



glossary of terms

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FINANCIAL STATEMENTS

BALANCE SHEET

assets

Assets - Anything business owns that has monetary value. Assets are objects, rights and claims owned by and having value for firm. Subdivided into current/long-term to reflect the ease of liquidation (moving to cash).

Accounts receivable - Money owed to the business by customers, suppliers, and other vendors.

Current Assets - Any assets that can be easily converted into cash within one calendar year: checking or money market accounts, accounts receivable, and notes receivable that are due within one year's time.

Cash - Money available immediately, such as in checking accounts, is the most liquid of all short-term assets.

Fixed Assets - Include land, buildings, machinery, and vehicles that are used in connection with the business.

Intangible Asset - An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill and brand recognition are all common examples.

Inventory - Inventory can be either raw materials, finished items already available for sale, or goods in the process of being manufactured. Inventory is recorded as an asset on a company's balance sheet.

liabilities and owners' equity

Total liabilities and owners' equity - Comprises debts and monies that are owed to outside creditors, vendors, or banks and remaining monies that are owed to shareholders, including retained earnings reinvested in business.

Liabilities - Opposite of assets. Liabilities are the claims of creditors against the assets of the business.

Accounts payable - This is comprised of all short-term obligations owed by your business to creditors, suppliers, and other vendors. Accounts payable can include supplies and materials acquired on credit.

Total current liabilities - Sum total of all current liabilities owed to creditors that must be paid in one-year.

Long-term liabilities - Debts or obligations owed by the business due more than one year out.



Owners' equity - Sometimes this is referred to as stockholders' equity. Owners' equity is made up of the initial investment in the business as well as any retained earnings that are reinvested in the business.

Common stock - This is stock issued as part of the initial or later-stage investment in the business.

Preferred stock – Holders of this type of stock receive dividends before common stockholders but have no voting rights.

Treasury stock - This is stock has been repurchased by the company and is not part of shares outstanding.

Retained earnings - accumulated profits from prior years. At the end of one accounting year, all the income and expense accounts are netted against one another, and a single number (profit or loss for the year) is moved into the retained earnings account. The income and expense accounts go to zero. NOTE: This does not include Dividends (the proportion of a company's profit that it pays to its shareholders)

Assets		Liabilities and Shareholders' Equity	
<i>Current Assets:</i>		<i>Current Liabilities:</i>	
Cash and Cash Equivalents	6,414	Commercial Paper	3,754
Receivables	2,662	Accounts Payable	25,373
Inventories	32,191	Accrued Liabilities	13,465
Prepaid Expenses and Other	2,557	Accrued Income Taxes	1,340
Total Current Assets	43,824	Long-term Debt, due within one year	4,595
		Obligations Under Capital Leases, due within one year	299
<i>Property and Equipment, at cost:</i>		Total Current Liabilities	48,826
Land	16,643	Long-term Debt	26,429
Buildings and Improvements	56,163	Long-term Obligations Under Capital Leases	3,742
Fixtures and Equipment	22,750	Deferred Income Taxes and Other	4,552
Transportation Equipment	1,746	Minority Interest	1,467
Total Property and Equipment, at cost:	97,302		
Less Accumulated Depreciation	21,427		
Property and Equipment, net	75,875	<i>Shareholders' Equity:</i>	
Property Under Capital Lease:	5,578	Preferred Stock	0
Less Accumulated Amortization	2,163	Common Stock	417
Property Under Capital Lease, net	3,415	Capital in Excess of Par Value	2,596
Goodwill	12,188	Accumulated Other Comprehensive Income	1,053
Other Assets and Deferred Charges	2,885	Retained Earnings	49,105
		Total Shareholders' Equity	53,171
Total Assets	138,187	Total Liabilities and Shareholders' Equity	138,187

INCOME STATEMENT

Income Statement – (profit and loss statement). A summation of the income and expenses from the first day of this accounting period (probably from the beginning of this fiscal year). The income statement records all revenues for a business during this given period, as well as the operating expenses for the business. Below is one example of an income statement; revenue and expenses may vary depending on the business.

Sales– Total financial amount earned by the company through revenues and sales of its goods and/or services.

Cost of Goods Sold (COGS) - This number represents the costs directly associated with making or acquiring your products. Costs include materials purchased from outside suppliers used in the manufacture of your product, as well as any internal expenses directly expended in the manufacturing process.

Gross profit - Gross profit is derived by subtracting the cost of goods sold from net sales. It does not include any operating expenses or income taxes.

Operating expenses - These are the daily expenses incurred in the operation of your business. In this sample, they are divided into two categories: selling, and general and administrative expenses.

Operating profit – Operating profit is derived by subtracting operating expenses from net sales.



Net Income - This is the amount of money the business has earned after paying income taxes.

(Figures USD)	1998	1999
Sales	1,500,000	2,000,000
Cost of Goods Sold (COGS)	(350,000)	(375,000)
Gross Profit	1,150,000	1,625,000
General Operating Expenses (R&D)	(175,000)	(200,000)
Depreciation	(60,000)	(60,000)
Operating Income	915,000	1,365,000
Other Income (Interest Income)	40,000	60,000
Extraordinary Income	-	(15,000)
Earnings Before Interest and Tax (EBIT)	955,000	1,410,000
Interest Expense	(50,000)	(50,000)
Net Profit Before Taxes (NPBT)	905,000	1,360,000
Taxes (10%)	(90,500)	(136,000)
Net Profit After Taxes (NPAT)	814,500	1,224,000
Dividends Paid to Shareholders	-	(100,000)
Retained Earnings	814,500	1,124,000

Other Income - Revenues that don't stem from the core operations of the business are considered other income. Includes items such as capital gains (or losses) made from investments, foreign currency exchange or income from the rental of properties.

Extraordinary Income - This income is often bulked together with other income, but can be seen separately as well, because it represents profits or losses that do not occur on a regular, or even yearly basis.

Depreciation - Measuring the loss in value of an asset. For example, let's say you purchase a truck for your business. The truck loses value the minute you drive it out of the dealership. Each year that you own the truck, it loses

some value, until the truck finally stops running and has no value to the business.

Amortization – Similar to what happens with depreciation and physical assets, except amortization involves intangible assets. These assets can contribute to the revenue growth of a business and, as such, can be expensed against these future revenues.

Interest Expense - Interest expense is the amount the company has to pay on debt owed. This could be to bondholders or to banks. Interest expense subtracted from EBIT equals net earnings.

EBIT(DA) - Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA).

CASH FLOW STATEMENTS

Cash Flow Statements - Cash flow shows us how the company has performed in managing inflows and outflows of cash and provides a sharper picture of the company's ability to pay bills and creditors, and to finance growth.

Cash from Operations - Cash from operations is cash generated from day-to-day business operations.

Cash Inflows: sale of goods or services, collection of interest or dividends received

Cash Outflows: payments to suppliers for inventory, payment of employee salaries or government taxes, interest payments, other miscellaneous operating expenses related to company's core business

Cash from Investing - Cash from investing is cash used for investing in assets, as well as the proceeds from the sale of other businesses, equipment, or other long-term assets.

All figures in USD	
Cash Flow From Operations	
Net Earnings	2,000,000
<i>Additions to Cash</i>	
Depreciation	10,000
Decrease in Accounts Receivable	15,000
Increase in Taxes Payable	2,000
<i>Subtractions From Cash</i>	
Decrease in Accounts Payable	-15,000
Increase in Inventory	-30,000
Net Cash from Operations	1,982,000
Cash Flow from Investing	
Equipment	-500,000
Cash Flow from Financing	
Notes Payable	10,000
Cash Flow from FY Ended 31 Dec 2003	1,492,000



Cash Inflows: sale of property, plant & equipment (PPE), sale of investments (debt or equity securities) of or in another company, the collection of a principal on a loan to another entity

Cash Outflows: purchases of PP&E, investments, stock in another company, making a loan to another entity

Cash from Financing - Cash from financing is cash paid or received from issuing and borrowing of funds. This section also includes dividends paid.

Cash Inflows: sale of common stock, issuance of debt (bonds & notes)

Cash Outflows: payment of dividends to shareholders, repayment of long-term debt (or some portion of LTD), repurchasing common stock (increasing treasury stock)

Significant Non-Cash Activities - activities that do not affect cash flows and will not be directly recorded on the statement of cash flows but will be disclosed at the bottom of the Statement of Cash Flows in the section titled “Significant Non-cash Investing and Financing Activities”. Examples of non-cash activities include:

1. Direct issuance of common stock to purchase assets (land, equipment, etc.)
2. The conversion of bonds into common stock
3. Direct issuance of debt to purchase assets
4. Exchange of plant assets

Financial Documents

10K- Annual Report of a company’s activities filed with the SEC by the company after the end of each fiscal year.

10Q- Quarterly Report of a company’s activities filed with the SEC by the company after the end of each fiscal quarter.

Accounting Standards

Securities and Exchange Commission (SEC)- Governmental body that regulates securities markets and protects investors in the U.S.

Financial Accounting Standards Board (FASB)- Governmental body that sets financial accounting and reporting standards in the U.S.

Generally Accepted Accounting Principles (GAAP)- Set of accounting principles and procedures that companies follow when creating their financial statements.

Sarbanes Oxley Act (SOX)- Act passed by Congress in 2002 to prevent fraudulent corporate accounting. Requires corporations to follow stricter guidelines in generating financial statements and establishes fraudulent accounting as a criminal act.