

Demystifying Finance Jargon

30 Terms You Need to Know

Statements and Reports

Income Statement: Summarizes a businesses income and expenses during a given period

Balance Sheet: Communicates the organizations worth, or book value of the assets, liabilities and shareholders equity

Cash Flow Statement: Discloses the movement of cash that flows into and out of an organization during a given period

Statement of Shareholders Equity: Shows the difference between Assets and Liabilities, essentially the value of what the shareholders own

Personal Financial Statement: Net Worth = Assets - Liabilities

Net Operating Income: Revenue less Cost of Goods Sold and Operating Expenses

KPI Report: A report that shows the key performance indicators that are used to measure progress toward goals

Accounts Receivable/Payable Aging: Outstanding payments due from customers/clients or due to vendors and how long they are past due

Ratios and Metrics

Net Worth: Assets less liabilities

Profit Margin: Measure of profitability calculated by dividing net income by revenue

Return on Investment: Calculation to determine expected return of a project or activities in comparison to the cost of the investment

Debt Service Coverage: Operating income divided by total debt service

Cash on Cash: Annual Cash Flow divided by Cash Invested

Gross Potential Rent: The amount of rent you would receive if all units were rented at market rate

Cap Rate: Net Operating Income divided by Fair Market Value

Debt to Income: Monthly debt payments divided by monthly gross income

EBITDA: Earnings before Interest, Taxes, Depreciation and Amortization

Working Capital: A measure of the business' available operating liquidity which can be used to fund day-to-day operations

Debt to Equity Ratio: Total liabilities divided by shareholders equity

Financial Planning/Chart of Accounts

Asset: Items that you own and that can provide future benefit to your business

Liability: What the organization owes to other parties such as bank debt, wages, etc.

Capital Gain: An increase in the value of an asset or investment above the price paid for it

Liquid Assets: Assets that are easily turned into cash

Depreciation: A non-cash adjustment made to tax returns and financial statements to account for the declining condition of physical property

Amortization: A deduction against tax or financial statement income to recognize the value of an expense over time rather than up front

Tax Basis: The purchase price of an asset plus certain costs associated with acquiring that asset

Profit: Revenue less expenses

Leverage: the use of borrowed capital to make an investment

Debt Financing: The borrowing of money in the form of a loan to be repaid over a predetermined period for a predetermined interest rate

Debt Service: The money required to pay the monthly principal and interest on an outstanding debt