

Glossary

Accounts receivable are current assets resulting from selling a product on credit.

Acid Test Ratio : Current Assets/Current Liabilities. Current assets (cash + other assets that can be immediately converted to cash) should equal or exceed current liabilities, i.e. acid test > 1.

This ratio is frequently asked by lenders and it will be compared with industry average.

Amortization : This is the process of gradually paying off a liability over a period of time, to liquidate on an installment basis. For example, a mortgage is amortized by periodically paying off part of the face amount of the mortgage.

Assets : The things the business owns. For accounting purposes, they are divided into current and fixed assets.

Benchmarking : setting up standards and then measuring performance against them. For example, using the 10 best businesses in your industry as a reference.

Capital : Capital funds are those funds that are needed for the base of the business. Usually, they are put into the business in a fairly permanent form such as in fixed assets, plant and equipment, or are used in other ways that are not recoverable in the short run unless the entire business is sold.

Cash Flow : The actual movement of cash within a business : cash inflow minus cash outflow. A term used to designate the reported net income of a corporation plus amounts charged off for depreciation, depletion, amortization and extraordinary charges to reserves, which are bookkeeping deductions and not actually paid out in cash. Used to offer a better indication of the ability of a firm to meet its own obligations and to pay dividends, rather than the conventional net income figure.

Collateral : An asset pledged to a lender in order to support the loan.

Debt : Debt refers to borrowed funds, whether from your own coffers or from other individuals, banks or institutions.

Distribution Channel : The chain of intermediaries linking the producer of a good to the consumer.

Equity : This is the owner's investment in the business. Unlike capital, equity is what remains after the liabilities of the company are subtracted from the assets - thus it may be greater than or less than the capital invested in the business.

Fixed Assets are relatively permanent items the business needs for its continued operations.

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

Guaranty : A pledge by a third party to repay a loan in the event that the borrower cannot.

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Inventory : The materials owned and held by a business firm, including new materials, intermediate products and parts work in-process and finished goods, intended either for internal consumption or for sale.

Liabilities are the financial obligations of a business, all the business owes.

Liquidity : The ability of a firm to meet maturing debt obligations by having adequate working capital available.

Loan agreement : A document that states what a business can or cannot do as long as it owes money to (usually) a bank. A loan agreement may place restrictions on the owner's salary, or dividends, on amount of other debt, on working capital limits, on sales or on the number of additional personnel.

ProForma : A projection or an estimate of what may result in the future from actions in the present. A pro forma financial statement is one that shows how the actual operations of a business will turn out if certain assumptions are realized.

Profit : The excess of the selling price over all costs and expenses incurred in making a sale. Also, the reward to the entrepreneur for the risks assumed by him or her in the establishment operations and management of a given enterprise or undertaking.

Sole Proprietorship : A business owned and operated by one person. Legally, the owner is the business and personal assets are typically exposed to liabilities of the business.

S Corporation or Tax Option Corporation : A corporation that has elected under Sub Chapter S of the IRS Tax Code not to pay any corporate tax on its income and, instead, to have the shareholders pay taxes on it, even though it is not distributed.

Takeover : Acquisition of one company by another company.

Target Market : The specific individuals, distinguished by socioeconomic, demographic and/or interest characteristics, who are the most likely potential customers for the goods or services of the business.

Term Loans : Either secured or unsecured, usually for periods of more than a year to as many as ten. Term loans are paid off like a mortgage : so many dollars per month for so many years. The most common uses of term loans are for equipment and other fixed assets purposes, for working capital and for real estate.

Working Capital : The difference between current assets and current liabilities. Working capital cycles through your business in a variety of forms: inventories, accounts and notes receivables, cash and securities.