

# Financial Glossary

## A

<b>AAA</b>	The highest rating given by bond rating agencies, indicating that the bond is a very safe investment.
<b>Accelerated Depreciation</b>	Any depreciation method that produces larger deductions for depreciation in the early years of an asset's life. Accelerated cost recovery system (A.C.R.S.), which is a depreciation schedule allowed for tax purposes, is one such example.
<b>Accounts Payable (A/P)</b>	Amount owed to regular business creditors from whom the company bought goods on open account. The company usually has 30, 60, or 90 days in which to pay. Non interest bearing free credit from the suppliers.
<b>Accounts Receivables (A/R)</b>	This represents money owed to the company by customers for goods sold or services rendered, but not yet collected. When a sale is made on credit, a corresponding receivables account will be created on the day of that sale. So this balance is the total amount of money owed to the company for goods rendered or services performed. You can find the receivables account on the asset side of the balance sheet.
<b>Accounts Receivable Turnover</b>	The ratio of net credit sales to average accounts receivable, a measure of how quickly customers pay their bills.
<b>Accrual Basis</b>	The most commonly used accounting method, which reports income when earned and expenses when incurred, as opposed to cash basis accounting, which reports income when received and expenses when paid.
<b>Accrued Interest</b>	Interest that is due on a bond or other fixed income security since the last interest payment was made. This often occurs for bonds purchased on the secondary market, since bonds usually pay interest every six months, but the interest is accrued by the bondholders every month. When a bond is sold, the buyer pays the seller the market price plus the accrued interest, for which the buyer will be reimbursed at the end of the six-month period. Accrued interest is calculated on a 30-day month for corporate bonds and municipal bonds, and on actual-calendar-days for Government Bonds. Income bonds, bonds in default and zero-coupon bonds trade without accrued interest.
<b>Advertising</b>	Description or presentation of a product, idea, or organization, in order to induce individuals to buy, support, or approve of it.
<b>Affiliate</b>	A company in which another company has a minority interest. Or more generally, a company which is related to another company in some way.
<b>Amortisation (see also Depreciation)</b>	The process of spreading the cost of an intangible asset over the expected useful life of the asset. For example: a company pays \$100,000 for a patent, they amortize the cost over the 16 year useful life of the patent. Amortization assigns the cost of intangible fixed assets to expenses, such as patents, copyrights and leasehold improvements as useful life declines. Same as depreciation, which is used for tangible assets.
<b>Annual Meeting</b>	The company gathering, usually held at the end of each fiscal year, at which the previous year and the outlook for the future are discussed and directors are elected by shareholders.
<b>Antitrust Laws</b>	Laws forbidding businesses from monopolizing a market or restraining free trade.
<b>Asset</b>	Anything owned by an individual or a business, which has commercial or exchange value. Assets may consist of specific property or claims against others, in contrast to obligations due others. (See also Liabilities). Any resources controlled by an enterprise and from which future economic benefits are expected to flow in the enterprise.
<b>Asset Turnover Ratio</b>	General measure of a firm's ability to generate sales in relation to total assets. It should be used only to compare firms within specific industry groups and in conjunction with other operating ratios to determine the effective employment of assets.

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<b>Audit</b>	(1) To examine with intent to verify that claims being made are correct. (2) The process of verifying the correctness of a set of accounts using: detailed checks on transactions and totals, broad tests on account values as well as testing internal control.
<b>Average Collection Period</b>	The average time period for which receivables are outstanding. Equal to accounts receivable divided by average daily sales. Also called collection ratio.

## B

<b>Balance Sheet</b>	A financial statement summarizing what a company possesses (assets) and how these assets are financed (liabilities & equity). The report is divided into two sides; both of which are in balance (the totals of both sides are equal). On the left side is what the company owns (assets) and the right side is what the company owes to creditors (liabilities) and the amount of ownership interest in the assets of the company (shareholders' equity). In other words the right side tells how the left side is financed. Total Assets = Total Liabilities + Total Shareholders' Equity.
<b>Bankrupt</b>	A person, firm, or corporation that has been declared insolvent through a court proceeding and is relieved from the payment of all debts after the surrender of all assets to a court-appointed trustee.
<b>Bankruptcy</b>	A proceeding in a federal court in which an insolvent debtor's assets are liquidated and the debtor is relieved of further liability.
<b>Basis Point</b>	A financial measure equal to one one-hundredth (1/100) of one percent. One hundred basis points equals one percent. Basis points are used in connection with interest rates or yields on financing.
<b>Benchmark</b>	The performance of a predetermined set of securities, ratios, etc., for comparison purposes. Such sets may be based on published indexes or may be customized to suit an investment strategy.
<b>Beta</b>	Beta is a measure of a company's common stock price volatility relative to the market.
<b>Bills of Exchange</b>	Payment document issued by the selling company and accepted/signed by the customer.
<b>Board of Directors</b>	Individuals elected by a corporation's shareholders to oversee the management of the corporation. The members of a Board of Directors are paid in cash and/or stock, meet several times each year, and assume legal responsibility for corporate activities.
<b>Bond</b>	Bonds are debts and are issued for a period of more than one year. The U.S. government, local governments, water districts, companies and many other types of institutions sell bonds. When an investor buys bonds, he or she is lending money. The seller of the bond agrees to repay the principal amount of the loan at a specified time. Interest-bearing bonds pay interest periodically (coupons).
<b>Book Value</b>	An accounting term, which usually refers to a business' historical cost of assets less liabilities. Book value of the assets of a company may have little or no significant relationship to market value. Economic Book Value allows for a Book Value analysis that adjusts the assets to their market value. This valuation allows valuation of goodwill, real estate, inventories and other assets at their market value.
<b>Brand</b>	An identifying symbol, words, or trademark that distinguishes a product or company from its competitors.
<b>Budget</b>	A detailed schedule of future financial activity, such as an advertising budget, a sales budget, or a capital budget. A financial plan for saving and spending money.
<b>Business Plan</b>	Written statement that includes the factual information you have gathered and your expectations of the new or existing business that is helpful when preparing a loan request. Business plans should include: business narrative, explanation of product or service being provided, market research and strategy, operational plans and management structure.

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## C

<b>Capital Expenditures</b>	Amount used during a particular period to acquire or improve long-term assets such as property, plant or equipment.
<b>Capital Gain/Loss</b>	Difference between the market/book value at purchase and that realized from the sale or disposition of a capital asset.
<b>Carryforward</b>	A technique for applying a loss or credit from the current year to a future year. Also called tax loss carryforward.
<b>Cash</b>	Cash on hand and demand deposits.
<b>Cash Equivalents</b>	Short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.
<b>Cash Flow</b>	The cash inflows and outflows generated during normal business operations. Surplus cash is referred to as positive cash flow. The absence of cash/decrease in cash and cash equivalents is referred to as negative cash flow.
<b>Central Bank</b>	The principal monetary authority of a nation. A central bank performs several key functions, including issuing currency and regulating the supply of credit in the economy. The Federal Reserve is the central bank of the United States.
<b>Collateral</b>	Assets pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default. Also called security or guarantee.
<b>Collection</b>	The conversion of accounts receivable into cash (payment from customers of outstanding invoices).
<b>Common Shares / Stocks</b>	Securities that represent equity ownership in a company. In general, there are two types of shares, common and preferred stock. The common shares usually entitle the shareholders to vote at shareholders meetings and have a discretionary dividend.
<b>Confidentiality Agreement</b>	An agreement designed to protect trade secrets and expertise from being misused by those who have learned of them.
<b>Consolidated Financial Statement</b>	Financial Statements of a group of companies presented as those of a single enterprise. A financial statement which covers a holding company and its subsidiaries.
<b>Contingent Liability</b>	A possible obligation that arises from past events and will depend on uncertain future events. Liability which is difficult to quantify, or which may or may not come to pass, such as an outstanding lawsuit.
<b>Controller</b>	The corporate manager responsible for the firm's accounting activities.
<b>Cost of Sales or Cost of Goods Sold</b>	Cost of sales is the overall direct cost of manufacturing the product. This is the cost of all raw materials, labour, electricity, etc...that are incurred to produce each unit of finished goods (contrasts with Fixed Costs)
<b>Counter Trade</b>	The exchange of goods for other goods rather than for cash; barter.
<b>Country Risk</b>	General level of political and economic uncertainty in a country affecting the value of loans or investments in that country.
<b>Coupon</b>	The periodic interest payment made to the bondholders during the life of the bond.
<b>Credit Analysis</b>	The process of analysing information on companies and bond issues in order to estimate the ability of the issuer to live up to its future contractual obligations.
<b>Credit Period</b>	The length of time for which the customer is granted credit.
<b>Credit Rating</b>	A credit worthiness indicator based on the riskiness of a customer. The rating is usually based on such criteria as: level of current debt, ability to repay, borrowing history and repayment experience.
<b>Credit Risk</b>	The risk that an issuer of debt securities or a borrower may default on his obligations, or that the payment may not be made on a negotiable instrument.
<b>Creditors</b>	Vendors from whom an organisation purchases goods or services on credit and have a current amount owing. Also called accounts payable.

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<b>Cross-Border Risk</b>	Refers to the volatility of returns on international investments caused by events associated with a particular country as opposed to events associated solely with a particular economic or financial agent.
<b>Currency</b>	Money.
<b>Currency Risk</b>	The risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.
<b>Current Assets</b>	Assets which may normally be realised within one year of the Balance Sheet date. Current assets include cash, accounts receivable, inventory, marketable securities, prepaid insurance, etc.
<b>Current Liabilities</b>	Debts that are due to be settled within one year of the Balance Sheet date. Included are accounts payable, notes payable, wages and salaries, interest payable, accrued dividends, taxes payable etc.
<b>Current Portion of Long-Term Debt</b>	Amount of the long-term debt due within one year. Debt agreements may require annual repayments over a period of years.
<b>Current Ratio</b>	Current assets divided by current liabilities. This ratio indicates the extent to which the claims of short-term creditors are covered by assets expected to be converted to cash in the near future. Measures how well the company can fulfil its short term obligation (should be above 1).

## D

<b>Debit</b>	1. An accounting entry that increases the balance of an asset or expense account or decreases the balance of a liability, income or equity account. 2. A charge against a customer's balance or bank account.
<b>Debt Ratio</b>	Total debt divided by total assets. Measures how much of the total balance sheet is financed with debts (should be below 0.7).
<b>Debt/Equity Ratio</b>	Indicator of financial leverage. Compares assets provided by creditors to assets provided by shareholders. Determined by dividing long-term debt by common stockholder equity.
<b>Debtors</b>	Accounts receivable.
<b>Default</b>	Failure to make timely payment of interest or principal on a debt. Failure to meet the terms of a credit agreement. If a lessee does not comply with the terms of the lease, a default occurs. Generally, after a default, the lessor can exercise all of its rights under the lease to repossess the property and seek money damages.
<b>Deferred Charges</b>	Like prepayments, deferred charges are expenditures which should not be fully charged against current year's earnings because the benefits to be derived will be realized in future accounting periods. Current research and development expenses, for example, are outlays for future production and sales.
<b>Deferred Credits</b>	Income received in advance that should not be credited as income in the current reporting period, since it will not be earned until a future reporting period. Such items represent obligations to render service rather than obligations to pay cash. Examples are interest collected in advance, rentals collected in advance, etc.
<b>Deferred Tax Assets</b>	The amount of income taxes recoverable in future periods with respect to: 1) deductible temporary differences 2) the carry forward of unused tax losses 3) the carry forward of unused tax credits. Booked as an assets on the Balance Sheet.
<b>Deferred Tax Liabilities</b>	The amount of income taxes payable in future periods in respect of taxable temporary differences. Booked on as a liability on the Balance Sheet.
<b>Depreciable Assets</b>	Assets which are expected to have a limited useful life that is greater than one year and that are used in the production or supply of goods or services or for administration purposes.

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<b>Depreciation (see also Amortisation)</b>	The process of spreading the cost of an tangible asset over its expected useful life. For example: a company pays \$100,000 for an equipment and depreciates the cost over the 10 year useful life of the machine ( in the Profit & Loss report). Same as amortisation, which is used for tangible assets. Depreciation is a periodic non-cash expense of an income producing asset (machinery, building, airplane, etc.) as it declines in value over time. Depreciation is booked as an expenses on the Profit & Loss report and as a deduction to the Fixed Assets in the Balance Sheet.
<b>Derivatives</b>	A financial security such as financial options, futures and forwards, interest swaps and currency swaps, whose value is derived in part from the value and characteristics of another security, the underlying security.
<b>Devaluation</b>	A substantial drop in the value of a currency, relative to the price of gold or the currencies of other countries.
<b>Discounted Cash Flow (DCF)</b>	A method of evaluating an investment by estimating future cash flows and discounting these cash flows to today, taking into consideration the time value of money (discount rate).
<b>Dividend</b>	Distribution of a company's profit paid to common and preferred shareholders. A stock selling for \$20 per share with an annual dividend of \$1 per share yields the investor 5%.
<b>Dividends Payable</b>	Dividends that have been promised but not yet paid.
<b>Due Diligence</b>	The process of investigation/analysis of a company, performed by investors, such as an examination of operations and management and the verification of material facts, etc...

## E

<b>Earnings</b>	Income or Profit for the company during the period.
<b>Earnings Before Interest and Taxes (EBIT)</b>	A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses (SG&A). In other words, operating profit before the deduction of interest and income taxes. Also referred to as operating profit.
<b>EBITDA</b>	Earnings before interest tax depreciation and amortisation.
<b>Economic Life</b>	The period over which an asset is expected to be economically usable to produce goods and generate revenues.
<b>Elasticity</b>	The degree to which a price change for an item results into a unit change in supply (called supply elasticity) or a unit change in demand (called demand elasticity). A high demand elasticity means that a small price change will generate a major decrease of the number of units sold.
<b>Embargo</b>	A government prohibition against the shipment of certain products to a particular country for economic or political reasons.
<b>Equity</b>	The net worth of a business, consisting of capital stock, capital (or paid-in) surplus (or retained earnings), and, occasionally, certain net worth reserves. Common equity is that part of the total net worth belonging to the common shareholders. Total equity includes preferred shareholders. The terms common stock, net worth, and common equity are frequently used interchangeably.
<b>Exceptional Items</b>	Part of a company's profit and loss statement. All operational income/costs that are exceptional in nature i.e. circumstances that will not frequently repeat in the ordinary course of business (e.g. reorganization costs). Contrast with an Extraordinary item.
<b>Exchange Rate Risk</b>	Also called currency risk, the risk of an investment's value changing because of currency exchange rates.
<b>Expense</b>	The cost of resources consumed in the generation of revenue. Examples include: employee salaries, cost of goods sold, rent, advertising, travel costs and depreciation.

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<b>Extraordinary Items</b>	Part of a company's profit and loss statement. Items which are material, possess a high degree of abnormality, are not expected to recur and are derived from events or transactions outside the ordinary activities of a company. Examples of Extraordinary items could be costs incurred due to an earthquake, hurricane, etc...Contrast with Exceptional items.
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## F

<b>Factoring</b>	The selling of a company's accounts receivable to an external company (e.g. a bank) that will charge a discount rate to assume the credit risk of the debtors. The bank/financial institution will receive the cash directly as the debtors settle their accounts.
<b>Fair Market Value</b>	The amount for which an asset could be exchanged, or a liability settled, between to knowledgeable willing parties on an "as is, where is" basis, under no compulsion to either buy or sell.
<b>FIFO (First In First Out)</b>	Inventory valuation method. The assumption that the items of inventory which were purchased first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased/produced. Contrast with LIFO - Last In First Out
<b>FGP</b>	Factory Gate Price. Price at which the company sells to its customers (before transportation costs, distributor/retailer margins and VAT).
<b>Financial Lease</b>	An agreement whereby the Lessor (bank/financial institution/supplier) conveys to the Lessee the right to use an asset for an agreed period of time in return for a series of payments. A Financial Lease contract includes an interest rate and usually a symbolic residual value as purchase option. The economic ownership is transferred to the lessee (on the Balance Sheet of the Lessee) but the Legal ownership stays with the Lessor (the Lessor can get the machine back if the instalments are not paid). A Financial Lease transfers substantially all the risks and rewards incident to ownership of an asset but the title may or may not eventually be transferred. See also Operating Lease.
<b>Financial Risk</b>	The risk that the cash flow of an issuer will not be adequate to meet its financial obligations.
<b>Fixed Asset Turnover Ratio</b>	The ratio of sales to fixed assets.
<b>Fixed Assets (F/A)</b>	Land, buildings, plant, equipment, and other assets acquired for carrying on the business of a company with a life exceeding one year. Normally expressed in financial accounts at cost, less accumulated depreciation.
<b>Fixed Expenses</b>	The expenses of a company that do not change in relation to the volume of sales, production or other activity, within a given range (contrasts with Cost of Goods Sold)
<b>Free Cash Flows</b>	Cash not required for operations or for reinvestment. Often defined as earnings before interest (often obtained from operating income line on the income statement) less capital expenditures less the change in working capital.
<b>Future Value</b>	The value at some point in the future of a present amount of money.

## G

<b>General and Administrative Overhead</b>	The costs necessary for operations but not directly associated with developing a product or providing a service (f.ex staff salaries)
<b>Generally Accepted Accounting Principals (GAAP)</b>	A technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time.
<b>Goodwill</b>	Think of goodwill as the "extra" a company is willing to pay to own a certain business. It represents the premium paid for an acquired company in excess of its property, plant, equipment and other tangible assets. Goodwill is created when purchase accounting is used in an acquisition, and reflects the acquirer's belief that the company being acquired has more earnings potential than the Street is valuing.

# Financial Glossary

<b>Gross Profit</b>	Sales minus Cost of Goods sold.
<b>Gross Profit Margin</b>	Gross profit divided by sales, which is equal to each sales dollar left over after paying for the cost of goods sold. Shows how well the company converts sales into profits. Should be compared to other companies.
<b>Guarantee</b>	A pledge to make good a note or security in case of default by the borrower. Although the original debtor is responsible for the debt, a guarantor becomes liable in the event of a default.

## H

<b>Hard Currency</b>	A currency in which investors have confidence, such as that of an economically and politically stable country.
<b>Hedging</b>	Designating one or more hedging instruments (options, futures/forward contracts, swaps, etc...) so that their change in fair value is an offset, in whole or part, to the change in fair value of a hedged item.
<b>Hurdle Rate</b>	A pre-determined benchmark rate of return. If the rate of return expected from the project or investment falls below the benchmark, the projected investment will no longer be accepted. The required rate of return in a discounted cash flow analysis, above which an investment makes sense and below which it does not. Also called required rate of return.
<b>Hyperinflation</b>	Loss of purchasing power of money at such a rate that comparison of amounts at different times is misleading. Hyperinflation is indicated by characteristics of the economical environment of a country such as: 1) the general population prefers to keep its wealth in non-monetary assets, amounts in local currency are immediately invested to maintain purchasing power 2) interest rates, wages and prices are linked to a price index 3) the cumulative inflation rate over 3 years is approaching or exceeds 100%.

## I

<b>Impairment</b>	An asset is said to be impaired whenever its carrying amount (book value) exceeds its recoverable amount. The assets are evaluated to their net selling price value for example and a loss is then booked on the Profit and Loss Report. Example of situations when impairment of assets can be applied: introduction of new law affecting the ability of the company to utilize its facilities or sell its products, decrease in demand for an old products due to the introduction of a new product, etc...
<b>Income (Earnings) Before Income Taxes (EBT)</b>	Operating profit minus interest expense plus other income equals EBT which more accurately reflects management effectiveness since the company has little or no control over the income tax rate.
<b>Income Statement (or Profit &amp; Loss Report)</b>	A financial statement produced by a company showing all the revenues and expenses over a period of time. The income statement is normally presented with the previous period's (month or year) numbers side-by-side with the current period. Also called a profit and loss statement (P & L). See also balance sheet.
<b>Income Tax</b>	Annual tax levied by the government, most states, and some local governments, on an individual's or corporation's net profit.
<b>Inflation</b>	The rate at which the general level of prices for goods and services is rising. A sustained rise in the prices of goods and/or services. Two common measures of the Inflation rate are the Consumer Price Index and the Producer Price Index.
<b>Insolvency Risk</b>	The risk that a firm will be unable to satisfy its debts. Also known as bankruptcy risk.
<b>Installment</b>	Amount agreed to be paid back for bank loans and credits.
<b>Intangible Assets</b>	An identifiable non-monetary asset without physical substance held for use in the production of goods or services or for administrative purposes. Assets such as patents, copyrights, franchises, trademarks and goodwill are difficult to determine but play a major role in the success of the company.



# Financial Glossary

<b>Interest</b>	The price paid for borrowing money. It is expressed as a percentage rate over a period of time and reflects the rate of exchange of present consumption for future consumption.
<b>Interest Bearing Liabilities</b>	Liabilities for which interest is incurred.
<b>Interest Coverage Ratio</b>	The ratio of the earnings before interest and taxes (EBIT) to the annual interest expense. This ratio measures a firm's ability to pay interest expenses.
<b>Interest Expense</b>	In a corporate setting, interest expense is the money the company or corporation pays out in interest on loans.
<b>Interest Rate Risk</b>	The risk that a security's value changes due to a change in interest rates. For example, a bond's price drops as interest rates rise.
<b>Interim Statement</b>	Financial report covering less than one year, such as a quarterly report. Also called interim report.
<b>Internal Rate of Return (IRR)</b>	Discount rate at which the net present value (NPV) of an investment is zero. The rate at which a bond's future cash flows, discounted back to today, equals its price.
<b>Inventory</b>	This consists of direct materials, work-in-process, and finished goods ready for sale. For companies: Raw materials, items available for sale or in the process of being made ready for sale. They can be individually valued by several different means, including cost or current market value, and collectively by (First-in-first-out) FIFO, (Last-in-first-out) LIFO or other techniques. The lower value of alternatives is usually used to preclude overstating earnings and assets.
<b>Inventory Turnover</b>	The ratio of annual sales to average inventory which measures the speed that inventory is produced and sold. Low turnover is an unhealthy sign, indicating excess stocks and/or poor sales.
<b>Invoice</b>	Bill written by a seller of goods or services and submitted to the purchaser for his payment.

## J

<b>Joint Venture</b>	A contractual arrangement whereby two or more parties undertake an economic activity which is subject to a joint control. A joint venture may take a variety of legal forms including partnership, tenancy in common or corporation.
<b>Junk Bond</b>	A bond with a speculative credit rating of BB (S&P) or Ba (Moody's) or lower. Junk or high-yield bonds offer investors higher yields than bonds of financially sound companies. Two agencies, Standard & Poors and Moody's Investor Services, provide the rating systems for companies' credit.
<b>Just-In-Time</b>	A strategy for inventory management in which raw materials and components are delivered from the vendor or supplier immediately before they are needed in the manufacturing process.

## K

## L

<b>Lead Time</b>	The amount of time between the placing of an order and the receipt of the goods ordered.
<b>Lease</b>	An agreement whereby the Lessor (supplier/bank/financial institution) conveys to the Lessee (customer) the right to use an asset for an agreed period of time in return for a series of payments.
<b>Lease Payment</b>	The consideration paid by the lessee to the lessor in exchange for the use of the leased equipment/property. Payments are usually made at fixed intervals.
<b>Lease Rate</b>	The interest rate stated in a lease contract.
<b>Lease Term</b>	The non-cancellable period for which the lessee has contracted to lease an equipment.
<b>Leasing</b>	Contract granting use of real estate, equipment, or other fixed assets for a specified time in exchange for payment, usually in the form of rent. The owner of the leased property is called the lessor, the user the lessee.



# Financial Glossary

<b>Legal Entity</b>	An individual or organization which is legally permitted to enter into a contract, and be sued if it fails to meet its contractual obligations.
<b>Lessee</b>	A person/entity to whom a lease is granted; the user of the asset.
<b>Lessor</b>	A person/entity who grants a lease; the owner of the asset.
<b>Letter of Credit (L/C)</b>	A form of guarantee of payment issued by a bank used to guarantee the payment of interest and repayment of principal on bond issues.
<b>Leverage</b>	The degree to which an investor or business is utilizing borrowed money. Also, what the debt/equity ratio measures.
<b>Leverage Ratios</b>	Measures of the relative contribution of stockholders and creditors, and of the firm's ability to pay financing charges. Value of firm's debt to the total value of the firm.
<b>Liability</b>	A financial obligation, or the cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation.
<b>LIBOR</b>	The London Interbank Offered Rate; the rate of interest that major international banks in London charge each other for borrowings. Many variable interest rates in the U.S. are based on spreads off of LIBOR.
<b>LIFO (Last In First Out)</b>	A method of valuing inventory in which the items acquired last are treated as the ones sold first. Consequently, the items remaining in inventory at the end of the period are those first purchased or produced. Contrasts with FIFO - First In First Out
<b>Line of Credit</b>	An informal arrangement between a bank and a customer establishing a maximum loan balance that the bank will permit the borrower to maintain.
<b>Liquid Asset</b>	Asset that is easily and cheaply turned into cash - notably cash itself and short-term securities.
<b>Liquidate</b>	To convert to cash. Also, to sell all of a company's assets, pay outstanding debts, and distribute the remainder to shareholders, and then go out of business.
<b>Liquidity</b>	1. The ability to meet the cash requirements of a corporation. Cash may be raised through deposits, borrowings, capital, and/or asset conversions. 2. A measurement of the ease with which an asset may be converted to cash.
<b>Loan</b>	If you borrow \$1 million dollars, it is said that you have taken out a loan for \$1 million dollars.
<b>Loan Amortization Schedule</b>	The schedule for repaying the interest and principal on a loan.
<b>Long-Term Assets/Liabilities</b>	Long term Assets or Liabilities which are due in more than one year from the date of the Balance Sheet. Opposed to Current Assets/Liabilities.
<b>Loss Carry-Forward</b>	A capital loss that is not deductible in the current year because it exceeds the annual capital loss ceiling, but may be deductible in future years.

## M

<b>Macroeconomics</b>	The study of the behaviour of the overall economy, including inflation, unemployment, and industrial production. Opposite of microeconomics.
<b>Majority Ownership</b>	Ownership of more than 50% of a company's voting stock.
<b>Management Buyout (MBO)</b>	Going private through management's purchase of all outstanding shares.
<b>Margin</b>	See "Gross Profit Margin". The margin may be shown as either a percentage or as a value.
<b>Marginal Cost</b>	The increase in total cost when output is increased by one unit.
<b>Marginal Revenue</b>	The revenue associated with one additional unit of production.
<b>Mark Up</b>	The amount of profit added on to the cost of a product or service to give selling price. A mark up is usually expressed as a percentage.
<b>Market Value</b>	The amount obtainable from the sale, or payable of the acquisition, of a (financial) instrument in an active market.
<b>Marketable Securities</b>	For a non-financial company, this amount represents temporary investment of excess cash in financial assets. Since these funds may be needed on short notice, they are usually invested in readily marketable securities which are subject to minimum price fluctuation.

# Financial Glossary

<b>Minority Interest</b>	An outside ownership interest in a subsidiary that is consolidated with the parent for financial reporting purposes.
<b>Mortgage</b>	A loan to finance the purchase of real estate, usually with specified payment periods and interest rates. The borrower (mortgagor) gives the lender (mortgagee) a lien on the property as collateral for the loan.

## N

<b>Net Assets</b>	The difference between total assets on the one hand and current liabilities and non-capitalized long-term liabilities on the other hand.
<b>Net Book Value</b>	The current book value of an asset or liability; that is, its original book value net of any accounting adjustments such as depreciation.
<b>Net Capital</b>	A firm's net worth, minus deductions taken for any assets that might not easily be converted into cash at their full value.
<b>Net Income</b>	Gross sales minus all expenses, depreciation, interests & taxes. Also called net earnings, net profit or "bottom line" profit. This is the amount available to pay dividends on the preferred and common stock. The dividend policy of the company governs how much of profits will be paid out in dividends and how much will be retained in the business.
<b>Net Investment</b>	Gross or total investment minus depreciation.
<b>Net Operating Income</b>	Income after deducting for operating expenses but before deducting for income taxes and interest.
<b>Net Operating Losses</b>	Losses that a firm can take advantage of to reduce taxes.
<b>Net Operating Margin</b>	Net operating income divided by revenues, expressed as a percentage.
<b>Net Present Value (NPV)</b>	The present value of an investment's future net cash flows minus the initial investment. If positive, the investment should be made, otherwise it should not.
<b>Net Profit</b>	See "Net Income".
<b>Net Profit Margin</b>	Net profit divided by net revenues, expressed as a percentage.
<b>Net Quick Assets</b>	Cash, accounts receivable, and marketable securities, minus current liabilities.
<b>Net Sales/Operating Revenues</b>	This amount is generated from the sales of products/services produced by the primary operations of the company. "Net" indicates that the gross sales amount has been reduced by amounts for returned goods, allowances and discounts.
<b>Net Working Capital</b>	Sum of all operating items of a balance sheet (as opposed to financial items), or otherwise stated, sum of all non interest bearing items of a balance sheet. Current assets minus current liabilities. Often simply referred to as working capital (see below).
<b>Non-recourse</b>	Term describing a type of loan. If a loan is without recourse, the lender can't claim anything against the parent company if the collateral is insufficient to repay the debt. See also "Recourse".

## O

<b>Off Balance Sheet Financing</b>	Financing that is not shown as a liability in a company's balance sheet. Any form of financing, such as an operating lease, that, for financial reporting purposes, is not required to be reported on a firm's balance sheet.
<b>Operating Activities</b>	The principle revenue-producing activities of an enterprise and other activities that are not investing or financing activities.
<b>Operating Asset</b>	Asset which contributes to the regular income from a company's operations.
<b>Operating Expenses</b>	Expenses of producing the product or service. They include the cost of goods sold, depreciation expense and selling and administrative expenses.
<b>Operating Income/Profit</b>	A measure of a company's earning power from ongoing operations, equal to earnings before deduction of interest payments and income taxes. Also called operating profit or EBIT (earnings before interest and taxes).

# Financial Glossary

<b>Operating Lease</b>	An agreement whereby the Lessor (bank/financial institution/supplier) conveys to the Lessee the right to use an asset for an agreed period of time in return for a series of rental fees. The economic and Legal ownership stays with the Lessor (the equipment is booked as an asset in the Lessor's Balance Sheet, the Lessee books a rental cost in the Profit & Loss). See also Financial Lease.
<b>Operating Margin</b>	Operating income divided by revenues, expressed as a percentage.
<b>Operating Ratio</b>	A company's operating expenses divided by its operating revenues. Or more generally, any of a number of ratios measuring a company's operating efficiency, such as sales to cost of goods sold, net profits to gross income, operating expenses to operating income, and net profit to net worth.
<b>Option</b>	The right, but not the obligation, to buy (for a call option) or sell (for a put option) a specific amount of a given stock, commodity, currency, index, or debt, at a specified price (the strike price) during a specified period of time. For stock options, the amount is usually 100 shares.
<b>Other Current Assets</b>	Value of non-cash assets, including prepaid expenses and accounts receivable, due within 1 year.
<b>Outstanding</b>	Remaining, in existence. For debt, not yet paid.
<b>Overdraft</b>	Short term loan taken out by a company or individual that is normally repayable on demand.
<b>Overhead</b>	All manufacturing costs other than direct labour and materials.

## P

<b>P&amp;L</b>	Profit and loss statement.
<b>Parent Company</b>	A company that owns or maintains control over other companies, known as subsidiaries, which are themselves separate legal entities; control generally refers to more than 50 percent ownership of the stock of another company.
<b>Participation</b>	An ownership interest in a mortgage or other loan.
<b>Partnership</b>	A form of organisation in which a group of individuals act as a single entity but are held individually liable for the acts of the partnership, and the acts of each partner acting as an agent for the partnership.
<b>Patent</b>	The exclusive right, granted by the government, to make use of an invention or process for a specific period of time, usually 14 years. See also intangible asset, royalty.
<b>Payables</b>	All outstanding invoices not yet paid to the suppliers. Booked on the liability side of a Balance Sheet. See also "Accounts Payable" and "Current Liabilities".
<b>Payback</b>	The length of time required for the net revenues of an investment to return the cost of the investment.
<b>Paydown</b>	Repayment of part of an outstanding loan balance.
<b>Pension Plan</b>	A fund that is established for the payment of retirement benefits.
<b>Pledging</b>	Offering assets to a lender as collateral/guarantee for a loan.
<b>Predatory Pricing</b>	The strategy of pricing products and/or services so cheaply that one's competitors are driven out of business, enabling one to raise prices higher than if the competition still existed.
<b>Preferred Shares</b>	A security that shows ownership in a corporation and gives the holder a claim, prior to the claim of common shareholders, on earnings and also generally on assets in the event of liquidation. Most preferred stock pays a fixed dividend that is paid prior to the common stock dividend, stated in a dollar amount or as a percentage of par value.
<b>Prepayments</b>	Payments which have been made for services which are expected in future accounting periods. An example is prepayment for an insurance policy extending over the next five years. Only the current year's premiums are charged against current earnings; the balance is reported as a prepaid asset.
<b>Present Value</b>	The amount of cash today that is equivalent in value to a payment, or to a stream of payments, to be received in the future. Present discounted value of the future net cash flows.

# Financial Glossary

<b>Pre-Tax Profit Margin</b>	Net profit before taxes divided by net sales.
<b>Principal</b>	The outstanding balance of a loan, exclusive of interest and other charges.
<b>Privatization</b>	The act of returning state-owned or state-run companies back to the private sector, usually by selling them.
<b>Profit</b>	The net profit or loss for a period before deducting tax expenses (from the Profit & Loss Report).
<b>Profitability Ratios</b>	Ratios that focus on the profitability of the firm. Profit margins measure performance with relation to sales. Rate of return ratios measure performance relative to some measure of size of the investment. Examples of profit ratios are the "Gross Margin" or "Net profit Margin".
<b>Promissory Note</b>	Written promise to pay.
<b>Provision</b>	A liability of uncertain timing or amount. Can also be a clause or stipulation in an agreement.

## Q

<b>Quick Assets</b>	Cash and other assets which can or will be converted into cash fairly soon, such as accounts receivable and marketable securities; or equivalently, current assets minus inventory.
<b>Quick Ratio</b>	Indicator of a company's financial strength (or weakness). Calculated by taking current assets less inventories, divided by current liabilities. This ratio provides information regarding the firm's liquidity and ability to meet its obligations.

## R

<b>R&amp;D</b>	Research and Development.
<b>Ratings</b>	An evaluation of credit quality Moody's, Standard & Poor's (S&P), or Fitch Investors Service give to companies used by investors and analysts.
<b>Real Income</b>	Income of an individual, organization, or country, after taking into consideration the effects of inflation on purchasing power. Also called real wages.
<b>Real Interest Rate</b>	The rate of interest excluding the effect of inflation; that is, the rate that is earned in terms of constant-purchasing-power dollars. Interest rate expressed in terms of real goods, i.e. nominal interest rate adjusted for inflation.
<b>Receivables</b>	This represents money owed to the company by customers for goods sold or services rendered, but not yet collected. This includes the trade receivables, finance receivables, and sales receivables. See also accounts receivable.
<b>Recession</b>	A period of general economic decline; specifically, a decline in GDP for two or more consecutive quarters.
<b>Recourse</b>	Term describing a type of loan. If a loan is with recourse, the lender has a general claim against the parent company if the collateral is insufficient to repay the debt. See also "Non Recourse".
<b>Recourse Loan</b>	A loan for which an undersigner is liable for payment if the borrower defaults.
<b>Recovery</b>	A period in a business cycle following a recession, during which the GDP rises.
<b>Refinancing</b>	Paying off an existing loan with the proceeds from a new loan, using the same property as collateral.
<b>Remarketing</b>	The process of selling or re-leasing leased property which has been returned to the lessor either at the end of the term or as a result of a default in lease.
<b>Reserves</b>	Portions of retained earnings, transferred by accounting entries, indicating a provision for contingent obligations and are thus not available for dividends.
<b>Residual Value</b>	The net amount which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal. The value of leased property at the end of the lease term. Typically estimated based on the present value of the after-tax cash flows expected to be earned after the forecast period.

# Financial Glossary

<b>Retained Earnings</b>	The accumulated earnings of the company which are reinvested in the business and not paid to shareholders as dividends.
<b>Return On Assets (ROA)</b>	Indicator of profitability. Determined by dividing net income for the past 12 months by total average assets. Result is shown as a percentage. ROA can be decomposed into return on sales (net income/sales) multiplied by asset utilization (sales/assets).
<b>Return On Equity (ROE)</b>	Indicator of profitability. Determined by dividing net income for the past 12 months by common shareholder equity (adjusted for stock splits). Result is shown as a percentage. Investors use ROE as a measure of how a company is using its money. ROE may be decomposed into return on assets (ROA) multiplied by financial leverage (total assets/total equity).
<b>Revenue</b>	The company's sales. Represent the total money the company collected for any goods provided and/or services performed and are found on the income statement.
<b>Revolving Line of Credit</b>	A bank line of credit on which the customer pays a commitment fee and can take down and repay funds according to his needs. Normally the line involves a firm commitment from the bank for a period of several years
<b>Riskless Rate</b>	The rate earned on a riskless investment, typically the rate earned on the 90-day U.S. Treasury Bill.

## S

<b>Sale and Leaseback</b>	A transaction which involved the sale of property by the lessee to the lessor and a lease of the property back to the lessee. An agreement in which the owner of a property sells that property to a person or institution and then leases it back again for an agreed period and rental.
<b>Secured Loan</b>	A loan secured by specific collateral. Creditor may foreclose and seize the specific property that is collateral to satisfy an unpaid secure loan.
<b>Selling, General and Administrative Expenses (SG&amp;A)</b>	Expenses such as sales personnel salaries, commissions, advertising, travel and entertainment are selling expenses; administrative expenses include executive and office payrolls and other office expenses.
<b>Sensitivity Analysis</b>	Investigation into how projected performance varies along with changes in the key assumptions on which the projections are based.
<b>Shareholders' Equity</b>	Also called Owners' equity or Net Worth, it represents the stockholders' ownership interest in the assets of the company. It is the balance of total assets minus total liabilities; composed of capital stock and surplus.
<b>Shelf Life</b>	The length of time that a given item can remain in a saleable condition on a retailer's shelf.
<b>Short-Term Solvency Ratios</b>	Ratios used to judge the adequacy of liquid assets for meeting short-term obligations as they come due, including (1) the current ratio, (2) the acid-test ratio, (3) the inventory turnover ratio, and (4) the accounts receivable turnover ratio.
<b>Solvency</b>	The availability of cash over the longer term to meet financial commitments as they fall due. Solvency of a company is usually measured by the following ratios: Current ratio, Interest coverage ratio, Debt Ratio.
<b>Solvent</b>	Able to pay all debt obligations as they become due.
<b>Sovereign Risk</b>	The risk that a central bank will impose foreign exchange regulations that will reduce or negate the value of FX contracts. Also refers to the risk of government default on a loan made to it or guaranteed by it.
<b>Stagnation</b>	A period of little or no economic growth.

## T

<b>Tangible Asset</b>	An asset whose value depends on particular physical properties. These include reproducible assets such as buildings or machinery and non-reproducible assets such as land, a mine, or a work of art. Also called real assets. Related: Intangible asset
<b>Tax Shield</b>	The reduction in income taxes that results from taking an allowable deduction from taxable income.

# Financial Glossary

<b>Taxable Income</b>	The amount of income subject to income taxes.
<b>Time Value of Money</b>	The idea that a dollar today is worth more than a dollar in the future, because the dollar received today can earn interest up until the time the future dollar is received.
<b>Turnover</b>	Revenues.

## U

<b>Unrealized</b>	Having occurred but not yet reflected in a transaction. Opposite of realized.
<b>Unsecured Loan</b>	A loan granted upon the good credit of the borrower with no collateral/guarantees involved.
<b>Useful Life</b>	The term used to describe the life over which an asset is expected to be useful to the company; cost is assigned to the periods benefited from using the asset.

## V

<b>Value Added Tax (VAT)</b>	A consumption tax which is levied at each stage of production based on the value added to the product at that stage.
<b>Value-Added</b>	The process through which a company acquires a product or service and enhances it in some way before offering it to its customers.
<b>Variable Cost</b>	A cost that is directly proportional to the volume of output produced. When production is zero, the variable cost is equal to zero.

## W

<b>Withholding tax (WHT)</b>	Amount that will be withheld by the local tax authorities when interest and leasing payments are to be made to a foreign financier, i.e. a certain amount will be deducted from the actual interest or leasing payment and paid to the local tax authorities. The actual rate depends on countries and double tax treaties.
<b>Wholesaler</b>	A type of business that purchases product directly from the manufacturer at a discounted price, then resells the product to retailers who then sell to the end consumer. This is sometimes called the channel of distribution.
<b>Working Capital</b>	Defined as the difference between current assets and current liabilities (excluding short-term debt). Alternatively, operating capital can be defined as the non-interest bearing part of the capital. Current assets may or may not include cash and cash equivalents, depending on the company.
<b>Working Capital Management</b>	The management of current assets and current liabilities to maximize short-term liquidity.

## X

## Y

<b>Year-To-Date (YTD)</b>	The period beginning at the start of the calendar year up to the current date.
<b>Yield</b>	The annual rate of return on an investment, expressed as a percentage. For bonds and notes, it is the coupon rate divided by the market price. For securities, it is the annual dividends divided by the purchase price; here, also called dividend yield or current yield.
<b>Yield Spread</b>	The difference in yield between different security issues usually securities of different credit quality.
<b>Yield To Maturity (YTM)</b>	The percentage rate of return paid on a bond, note, or other fixed income security if the investor buys and holds it to its maturity date. The calculation for YTM is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the bond will be reinvested at the same rate.

## Z

<b>Z-Score</b>	Output from a credit-strength test that gauges the likelihood of bankruptcy.
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