Financial Terminologies – Part 2

Gross income
The total money earned by a business before you deduct expenses.

Gross profit
The difference between sales and the direct cost of making the sales.

Guarantor
A person who promises to pay a loan in the event the borrower cannot meet the repayments. The guarantor is legally responsible for the debt.

Hire-purchase
A type of contract where you purchase a good through an initial deposit. You then rent it and pay the balance off in instalments plus interest charges. When you make the final payment, ownership of the good transfers to the purchaser.

Initial public offering (IPO)
When a company first offers shares on the stock market to sell them to the general public. Also known as floating on the stock market.

Insolvent
A business or company is insolvent when they cannot pay their debts as and when they are due.

Intangible assets
Non-physical assets with no fixed value, such as goodwill and intellectual property rights.

Interest
The cost of borrowing money on a loan or earned on an interest-bearing account.

Interest rate
A percentage used to calculate the cost of borrowing money or the amount you will earn. Rates vary from product to product and generally the higher the risk of the loan, the higher the interest rate. Rates may be fixed or variable.

Inventory
A list of goods or materials a business is holding for sale.

Investment
The purchase of an asset for the purpose of earning money such as shares or property.

Invoice
A document to a customer to request payment for a good or service received.

Liability
Any financial expense or amount owed.

Line of credit
An agreement allowing a borrower to withdraw money from an account up to an approved limit.

Liquidation
The process of winding up an insolvent company. An appointed administrator will do this by ceasing business operations, selling assets, and paying creditors and shareholders.

Loan
A finance agreement where a business borrows money and pays it back in instalments (plus interest) within a specified period of time.

Margin
The difference between the selling price of a good or service and the profit. Margin is generally shown as a gross margin percentage which shows the proportion of profit for each sales dollar.

Mark down
A discount applied to a product during a promotion or sale for the purposes of attracting sales or for shifting surplus or discontinued products.

Mark up
The amount added to the cost price of goods, to help determine a selling price. Essentially it is the difference between the cost of the good/service and the selling price. It does not take into account what proportion of the amount is profit.

Maturity date
When a loan's term ends and all outstanding principal and interest payments are due.

Net assets
(also known as net worth, owner's equity or shareholder's equity) – the total assets minus total liabilities.

Net income
The total money earned by a business after tax and other deductions.

Net profit
(also known as your bottom line) – the total gross profit minus all business expenses.

Overdraft facility
A finance arrangement where a lender allows a business to withdraw more than the balance of an account.

Overdrawn account
A credit account that has exceeded its credit limit or a bank account that has had more than the remaining balance withdrawn.

Overheads

The fixed costs associated with operating a business such as rent, marketing, utilities and administrative costs.

Reference:

https://business.gov.au/finance/financial-tools-and-templates/key-financial-terms?fbclid=IwAR0NPTJSVCLtVR93N1xQMd73igkmhWLsTduEGyPOIAsBQN68DNlblo38PFs