



## **Glossary of Terms**

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<b>401(k)</b> .....	A retirement plan that allows individuals to invest a portion of their income, tax-free until withdrawn at retirement.
<b>accounting</b> .....	Methods and rules used in the collection and recording of financial data, which is then summarized into reports called financial statements.
<b>accounts payable</b> .....	Amounts owed by the company to suppliers of goods and services.
<b>accounts receivable</b> .....	Amounts owed to the company, usually arising from the sale of goods or services to customers.
<b>administrative expenses</b> .....	The costs incurred in marketing, selling and distributing products and in administering the operation of a business. Also referred to as “common costs”; “overhead”; “indirect costs”; or “selling, general and administrative (SG&A) costs.”
<b>amortization</b> .....	An accounting procedure that gradually reduces the cost value of an intangible asset (example: goodwill); similar to depreciation. The purpose is to reflect resale or redemption value.
<b>annual report</b> .....	A report provided to shareholders and the community containing financial statements that summarize the company’s financial activities for the past year and any significant plans for the future.
<b>asset</b> .....	Any economic material owned by a company; this includes current assets (cash, accounts receivable, inventory, etc.) and fixed assets (land, buildings, vehicles and equipment). See also “total assets.”
<b>asset management</b> .....	The strategic use of a company’s assets to maximize benefits/returns to the company.
<b>balance sheet</b> .....	A document that shows the financial position of a business at a particular date. It lists assets, liabilities and owners’ equity according to a formula: Assets = Liabilities + Equity.
<b>benchmarking</b> .....	Taking actions to improve competitive position through a deliberate attempt to emulate and surpass what is considered to be world-class performance in important competitive activities.
<b>bookkeeping</b> .....	The process of recording financial transactions.
<b>capital</b> .....	The amount of long-term debt and owners’ equity invested in a company. These funds can be used to purchase assets or pay for operating expenses.
<b>capital expenditure</b> .....	Money spent to acquire or improve assets that will benefit the company over several years. Examples include buildings and machinery.
<b>capital gains and losses</b> .....	Gains or losses on the sale of an asset that is not part of the ordinary course of a company’s business (example: investments). This is an income tax concept.

<b>capitalization</b> .....	The accounting rule that determines that an expenditure should be recorded as an asset and depreciated over time, versus being treated as an expense in a single year.
<b>cash and cash equivalents</b> .....	Refers to money available in cash, money on deposit in banks and any items available for immediate deposit. Those items might include checks, money orders, charge slips, etc. Also called “liquid funds.”
<b>cash flow</b> .....	The amount of cash moving into or out of the company.
<b>cash-to-cash cycle</b> .....	Elapsed time from the outlay of cash for materials to the receipt of cash after finished products are sold. Also called “the cash conversion cycle.”
<b>common stock</b> .....	Ownership certificates/instruments issued by a corporation. Normally, ownership of common stock carries the right to vote and to receive dividends.
<b>contribution margin</b> .....	Income after subtracting “variable costs” (see definition) from total sales. This amount is the direct contribution of the product before any fixed costs or other expenses are applied against it.
<b>cost of goods sold/cost of sales</b> ....	Production costs (labor, materials, overhead) needed to provide the products sold to customers during a given period of accounting.
<b>current assets</b> .....	Those assets that will be sold, consumed or converted into cash within one year. Includes inventory, accounts receivable, cash, etc.
<b>current liabilities</b> .....	Short-term liabilities or obligations that will be paid off within one year. These include taxes payable, accounts payable, interest on loans, salaries owed to employees, etc.
<b>current ratio</b> .....	A ratio (current assets divided by current liabilities) that measures a company’s ability to pay its short-term debts as they become due.
<b>cycle time</b> .....	The time required to complete all operations necessary to manufacture a finished product. Cycle time is a key measure of production competitiveness, since it reveals how well equipment, labor, and materials are being utilized while yield and quality goals are maintained.
<b>days sales outstanding</b> .....	A financial ratio that reports the speed in which accounts receivable are converted to cash. This ratio is calculated by dividing accounts receivable by revenue divided by 365.
<b>debt</b> .....	Financial obligation to a bank or other creditor. See “liabilities.”
<b>debt to equity ratio</b> .....	A financial ratio (total liabilities divided by owners’ equity) that shows the extent of dependence a company has on borrowed money.
<b>deferred revenue</b> .....	An advance payment by customers for goods or services to be delivered at some future date; sometimes called “unearned revenue.”

<b>depreciation</b> .....	A method of spreading the cost of a fixed asset (example: equipment, buildings) over its useful life.
<b>direct costs</b> .....	Costs associated with producing a product; generally includes such things as direct material, direct labor, direct overhead, and freight and duty. Also called “variable costs,” these expenses vary depending on how much is produced and/or sold.
<b>dividends</b> .....	A distribution of cash or stock to stockholders out of the accumulated profits of a corporation.
<b>earnings</b> .....	The amount of profit a company realizes after all costs, expenses and taxes have been paid. Also called “profit” or “income.”
<b>earnings before interest and taxes (EBIT)</b> .....	An operating number used to compare the earning power of companies, because it eliminates the impact of interest and tax rates, two non-operating factors.
<b>earnings before interest, taxes, depreciation and amortization (EBITDA)</b> .....	See “EBIT.”
<b>earnings per share (EPS)</b> .....	A measure of a company’s profitability, calculated by dividing net profit/income by the number of ordinary shares outstanding. See “stock.”
<b>e-business</b> .....	A strategy that allows a company to improve its operations or procedures by electronically linking its customers, suppliers and employees through the use of the Internet and/or other systems.
<b>e-commerce</b> .....	The process of buying and selling goods and/or services via the Internet.
<b>equity</b> .....	The ownership value of stockholders (assets less liabilities). Also called “owners’ equity,” “stockholders’ equity” or “capital.”
<b>expenses</b> .....	Costs incurred during a given accounting period in connection with the earning of sales income/revenue.
<b>fast-to-market</b> .....	A strategy designed to ensure that a company can develop and sell a product or service as quickly as possible.
<b>financial costs/expenses</b> .....	Any expenses related to financing, including interest on loans.
<b>financial statements</b> .....	Reports of a company’s operation, generally consisting of the balance sheet, income statement and statement of cash flows.
<b>financing</b> .....	The process of securing capital and financial commitments to support the operation of a company.
<b>finished goods/products</b> .....	Those products that have completed the production cycle and are ready to be delivered to customers.
<b>first-in, first-out (FIFO)</b> .....	An inventory costing method that assumes that the first items produced are the first items sold.

<i><b>fiscal year</b></i> .....	The 12-month time period during which a company’s bookkeeping system records the completed year of operation. A fiscal year can begin in any month.
<i><b>fixed assets</b></i> .....	The value of a company’s real property, plant and equipment. These assets generally remain in a company for several years.
<i><b>fixed costs</b></i> .....	Those costs that generally do not vary with production or sales volume. These include such things as depreciation, rent and long-term leases. Sometimes called “base costs.”
<i><b>free cash flow</b></i> .....	The sum of cash flows generated by operating and investing activities; cash from operations less fixed asset purchases. See also “operating cash flow.”
<i><b>goodwill</b></i> .....	An intangible asset above and beyond the concrete value of a business or asset. For example, the value of a business’s good name and customer relationships.
<i><b>gross profit margin (GPM)</b></i> .....	A ratio (gross profit divided by net sales) showing profitability of the production cycle. Sometimes called “gross margin” or “gross profit,” and calculated as net sales minus cost of goods sold.
<i><b>income statement</b></i> .....	A financial report showing the outcome of a particular accounting period in terms of sales, expenses, and the profit or loss generated in that period. Also called a “profit and loss statement,” “P&L,” or “operating statement.”
<i><b>income taxes</b></i> .....	Federal, state and city taxes levied, based on a company’s income for a given accounting period.
<i><b>indirect costs</b></i> .....	Costs that are not directly attributed to a product, but are allocated to the product for cost accounting purposes.
<i><b>inflation/deflation</b></i> .....	The trend in which prices for goods and services across the economy rise (inflation) or fall (deflation), based on customer demand for these items.
<i><b>intangible assets</b></i> .....	Nonphysical assets such as trademarks, patents, copyrights, goodwill, brand value, etc.
<i><b>interest</b></i> .....	The cost of borrowing money or the return for lending money, depending on one’s point of view.
<i><b>inventory</b></i> .....	A company’s materials, work-in-process, supplies used in operations and finished products on hand at any given time.
<i><b>inventory turnover</b></i> .....	A ratio that measures how quickly inventory is being sold. The longer inventory remains unsold, the greater the possibility that it will become obsolete.
<i><b>investments</b></i> .....	Purchases made by a company that are intended to result in a financial return (example: stocks of other companies, bonds, etc.).

<i>just-in-time (JIT)</i> .....	A production strategy intended to reduce inventory by coordinating with suppliers and customers to make timely deliveries when material/products are needed.
<i>last-in, first-out (LIFO)</i> .....	An inventory costing method that assumes that the last items produced/received are the first ones sold.
<i>lean production</i> .....	Actions taken by a company to ensure that its assets are being used efficiently in the production process, from purchase of materials through product delivery to customers. Techniques such as just-in-time, continuous improvement and error reduction focus on better purchasing, planning, production and inventory routines to prevent capital from being tied up unnecessarily.
<i>liabilities</i> .....	Amounts owed to creditors; the financial obligations of the company. Includes bank loans, amounts owed to suppliers, etc.
<i>liquid funds</i> .....	Cash, or those items easily converted to cash.
<i>liquidity</i> .....	A company's financial ability to pay its debts and to provide for unanticipated cash demands or opportunities.
<i>long-term liabilities</i> .....	Amounts owed to creditors but not payable until one year or more from the balance sheet date.
<i>net earnings/loss, net income/loss or net profit/loss</i> .....	The amount remaining after deducting all costs (including taxes and interest) from all income. Losses are indicated in parentheses on financial statements.
<i>net sales/net revenue</i> .....	The amount of sales revenue minus any returns, customer credits, adjustments or allowances.
<i>operating capital/working capital</i> ...	Terms used to identify funds available for the operations of an organization; current assets minus current liabilities.
<i>operating cash flow</i> .....	Cash flow provided by the normal sales operations of a business (cash generated from operations less taxes and interest paid, investment income received and dividends paid). See also "free cash flow."
<i>operating costs</i> .....	The collective costs of operating a business, including cost of goods sold, sales and support, overhead, and depreciation.
<i>operating profit</i> .....	The difference between sales/revenue and operating costs. Also known as "operating income."
<i>original investment</i> .....	The capital originally contributed by stockholders. Also called "paid-in capital."
<i>overhead</i> .....	See "selling, general and administrative expenses."
<i>owners' equity</i> .....	See "equity."

<b><i>preferred stock</i></b> . . . . .	Stock in a corporation that gives its owner priority in receiving dividends and corporate assets in the case of liquidation.
<b><i>pretax income</i></b> . . . . .	The same as “profit before taxes” or “income before taxes.”
<b><i>profit</i></b> . . . . .	The amount of revenue that remains after accounting for all expenses, such as cost of goods sold, operating expenses, interest and taxes. Also called “income” or “earnings.”
<b><i>profit and loss (P&amp;L) statement</i></b> . . . . .	A financial report showing the outcome of a particular accounting period in terms of the profit or loss generated in that period. Also called a “P&L,” “income statement,” or “operating statement.”
<b><i>profit before taxes</i></b> . . . . .	The amount remaining after deducting all costs, except taxes, from all income.
<b><i>profit margin</i></b> . . . . .	An indicator of product/service profitability. May be calculated as gross profit margin (gross profit divided by net sales) or net profit margin (net profit divided by net sales, which is also called ROS).
<b><i>property, plant and equipment</i></b> . . . . .	Land, buildings, equipment and other assets used by the company in its operation that have life spans greater than one year.
<b><i>quick assets</i></b> . . . . .	The combination of liquid funds and accounts receivable that can be quickly converted to cash.
<b><i>ratio (financial)</i></b> . . . . .	The calculation of percentages that show relationships between certain items on a company’s financial statements.
<b><i>real property</i></b> . . . . .	The value of the real estate that the company owns.
<b><i>research and development (R&amp;D)</i></b> . . . . .	The process used to bring a new product or service to market or to improve a current product or service.
<b><i>retained earnings</i></b> . . . . .	The accumulated net profits/losses of a company from prior periods of operation. Newly formed businesses do not have retained earnings.
<b><i>retention strategies</i></b> . . . . .	Actions a company takes to keep its employees from leaving the company. A company endeavors to keep these employees to avoid losing access to their skills, knowledge and abilities.
<b><i>return on assets (ROA)/ return on net assets (RONA)</i></b> . . . . .	A financial ratio (operating profit divided by total assets) designed to measure how well a company is using its assets in the generation of operating profit. Return on net assets (RONA) is calculated using average net assets.
<b><i>return on capital (ROC) return on capital employed (ROCE)</i></b> . . . . .	A measure of how effectively a company is using its capital invested in the business. Typically calculated by subtracting taxes from operating profit and dividing the result by average capital investment in the business (debt plus equity). Also called “return on capital employed (ROCE).”

- return on equity (ROE)*** ..... A financial ratio (net profit divided by average total equity) that measures how effectively stockholder investments are being managed. Indicates the amount (percentage) earned on a company’s common stock investment for a given period. Sometimes called “return on investment.”
- return on investment (ROI)*** ..... The profit (or loss) on an investment, expressed as a percentage. May also refer to returns attributable to ad campaigns, capital equipment, or various programs.
- return on sales (ROS)*** ..... A financial ratio (net profit divided by net sales) measuring profit in relation to sales (how much profit is generated by each dollar of sales).
- returns and adjustments*** ..... Product returns by the customer or adjustments made to selling price, that are subtracted from sales to arrive at net sales.
- revenue*** ..... See “sales.”
- sales*** ..... The inflow of cash or other assets received in exchange for goods or services provided to customers; also called “revenue.”
- selling, general and administrative (SG&A) expenses*** ..... Costs a company incurs in marketing, selling and distributing products, and in administering the operation of the business. Also referred to as “indirect costs,” “common costs” or “overhead.”
- shareholder value*** ..... The total market value of the firm; the stock price multiplied by the total number of shares outstanding. Companies are best able to maximize the value of the organization for shareholders when they effectively manage the assets of the business, the cash flow from operations and investors’ expectations of growth.
- short-term liabilities*** ..... Amounts owed by a company that are due within one year from the date of the balance sheet.
- standard cost*** ..... An accounting of a product’s total cost. Normally includes direct costs (wages, materials, etc.) and a portion of indirect costs allocated to the product.
- statement of cash flows*** ..... A financial statement that shows the movement and availability of cash within a company during a specific accounting period.
- stock*** ..... Units or shares of ownership; shares may be “common” (shareholders have a vote, and make profits through dividends) or “preferred” (shareholders have no vote but are first in line for dividends at fixed rates). “In stock” may also refer to products or goods on hand.
- strategic partnership*** ..... An alignment, for mutual benefit, of companies with common interests and complementary capabilities.
- supply chain*** ..... A system of processes, people, technology, activities, information and resources involved in moving a product or service from suppliers to customers.

- taxes** ..... Compensation to federal, state or city government for the services enjoyed by a company, based on the company’s earnings. Taxes are recorded as a current liability until actually paid.
- total assets** ..... Economic resources owned by a company; the sum of current and fixed assets. Might also include intangible assets such as goodwill (the value of a company’s name in the market), patents and other intellectual property.
- variable costs** ..... Production and other expenses that vary depending on how much is produced and/or sold. See “direct costs.”
- variable margin** ..... Total sales less variable costs.
- work-in-progress (WIP)** ..... Goods that are in the process of manufacture and not yet ready for sale. Also called “work-in-process.”
- working capital** ..... The current assets of a company, less current liabilities. Sometimes called “operating capital.”
- yield loss** ..... Shortfall in the output of saleable products produced during a production process.

### It’s all the same to me...

There are often different terms that can be used for similar financial concepts. Which terms does your organization use?

Selling, general and administrative costs	Cost of goods sold	Sales	Profit	Income statement
SG&A	Cost of sales	Revenue	Income	Statement of operations
Indirect costs	Variable costs	“Top line”	Earnings	Statement of profit and loss
Fixed costs			“Bottom line”	P&L
Common costs				Income and expense statement
Overhead				