

Glossary of Financial Terms

The following are some commonly used financial terms with definitions that may come up in discussions around business planning, funding, the sale of a business and/or the transfer of ownership. These terms are commonly used by investors, bankers, consultants, advisors, and mentors.

Income Statement - A summary of revenue and expenses. It is also called a profit and loss statement or P&L and as the name suggests, it shows the profits or losses of a business for a specific period.

Balance Sheet - A summary of a company's assets, liabilities, and shareholder's equity at a specific point in time. In other words, what the company owns and what it owes, and how much shareholders have invested.

Cash Flow - Shows how much cash a company takes in (receipts) versus how much it spends (disbursements) relating to a specific activity during a specified accounting period.

Net Cash Flow Position - The difference between a company's cash inflow and outflow within a given time-period.

Cumulative Cash Flow - The sum of all cash flows since the company began.
Forecasting- Predicting future sales, expenditures, and profits.

Assets - Everything a company owns.

Liabilities - Everything a company owes.

Deficit - A financial shortage that occurs when liabilities exceed assets.

Cost of Goods Sold- The sum of all direct costs associated with producing a product.

Gross Profit - Is revenue minus direct costs. It is what is left after subtracting the cost of producing a product or service from the related revenue (sales).

Gross Profit Margin - Is gross profit expressed as a percentage. (Gross Profit divided by revenue X 100)

Net Profit or Loss - Revenue minus ALL costs.

Profit Margin - Net profit expressed as a percentage (Net profit divided by revenue X 100)

Break Even Point - The point at which a company's total costs are equal to total revenue. It is the number of units you must sell in order to make a profit of \$0.

Markup - The difference between the selling price and the cost of a product or service.

Markup Percent - The sales price minus unit cost divided by unit cost X 100.

Inventory Turn Rate - The number of times in a given time-period that a company sells through and replaces its inventory.

Shrinkage - The loss of inventory through theft, fraud, damage.

Fixed Costs - Costs that do NOT change when sales increase or decrease.

Variable Costs - Costs that fluctuate when sales increase or decrease.

Capital Expense (CapEx) - Money spent to acquire or improve capital assets such as buildings and machinery.

Operating Expense - Costs/expenses associated with running a business, such as rent, insurance, marketing, subscriptions, utilities, etc.

Owner's Contribution - Reflects the owner's investment in the business.

Owner's Draw - Money the owner of a sole proprietorship or partnership withdraws from the business for themselves.

Dividends - Distribution of earnings to owners of a Corporation in cash, other assets or capital stock.

Salary - Wages paid to employees.

Source Deductions - Money a company withholds from an employee's wage to submit to the government. (EI, CPP, Income Tax)

Principle - The amount of funds borrowed by a business.

Interest - The fee charged to borrow funds.

Collateral - Assets a borrower can use as security for a loan.

Depreciation - The reduction of the value of an asset over time. An allowance made for wear and tear on an asset over its estimated useful life.

Amortization Period - The length of time to pay off a loan.

Equity Financing - When a company sells shares to raise capital.

Bad Debt - All or portion of an account, loan, or note receivable considered to be uncollectible.

Fraud - Wilful misrepresentation by a person, of a fact inflicting damage on another.

FOB Destination - A shipping term that means that the seller bears transportation costs from the point of origin.

FOB Shipping Point - A shipping term that means that the buyer bears transportation costs from the point of origin.

If you are working on a business plan and would like some assistance, or you are wanting to connect with one of our advisors to discuss your business we are always here to help.

Email us at info@tbcnps.ca or call 705-474-0400 ext. 2302.