

Grasshopper Academy

Financing Your Small Business
Financial Terms



Financial Terms Glossary

Budgeting Terms

Total startup cost: The cost needed before a business is able to get started

Day-to-day operational cost: Cost reserved for funding daily operations

Fixed expense: An expense that remains a fixed price regardless of business performance

Variable expense: An expense that changes in relation to production volume or business activity

Semi variable expense: A fixed cost that can change depending on business volume

Capital costs: One-time setup expense

Seed money: Money allocated to initiate a project

Profit Terms

Revenue: Amount of money earned through a sale

Profit: Revenue – Cost = Profit

Capital: Money invested in a business to build revenue

Cash flow: Money being transferred in and out of your business

Break-even point: The point at which revenue and operational costs even out. A break-even analysis is important for investors because it tells them when they can expect to see a profit.

Financial Statements

Balance Sheet: The statement that shows the assets a company owns and how they are financed; either through debt (liabilities) or investment from the owners (owner's equity). The total value of liabilities and owner's equity will always equal the value of the assets.

Assets: The resources a business owns or acquire through transactions, such as investments, property, and equipment.

Current Assets: The assets that are expected to be used up within one year. For instance: cash, inventory, and prepaid insurance.

Liabilities: The amounts owed to creditors for past transactions. There are two types:

Current Liabilities: The amounts expected to be paid off within one year, such as accounts payable and short-term loans.

Long Term Liabilities: The amounts due more than one year from the reporting date, such as long term debt and less depreciation.

Owner's Equity: The source of the company's assets. There are two categories:

Paid in Capital: Money shareholders put into the business.

Retained Earnings: A company's net income or less from inception to the balance sheet date.

Profit and Loss Statement (P&L): Also known as an income statement, this statement details revenue and expenses over a period of time.

Accounting Terms

Accounts Payable: An amount owed to a vendor or creditor for completed goods or services.

Accounts Receivable: Claim from an uncollected amount, usually from a sale on credit.

Accrual: The recognition of an expense that has occurred but has not yet been paid or paid for.

Accrual Basis of Accounting: Recognizes revenue or expenses in the period in which they are earned.

Cash Basis Accounting: Recognizes revenue when cash is received.

Audit: An examination of the company's financials by a Certified Public Accountants to determine if the financial statements are presented fairly under GAAP (Generally Accepted Accounting Principles).

Depreciation: Expense allowance for the wear and tear of an asset over its useful life.

General Ledger: Collection of all transactions in an accounting system, which are rolled up to produce financial statements.

Journal Entry: A recorded transaction in the general ledger.