DEFINITIONS

Accounts Payable – Accounts payable (AP) is an accounting entry that represents an entity's obligation to pay off a short-term debt to its creditors. On many balance sheets, the accounts payable entry appears under the heading current liabilities. Another common usage of AP refers to a business department or division that is responsible for making payments owed by the company to suppliers and other creditors.

Accounts Receivable – Accounts receivable refers to the outstanding invoices a company has or the money the company is owed from its clients. The phrase refers to accounts a business has a right to receive because it has delivered a product or service. Receivables essentially represent a line of credit extended by a company and due within a relatively short time period, ranging from a few days to a year.

Accruals – Accruals are earned revenues and incurred expenses that have an overall impact on an income statement. They also affect the balance sheet, which represents liabilities and non-cash-based assets used in accrual-based accounting. These accounts include, among many others, accounts payable, accounts receivable, goodwill, future tax liability and future interest expense.

Asset – An asset is a resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit. Assets are reported on a company's balance sheet, and they are bought or created to increase the value of a firm or benefit the firm's operations.

Budget – A budget is an estimation of the revenue and expenses over a specified future period of time and is compiled and re-evaluated on a periodic basis. A surplus budget means profits are anticipated, while a balanced budget means that revenues are expected to equal expenses. A deficit budget means expenses will exceed revenues.

Cash – Cash is legal tender or coins that can be used to exchange goods, debt or services. Sometimes it also includes the value of assets that can be converted into cash immediately, as reported by a company.

Cost of Goods Sold (COGS) – Cost of goods sold (COGS) are the direct costs attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labor costs used to produce the good. It excludes indirect expenses such as distribution costs and sales force costs. COGS appears on the income statement and can be deducted from revenue to calculate a company's gross margin. Also referred to as "cost of sales."

Credit – Credit is a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. Credit also refers to an accounting entry that either decreases assets or increases liabilities and equity on the company's balance sheet. Additionally, on the company's income statement, a debit reduces net income, while a credit increases net income.

Debit – A debit is an accounting entry that results in either an increase in assets or a decrease in liabilities on a company's balance sheet. In fundamental accounting, debits are balanced by credits, which operate in the exact opposite direction. For instance, if a firm were to take a loan to purchase equipment, one would debit fixed assets and credit a liabilities account, depending on the nature of the loan.

Economic Value – Economic value is the maximum amount a consumer is willing to pay for an item in a free market economy.

Equity – The value of an asset less the value of all liabilities on that asset.

Financing – Financing is the act of providing funds for business activities, making purchases or investing. Financial institutions and banks are in the business of financing as they provide capital to businesses, consumers and investors to help them achieve their goals. The use of financing is vital in any economic system, as it allows companies to purchase products out of their immediate reach.

Gross Margin – Gross margin is a company's total sales revenue minus its cost of goods sold (COGS), divided by total sales revenue, expressed as a percentage. The gross margin represents the percent of total sales revenue that the company retains after incurring the direct costs associated with producing the goods and services it sells. The higher the percentage, the more the company retains on each dollar of sales, to service its other costs and debt obligations.

Income – Income is money that an individual or business receives in exchange for providing a good or service or through investing capital. Income is consumed to fuel day-to-day expenditures. In businesses, income can refer to a company's remaining revenues after all expenses and taxes have been paid. In this case, it is also known as "earnings". Most forms of income are subject to taxation.

Interest Expense – The cost incurred by an entity for borrowed funds. Interest expense is a non-operating expense shown on the income statement. It represents interest payable on any type of borrowings – bonds, loans, convertible debt or lines of credit. It is basically calculated as the interest rate times the outstanding principal amount of the debt.

Investing – Investing is the act of committing money or capital to an endeavor (a business, project, real estate, etc.) with the expectation of obtaining an additional income or profit. Investing also can include the amount of time you put into the study of a prospective company, especially since time is money.

Liability – A liability is a company's financial debt or obligations that arise during the course of its business operations. Liabilities are settled over time through the transfer of economic benefits including money, goods or services. Recorded on the right side of the balance sheet, liabilities include loans, accounts payable, mortgages, deferred revenues and accrued expenses.

Market Economy – A market economy is an economic system in which economic decisions and the pricing of goods and services are guided solely by the aggregate interactions of a country's individual citizens and businesses. There is little government intervention or central planning.

Market Value – The price an asset would fetch in the marketplace. Market value represents the minimum amount a consumer will pay.

Net Loss – Net loss, also referred to as a net operating loss (NOL), is the result that occurs when expenses exceed the income or total revenue produced for a given period of time. Businesses that have a net loss don't necessarily go bankrupt because they may opt to use their retained earnings or loans in order to stay afloat. This strategy, however, is only short-term, as a company without profits cannot continue surviving for a long period of time.

Operating Activities – Operating activities are the functions of a business related to the provision of its offerings. These are the company's core business activities, such as manufacturing, distributing, marketing and selling a product or service. Operating activities should generally provide the majority of a company's cash flow and largely determine whether a company is profitable.

Prepaid Expenses – A prepaid expense is a type of asset that arises on a balance sheet as a result of business making payments for goods and services to be received in the near future. While prepaid expenses are initially recorded as assets, their value is expensed over time as the benefit is received onto the income statement, because unlike conventional expenses, the business will receive something of value in the near future.

Profit – Profit is a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Any profit that is gained goes to the business's owners, who may or may not decide to spend it on the business.

Receivables – Receivables is an asset designation applicable to all debts, unsettled transactions or other monetary obligations owed to a company by its debtors or customers. Receivables are recorded by a company's accountants and reported on the balance sheet, and they include all debts owed to the company, even if the debts are not currently due. Long-term receivables, which do not come due for a significant length of time, are recorded as long-term assets on the balance sheet; most short-term receivables are considered part of a company's current assets.

Receipts – A receipt is a written acknowledgment that something of value has been transferred from one party to another. In accounting, receipts also referred to cash received.

Revenue – Revenue is the amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income. Revenue is calculated by multiplying the price at which goods or services are sold by the number of units or amount sold.

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