Financial Terms Glossary

Budgeting Terms

**Total startup cost**: The cost needed before a business is able to get started

**Day-to-day operational cost**: Cost reserved for funding daily operations

**Fixed expense**: An expense that remains a fixed price regardless of business performance

**Variable expense**: An expense that changes in relation to production volume or business activity

**Semi variable expense**: A fixed cost that can change depending on business volume

**Capital costs**: One-time setup expense

**Seed money**: Money allocated to initiate a project

Profit Terms

**Revenue**: Amount of money earned through a sale

**Profit**: Revenue – Cost = Profit

**Capital**: Money invested in a business to build revenue

**Cash flow**: Money being transferred in and out of your business

**Break-even point**: The point at which revenue and operational costs even out. A break-even analysis is important for investors because it tells them when they can expect to see a profit.
Financial Statements

**Balance Sheet:** The statement that shows the assets a company owns and how they are financed; either through debt (liabilities) or investment from the owners (owner’s equity). The total value of liabilities and owner’s equity will always equal the value of the assets.

**Assets:** The resources a business owns or acquire through transactions, such as investments, property, and equipment.

**Current Assets:** The assets that are expected to be used up within one year. For instance: cash, inventory, and prepaid insurance.

**Liabilities:** The amounts owed to creditors for past transactions. There are two types:

**Current Liabilities:** The amounts expected to be paid off within one year, such as accounts payable and short-term loans.

**Long Term Liabilities:** The amounts due more than one year from the reporting date, such as long term debt and less depreciation.

**Owner's Equity:** The source of the company's assets. There are two categories:

**Paid in Capital:** Money shareholders put into the business.

**Retained Earnings:** A company’s net income or less from in inception to the balance sheet date.

**Profit and Loss Statement (P&L):** Also known as an income statement, this statement details revenue and expenses over a period of time.

**Accounting Terms**

**Accounts Payable:** An amount owed to a vendor or creditor for completed goods or services.

**Accounts Receivable:** Claim from an uncollected amount, usually from a sale on credit.
Accrual: The recognition of an expense that has occurred but has not yet been paid or paid for.

Accrual Basis of Accounting: Recognizes revenue or expenses in the period in which they are earned.

Cash Basis Accounting: Recognizes revenue when cash is received.

Audit: An examination of the company’s financials by a Certified Public Accountings to determine if the financial statements are presented fairly under GAAP (Generally Accepted Accounting Principles).

Depreciation: Expense allowance for the wear and tear of an asset over its useful life.

General Ledger: Collection of all transactions in an accounting system, which are rolled up to produce financial statements.

Journal Entry: A recorded transaction in the general ledger.