How to speak the language of business

Are you a 'going concern' with 'internal control' of a 'revaluation reserve'? If this is all a bit 'confused.com' - read on. We've got you covered.

Accounts payable: this is a liability or obligation to pay a creditor or supplier because of a credit transaction. This is money owed by your business. See ‘Creditor’.

Accounts receivable: this is money owed to your business by customers or other debtors through a credit transaction. See ‘Debtor’.

Accrual: this is a provision that an accountant makes for expenses that have not yet been billed to you, but relate to expenses in a specific period. If, for instance, you have a year-end of December and no bills have been received for December, then your accountant will include an accrual for those expenses in your accounts.

Accumulated profit: these are retained earnings. This is the balance of profits retained in the business and not paid out to owners in dividends.

Acid test (quick ratio): this is a key financial ratio that measures what assets can easily be converted into cash to pay your business’s obligations in the event that sales ceased. Work out the acid test or quick ratio for your business by using the ThinkBusiness.ie ratio template.

Amortisation: this is the term given to the process of writing off or reducing the value of an asset (usually an intangible asset such as goodwill) over a period of time.

Asset: something of value which is owned by a business and which has a measurable cost. Assets are classified as fixed, current or other assets. Fixed assets are assets that are needed for the long-term use of the business, such as property or equipment, and are not for sale. Current assets are those assets which can be turned into cash more easily than other types of assets, such as cash on deposit, debtors and stock. Intangible assets are those that cannot be physically touched. See ‘Goodwill’.

Auditing: the practice whereby an independent auditor reviews accounts and provides an opinion, stating whether or not the accounts give a true and fair view of the financial position of the company.

Authorised capital: also known as nominal share capital, this is the maximum amount of share capital a company is authorised to issue by its Memorandum & Articles of Association. The actual amount of shares issued to shareholders is the issued share capital.

Book value: this has two meanings. This could be the value of fixed assets plus tangible assets in the books after the deduction of accumulated depreciation. Or it could be the value of ordinary shares in the books, which is arrived at by taking owners' equity less preference shares and dividing this by the number of shares issued.

Balance sheet: this is often described as a financial snapshot of a business, but in reality it is a historic snapshot. It shows the assets owned by a business and how they are financed through liabilities and owners' equity.

Budget: this is a financial plan covering a specified period, usually a year, which is a useful tool to allow business owners and managers to set financial targets.

Cashflow: this shows the differences between cash receipts and cash payments. A cashflow statement shows the major cash inflows and outflows. The ThinkBusiness.ie cashflow calculator can help you manage your cashflow.

Cost centre: this is a part of a business which generates no revenue or little revenue, but which has costs that must be absorbed by the business.

Contribution: this is an accounting term which takes account of the amount of sales less any variable costs which is the amount (or contribution) that is available to cover fixed costs.

Current asset: see 'Asset'.

Current liability: see 'Liability'.

Creditor: a customer or others to whom your business owes money.

Debtor: customers or others who owe your business money.

Depreciation: this is an accounting process where the cost of a fixed asset (like equipment) is spread out and charged as an expense over its working life.

Equity: capital invested by the owner plus retained profits.

Factoring: this is a mechanism used by some businesses to improve their cashflow. A financial institution buys a firm's trade debtors and takes on the responsibility of collecting the debts that are due. They pay the company up-front for the debtors less a percentage charge of the invoice

value.

Finance lease: lease where the ownership and risks have passed on to the lessee. This is shown as a liability in the balance sheet.

Fixed asset: see ‘Asset’.

Fixed costs: these are costs which tend to remain unchanged even if the level of activity changes, such as rent or depreciation. See ‘Overheads’.

Going concern: this is an accounting concept which assumes that a business will continue to trade indefinitely.

Goodwill: this is an intangible asset which usually comes into play when there is an acquisition. Goodwill represents the difference between what is paid for a business and the net asset value of that business. It is only recorded in the accounts when it is purchased.

Gross margin: see ‘Margin’.

Gross profit: this is sales revenues less the cost of what is sold. So in a retail environment, the cost of the stock is taken away from the sales to arrive at a gross profit figure.

Income statement: also known as a profit and loss account, or an earnings statement.

Indirect cost: this term describes a business expense which cannot be directly attributed to a product service or production. Examples include light and heat, administration expenses, and insurance.

Internal control: these are policies and systems that are put in place by the board to manage financial risk.

Inventory: stock of goods or merchandise which is available for resale. Often referred to as stock.

Invoice: the bill you send to your customers for the goods or the services your business has provided. Apart from the details of the product or service, as well as the amount and the VAT to be charged (if applicable), it should include your company or business name, your VAT number and contact details for your business.

Joint venture: a company which tends to be jointly owned by one company and one other party (or several other parties). Typically, there is a contractual agreement between the parties about the joint venture.

Journal: the chronological record of transactions in your business's accounts.

Issued capital: these are the actual shares issued or sold by the company. See 'Authorised capital'.

Key Performance Indicators (KPIs): ways by which a business can measure and monitor certain important measures that are important to the delivery of goals and are critical to its financial success. An example would be the average number of days trade debtors have payments outstanding.

Lease: this is an agreement whereby the owner of an asset allows someone else to use it for a fee, usually paid monthly.

Ledger: a group of accounts.

Liability: this is an amount owed by the business to creditors, the Revenue, or others, outside the business. It can also be an amount owed to the owner of the business (e.g. directors' loans). A business or person, to whom the business has a liability, can claim against the assets of the business. Current liabilities are due for payment within a year. Long-term liabilities are not due for payment within one year. They include long-term loans (not overdrafts), bonds and mortgages.

Liquidity: availability of cash or assets which can easily be turned into cash if the need arises.

Long-term liability: see ‘Liability’.

Loss: when costs and expenses exceed the amount of income (or turnover) a business generates, this results in a loss.

Loss on sale of fixed asset: if you lose money on the sale of a fixed asset (like property or machinery) this is treated as an “other expense” in the profit and loss account.

Management accounts: accounts that are created for day-to-day use within a business. They are usually not shared with anyone outside of the business, except perhaps with an accountant or a financial adviser, or in some instances a financial institution.

Mark-up: this is profit expressed as a percentage of costs. So if a product is bought for €100 and there is a 50% mark-up, this results in a retail price of €150.

Margin: this term means profit expressed as a percentage of sale. A gross margin expresses that profit before any overheads and merely the cost of the goods or services, while a net margin takes account of those costs plus any overheads in the business.

Marginal cost: see ‘Variable cost’.

Mortgage: this is a long-term loan normally secured on fixed assets such as a house or another property.

Net: this has two meanings. The first is that net is a figure after deductions, so for instance gross profits less overheads and taxes equals net profit. The second meaning is payment of the full amount with no allowance for a cash discount (net 30 days, for example).

Net asset value: another term for shareholders’ funds or equity. It’s the total assets less total liabilities.

Net margin: see ‘Margin’.

Net current assets: current assets less current liabilities.

Net profit: profit after tax.

Net worth: another term for shareholders’ funds, or equity.

No***n-operating expense:*** an expense which is not directly related to normal operations.

Non-operating income: income which did not arise from normal operations.

Opening stock: the amount of stock (inventory) held at the start of a financial year or a financial period (in management accounts).

Operating expenses: selling, administration and general expenses incurred during an accounting period.

Operating lease: a financial instrument whereby the asset is used by the lessee for a period that is less than its useful economic life. Ownership of the asset remains with the lessor.

Operating profit: Gross profit less operating expenses (or overheads), but before interest and tax. Also called earnings before interest and tax (EBIT).

Order: purchase order given to a supplier or sales order received from a customer relating to goods or services that will be provided at a later point.

Overheads: see ‘Fixed costs’.

Overtrading: a term given to a situation whereby a business expands too quickly and does not

have the funding in place to finance the expansion.

Owners' equity: another term for shareholders' funds or equity.

Payable: this describes amounts owed to trade creditors or others.

Plant: how equipment and machinery is often described in accounts.

Premium: amount by which the sales prices for a share exceeds the face value.

Prepayment: expense paid in advance for a future accounting period.

Pre-tax profit: profit after all costs and overheads but before tax. Can also be called earnings or net income.

Profit after tax: net profit after taxes are deducted.

Profit and loss account: statement showing sales, costs, expenses and profit for an accounting period. Commonly abbreviated to 'P&L' or 'P&L Account'.

Profit centre: a business or operating part of a business which is able to create its own profits or losses.

Provision: a liability or reserve for an anticipated cost such as a trade debt which is unlikely to be collected.

Prudence concept: this is an accounting concept where revenues and profits cannot be anticipated. They should only be recognised by inclusion in the profit and loss account when they can be attributed to the financial period and quantified.

Quick assets: assets that can be easily turned into cash. Stock and prepaid expenses are usually excluded from quick assets.

Qualified audit: auditor's statement to indicate that the accounts do not present a true and fair view, or the auditor was not able to carry out the audit to their satisfaction.

***Receivable*:** see 'Debtor'.

Recognition: this is an accounting concept whereby profit is recognised in the period in which it is realised in cash or accounts receivable. Profit is usually recognised when goods are dispatched and invoiced to the customers. Losses are normally recognised when they are known.

Retained profits: accumulated profits from current and previous financial years (or periods) which are not distributed in dividends. Also known as retained earnings.

Returns**:** profits and savings from investments made by the owners or, alternatively, the investment of owners and long-term creditors.

Revaluation reserve: this is an entry on the balance sheet corresponding to a time when a company may have revalued one or more of its assets, to reflect the change in the value of the asset re-valued.

Sales: revenues of the business which are usually recognised when goods or services are invoiced to customers.

Sales discount: cash discount on sales usually given to a customer for prompt payment.

Sales expenses: expenses incurred in promoting sales and retaining customers.

Sales return: goods returned by customers.

Salvage value: term used to describe residual value of a fixed asset when it has been scrapped.

Security: collateral provided against a loan or liability.

Share premium: excess of original price of a share over its face or par value. This is part of owners' equity which is often listed in capital surplus.

Stock: goods held by company for sale (sometimes referred to as inventory). Not to be confused with shares (in US, particularly, shares are called stock).

Tangible asset: see ‘Asset’.

True and fair view: term used in an auditor’s statement to indicate that the accounts give correct and complete information about a company's financial situation.

Unqualified audit report: an auditor’s statement that the accounts represent a true and fair view.

Variable costs: these costs will rise or fall in proportion to the volume of trade. In the case of a retail shop, the cost of its stock would be variable, as it will be dependent on the level of trade the shop does and the terms it enters into with its suppliers.

Working capital: finance needed by a business to finance its operating cycle.