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Definitions



Accounts payable

Synonyms: payables, creditors

Amounts owed by an organization to others for goods or services received. Buying from suppliers on credit will generate accounts payable.

Accounts receivable

Synonyms: receivables, debtors

Amounts due to an organization for goods delivered or services rendered. Selling to customers on credit will generate accounts receivable for a business.

Accumulated depreciation

See depreciation.

Amortization

See depreciation.

Assets

Resources owned and employed by an organization which confer future economic benefits.

Balance sheet

The balance sheet is a 'snapshot' of an organization's assets and liabilities on a particular date. The balance sheet shows the sources of funds provided to an organization (called the capital employed and normally either equity or debt) and how those funds have been used by the organization to invest in fixed assets (assets the organization intends to keep for more than one year) and working capital (money tied up in the day to day operations of the business).

Capital

See capital employed.

Capital assets

See tangible fixed assets.

Capital employed

Synonyms: capital

Capital employed represents the funds provided to an organization in the form of equity or debt.

Capital in excess of par value

See contributed surplus.

Capital stock

Synonyms: stock, shares, share capital

There are two types of stock - common stock and preferred stock. Most shares tend to be common stock and generally carry one vote each and carry an equal right to a proportionate share of dividends. Capital stock is not a liability in the sense of other sources of funds (e.g. bank loans) since it is not generally paid back to shareholders unless the company is wound up.

Cash flow statement

The cash flow statement is a 'summarized bank statement' that shows an organization's sources of cash during the financial year and the ways in which the cash has been used during that period (e.g. investments, fixed asset purchases, etc.).

Common shares

See common stock.

Definitions



Common stock
Synonyms: common shares, ordinary shares

Most shares tend to be common stock carrying one vote each and with an equal right to a proportionate share of dividends. Common stock dividends tend to rise as profits grow. This is in contrast to preferred stock where the dividend tends to be fixed.

Contributed surplus
Synonyms: share premium, capital in excess of par value

Most stock is originally issued with a nominal / par value attached to it (e.g. 1 share in ABC Inc. has a nominal value of \$1.00). However, if shareholders buy shares from the company for more than the nominal value (e.g. \$1.50) the excess is called the contributed surplus.

Creditors

See accounts payable.

Current assets

Current assets are all assets other than fixed assets. They are either cash or assets expected to be converted into cash or consumed in the business during the year. Current assets include items such as cash, accounts receivable and inventory.

Current liabilities

An organization's liabilities due within one year. Current liabilities include items such as short term loans, any element of long term loans due within one year, and accounts payable.

Debt
Synonyms: debt capital, loan capital

Capital used to finance an organization that is subject to payment of interest over the life of the loan, at the end of which the loan is normally repaid.

Debt capital

See debt.

Debtors

See accounts receivable.

Depreciation
Synonyms: amortization

Depreciation of fixed assets is the process of allocating part of the cost of fixed assets to a particular accounting period. Depreciation is normally charged to the income statement on a straight line basis (although there are alternative methods available). For example, if a car is bought for \$15,000, has an expected life of 5 years, and has a residual value (expected scrap value) of \$5,000, then the depreciation expense in the income statement will be \$2,000 per year for 5 years. The value of the car in the balance sheet would start at \$15,000 but would be reduced by \$2,000 a year. At the end of year 1 the net book value (NBV) of the car in the balance sheet would be \$13,000. At the end of year 2, the NBV would be \$11,000. The accumulated depreciation for the car at the end of year 2 would be \$4,000.

Dividends

A share of a company's net profits distributed by the company to a class of its stockholders.

Earnings before interest and income taxes (EBIT)

See operating profit.

Definitions



Equity

Synonyms: shareholders' equity, shareholders' funds

Total assets less total liabilities. Also called shareholders' equity, net worth or book value.

Financial statements

Statements, in financial terms, of the financial position of an entity at a given date, or of the results of its operations for a given period. The statements are normally prepared in one of a number of standard formats. Most commonly, when people refer to financial statements, they mean the income statement, the balance sheet, the cash flow statement and the related notes to the accounts.

Fixed assets

Assets intended for use on a continuing basis in an organization's activities (normally defined as assets an organization intends to keep for more than one year). There are three categories of fixed assets: intangible, tangible and investments.

Goodwill

When one company buys another company it typically pays more than the book value of the net assets acquired (because it is acquiring staff, name / reputation, and customer relationships). This excess of the purchase price over the fair book value of the net assets is called goodwill. Goodwill is normally included in the balance sheet as an intangible fixed asset.

Income statement

Synonyms: profit and loss account, P & L statement, statement of earnings

The income statement is an organization's 'financial history book' and summarizes the revenue, expenses and operating profit for the financial year. It also shows the tax charged against profit, how much of the profit for the year has been paid out in dividends and how much has been retained in the business.

Intangible fixed assets

Intangible fixed assets have no 'physical' presence. Examples include patents, goodwill, trademarks and brand names.

Inventory

Inventory normally refers to items held for resale and may include raw materials, work in progress and finished goods.

Liabilities

Money owed, or other financial obligations to other organizations and individuals.

Loan capital

See debt.

Net book value

Net book value typically refers to property plant and equipment (PP&E). The net book value of PP&E is calculated by taking the total gross cost of PP&E and deducting total accumulated depreciation / amortization.

Definitions



Net earnings

Synonyms: net income, retained profit for the year, retained earnings for the year

The profits retained by an organization after all expenses including interest expenses, taxes and dividends. The retained profits / earnings for a given year are reinvested in the business (hopefully making the organization grow, and increasing the value of its shares) and are added to 'retained earnings' in the balance sheet (which represent all retained profits accumulated over an organization's entire life to date which have been reinvested in the business).

Net income

See net earnings.

Operating profit

Synonyms: earnings before interest and income taxes (EBIT), profit before interest and income taxes (PBIT)

Sales revenues less all operating expenses. Operating profit is calculated before financing costs and taxes. It is often referred to as EBIT.

Ordinary shares

See common stock.

Payables

See accounts payable.

Preference shares

See preferred stock.

Preferred stock

Synonyms: preference shares

Preferred stock has preferential rights over common stock to both dividends and also to assets in the event that a company is wound up (i.e. preferred stock holders are paid out before common stock holders). Typically preferred stock dividends are fixed (e.g. 6 percent preferred stock) and do not increase with rising profits.

Profit and loss account

See income statement.

Profit before interest and income taxes (PBIT)

See operating profit.

Receivables

See accounts receivable.

Reserves

Reserves are part of shareholders' equity. Reserves are subdivided into revenue reserves (e.g. retained earnings), which are available to be distributed to the shareholders by way of dividends, and capital reserves (e.g. contributed surplus), which for various reasons are not distributable as dividends.

Retained earnings (balance sheet)

Synonyms: P & L reserve, Retained earnings reserve

Retained earnings in the balance sheet represent all retained profits accumulated over an organization's entire life to date which have been reinvested in the business. As the retained earnings ultimately belong to shareholders, they are included as part of shareholders' equity.

Definitions



Retained earnings
(income statement)

See net earnings.

Revenue

Synonyms: sales, sales
revenue, turnover

Revenue includes both cash sales
and credit sales of goods and
services, but does not include the
sale of fixed assets.

Sales

See revenue.

Share capital

See capital stock.

Share premium

See contributed surplus.

Shareholders' equity

See equity.

Shareholders' funds

See equity.

Shares

See capital stock.

Statement of
earnings

See income statement.

Stock

See capital stock.

Tangible fixed
assets

Synonyms: capital assets

Tangible fixed assets are fixed assets
that have physical presence and
include things like land, buildings,
machinery, equipment, computers
and so on.

Turnover

See revenue.

Working capital

Working capital is normally defined
as money tied up in the day to day
operations of an organization. It is
approximately equal to current assets
less current liabilities. However, many
analysts will define working capital
more explicitly as inventory and
accounts receivable less accounts
payable (and exclude other current
assets / liabilities such as cash and
non-trade receivables and payables).