fixed costs associated with operating a business such as rent, marketing, utilities and administrative costs. See also *Fixed costs*.

Owner's equity - See *Net assets*.

Personal Property - covers any property someone can own, except for land, buildings and fixtures. Examples include goods, plant and equipment, cars, boats, planes, livestock and more.

Personal Property Security Register (PPSR) - the PPSR replaces a number of registers of security interests and provides a single national noticeboard of security interests in personal property.

Petty cash - cash for the purposes of small miscellaneous purchases such as postage.

Plant and equipment - a group of fixed assets used in the operation of a business such as furniture, machinery, fit-out, vehicles, computers and tools.

Principal - the original amount borrowed on a loan or the remainder of the original borrowed amount that is still owing (excluding the interest portion of the amount).

Profit - the total revenue a business earns minus the total expenses. See also *Revenue*.

Profit and loss statement - (also known as an income statement) is a financial statement listing sales and expenses and is used to work out the gross and net profit of a business.

Profit margin - see *Margin*.

Projection - see *Forecast*.

R&D: Stands for 'research and development'. Businesses conduct research and development to innovate, create new products and find better ways of doing things.

Receipt - a document provided to a customer to confirm payment and to confirm a good/service has been received.

Record keeping - the process of keeping or recording information that explain certain business transactions. Record keeping is a requirement under tax law.

Refinance - when a new loan is taken out to pay off an existing one. Refinancing is often done to extend the original loan over a longer period of time, reduce fees or interest rates, switch banks, or move from a fixed to variable loan.

Rent to buy - is a type of finance arrangement where a good is purchased through an initial deposit and then 'leased' while the good is paid off. Once the good is fully paid the purchaser has the option (but no obligation) to buy the good or continue leasing. See also *Hire purchase*.

Repossess - the process of a bank or other lender taking ownership of property/assets for the purpose of paying off a loan in default.

Retention of title - a type of clause that can be included in contracts where a buyer may physically receive property, but doesn't take legal ownership from the seller until the full purchase price is paid.

Return on investment (ROI) - a calculation that works out how efficient a business is at generating profit from the original equity provided by the owners/shareholders. It's a way of thinking about the benefit (return) of the money you've invested into the business. To calculate ROI, divide the **gain** (net profit) of the investment by the **cost** of the investment - the ROI is expressed as a percentage or a ratio.

$$\text{(Net profit) / (Cost) x 100 = ROI}$$

Example: Annie buys \$1000 worth of stocks and sells the stocks a year later for \$1500.
The net profit is \$500.

Return on Investment = $(500 / 1000) = 0.5 \times 100 = 50\%$.

Annie's ROI on the stocks is 50%.

Revenue - (*also known as turnover*) the amount earned before expenses, tax and other deductions are taken out.

Single-entry bookkeeping - a bookkeeping method used within a cash accounting system and records one side of each transaction.

Scam - a deliberate and targeted deception designed to obtain money or information unlawfully.

Security - (*also known as Collateral*) is property or assets that a lender can take possession of, in the event that a loan cannot be repaid.

Shareholder's equity - see *Net assets*.

SMSF: Stands for self-managed superannuation fund. An SMSF is a way of saving for your retirement. Unlike other super funds, an SMSF is self-managed, which means you're responsible for making sure the super fund complies with super and tax laws.

Stock - the actual goods or materials a business currently has on hand.

Stocktaking - a regular process involving a physical count of merchandise and supplies actually held by a business, completed to verify stock records and accounts.

Superannuation - money set aside for retirement that must be paid into a complying superannuation fund.

Tax invoice - an invoice required for the supply of goods or services over a certain price. A valid tax invoice is required when claiming GST credits. See also *Invoice*.

Turnover - See *Revenue*.

Variable interest rate - when the interest rate of a loan changes with market conditions for the duration of the loan.

Variable cost - a cost that changes depending on the number of goods produced or the demand for the products/service.

Venture Capital - capital invested in a start-up business that is thought to have excellent growth prospects but does not have access to capital markets because it is a private company.

Working capital - the cash available to a business for day to day expenses.