

UNDERSTANDING FINANCE - JARGON BUSTER

Profit & Loss Account	Name of the primary statement recording all Revenue earned and Costs incurred, over a period of time, to arrive at whether the business has made a Profit or a Loss. Often abbreviated to P & L
Balance Sheet	Name of the statement which records all Assets and Liabilities at a fixed point in time
Cash Flow	Name for the statement which records all cash movements over a period of time, resulting in business being 'cash positive' or 'cash negative'
Revenue	Name for all income due to the business (over a period of time), recorded when properly due, and stated excluding VAT in the Profit & Loss account (P & L)
Costs	Name for all costs which the business has incurred over a period of time, again stated excluding VAT in the P & L
VAT	Name for UK sales tax called Value Added Tax
Direct Costs	Name for costs which vary in direct proportion to the Revenue; otherwise can be called 'Cost of Sales' or 'Variable costs'
Indirect Costs	Name for costs which are relatively fixed despite the level of Revenue; otherwise known as 'Overheads' or 'Fixed Costs'
Gross Profit	Name for the figure when all Direct Costs are deducted from the Revenue; often expressed as a percentage of Revenue eg. 40% Gross Profit
Operating Profit	Name for the figure when all Indirect costs are deducted from the Gross Profit
EBITDA	Earnings before Interest Tax Depreciation and Amortisation
Pre Tax Profit	This is the Operating Profit less interest and other financing effects
Post Tax Profit	Pre Tax Profit less UK Corporation Tax
Corporation Tax	Tax on the business profits, calculated according to government rules and generally paid 9 months after the end of the financial year
Retained Earnings	Post Tax Profit less Dividends payable
Dividends	Payments made to the Shareholders in proportion to their shareholdings

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Asset	Items purchased which last at least 3 years
Liability	An obligation to pay in the future
Depreciation	Name for the proportion of an Asset which is charged to the Profit and Loss Account over a year
Debtors	Customers who have not paid your Revenue invoices
Stock	Goods owned by the company, normally then sold to a customer
Prepayments	Payment for cost which relates to a future period in time
Current Assets	Term for all Assets which can be turned into cash fairly quickly eg. Debtors, Stock and Prepayments
Liquid Assets	Term for Assets which are very quickly turned into cash eg. Stock and Debtors.
Creditors	Suppliers whose cost invoices you have not paid yet
Accruals	Expected cost for which no invoice has been received
Customer Deposits	These are amounts Customers have paid over to a company in advance of a Sale; the company owes this to the Customer so these are a type of Liability
Current Liabilities	Term for all Liabilities which need to be paid quite quickly eg. Creditors, Accruals and Customer Deposits
Deferred Liabilities	These are Liabilities which are due in the future, often after a year eg. Provisions
Equity	Amount owed to shareholders = shareholders investment + Reserves
Share Capital	Total value invested as Shares by the Shareholders
Reserves	Retained Profit which is available for payout in the form of Dividends
Operating Cashflow	All cash generated by collection of Debtors less all payments made to reduce Creditors. Operating cashflow excludes cash items which are to do with the Financing of the business such as Shareholders loans or Interest paid
Working Capital	The name for the cashflow required to service the normal running of the business eg. Paying suppliers on 30 days and having to wait 60 days to collect Debtors

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Net Worth	The total of all Assets (both Fixed Assets and Current Assets), less all Liabilities
Return on Investment (ROI)	This is the economic benefits resulting from an investment decision; often this is expressed as a percentage and the calculation will normally adjust for the time value of money.
Gearing	This is a ratio of the level of Debt in a business compared to the level of Equity
VC	Venture Capital funds – name for funds which exist to invest in businesses, in exchange for Equity, in order to later sell their investment to make a significant return
Angels	Name for Private Investors who are prepared to invest in businesses for Equity, usually into businesses operating in sectors which they already understand, who again look to sell their Equity for a healthy return
Crowd Funding	The practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet.