

# **BUSINESS TERMS - A TO Z**

## **A**

Accounts  
Actively managed funds  
Actuary  
Administration  
After-hours dealing  
Allocation rate  
Alternative investment market  
Annual bonus  
Annual equivalent rate (AER)  
Annual general meeting (AGM)  
Annual percentage rate (APR)  
Annuity  
Arbitrage  
Asset stripping  
Auditors  
Average (arithmetic mean)  
Average earnings growth

## **B**

Balance of payments  
Balance sheet  
Bank of England  
Bank of England's inflation report  
Banker's draft  
Base rate  
Bear market  
Bid-offer spread  
Black swan  
Blue chip  
Bond  
Bridging loan  
British Retail Consortium  
Broker  
Budget  
Buildings insurance  
Bull market  
Business cycle  
  
Buy-out  
Buy-to-let mortgage

## **C**

CAC 40 index  
Carry trade  
CBI industrial trends  
Capital account  
Capital gain  
Capital gains tax  
Capital ratios - Tier 1 and Tier 2  
CDOs  
Central bank  
Chapter 11 bankruptcy  
Chartered Institute of Purchasing and Supply  
Chartists  
Chinese walls  
City of London  
Collateral  
Commercial paper  
Commodity  
Competition Commission  
Confederation of British Industry (CBI)  
Consumer Prices Index (CPI)  
Consumer confidence  
Contents insurance  
Corporate raiders  
Corporation tax  
Cost-push inflation  
Council tax  
Credit crunch  
Credit default swaps  
Credit reference agency  
Current account

## **D**

Day trading  
Dead cat bounce  
Defined benefit pension  
Defined contribution pension  
Deflation  
Demand-pull inflation  
Demutualisation  
Depression  
Derivatives  
Diminishing returns  
Discount mortgage  
Dividend  
Dividend yield  
Dow Jones industrial average

## **E**

Ebit  
Ebitda  
Earnings per share (EPS)  
Economic growth  
Economies of scale  
Elasticity  
Endowment policy  
Enterprise value  
Equity  
Equity derivatives  
Ethical investment  
European Bank for Reconstruction and Development  
European Central Bank  
Externalities

## **F**

Final salary pension scheme  
Financial Services Authority  
Financial year  
Fiscal policy  
Fiscal year  
Fixed costs  
Fixed-rate mortgage  
Flexible mortgage  
Foreign exchange (Forex)  
Freehold  
FTSE 100 index  
FTSE 250  
FTSE 350  
FTSE All-Share  
FTSE SmallCap  
FTSE TechMARK  
FTSE4Good  
Futures

## **G**

Gazumping  
Gazundering  
Gearing  
Gilts  
Glass-Steagall Act  
Gold  
Golden handcuffs  
Golden handshake  
Golden hello  
Golden parachute  
Golden rule  
Golden share

Greenback  
Grey knight  
Gross domestic product (GDP)  
Gross national product (GNP)  
Ground rent  
Group of Eight (G8)  
Group of Seven (G7)  
Guaranteed annuity rate  
Guarantor

## **H**

Half year  
Hang Seng  
Hedge funds  
Home reversion plan  
Horizontal merger  
Hostile takeover  
House price surveys  
Hyperinflation

## **I**

Income protection insurance  
Income statement  
Income tax  
Independent financial adviser (IFA)  
Individual savings account (Isa)  
Industrial output  
Inflation  
Inflation measures  
Inheritance tax  
Insider trading  
Institutional investor  
Interest-only mortgage  
Interim  
Investment trust  
Invisible hand  
Irrational exuberance

## **J**

Advertisement  
  
Joint account

## **K**

Keynesian economics

## **L**

Laissez-faire  
Leasehold  
Leveraged buyout  
Libor rate  
Liquid asset  
Lloyd's of London  
Loan-to-value  
London Stock Exchange

## **M**

Macroeconomics  
Managed fund  
Manufacturing output  
Margin  
Median  
Merger  
Microeconomics  
Minimum wage  
Monetarism  
Monetary policy committee  
Money supply  
Monopoly  
Mortgage broker  
Mortgage indemnity protection/guarantee  
Mortgage term  
Mutual  
Mutual fund

## **N**

Naked short-selling  
Nasdaq  
National Economic Council  
NIESR  
National debt  
National insurance  
Negative equity  
Net asset value  
New York Stock Exchange  
Nikkei 225  
Nominal interest rate  
Nominal values  
Non-executive director

## O

Occupational pension scheme  
Office for National Statistics (ONS)  
Office of Fair Trading (OFT)  
Offshore account  
Old Lady of Threadneedle Street  
Oligopoly  
Open-market operations  
Operating profit/loss  
Option  
Ordinary residence  
Ordinary share  
Organisation for Economic Cooperation and Development  
Organisation of petroleum exporting countries (Opec)  
Overdraft

## P

Pay As You Earn (PAYE)  
Percentage change  
Permanent interest-bearing shares (Pibs)  
Personal loan  
Poison pill  
Ponzi scheme  
Portfolio  
Pound  
Poverty trap  
Precipice bonds  
Preference shares  
Preliminary announcement (prelim)  
Premium bonds  
Price to earnings ratio (PE ratio)  
Primary discount rate  
Privatisation  
Producer price index  
Profit and loss account  
Profit Participating Deferred Shares  
Profits  
Public company  
Purchasing Managers' Index (PMI)  
Purchasing power parity

## Q

Quantitative easing  
Quantity theory of money  
Quarterly report  
Quota

## **R**

Rally  
Random walk theory  
Rate of return  
Ratings agencies  
Real estate investment trusts  
Real interest rate  
Real values  
Recession  
Regressive tax  
Regulatory News Service (RNS)  
Repayment mortgage  
Retail Prices Index (RPI)  
Retirement age  
Reverse takeover  
Rights issue  
Royal Mint

## **S**

Savings account  
Second-lien loan  
Securities and Exchange Commission  
Security  
Self-certification mortgage  
Self-invested personal pensions (Sipps)  
Self-select Isa  
Serious Fraud Office (SFO)  
Share index  
Share options  
Shareholder  
Short selling  
SIVs  
Smith, Adam  
Soft commodities (softs)  
Sonia  
Special liquidity scheme  
Split capital investment trusts  
Spot market/spot price  
Square Mile  
Stagflation  
Stakeholder pensions  
Stamp duty (equities)  
Stamp duty (housing)  
Standard & Poor's 500 stock index  
Stock  
Stock exchange  
Sub-prime loans  
Supply and demand  
Swaps

## **T**

Takeover  
Takeover Panel  
Takeover bid  
Tangible Common Equity Ratio  
Tarp (troubled asset relief programme)  
Tax haven  
Teaser rate  
Term assurance  
Terminal bonus  
Tracker funds  
Trade balance  
Treasury  
Turnover

## **U**

Underwriter (insurance)  
Underwriter (shares)  
Unemployment  
Unit trust  
Unquoted shares

## **V**

Value added tax (VAT)  
Variable rate mortgage  
Vertical merger  
Volume  
Vulture funds

## **W**

Wall Street  
Weighted average  
White knight  
Whole-of-life policy  
Windfall tax  
Without-profits policy  
Write down, write off

## **Y**

Yen carry trade  
Yield

## Z

Zero interest rates  
Zombie funds

### + What is revenue?

The total income from the sale of goods or services is referred to as revenue.

### + What is turnover?

Turnover is most often used to mean the same as revenue. It is the amount of money taken by a business in a set period and is often measured annually.

### + What's the difference between gross and net profit?

**Gross profit** is a company's total revenue (or sales) minus the costs associated with making and selling its products or providing its services. Put simply, it is the difference in value between the revenue generated by a product or service and the cost of producing it. It does not include overhead costs such as rent, payroll or utilities. Gross profit is the simplest type of profit for a business to calculate.

NOTE: A common misconception is that gross profit is the amount of money brought in by a company for its products or services.

**Net profit** is a company's total earnings minus ALL of its expenses. These include the costs of making and selling products or services as well as administration, legal and accounting fees, sales commissions etc. Net profit is typically measured quarterly or annually.

### + What is gross and net margin?

In-line with the definitions above, **gross profit margin** is the profit made before any non-product expenses have been deducted from the company revenue. We calculate gross profit margin by dividing gross profit by total revenue and multiplying this figure by 100. This will give a percentage of income retained as profit after accounting for the cost of goods.

**Net profit margin** is therefore the profit made after all the business expenses are deducted from the revenue. It is the bottom line. We calculate net profit margin by dividing net profit by total revenue and multiplying this figure by 100. This will give a percentage of income retained as profit after accounting for all expenses.

### + What is markup?

The amount added to the cost price of goods is called the markup. It covers overheads and profit.

## **What is a profit share?**

A profit share scheme is when the profits a business makes is put into one pot, divided up amongst employees, and paid as one lump sum, often as a percentage of a salary. How much or how little a worker will receive depends entirely on the success of the business as a whole and their individual impact.

Find out more about profit share schemes and their benefits here.

## **What are overheads?**

Overheads are the costs required to run a business. They include things like accounting fees, insurance, phone bills, rent and utilities. They are basically any expenses that do not directly generate revenue.

So, there you have it. Now that you know your business terminology, you can talk about it with confidence and impress potential employers with your knowledge and figures.

## **What does B2B mean?**

B2B stands for business to business and means that one businesses is selling products to another business (as opposed to a consumer which would be B2C).

## **What is market share?**

Market share is the portion or percentage of a market that one company controls.

## **What are SMEs?**

SMEs stands for small and medium-sized enterprises. A small business is usually considered to have less than 50 employees and a medium has 50-250 employees.

## **Business Finance Terms and Definitions to Know**

From accounting, to business loans, to general business financial operations, here's the ultimate list to all the business finance terms and definitions you need to know:

### **1. Accounts Payable**

Accounts payable is a business finance 101 term. This represents your small business's obligations to pay debts owed to lenders, suppliers, and creditors. Sometimes referred to as A/P or AP for short, accounts payable can be short or long term depending upon the type of credit provided to the business by the lender.

## **2. Accounts Receivable**

Also known as A/R (or AR, good guess), accounts receivables is another business finance 101 term that means the money owed to your small business by others for goods or services rendered. These accounts are labelled as assets because they represent a legal obligation for the customer to pay you cash for their short-term debt.

## **3. Accrual Basis**

The accrual basis of accounting is an accounting method of recording income when it's actually earned and expenses when they actually occur. Accrual basis accounting is the most common approach used by larger businesses to record and maintain financial transactions.

## **4. Accruals**

A business finance term and definition referring to expenses that have been incurred but haven't yet been recorded in the business books. Wages and payroll taxes are common examples.

## **5. Asset**

This business finance key term is anything that has value—whether tangible or intangible—and is owned by the business is considered an asset. Typical items listed as business assets are cash on hand, accounts receivable, buildings, equipment, inventory, and anything else that can be turned into cash.

## **6. Balance Sheet**

Along with three other reports relating to the financial health of your small business, the balance sheet is essential information that gives a “snapshot” of the company's net worth at any given time. The report is a summary of the business assets and liabilities.

## **7. Bookkeeping**

A method of accounting that involves the timely recording of all financial transactions for the business.

## **8. Capital**

Refers to the overall wealth of a business as demonstrated by its cash accounts, assets, and investments. Often called “fixed capital,” it refers to the long-term worth of the business. Capital can be tangible, like durable goods, buildings, and equipment, or intangible such as intellectual property.

## **9. Working Capital**

Not to be confused with fixed capital, working capital is another business finance 101 term. It consists of the financial resources necessary for maintaining the day-to-day operation of the business. Working capital, by definition, is the business's cash on hand or instruments that you can convert to cash quickly.

## **10. Cash Flow**

Every business needs cash to operate. The business finance term and definition cash flow refers to the amount of operating cash that “flows” through the business and affects the business's liquidity. Cash flow reports reflect activity for a specified period of time, usually one accounting period or one month. Maintaining tight control of cash flow is especially important if your small business is new, since ready cash can be limited until the business begins to grow and produce more working capital.

## **11. Cash Flow Projections**

Future business decisions will depend on your educated cash flow projections. To plan ahead for upcoming expenditures and working capital, you need to depend on previous cash flow patterns. These patterns will give you a comprehensive look at how and when you receive and spend your cash. This info is the key to unlock informed, accurate cash flow projections.

## **12. Depreciation**

The value of any asset can be said to depreciate when it loses some of that value in increments over time. Depreciation occurs due to wear and tear. Various methods of depreciation are used by businesses to decrease the recorded value of assets.

## **13. Fixed Asset**

A tangible, long-term asset used for the business and not expected to be sold or otherwise converted into cash during the current or upcoming fiscal year is called a fixed asset. Fixed assets are items like furniture, computer equipment, equipment, and real estate.

## **14. Gross Profit**

This business finance term and definition can be calculated as total sales (income) less the costs (expenses) directly related to those sales. Raw materials, manufacturing expenses, labor costs, marketing, and transportation of goods are all included in expenses.

## **15. Income Statement**

Here is one of the four most important reports lenders and investors want to see when evaluating the viability of your small business. It is also called a profit and loss statement, and it addresses the business's bottom line, reporting how much the business has earned and spent over a given period of time. The result will be either a net gain or a net loss.

## **16. Intangible Asset**

A business asset that is non-physical is considered intangible. These assets can be items like patents, goodwill, and intellectual property.

## **17. Liability**

This business finance key term is a legal obligation to repay or otherwise settle a debt. Liabilities are considered either current (payable within one year or less) or long-term (payable after one year) and are listed on a business's balance sheet. A business's accounts payable, wages, taxes, and accrued expenses are all considered liabilities.

## **18. Liquidity**

Liquidity is an indicator of how quickly an asset can be turned into cash for full market value. The more liquid your assets, the more financial flexibility you have.

## **19. Profit & Loss Statement**

See "Income Statement" above.

## **20. Statement of Cash Flow**

One of the important documents required by lenders and investors that shows a summary of the actual collection of revenue and payment of expenses for your business. The statement of cash flow should reflect activity in the areas of operating, investing, and financing and should be an integral part of your financial statement package.

## **21. Statement of Shareholders' Equity**

If you have chosen to fund your small business with equity financing and you have established shares and shareholders as part of the controlling interests, you are obligated to provide a financial report that shows changes in the equity section of your balance sheet.

## **22. Annual Percentage Rate**

The business finance term and definition APR represents the yearly real cost of a loan including all interest and fees. The total amount of interest to be paid is based on the original amount loaned, or the principal, and is represented in percentage form. When shopping for the right loan for your small business, you should know the APR for the loan in question. This figure can be very helpful in comparing one financial tool with another since it represents the actual cost of borrowing.

## **23. Appraisal**

Just like your real estate appraisal when buying a house, an appraisal is a professional opinion of market value. When closing a loan for your small business, you will probably need one or more of the three types of appraisals: real estate, equipment, and business value.

## **24. Balloon Loan**

A loan that is structured so that the small business owner makes regular repayments on a predetermined schedule and one much larger payment, or balloon payment, at the end. These can be attractive to new businesses because the payments are smaller at the outset when the business is more likely to be facing strict financial constraints. However, be sure that your business will be capable of making that last balloon payment since it will be a large one.

## **25. Bankruptcy**

This federal law is used as a tool for businesses or individuals who are having severe financial challenges. It provides a plan for reduction and repayment of debts over time or an opportunity to completely eliminate the majority of the outstanding debts. Turning to bankruptcy should be given careful thought because it will have a negative effect on the business credit score.

## **26. Bootstrapping**

Using your own money to finance the start-up and growth of your small business. Think of it as being your own investor. Once the business is up and running successfully, the business finance term and definition bootstrapping refers to the use of profits earned to reinvest in the business.

## **27. Business Credit Report**

Just like you have a personal credit report that lenders look at to determine risk factors for making personal loans, businesses also generate credit reports. These are maintained by credit bureaus that record information about a business's financial history.

Items like how large the company is, how long has it been in business, amount and type of credit issued to the business, how credit has been managed, and any legal filings (i.e., bankruptcy) are all questions addressed by the business credit report.

Lenders, investors, and insurance companies use these reports to evaluate risk exposure and financial health of a business.

## **28. Business Credit Score**

A business credit score is calculated based on the information found in the business credit report. Using a specialized algorithm, business credit scoring companies take into account all the information found on your credit report and give your small business a credit score. Also called a commercial credit score, this number is used by various lenders and suppliers to evaluate your creditworthiness.

## **29. Collateral**

Any asset that you pledge as security for a loan instrument is called collateral. Lenders often require collateral as a way to make sure they won't lose money if your business defaults on the loan. When you pledge an asset for collateral, it becomes subject to seizure by the lender if you fail to meet the requirements of the loan documents.

## **30. Credit Limit**

When a lender offers a business line of credit it usually comes with a credit limit, or a maximum amount that you can use at any given time. It is said that you reach your credit limit or "max out" your credit when you borrow up to or exceed that number. A business line of credit can be especially useful if your business is seasonal or if the income is extremely unpredictable. It is one of the fastest ways to access cash for emergencies.

## **31. Debt Consolidation**

If your small business has several loans with various payments, you might want to consider a business debt consolidation loan. It is a process that lets you combine multiple loans into a single loan. The advantages are possibly reducing the interest rates on the borrowed funds as well as lowering the total amount you repay each month. Businesses use this tool to help improve cash flow.

## **32. Debt Service Coverage Ratio**

The business finance term and definition debt service coverage ratio (DSCR) is the ratio of cash your small business has available for paying or servicing its debt. Debt payments include making principal and interest payments on the loan you are requesting. Generally speaking, if your DSCR is above 1, your business has enough income to meet its debt requirements.

## **33. Debt Financing**

When you borrow money from a lender and agree to repay the principal with interest in regular payments for a specified period of time, you're using debt financing. Traditionally, it has been the most common form of funding for small businesses.

Debt financing can include borrowing from banks, business credit cards, lines of credit, personal loans, merchant cash advances, and invoice financing. This method creates a debt that must be repaid but lets you maintain sole control of your business.

### **34. Equity Financing**

The act of using investor funds in exchange for a piece or "share" of your business is another way to raise capital. These funds can come from friends, family, angel investors, or venture capitalists.

Before deciding to use equity financing to raise the cash necessary for your business, decide how much control you are willing to share when it comes to decision-making and philosophy. Some investors will also want voting rights.

### **35. FICO Score**

A FICO score is another type of credit score used by potential lenders for evaluating the wisdom of entering a contract with you and your business. FICO scores comprise a substantial part of the credit report that lenders use to assess credit risk. It was created by the Fair Isaac Corporation, hence the name FICO.

### **36. Financial Statements**

An integral part of the loan application process is furnishing information that shows your business is a good credit risk. The standard financial statement packet includes four main reports: the income statement, the balance sheet, the statement of cash flow, and the statement of shareholder's equity, if you have shareholders.

Lenders and investors want to see that your business is well-balanced with assets and liabilities, has positive cash flow, and will have capital to make expected repayments.

### **37. Fixed Interest Rate**

The interest rate on a loan that is established in the beginning and does not change for the lifetime of the loan is said to be fixed. Loans with fixed interest rates are appealing to small business owners because the repayment amounts are consistent and easier to budget for in the future.

### **38. Floating Interest Rate**

In contrast to the business finance term and definition fixed rate, the floating interest rate will change with market fluctuations. Also referred to as variable rates or adjustable rates, these amounts may often start out lower than the fixed rate percentages. This makes them more appealing in the short term if the market is trending down.

### **39. Guarantor**

When starting a new small business, lenders might want you to provide a guarantor. This is an individual who guarantees to cover the balance owed on a debt if you or your business cannot meet the repayment obligation.

### **40. Interest Rate**

All loans and other lending instruments are assigned the business finance key term interest rates. This is a percentage of the principal amount charged by the lender for the use of its money. Interest rates represent the current cost of borrowing.

### **41. Invoice Factoring or Financing**

If your business has a significant amount of open invoices outstanding, you may contact a factoring company and have them purchase the invoices at a discount. By raising capital this way, there is no debt, and the factoring company assumes the financial responsibility for collecting the invoice debts.

### **42. Lien**

This business finance term and definition is a creditor's legal claim to the collateral pledged as security for a loan is called a lien.

### **43. Line of Credit**

A lender may offer you an unsecured amount of funds available for your business to draw on when capital is needed. This line of credit is considered a short-term funding option, with a maximum amount available. This pre-approved pool of money is appealing because it gives you quick access to the cash.

### **44. Loan-to-Value**

The LTV comparison is a ratio of the fair-market value of an asset compared to the amount of the loan that will fund it. This is another important number for lenders who need to know if the value of the asset will cover the loan repayment if your business defaults and fails to pay.

### **45. Long-Term Debt**

Any loan product with a total repayment schedule lasting longer than one year is considered a long-term debt.

### **46. Merchant Cash Advance**

A merchant may offer a funding method through a loan based on the business's monthly sales volume. Repayment is made with a percentage of the daily or weekly sales. These tend to be short-term loans and are one of the costliest ways to fund your small business.

## **47. Microloan**

Microloans are loans made through non-profit, community-based organizations and they are most often for amounts under \$50,000.

## **48. Personal Guarantee**

If you're seeking financing for a very new business and don't have a high value asset to offer as collateral, you may be asked by the lender to sign a statement of personal guarantee. In effect, this statement affirms that you as an individual will act as guarantor for the business's debt, making you personally liable for the balance of the loan even in the event that your business fails.

## **49. Principal**

Any loan instrument is made of three parts—the principal, the interest, and the fees. The principal is a business finance key term and is the original amount that is borrowed or the outstanding balance to be repaid less interest. It is used to calculate the total interest and fees charged.

## **50. Revolving Line of Credit**

This business finance term and definition is a funding option is similar to a standard line of credit. However, the agreement is to lend a specific amount of money, and once that sum is repaid, it can be borrowed again.

## **51. Secured Loan**

Many lenders will require some form of security when loaning money. When this happens, this business finance term and definition is a secured loan. The asset being used as collateral for the loan is said to be "securing" the loan. In the event that your small business defaults on the loan, the lender can then claim the collateral and use its fair-market value to offset the unpaid balance.

## **52. Term Loan**

These are debt financing tools used to raise needed funds for your small business. Term loans provide the business with a lump sum of cash up front in exchange for a promise to repay the principal and interest at specified intervals over a set period of time. These are typically longer term, one-time loans for start-up expenses or costs for established business expansion.

## **53. Unsecured Loans**

Loans that are not backed by collateral are called unsecured loans. These types of loans represent a higher risk for the lender, so you can expect to pay higher interest rates and have shorter repayment time frames. Credit cards are an excellent example of unsecured loans that are a good option for small business funding when combined with other financing options.

## **54. Articles of Incorporation**

This is legal documentation of the business's creation, including name, type of business, and type of business structure or incorporation. This paperwork is one of the first tasks you will complete when you officially start your business. Once submitted, your articles of incorporation are kept on file with the appropriate governmental agencies.

## **55. Business Plan**

Here is your tool for demonstrating how you want to establish your small business and how you plan to grow it into good financial health. When writing a business plan, it should include financial, operational, and marketing goals as well as how you plan to get there. The more specific you are with your business plan, the better prepared you will be in the long run.

## **56. Employer Identification Number (EIN) Certificate**

In order to be more easily identified by the Internal Revenue Service, every business entity is assigned a unique number called an EIN. When you start your small business, an EIN will be assigned and mailed to the business address. This number never changes, and you will be asked to furnish it for many reasons.

## **57. Franchise Agreement**

For a small business entrepreneur, entering into a franchise agreement with a larger company can be a way to enter the marketplace. The agreement made between you and the larger company gives you the right to operate as a satellite of the larger company in a certain territory for a given period of time. This lets you, the business owner, take advantage of a brand name that's already familiar in the marketplace and a process or operation that has already been tested.

## **58. Net Worth**

This business finance term and definition is an expression of your business's total value, as determined by your total current assets less the total liabilities currently owed by the business. With your business's most recent balance sheet in hand, you can calculate the net worth using a simple formula:  $\text{Assets} - \text{Liabilities} = \text{Net Worth}$ .

## **59. Retained Earnings**

Just like it sounds, this term represents any profits earned that are retained in the business. This can also be referred to as bootstrapping.

## **60. Tax Lien**

If your business fails to pay taxes owed to the designated government entity, namely the IRS, you may find your assets seized by the claim of a tax lien. The government can not only seize your assets for liquidation to resolve the tax debt, but they can also charge you penalties on the amount you owe.

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