



FINANCIAL TERMS GLOSSARY

The following list contains a glossary of commonly used financial terms and their meanings.

A

Accrual Accounting
Assets
Authorised Capital

B

Balance Sheet
Benchmark
Beneficiary
Bill of Exchange

C

Capital
Capital Expenditure
Cash Flow
Cash Flow From Operations
Creditor (Payables)
Collateral
Consumer Price Index (CPI)
Current Assets
Current Liabilities
Current Ratio

D

Debenture
Debt Ratio
Debt / Equity Ratio
Depreciation
Distributions
Dividend

E

Earnings
Earnings per Share
Earnings Yield
Equity

F

Fixed Assets
Franked Dividends
Fringe Benefits Tax (FBT)

G

Gearing
Gross Domestic Product (GDP)
Gross Profit (Margin)

I

Imputation Credit
Insolvency
Interest
Interest Coverage
Inventory (Stock)
Inventory (Stock) Turnover
Issued Capital

L

Lagging Indicators
Leading Indicators
Lease
Leverage
Liabilities
Lien

Liquid Assets

Liquidity

Long Term (or Non-Current)
Liabilities

N

Net Profit
Net Realisable Value

O

Other Current Assets
Other Long Term Liabilities

P

Profit and Loss Account

Q

Quick Ratio

R

Reserves
Return on Assets (ROA)
Return on Equity
Return on Investment (ROI)

S

Secured Creditor
Share Capital

W

Working Capital

A	
Accrual Accounting	An accounting practice that takes into account revenues earned but not yet received, and expenses incurred but not yet paid, as well as any cash transactions.
Assets	Any tangible or intangible resources or items of value that an individual or a corporation owns.
Authorised Capital	The maximum number of shares a company can issue at the shares' par price.
B	
Balance Sheet	A financial statement showing the nature and balances of a company's assets, liabilities and capital.
Benchmark	A market measurement that is used as a comparative tool or yardstick for assessing the performance and risk of a portfolio.
Beneficiary	The individual or company which is entitled to receive the benefits generated by assets not registered in their name, such as those of a Trustee.
Bill of Exchange	A negotiable instrument, whereby the party to whom it is addressed unconditionally agrees to pay a certain sum on a fixed date in the future.
C	
Capital	Assets utilised to generate income.
Capital Expenditure	Amount spent on the improvement or acquisition of long term assets such as property, plant and equipment.
Cash Flow	Represents earnings before non-cash charges such as depreciation and amortization.
Cash Flow From Operations	The cash generated from the operating activities of the company. Does not include any revenues earned that have not been received, or any expenses that have been incurred but not yet paid.
Creditor (Payables)	Someone to whom you owe money. Sometimes called "payables"
Collateral	A promise of some form of security by a borrower to secure payment of a loan.
Consumer Price Index (CPI)	An index measuring the changing prices of household goods and services bought by ordinary Australian consumers. It is used as a measure of inflation and the relative cost of living.

Current Assets	Assets that are used in the business currently and which can be converted into cash within 12 months
Current Liabilities	The cost of debts that are payable within 12 months
Current Ratio	Represented by current assets divided by current liabilities, and indicative of the company's ability to pay off its short term-debts.
D	
Debenture	An unsecured bond backed by the integrity of the borrower and not by collateral. It is therefore riskier than a bond
Debt Ratio	Calculated by dividing total assets by borrowings, highlighting how much of a company's assets are financed by borrowings.
Debt / Equity Ratio	A comparison of funds provided by creditors to funds provided by shareholders. (Borrowings divided by shareholders' funds).
Debtors (Receivables)	These are people who owe you money. The money is "receivable" by you. Sometimes referred to as "Trade Debtors." Trade Debtors are people who owe you money for goods and services you have provided in the normal course of your business.
Depreciation	A non-cash writing-down of the cost of an asset over its useful life
Distributions	Payments, including dividends and capital returns, from fund or corporate cash flow
Dividend	A distribution of part of a company's profit to its shareholders. Most dividends are paid in cash, although some are paid in the form of additional shares of stock.
E	
Earnings	The profits of a corporation after expenses have been paid
Earnings per Share	The company's net profit after taxes, divided by the number of shares issued.
Earnings Yield	Calculated by dividing the Earnings Per Share (EPS) by the company's current share price and multiplying the result by 100.
Equity	The value of the common and preferred stockholder's ownership interest in a company.

F	
Fixed Assets	The written down value of the businesses capital assets including property, plant and equipment.
Franked Dividends	Dividends which the company has already paid tax on at corporate rates. Depending on the amount of tax the company pays, a company can declare a percentage of its dividends as franked.
Fringe Benefits Tax (FBT)	A tax paid on behalf of employees by employers on non- salary benefits, such as company cars, company mobile phones etc.
G	
Gearing	The extent of a person or company's borrowings as against the equity they hold.
Gross Domestic Product (GDP)	The aggregate value of goods and services produced within an economy over a 12-month period.
Gross Profit (Margin)	The gap available to cover operating and fixed expenses. Sales minus Cost of sales (cost of goods sold)
I	
Imputation Credit	Taxation credits that shareholders receive after having received franked dividends from their shareholdings.
Insolvency	Where a company has more current liabilities than current assets and hence cannot pay its debts as and when they fall due.
Interest	The payment made by a borrower to a lender in return for the loan of money, on top of the principle repayments.
Interest Coverage	Income divided by interest payments, which is used as a measure of a company's ability to meet its interest obligations.
Inventory (Stock)	Made up of any raw materials or items that are intended to be sold or consumed in the business.
Inventory (Stock) Turnover	The ratio of sales to inventory
Issued Capital	That part of a company's capital that has been issued to shareholders.
L	
Lagging Indicators	Provide information about things that have already happened e.g. net profit
Leading Indicators	Provide insight into possible future events e.g. team member job satisfaction is a leading indicator of employee turnover

Lease	The lending out of an asset in return for periodic payments. Most common leases are to do with property.
Leverage	The use of borrowed money in investing, in the hope of increased earnings.
Liabilities	The debts or obligations that a company has that it will pay in the future
Lien	Where a party holds another party's asset(s) as security for an obligation that it is to perform.
Liquid Assets	Assets that can be converted to cash immediately.
Liquidity	The ability of assets to be quickly converted to cash without suffering a loss of value of the asset
Long Term (or Non-Current) Liabilities	Liabilities that are due to be paid after one year
N	
Net Profit	Income minus all expenses such as depreciation, interest and tax.
Net Realisable Value	The current market price of an asset less its selling costs.
O	
Other Current Assets	Non-cash assets, including prepaid expenses and accounts receivable, due within one year.
Other Long Term Liabilities	Obligations not requiring interest payments that must be paid over a period of more than one year, including superannuation benefits and deferred taxes.
P	
Profit and Loss Account	A financial account declaring the revenue and expenses of a company over a given reporting period
Q	
Quick Ratio	Provides a measure of the company's financial strength or weakness. Calculated by taking current assets less inventories, divided by current liabilities. Commonly known as an Acid Test.
R	
Reserves	This is the amount of profit that the company does not distribute to its shareholders as dividends.
Return on Assets (ROA)	Net income divided by total assets. Often used as an indicator of profitability.

Return on Equity	Calculated by dividing net income after tax by common stockholders' equity. It is used as an indicator of profitability.
Return on Investment (ROI)	Net profit after taxes divided by total assets
S	
Secured Creditor	A lender who has lent funds on the security of particular assets of the debtor.
Share Capital	A company's funds that are capitalised by its shareholders.
W	
Working Capital	Current assets minus current liabilities