

Glossary and Formulas for FINANCE



Name: _____

GLOSSARY OF TERMS



Break Even	This is the level of sales at which a firm is breaking even. Total revenue equals total costs.
Capital	The money that funds a business.
Capital Employed	All the money that has been invested in a business
Cash Inflow	A flow of cash into the business
Cash Outflow	A flow of cash out of the business
Cash flow forecast	A future prediction of how cash might flow into and out of a business.
Cash Surplus	A situation when the cash inflow is greater than the cash outflow
Cash Deficit	A situation when a business finds itself short of cash because the outflow is greater than the inflow
Credit Rating	A score given to individuals on how likely they are to repay debts.
Current Account	An account with a bank designed for frequent use
Current Assets	Items owned by the business that change in value on a regular basis. Eg stock
Debt	Money owed
Direct Costs	Costs that are directly related to making a product
Expense	Are all the costs of the business which are divided into direct or indirect and fixed or variable.
Fixed Asset	Item of value owned by a business that are likely to stay in the business for more than 1 year. Eg, machinery
Fixed Cost	These costs do not change when output changes, for example the rent of a premises must be paid even though the factory may be closed.
Fraud	When an individual acquires company money for personal gain, through illegal actions
Gross Profit	The money left over once cost of sales have been taken away from revenue
Indirect Costs	Costs that can't be directly related to the making of a product
Insurance	An agreement with a third party to provide compensation against financial loss
Interest Rate	The cost of borrowing money or the reward for saving money
Internal Sources of Finance	Money available to fund expenditure from within the business.
Investment	Speculative commitment to a business venture in the hope that it generates a financial reward in the future
Liabilities	What a business owes to other people
Margin of Safety	This is the amount by which a firm's sales can fall before reaching break-even point.
Net Profit	The money left over once expenditure is taken away from gross profit

Overdraft	The ability to withdraw money that you do not have in your current account
Premiums	Regular payments made by an individual or company to an insurance provider in return for protection.
Revenue	is sales income (turnover) from selling goods and services which includes cash payments and sales on credit.
Saving	Placing money in a secure place so that it grows in value and can be used in the future
Semi-Variable	These consist of a fixed or standing charge plus an extra rate which varies according to use.
Shareholder	Someone who has invested in a company
Trade payables	Money the business owes from supplies purchased but not yet paid
Trade receivables	Money owed to the business from sales made but not yet paid for.
Variable Costs	These are costs that change when output changes, for example wages and raw materials.

FORMULAS

Variable Cost	Variable cost per unit x Quantity
Total Cost	Fixed Cost + Variable Cost
Revenue	Selling price per unit x Quantity
Profit/Loss	Revenue – Total Cost
Contribution	Selling price per unit – Variable Cost per unit
Break Even	$\frac{\text{Fixed cost}}{\text{Contribution}}$
Opening Balance	Closing balance from month before
Total Income	Incomes added together
Total Expenditure	Outgoings added together
Net Cash Flow	Total income – Total Expenditure
Closing Balance	Opening Balance + Net Cash Flow
Cost of Sales	Opening stock + Purchases – Closing stock
Gross Profit	Revenue – Cost of sales
Net Profit	Gross Profit – Expenditure
Working Capital / Net Current Assets	Current assets – current liabilities
Net Assets	Current assets + Fixed assets – current liabilities OR Fixed Assets + Net Current Assets