Glossary of Finance and Business Terms

A Tool to Help You on Your Business Journey

If you're interested in starting or expanding a business, you'll likely encounter lots of terms and acronyms (abbreviations). Some or many of these may be unfamiliar to you.

This glossary will hopefully help you make sense of unfamiliar words and equip you for your business journey. While you don't need to talk like a banker, you may need to be able to talk to a banker and understand their language and how they think.

Financing Vocabulary

Alternative Lender: a general term to describe non-bank lenders. These may include mission-driven non-profit organizations, or profit-driven organizations including hard money lenders (lenders that require real estate collateral), and predatory lenders.

Amortization: in the context of lending, this refers to the repayment schedule of a loan, calculated so that you pay the same monthly payment throughout the term of the loan. Each payment includes principal (the loan itself) and interest (added by the lender). A longer amortization period provides for a lower monthly payment but accrues more interest.

Angel Investor: an individual who provides capital, typically in exchange for an ownership or equity stake in the company.

APR (Annual Percentage Rate): refers to the interest rate charged over an entire year, inclusive of any non-interest charges and fees. This is an excellent measure of the precise cost of a loan.

Balloon Payment: amount due at loan maturity. This occurs when the loan is amortized over a longer term than the loan term and there is a remaining principal balance.

Bank: a regulated type of financial institution that holds deposits and makes loans.

Community Development Financial Institution (CDFI): mission-driven, non-profit organizations, banks or credit unions that provide underserved people, businesses and non-profits with the financial services needed to achieve their goals and build strong, vibrant communities.

Credit Cards: revolving credit lines usually managed by banks. Entrepreneurs, especially those unable to access other sources of financing, may turn to personal credit cards to fund their business. Credit cards typically have high interest rates and are the best fit for short-term items that will convert to cash within 30 days (for example, certain inventory items). Term loans are a better fit for financing longer-term assets such as tenant improvements or equipment.

Credit Union: like a bank, credit unions hold deposits and often make small business loans, but unlike a bank they are member-owned non-profit financial cooperatives.

Crowdfunding: funding a business or project by raising money, typically online, from many people.

Equity Financing: a general term to describe financing through which a business receives capital in exchange for an ownership or equity stake in the business.

Friends and Family: entrepreneurs often turn to friends and family for funding or co-signing on a business loan.

Grants: this refers to funding, whether from government or philanthropic sources, that does not require repayment and does not require the entrepreneur to give up any equity (ownership) in their business.

Hard Money Lender: a non-traditional lender specializing in short-term loans secured or collateralized by property.

Individual Retirement Account (IRA): entrepreneurs may choose to fund their business with retirement savings from an IRA or 401(k). Not only does this incur penalties and taxes, but it can also jeopardize your ability to retire comfortably.

Microlender: typically, these are non-profit lenders that offer microloans of $50,000 or less, sometimes along with coaching, mentorship, or business services. philanthropy: refers to nonprofits and other organizations that focus on charitable projects and social well-being.

Predatory Lending: according to the Federal Deposit Insurance Corporation (FDIC), predatory lending, "typically involves imposing unfair and abusive loan terms on borrowers" including, "(1) abusive collection practices, (2) balloon payments with unrealistic repayment terms, (3) equity stripping associated with repeat refinancing and excessive fees, and (4) excessive interest rates that may involve steering a borrower to a higher-cost loan."

Term Loan: a loan that is repaid over a period of time (the term) using an amortization schedule. The term is typically based on the life of the asset that you're financing. The "life" of tenant improvements, for example, is the lease term; the life of equipment is how long it will serve you; the life of real estate may be longer but commercial lenders typically limit to 25 years and residential lenders typically limit to 30 years.

Venture Capital: a form of private equity financing in which venture capital firms or individuals invest in a business usually in exchange for a share or equity stake in that business.

General Business Vocabulary

Accounts Receivable (A/R): the amount of money owed by your customers after goods or services have been delivered and/or used. A/R is like a zero-interest loan you're giving your customers.

Accounts Payable (A/P): the amount of money you owe your suppliers after goods or services have been delivered and/or used. A/P is like a zero-interest loan from your suppliers.

Accruals: revenue earned or expenses incurred which will affect income, although the cash associated with the transaction has not yet changed hands.

Asset: anything of value that can be converted into cash. Business assets appear on a balance sheet in order of liquidity (how quickly/easily they can convert to cash) and include cash, accounts receivable, notes receivable, inventory, equipment, tenant improvements, and real estate.

Balance Sheet: a financial report that summarizes a company's assets (what it owns), liabilities (what it owes), and the owner's equity at a given time. It's considered balanced when assets equal liabilities plus owner's equity.

Breakeven Point: the amount of revenue from sales which exactly equals the amount of expenses. Sales above the breakeven point produce a profit; sales below the breakeven point produce a loss.

Business Partner: a person with whom you have a formal agreement to jointly manage and operate a company. This can be through a General Partnership, Limited Partnership, as members of a Limited Liability Corporation, or as shareholders of a S- or C-Corporation.

Business Plan: a document setting out a business's future objectives and strategies for achieving them.

Cash Flow Analysis: an analysis accounting for the money that flows in (revenue, equity or debt proceeds) and out (expenses, purchases of assets, loan repayment or owner distributions) of the business. Having a positive cashflow is essential for a business to survive in the long run.

Collateral: an asset pledged as security for repayment of a loan, to be forfeited in the event of a default. Collateral can include cash, inventory, equipment and real estate. The value of collateral is typically discounted based on the ability to convert it into cash.

Cost of Goods Sold (COGS): the cost of inventory that you've sold in a given period.

Credit Score: a number usually between 300 and 850 that is determined by the individual's history of repayment. A higher number means the individual will have an easier time qualifying for financing. Many lenders charge borrowers with lower credit scores higher interest rates to cover perceived risk. debt-to-equity ratio: a simple way to calculate how indebted a business is, the debt-to-equity ratio is calculated by dividing total liabilities (debt) by total equity.

Gross Profit: the amount of money a business makes on the markup of goods and services. Revenue minus cost of goods sold equals gross profit. Gross profit minus other expenses equals net profit.

Gross Profit Margin: the percentage derived by dividing gross profit by revenue (GP/R).

Guarantor: an individual who promises to pay a borrower's debt if the borrower defaults on their loan obligation.

Income Statement: also known as the profit and loss statement, an income statement focuses on the company's revenues and expenses during a particular period.

Interest Rate: the amount a lender charges a borrower as a percentage of the principal or amount loaned. The interest rate is typically noted as an annual percentage rate (APR).

Net Profit: a company's total earnings or "bottom line," calculated by subtracting total expenses from total revenues.

Net Worth: a measure of your business's total value, as determined by your total current assets less the total liabilities currently owed by the business.

General Business Vocabulary continued

Operating Cycle: purchasing inventory and selling for cash or on account (accounts receivable or A/R) creates a need for cash. This can be offset by purchasing supplies/inventory on account (accounts payable or A/P). Lenders will calculate A/R plus inventory less A/P less accruals to determine your permanent working capital and determine how much additional working capital you may need to fulfill a certain contract or revenue projection.

Permanent Working Capital: the amount of cash that is consistently tied up in your operating cycle. Maintaining a minimum amount of inventory and accounts receivable, if not offset by that same amount of accounts payable and accruals, requires a certain amount of cash.

Profit and Loss Statement: a financial statement, also known as an income statement, that summarizes a company's performance and financial position by reviewing revenues, costs, and expenses during a specific period of time.

Projections: financial projections show the expected revenues, expenses, and cash flows of a business over a forecast period. Projections may be used internally to make key business decisions or externally to convince a lender or investor to finance the business.

Revenue: known as sales, revenue is the money or receivables brought into a company by selling goods or services or other business activities.

Small Business Administration (SBA): a government agency focused on providing counseling, capital, and contracting expertise for entrepreneurs and small business. Common loan products include 7A, a loan guaranty, and 504, a direct loan toward owner-occupied real estate.

Small Business Development Centers (SBDCs): a network of nearly 1,000 local centers, SBDCs provide no-cost business consulting and low-cost training to new and existing businesses.

Start Up: a company in the early stages of development and planning.

Working Capital: operating liquidity available to a business, working capital is calculated as current assets minus current liabilities.

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