

# Glossary of Financial Terms

Term	Definition
Balance Sheet (BS)	A Balance Sheet is a snapshot of the value in a business at a given point in time. It represents the Assets and Liabilities of the business.
Budget	A Budget is a forward looking snapshot of the projected health of the business in a given period of time. The format of the Budget often reflects that of the Profit & Loss.
Capital Expenditure	Capital Expenditure is usually for plant (e.g. manufacturing plant) and equipment. The items purchased are usually 'Capitalised' over a period of time rather than being claimed as an expense in a given tax year. Examples may be a new computer or printer; a piece of equipment that helps you manufacture your product; furniture.
Cash Flow Projection	Correctly developed, a Cash Flow Projection will allow the business owner to plan for cash coming in and cash going out. Every business is different and so the need for a cash flow projection varies depending on the type of business.
Cost of Goods (also known as COG)	Cost of Goods (the same as Cost of Sale) are those costs directly associated with the manufacture, delivery or creation of the product or service sold. This can often be one of the most confusing areas for people when budgeting. Once you develop your rules for your business, keep them consistent.
Costs of Sale (also known as COS)	Costs of Sales (the same as Cost of Goods) are those costs directly associated with the manufacture, delivery or creation of the product or service sold. This can often be one of the most confusing areas for people when budgeting. Once you develop your rules for your business, keep them consistent.
Depreciation	Depreciation is how an item purchased as Capital Expenditure is expensed in a given financial year. Usually your Accountant manages this process at the end of a Financial Year.

Director's Drawings	Usually a term that Accountants will use to describe an amount of money taken out of the business, for personal use, over and above a salary by a Director.
Dividend	Is an amount paid to Shareholders out of profit. You may decide in your business, for example, after making a profit to distribute a dividend to yourself as a shareholder at the end of a Financial Year.
Expenses (also known as Operating Expenses)	Expenses are the costs associated with running your business that are incurred whether you sell a product/ service or not. They are often spoken about as the costs associated with keeping the doors open. Examples of expenses are rent, electricity, phone, IT, salaries, marketing.
Gross Margin (also known as Margin)	Gross Margin is the Selling Price less the Costs of Sale for the Product or Service you are selling. It can be expressed as a percentage or a number. (Selling Price - Costs of Sale = Gross Margin)
Gross Profit (also known as GP)	Gross Profit is Income less Costs of Sale. It is essentially the sum of the Gross Margin on all Products or Services Sold. (Income - Costs of Sale = Gross Profit)
Income	Income (the same as revenue) is all money coming into the business.
Mark-Up	Mark-Up can often be confused with Margin and is a term mostly used in Retail. If you sell t-shirts and you buy them from the manufacturer for \$10 and then sell them for \$20 - then your Mark-Up would be expressed as 100%.
Net Loss (also known as a Loss)	Net Loss is the difference between Gross Profit and Expenses. If your Gross Profit is less than your Expenses then you will have made a Loss. (Gross Profit - Expenses = Net Loss)
Net Profit (also known as Profit)	Net Profit is the difference between Gross Profit and Expenses. If your Gross Profit is greater than your Expenses then you will have made a Profit. (Gross Profit - Expenses = Net Profit)

Profit & Loss Statement or P&L (also known as an Income Statement)	The Profit & Loss Statement shows the profit health of a business over a given period of time. It is an historical snapshot, showing how profitable the business was over the time period selected.
Retail Price	This is the amount that you sell your product or service for when you are selling to the end consumer.
Revenue	Revenue (the same as income) is all money coming into the business.
Wholesale Price	<p>This could mean one of two things:</p> <ol style="list-style-type: none"><li>1. The price you buy your products for - if you have a product business.</li><li>2. The price you sell your products for - if you have wholesale customers who then 'on-sell' to the end consumer.</li></ol>

These definitions are simplified for the purposes of demonstration. There are levels of distinction that will develop once your knowledge grows.