



Financial Vocabulary

Financial Statements	Balance sheet and income statements provided in a loan application which are used in credit analysis
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Associated with Income Statements

Income Statement	An accrual-adjusted financial document that keeps track of revenue, expenses and profit
Revenue	What an operation earns
Expenses	What an operation spends
Net Profit	Total revenue minus total expenses minus depreciation (pre-tax number)
Net Income	Same as net profit (pre-tax number)
EBITDA	Earnings before interest, taxes, depreciation and amortization; a form of stating profitability
Operating expenses or COGS	The cost of producing the goods sold
Gross Income	Total revenue before expenses
Gross Margin	Total revenue minus operating expenses
Earning Statement	A hybrid between an accrual-adjusted income statement and schedule F from federal income tax filing 1040

Associated with Balance Sheets

Balance Sheet	A financial statement that keeps track of assets, liabilities and owners' equity and retained earnings
Equity	Ownership in a company
Debt	Amount owed to a creditor; can be short term (less than one year) or long term
Principal	Sum of money owed as a debt, upon which interest is calculated.
Accounts Payable	Money owed for products and services already received
Accounts Receivable	Money owed to a business for products/services already delivered
Asset	Something owned that has value
Liability	Something owed for; same thing as debt
Market Value	Method to value an asset if it were put on the market to sell

Cost Value	Method to value an asset by accounting procedures
Depreciation	Reduction in value over time
Depreciating Asset	Something owned that is going down in value from use and wear
Appreciation	Increase in value over time
Appreciating Asset	Something owned that is going up in value
Owners' Equity	Value of what the shareholders/owners have in a company
Retained Earnings	Value of what owners have added to net worth through operation of the business
Net Worth	For purposes of this course, same thing as owner equity

Associated with Cash Flow

Cash Flow	The in-and-out of money to/from a business
Cash Flow Budget	Spending plan
Cash Flow Statement	A historical financial document that keeps track of all the money that went in and out of a business by classification of sources of income and uses of money

Financial Ratios

Financial Ratios	Twenty one ratios establishing financial standards for areas of liquidity, solvency, profitability, repayment capacity and financial efficiencies
Liquidity	Ease in converting an asset into cash without a decrease in value; the ability of a business to meet its cash or short-term obligations when due without disrupting the normal operation of the business. Cash Flow related
Working Capital	Working capital is a measure of liquidity; the ability of the business to meet financial obligations as they come due. Short-term operating capital from within the business. Determined from balance sheet
Solvency	A longer-run concept relating to capital structure and ability of a business to pay off all financial obligations if assets are liquidated. Determined from balance sheet
Debt to Asset Ratio	A measure of solvency showing owners' debt-free portion of assets. Determined from balance sheet
Repayment Capacity	Shows borrower's ability to repay term debt