

# Glossary of Business Terms

The following are some commonly used financial terms with definitions that may come up in discussions around business planning, funding, the sale of a business and/or the transfer of ownership. These terms are commonly used by investors, bankers, consultants, advisors, and mentors.

## **Accrual method of accounting**

With this method, income is reported in the fiscal period it is earned, regardless of when it is received. The expenses are also deducted in the fiscal period they are incurred, whether they are paid or not. This method is generally used by businesses or professionals.

## **Amortization Period**

The length of time to pay off a loan.

## **Assets**

Everything a company owns.

## **B2B**

B2B is short for business-to-business and describes a business transaction with another business.

## **B2C**

Short for business-to-consumer and describes transactions with individual consumers.

## **B2G**

Short for business-to-government and describes transactions with government entities.

## **Bad Debt**

All or portion of an account, loan, or not receivable considered to be uncollectible

## **Balance Sheet**

A summary of a company's assets, liabilities, and shareholder's equity at a specific point in time. In other words, what the company owns and what it owes, and how much shareholders have invested.

## **Benchmarking**

The process by which you measure various aspects of your systems (e.g., speed, efficiency, cost, amount of product).

## **Break Even Point**

The point at which a company's total costs are equal to total revenue. It is the number of units you must sell in order to make a profit of \$0.

## **Business Name Registration**

The Ontario government updated the name of a Master Business Licence to a Business Name Registration in October of 2021. The Business Name Registration is the overall name for anyone wishing to register a business in Ontario.

## **Calendar quarter**

A period of three consecutive months ending on the last day of the following months:

March

June

September

December

## **Capital Expense (CapEx)**

Money spent to acquire or improve capital assets such as buildings and machinery.

## **Cash Flow**

Shows how much cash a company takes in (receipts) versus how much it spends (disbursements) relating to a specific activity during a specified accounting period.

## **Collateral**

Assets a borrower can use as security for a loan.

## **CRM**

Short for Customer Relationship Management. Refers to software that helps you organize your marketing activity.

## **Cost of Goods Sold**

The sum of all direct costs associated with producing a product.

## **Cumulative Cash Flow**

The sum of all cash flows since the company began. Forecasting - predicting future sales, expenditures, and profits.

## **Deficit**

A financial shortage that occurs when liabilities exceed assets.

## **Demographics**

Demographics are data points that apply to your target market, such as age, sex, income, and family status.

## **Depreciation**

The reduction of the value of an asset over time. An allowance made for wear and tear on an asset over its estimated useful life.

## **Dividends**

Distribution of earnings to owners of a Corporation in cash, other assets or capital stock.

## **Equity Financing**

When a company sells shares to raise capital.

## **Fair market value (FMV)**

Generally, it is the highest dollar value (price) a business, property, or other asset would sell for in an open and competitive market where buyer and seller are dealing at arm's length with each other. Go to Arm's length transaction.

## **Fiscal period**

This is generally the twelve-month period for reporting income earning activities. The fiscal period may or may not match the calendar year. The business usually sets its fiscal period when it files its first income tax return. For more information, go to Tax year.

## **Fixed Costs**

Costs that do NOT change when sales increase or decrease.

## **FOB Destination**

A shipping term that means that the seller bears transportation costs from the point of origin.

## **FOB Shipping Point**

A shipping term that means that the buyer bears transportation costs from the point of origin.

## **Fraud**

Wilful misrepresentation by a person, of a fact inflicting damage on another.

## **General Partnership**

A general partnership is a type of Master Business Licence. A general partnership is composed of two or more persons who agree to contribute money, labor, and/or skill to a business. Each partner shares the profits, losses, and management of the business and each partner is personally and equally liable for debts of the partnership. Formal terms of the partnership are usually contained in a written partnership agreement.

## **Gross Profit**

Revenue minus direct costs. It is what is left after subtracting the cost of producing a product or service from the related revenue (sales).

## **Gross Profit Margin**

Gross profit expressed as a percentage. (Gross Profit divided by revenue x 100).

## **Incentivize**

Provide an incentive (a motivation) for using a product or service.

## **Income Statement**

A summary of revenue and expenses. It is also called a profit and loss statement or P&L and as the name suggests, it shows the profits or losses of a business for a specific period.

## **Interest**

The fee charged to borrow funds.

## **Inventory Turn Rate**

The number of times in a given time-period that a company sells through and replaces its inventory.

## **KPI**

KPI is an acronym that stands for Key Performance Indicators. KPIs are usually numbers that tell you how effective your business is in a specific area.

## **Liabilities**

Everything a company owes.

## **Markup**

The difference between the selling price and the cost of a product or service.

## **Markup Percent**

The sales price minus unit cost divided by unit cost x 100.

## **Master Business Licence**

A Master Business Licence is a type of business registration that allows you to operate a business for a period of 5 years. You are personally liable, personal taxed and do not have name protection. It is required to be renewed every 5 years. There are three types of Master Business Licences; a sole proprietorship, a general partnership or tradename.

## **Monetize**

Make money from a product or activity.

## **Net Cash Flow Position**

The difference between a company's cash inflow and outflow within a given time-period.

## **Net Profit or Loss**

Revenue minus ALL costs.

## **Operating Expense**

Costs/expenses associated with running a business, such as rent, insurance, marketing, subscriptions, utilities, etc.

## **Owner's Contribution**

Reflects the owner's investment in the business.

## **Owner's Draw**

Money the owner of a sole proprietorship or partnership withdraws from the business for themselves.

## **Principle**

The amount of funds borrowed by a business.

## **Profit Margin**

Net profit expressed as a percentage (Net profit divided by revenue x 100)

## **R&D**

Short for research and development.

## **ROI**

Return on investment (ROI) refers to all the benefits — monetary or otherwise — received from an investment.

## **Salary**

Wages paid to employees.

## **Shrinkage**

The loss of inventory through theft, fraud, damage.

## **Sole Proprietorship**

A sole proprietorship is a type of Master Business Licence. A sole proprietorship is an individual in business alone. Sole Proprietorships are the most common form of business structure. This type of business is simple to form and operate, and may enjoy greater flexibility of management and fewer legal controls. However, the business owner is personally liable for all debts incurred by the business.

## **Source Deductions**

Money a company withholds from an employee's wage to submit to the government. (EI, CPP, Income Tax)

## **SWOT**

SWOT is an acronym that refers to a form of analysis that examines your:

Strengths

Weaknesses

Opportunities

Threats

## **Trademark**

A legal mechanism to protect a business name, logo, or slogan uniquely identifying goods or services. In Canada, trademarks are registered through the Canadian Intellectual Property Office (CIPO).

## **Tradenames**

A tradename is a type of Master Business Licence. This provides the opportunity for an existing corporation to operate under a name that is different from the legal name of the corporation. It can be completely different, slightly similar or can be the same as the corporate name just without the legal ending.

## **Variable Costs**

Costs that fluctuate when sales increase or decrease.