



Created by RHONDA ABRAMS

The Planning Shop Content and Tools for Entrepreneurs

www.planningshop.com

Sign-up for your weekly Start-Up Newsletter

MONEY 101—LEARN THE LINGO

Money 101: Learn the Lingo

Once you're in business, you're going to encounter certain money-related terms repeatedly. Here's a list of some frequently used money buzzwords. Learn these, and you'll sound like you've been discussing money for decades.

Accounts Payable: Obligations owed to others; list of outstanding bills.

Accounts Receivable: Obligations owed to your company by others; a list of outstanding invoices.

Angel investors: Private individuals who invest their own money in new, small companies. They usually invest a smaller amount of money than professional sources.

Assets: Anything a company owns that has a positive monetary value.

Current Assets: Cash and anything a company has that can be turned into cash relatively quickly, including accounts receivable, and inventory.

Fixed Assets: Any tangible property a company owns that could be turned into cash more slowly, including real estate, equipment, and vehicles.

Assumption Sheet: A document that shows those reading your financial statements how you determined the figures used.

Balance Sheet: A document listing all assets and liabilities. It shows how much a company is worth overall.

Bottom Line: The amount of money a company makes or loses is its "bottom line."

Break-even Analysis: A document that calculates the point at which sales exceed costs and a company turns profitable.

Burn Rate: The amount of money a company goes through each month.

Capital: Funds or money used to establish or run a business.

Capital Expenditures: Purchase of tangible property, such as real estate, equipment, and vehicles.

Paid-in Capital: Capital received from investors, as opposed to capital generated by the operations of a company.

Working Capital: Cash available for ongoing operating expenses of the business, including payroll, administrative and operating expenses, and marketing.

Cash: Immediately available money in the form of currency, checks, or bank deposits.



Created by RHONDA ABRAMS

The Planning Shop Content and Tools for Entrepreneurs

www.planningshop.com

Sign-up for your weekly Start-Up Newsletter

MONEY 101—LEARN THE LINGO

Cash Flow: The movement of money into and out of a company; actual income received and actual payments made out.

Cash Flow Projection: A document which shows whether a company has enough money to pay its bills.

Collateral: Assets pledged in return for loans; examples include real estate and accounts receivable.

Cost of Goods Sold: The direct costs to make or acquire products sold; examples include the cost of raw materials, inventory, and labor.

Cost of Sales: Expenses directly associated with selling a product or service. This typically includes items such as sales commissions, distributor's fees, and so on, but does not generally include more indirect costs such as marketing.

Debt: An ongoing obligation of a company, such as a bank loan.

Depreciation: The wear and tear on fixed assets—not a cash expenditure, but an ongoing expense of the business as equipment wears down. A tax deduction.

Equity: Shares of stock in a company; owner interest in a company. On a balance sheet, equity (or “shareholder’s equity”) is the amount of total assets minus total liabilities.

Financing: Raising money to run or start up a business.

Debt Financing: Raising money for a business by borrowing, often in the form of bank loans.

Equity Financing: Raising money from investors who receive a share of the company’s ownership in return for their funds.

Seed Money: The first capital raised by a start-up company, typically from angel investors. Seed money provides the funds for the initial development of the company.

Series A: The first round of funding after the seed-stage. Typically, Series A covers financing needs for the next 12 to 18 months or until the company earns enough income to be self-sustaining, whichever is earlier.

Series B and Series C: Subsequent rounds of financing, often in the range of many millions of dollars. Typically provided by Venture Capitalists.

Fixed Costs, Overhead, or “Nut”: Ongoing expenses such as rent, utilities, insurance, phone service, and salaries. The “nut” is the total amount of these fixed costs.

General and Administrative Expenses: The cost of operating a business other than the cost of goods sold or sales costs; examples include all overhead expenses (such as rent and utilities), salaries, and marketing.



Created by RHONDA ABRAMS

The Planning Shop Content and Tools for Entrepreneurs

www.planningshop.com

Sign-up for your weekly Start-Up Newsletter

MONEY 101—LEARN THE LINGO

Income: The amount of money coming in from any source, including sales, loans, or investments.

Income Statement: A document that shows whether a company is profitable (also known as a Profit & Loss Statement or “P&L”).

Liabilities: Any outstanding obligation or debt of the company.

Current Liabilities: Any accounts payable, bills, debts, or financial obligations that must be paid relatively soon.

Long-term Liabilities: Any financial obligations that must be paid over time, such as mortgages, loans, and equipment loans.

Line of Credit: A form of bank financing that helps small businesses manage short-term cash flow needs. Typically, it must be paid down to zero at least once a year.

Market Share: The percentage of the total available customer base captured by a specific company.

Net 30: A bill due within 30 days of its date will have terms of Net 30. Other terms include Net 60, Net 90, and Due on Receipt.

Net Worth: Value of a company after deducting liabilities from assets.

Profit: Amount a company earns after expenses. Revenue refers to a company’s sales before deducting expenses.

Gross Profit: The amount of money earned after deducting the cost of goods sold but before deducting operating expenses.

Net Profit: Amount of income after deducting all costs of doing business, including cost of goods sold, administrative expenses and other fixed costs.

Net Loss: Amount of money lost after deducting all expenses from all revenues.

Profit Margin: The measure of money made compared with money taken in. Expressed as a percentage, the profit margin is calculated by dividing the net income by the total sales. Gross profit margin is the amount earned after deducting the cost of goods from total revenues; net profit margin is derived after deducting cost of goods plus operating expenses from total revenues.

Pro Forma: Financial statements based on projected future performance rather than actual historical data.

Receipts: Funds coming into the company; the actual money paid to the company for its products and services; not necessarily the same as a company’s total revenues.



Created by RHONDA ABRAMS

The Planning Shop Content and Tools for Entrepreneurs

www.planningshop.com

Sign-up for your weekly Start-Up Newsletter

MONEY 101—LEARN THE LINGO

Red Ink: In accounting ledgers, negative numbers used to be written in red ink. Thus, the expressions “red ink” and “in the red” refer to showing a loss.

In the Black: Positive numbers, on the other hand, were written in black ink. A business earning a profit is operating “in the black.”

Retained Earnings: Net worth amount a company keeps internally for ongoing development of the business rather than distributing to shareholders.

Return on Investment (ROI): The total financial gain investors receive for putting money in a company. Expressed as an annual percentage, ROI is calculated by dividing the amount of money investors make by the amount they invested, divided again by the number of years it took to receive their gains.

Revenue: Total sales of a company before expenses. Profit refers to the amount a company earns after expenses.

Sources and Use of Funds: This document explains to potential investors and loan officers where the money needed to run a business will come from and how the business will spend that money.

Startup Costs: The initial investment necessary to begin a new business.

Variable Expenses: Costs that change depending on how many sales you make. For example, rent is fixed, but marketing expenses and payroll may change.

Venture Capitalists: Professional investors using institutional money. VCs generally invest during high-growth start-up and expansion stages. They are particularly active in technology-related businesses and take an active role in managing the companies they invest in.