Financial Terms and Definitions

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Terms and Definitions

1. **Financial Statements** Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. Financial statements include:
    a. Balance sheet
    b. Income statement
    c. Cash flow statement
2. **Balance Sheet**: A balance sheet is an important financial statement that communicates an organization's worth, or "book value." The balance sheet includes a tally of the organization's assets, liabilities, and shareholders' equity for a given reporting period.
    a. **The Balance Sheet Equation**: Balance sheets are arranged according to the following equation: Assets = Liabilities + Owners' Equity
3. **Income Statement**: An income statement is a financial statement that summarizes a business's income and expenses during a given period of time. An income statement is also sometimes referred to as a profit and loss (P&L) statement.
    a. Profit Margin: Profit margin is a measure of profitability that's calculated by dividing the net income by revenue or the net profit by sales. Companies often analyze two types of profit margins:
        i. Gross Profit Margin: Which typically applies to a specific product or line item rather than an entire business
        ii. Net Profit Margin: Which typically represents the profitability of an entire company
4. **Cash Flow Statement**: A cash flow statement is a financial statement prepared to provide a detailed analysis of what happened to a company's cash during a given period of time. This document shows how the business generated and spent its cash by including an overview of cash flows from operating, investing, and financing activities during the reporting period.
5. **Current Liabilities**: Also known as short-term liabilities, these are what's due in the next year
6. **Long-Term Liabilities**: These are financial obligations not due over a year that can be paid off over a longer period of time
7. **Working Capital**: Also known as net working capital, this is the difference between a company's current assets and current liabilities. Working capital—the money available for daily operations—can help determine an organization's operational efficiency and short-term financial health.
8. **Amortization**: Amortization is a method of spreading an intangible asset's cost over the course of its useful life. Intangible assets are non-physical assets that are essential to a company, such as a trademark, patent, copyright, or franchise agreement.

9. **Growth rates** refer to the percentage change of a specific variable within a specific time period. Growth rates can be calculated in several ways, depending on what the figure is intended to convey. A simple growth rate simply divides the difference between the ending and starting value by the beginning value, or (EV-BV)/BV.
10. **Financial analysis** involves using financial data to assess a company's performance and make recommendations about how it can improve going forward. Financial Analysts primarily carry out their work in Excel, using a spreadsheet to analyze historical data and make projections of how they think the company will perform in the future.
11. **Historical Results** Historical returns are often associated with the past performance […]. Analysts review historical return data when trying to predict future returns […]. https://www.investopedia.com/terms/h/historical-returns.asp
12. **Forecast Period** - Forecasting is a technique that uses historical data as inputs to make informed estimates that are predictive in determining the direction of future trends Forecasting Definition (investopedia.com)

Financial Ratio Analysis

Financial ratio analysis is the technique of comparing the relationship (or ratio) between two or more items of financial data from a company's financial statements. It is mainly used as a way of making fair comparisons across time and between different companies or industries.

1. Liquidity
2. Coverage
3. Solvency
4. Profitability
5. Efficiency
6. Market Prospects

Abbreviations

1. **YoY** Year-Over-Year (YOY) is a frequently used financial comparison for comparing two or more measurable events on an annualized basis. Year-Over-Year (YOY) Definition (investopedia.com)
2. **YTD** Year to date (YTD) refers to the period of time beginning the first day of the current calendar year or fiscal year up to the current date. YTD information is useful for analyzing business trends over time or comparing performance data to competitors or peers in the same industry. Year to Date (YTD) Definition (investopedia.com)
3. **NI** Net income (NI), also called net earnings, is calculated as sales minus cost of goods sold, selling, general and administrative expenses, operating expenses, depreciation, interest, taxes, and other expenses. It is a useful number for investors to assess how much revenue exceeds the expenses of an organization. Net Income (NI) (investopedia.com)
    a. Net income = Total revenues – Total expenses
4. **SG&A** Selling, General & Administrative Expense. Many SG&A line items, such as rent and base salaries, are fixed costs that must be paid regardless of production or sales volumes. Other SG&A costs, such as distribution costs, are variable and typically change as sales volumes rise or fall. Still others may be semi-variable, including base costs plus an additional cost component

that varies based on usage. What Is Selling, General & Administrative Expense (SG&A)? How to Calculate & Examples | NetSuite

5. **G&A** General and Administrative (G&A) expenses are the day-to-day costs a business must pay to operate, whether or not it manufactures products or generates revenue. Typical G&A expenses include rent, utilities, insurance payments, and wages and salaries for administrative and management staff other than salespeople. Other costs may include ongoing information technology infrastructure costs, accounting and legal costs, human resources services and the purchase or rental of equipment that's not used for manufacturing or sales. What Is Selling, General & Administrative Expense (SG&A)? How to Calculate & Examples | NetSuite
6. **BEP** Break-Even Point. A business's break-even point is the stage at which revenues equal costs. Break-Even Point Formula & Analysis for Your Business | Square (squareup.com)
7. **COGS** Cost of goods sold (COGS) refers to the direct costs of producing the goods sold by a company. This amount includes the cost of the materials and labor directly used to create the good. It excludes indirect expenses, such as distribution costs and sales force costs. Cost of goods sold is also referred to as "cost of sales." Cost of Goods Sold (COGS) Definition (investopedia.com)
8. **PP&E** Property, Plant, and Equipment
9. **CapEx** (short for capital expenditures) is the money invested by a company in acquiring, maintaining, or improving fixed assets such as property, buildings, factories, equipment, and technology How to Calculate CapEx - Formula, Example, and Screenshot (corporatefinanceinstitute.com)
    a. CapEx = PP&E (current period) – PP&E (prior period) + Depreciation (current period)
10. **OpEx** Operating expenses, operating expenditures, or "opex," refers to the costs incurred by a business for its operational activities Operating Expenses - Overview, Example, Importance (corporatefinanceinstitute.com)
11. **FP&A** Financial Planning and Analysis is a set of four activities that support an organization's financial health: planning and budgeting, integrated financial planning, management and performance reporting, and forecasting and modeling. FP&A solutions enhance the finance department's ability to manage performance by linking corporate strategy to execution. Definition of Financial Planning and Analysis (FP&A)
12. **GAAP** (generally accepted accounting principles) GAAP: Generally Accepted Accounting Principles | CFI (corporatefinanceinstitute.com)
13. **IFRS** (International Financial Reporting Standards) IFRS

References

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