GLOSSARY OF COMMON BUSINESS TERMS

To familiarize you with some of the general business terms you will likely come across as you build your business, we offer the following glossary.

A

Accounting – Recording and bookkeeping financial transactions in terms of money and numbers.

Accounting Period – Financial statements are calculated for a specific period of time, either a month, quarter, or year.

Accounts Payable – What your business owes to creditors and suppliers for goods and services received.

Accounts Receivable – The amount of monies due to you by customers for goods delivered or services rendered.

Accrual Accounting – An accounting system where income is realized when earned, not when received; expenses are recorded when incurred, not when paid.

Assumptions – Assuming responsibility for another's obligations or debts.

Auction – A public sale where goods are sold to the highest bidder.

Audit – A verification of financial and accounting records conducted by an accountant or the Internal Revenue Service (IRS).

Automatic Data Processing – Processing data by computer and electronic accounting machines.

B

Balance Sheet – A financial statement that displays your assets and liabilities at a point in time.

Bankruptcy – The voluntary condition where a business or insolvent person cannot pay the debts owed to creditors and therefore petitions for bankruptcy or is put in bankruptcy by creditors. A trustee (a.k.a., a "third person") then takes over the debts. A person who declares bankruptcy will usually have special legal rights taken away such as the right to practice law or be a judge. Also, he or she may be refused credit for a certain period of time after the petition. However, many debts will be erased even after the petitioner sells his or her assets.

Bond – A promise by a third party to repay a principal and interest if another party does not make payment.

Break-Even Point – The point at which the volume of sales equals the total cost. This is also the point at which your business can start making a profit because there is no profit or loss.

Business Plan – A document from a company's management that details a comprehensive plan that clearly describes a proposed business's past, present, and future objectives. It is usually used to gain investments from the outside business world by use of data and facts.

C

Canceled Loan – The retraction of an approved loan before the money is given to you.

Capital – Goods used to make income. Also, a business's assets minus its liabilities (or net worth).

Capital Asset – Property and equipment held for long periods of time that cannot easily be turned into cash.

Cash Accounting – An accounting system where income is realized when collected, not when earned; expenses are recorded when paid, not when incurred.

Cash Discount – An incentive or discount offered to a buyer if he or she pays the debt early or within a certain amount of time.

Cash Flow – The amount of money left over after all your expenses and finances are paid for a certain period of time (month, year, etc.).

Caveat Emptor – Meaning, "Let the buyer beware."

Charge-Off – Also known as a "write-off." An uncollectible accounts receivable balance.

Charged-Off Loan – A principal loan amount plus its interest that is uncollected and moved off the accounts receivable list.

Closed Loan – A loan that has had its first or complete disbursement after the closing.

Closing – The time or situation when title or real estate is conveyed from seller to the buyer; full payment is paid by the buyer to the seller; appropriate documents are transferred; and prorating of expenses occurs.

Collateral – Property of value offered to support a loan. Subject to seizure if you default on the loan.

Collateral Document – A legal document stating what you are offering as collateral.

Compound Interest – Interest that is added to the principal amount and the original interest accumulated.

Compromise – When the full amount of a loan cannot be collected by the government after attempting enforced collection, a compromise is installed that allows for only a partial amount to be paid.

Consolidation – When two or more companies are combined into one under a new name. Note: Not to be confused with merger, which occurs when two or more companies are combined under the name of one of the companies and no new entities are formed.

Consortium – A group of organizations or companies that invest a large capital amount in activities that an individual member could not fund by himself or herself.

Contingent Liability – A liability that depends on a future event that may or may not occur.

Contract – A written agreement between parties where each agrees to certain terms. Make sure you have an attorney review any contracts before you sign them. The contract may not be binding if drawn up incorrectly.

Corporation – A business organization that is granted a state charter to separate the entity from its owners. Characteristics include limited liability and the use of shareholders.

Costs – The expenditure of resources necessary to bring a good or product into existence.

Credit Rating – A profile of a customer used as a determinant as to his or her potential for prompt payment of debts.

Credit Report – A history of repayments on past liabilities.

D

Debenture – An unsecured debt that is NOT backed by collateral. It allows the holder to receive the principal and interest installments based on the integrity of the borrower.

Debt Financing – This is where you or your business receives a long-term loan (by selling bonds or notes) that must be paid back according to a predetermined schedule and interest rate.

Deed of Trust – The title of a property is given to a trustee as collateral.

Default – Failure to repay a loan or otherwise meet the terms of your credit agreement or lease.

Deferred Loan – A postponed repayment of a loan until a later, specified date.

Depreciation – A decline in the value of equipment and property due to physical deterioration, time, or the advancement of new products.

Disbursement – (a) The payment of loan money to the borrower usually at or following the closing; (b) Funds paid.

Divestiture – Sale of a company or change of control to another group.

Drop Shipment – A shipment to the consumer directly from the supplier.

E

Earning Power – The ability of a company to turn a profit. Good earning power is essential when applying for a loan.

Employer Identification Number (EIN) – A new business must file for an identification number with the IRS.

Enterprise – Another word for a business or a collection of establishments owned by one company.

Entrepreneur – A person responsible for starting and managing a business who assumes the financial risks.

Equity – Measure of ownership in a business.

Equity Financing – Selling a portion of your company in the form of common or preferred stock to outside investors, thus giving the investor the right to share in the company's profits without the obligation of repaying the funds.

Equity Partnership – A limited partnership that provides start-up capital to businesses.

Escrow – Two parties decide to have money deposited and held by a third party until specific conditions have been reached.

Employee Stock Ownership Plan (ESOP) – Stock in a company that is allocated to its employees over time.

Establishment – One unit of a business, located separately from its parent enterprise or as a stand-alone.

Exact Interest – Interest based on 365 days a year.

F

Factoring – The selling of accounts receivable to another firm at a discounted rate.

Fiduciary – A company that holds the assets of another party and invests them on behalf of the party.

Financial Reports – Reports such as income statements, cash flows, and balance sheets that are used when documenting the financial aspects of your business.

Financing – New capital given to a business, usually via a loan.

Fiscal Year – An accounting period consisting of 12 months.

Fixed Cost – A cost that does not vary with the volume of sales or production.

Flow Chart – A graph using symbols to chart the analysis of a problem.

Foreclosure – The owner's interest in a property is sold due to his or her inability to pay the mortgage.

Franchise – A business entered into that has a predetermined plan and product line.

Free on Board (FOB) – The supplier's obligations to pay the shipping costs are fulfilled once the product reaches a certain destination.

G

Grace Period – The period from the time a payment is due to the point at which a creditor will take legal action.

Guarantee – A third party agrees to repay a loan if the entity responsible for the loan cannot.

Guaranteed Loan – A loan that the government or Guarantor agrees to pay if the borrower cannot pay the interest and principal.

Guarantor – A person or business who guarantees a loan.

H

Hardware – The equipment used in a data processing system.

Hazard Insurance – Insurance that covers risks on secured loans.

I

Incubator – A facility that houses several new businesses and encourages entrepreneurship. They share common services such as meeting rooms, phone systems, and accountants, and are usually in a technology-related field.

Indemnity – An obligation to compensate another party for losses and damages that have occurred or may occur.

Independent and Qualified Public Accountants – An accountant is independent when he or she has no personal interest in the client's business. They are considered qualified when they hold a license to practice or have worked as a public accountant for five or more years and are accepted by the Small Business Association.

Industrial Revenue Bond (IRB) – A bond issued by the government to a private user to finance the construction of commercial facilities that serve the public.

Innovation – The creation of a new idea, product, or service.

Insolvency – A borrower is considered to be insolvent when he or she cannot pay a financial debt currently.

Interest – Additional amounts paid by the borrower to the lender based upon a percentage of the loan principal.

Inverse Order of Maturity – When a borrower pays more than the scheduled amount of money due on a loan payment, the money left over is deducted from the principal amount. This reduces the maturity of the loan. Also known as "partial prepayment."

Investment Banking – An institution that purchases and sells securities and issues funding for businesses, but does not accept deposits.

Invitation for Bids – Soliciting offers following government rules and regulations, but not restricting any bidders by asking for specific requirements.

J

Job Description – A detailed listing of the tasks performed for a certain job including duties, training, and any physical demands.

Job Sharing – Where two people share the tasks and hours of one job instead of two individual positions.

Judgment – A decision by a court on any liabilities.

Judgment by Confession – In lieu of going to court, defendants can allow themselves to be ruled against for a certain awarded sum.

Junk Bond – A source of high-risk, high-yield corporate funding with a low credit rating.

L

Lease – A document signed to get temporary use of a property.

Legal Rate of Interest – The legal amount a lender can charge a borrower on a loan. This varies from state to state.

Lending Institution – An institution, such as a bank, that issues loans.

Leveraged Buy-Out – To purchase a company using mostly borrowed money.

Lien – When securing a loan, an encumbrance can be placed on an asset until the property is sold or paid for.

Liquidation – Selling of company assets to pay off creditors, debt, and shareholders.

Liquidation Value – The estimated proceeds (net of liabilities) that would result from either a normal or forced sale of an asset(s) if sold without being part of the business of which it was originally a part.

Litigation – When a dispute reaches a court of law.

Loan Agreement – The arrangement of payments, conditions, and restrictions signed by the borrower of a loan.

Loan Payoff Amount – The total amount of money needed to pay off a loan.

Loss Rate – The ratio of the total amount of loans disbursed to the total amount of loans charged off.

Loss Reserve Adjustment Rate – The ratio of charge-offs minus recoveries to the average of outstanding loans for the past five years.

M

Markup – The difference between the cost to retailers and what they actually charge the consumer.

Marginal Cost – The cost associated with the production of one more additional unit.

Maturity – The date when payment of principal on a debt is due.

Maturity Extensions – An extension beyond the date when the debt is due.

Merger – When two or more companies are combined under the name of one of the companies. No new entities are formed. Note: Not to be confused with consolidation, which occurs when two or more companies combine into one under a new name.

Mortgage – A loan giving legal rights to own real estate. A preset schedule of payments and interest rates are calculated when receiving a mortgage.

Multi-Level Marketing (MLM) – Offering commission to distributors who sell your goods or services.

N

Negotiated Grievance Procedure – The process used by employers and their employees when filing grievances or disputes.

Negotiation – A compromise on issues between two disputing parties, usually ending with a written legal agreement.

Negotiation Dispute – The point at which both parties cannot come to a compromise.

Net Worth – Assets minus total liabilities and debts.

Notes and Accounts Receivable – Money owed to a company for goods purchased by credit, often involving liquidation.

O

Obligations – Any debts requiring present or future payment.

Ordinary Interest – Interest based on 360 days a year.

Outlays – Cash payments for loans and costs pertaining to them.

Overhead – The continuing expenses of a business not directly related to production such as rent and insurance.

P

Partnership – Two or more people who manage an unincorporated business. They share profits, losses, assets, and liabilities.

Patent – The right to exclusive use of an invention you created. You must file with the United States Patent and Trademark Office (USPTO).

Power of Attorney – Gives a person the right to act on behalf of another person.

Preferred Lenders – The SBA allows a bank (preferred lender) to grant a loan without first approving it with the SBA.

Prime Rate – The interest rate that lenders charge their highest credit rating borrowers.

Procurement Automated Source System (PASS) – A central referral system managed by the SBA that tells the government you are interested in selling to them.

Product Liability – A type of liability that applies to sellers and manufacturers of goods.

Professional and Trade Associations – Non-profit or voluntary companies that promote help with common interests.

Profit and Loss Statement (P&L) – An income statement that shows earnings, expenses, and net profit.

Protest – A statement in writing of a payment disagreement by a bidder.

R

Ratio – Relationship of one item divided by another item within financial statements.

Request for Proposal – Solicitations by companies to bidders for a proposed plan of action to solve a specific problem.

Return on Investment (ROI) – The income that an investment returns. Profit based on the funds spent to reach it.

S

Secondary Market – An investor who purchases the interest from another lender.

Simple Interest – Interest that is paid on the loan principal.

Sole Proprietorship – A single entity consisting of an owner and his or her company who are 100% liable. This is the most common type of business today.

Standard Industrial Classification Code (SIC) – A 4-digit number used to identify a business and its activities. The 4-digit code identifies the sector specific industry that a company is a member of. The first two digits identify the broad industrial sector (such as SIC code 37, Transportation Equipment) and the last two digits identify the company's specialty within this broad sector (such as 3716, Motor Homes).

Surety Bonds – A pledge used to back a company if a firm does not complete a contract.

Sweat Equity – The investment a company's executives make and will continue to make with no compensation.

T

Tax Number – A number used by a business so that it does not have to pay sales tax on goods and products bought at wholesale.

Turnover – The ratio of annual sales to average inventory of goods per fiscal year. If you have a high turnover rate, your business is running efficiently.

U

Undelivered Orders – The amount of goods that have been purchased or have an agreement to purchase that have not been given to the consumer as of yet.

Usury – An illegal, high interest rate charged to a buyer.

V

Variable Cost – Costs that do not stay consistent based on the output level of production of goods and services.

Venture Capital – Money given to a new, extremely promising business with growth potential.

W

Workers' Compensation – A state-mandated form of insurance covering workers injured in job-related accidents.