



## **GLOSSARY OF BUSINESS TERMS**

**ACCOUNTANT** – One who is skilled at keeping business records. Usually, the name accountant refers to a highly trained professional rather than one who keeps books.

**ACCOUNT** – A record of a business transaction of “deal”. When you buy something on credit, the company you are dealing with sets up an “account”. This means it sets up a record of what you buy and what you pay. You will do the same with any customers to whom you extend credit.

**ACCOUNTS PAYABLE** – Money owed (liability) by the business to suppliers, vendors, and government, or liabilities to creditors usually for purchases of goods or services.

**ACCOUNTS RECEIVABLE** - A record of what is owed to you. All of the credit “accounts” – the record of what each customer owes you – taken together is your “accounts receivable”.

**ACCRUED EXPENSE** – A liability, created by the consumption of economic benefit, that has not been invoiced and does not require repayment until a later date.

**ACCRUED REVENUE** – An asset, created by the realization of economic benefit, which normally is not due or invoiced until a later date.

**AMORTIZATION** – The gradual and systematic payment of a large sum, usually including interest, over a fixed period of time

**ANNUITY** – A sequence of equal payments, usually made at regular intervals of time.

**ASSET** – Anything of worth that is owned. Assets include any money you or your business have on hand, any property you or your business own, any securities you or your business have, furniture and appliances and all the miscellaneous things owned by you or your business.

**ARTICLES OF INCORPORATION** – A legal document filed with the provincial and/or federal government that sets forth the purposes and regulations for a corporation. These papers must be approved by the provincial and/or federal government before a corporation legally exists and is allowed to do business.

**AUDIT** – The examination of the records and financial statement of a business or organization.

**BAD DEBTS** – Money owed to the business that cannot be collected. A business should never give credit, or loan money to anyone who is not a good risk.

**BALANCE SHEET** – A balance sheet shows the assets, liabilities and owner’s equity of the business at a particular date

**BOOKKEEPING** – The process of recording business transactions into the accounting records.

**BREAK-EVEN POINT** – The level of business at which the revenue (income) equals the expenses (outgo).

**BUDGET** – A plan of action expressed in financial terms. A monetary plan with a forecast of cash flows, revenue, expenses and profit or loss over a future period, usually one year, or one operating cycle

**BUSINESS IDENTIFICATION NUMBER** – The number assigned by the Companies Branch of the provincial government to your business name registration. This is not your business number.

**BUSINESS LICENSE** – Required by municipalities for particular businesses in order to operate. This is in addition to the business name registration. To determine if your business will be affected by local regulations, licenses, municipal business tax or zoning requirements contact the clerk of the town, city, village or municipality where your business will be located.

**BUSINESS NUMBER** – A federal business numbering system. The business number is assigned for Goods and Service Tax (GST), payroll deductions, import/export and/or corporate income tax.

**BUSINESS PLAN** – A statement in words and numbers of the goals of a business and how/when the owners propose to reach these goals.

**BUY-SELL AGREEMENT** - an agreement, usually between business partners or shareholders, as to the method and procedures to be utilized in the event the interest or shareholding of one is to be acquired by another.

**CAPITAL** – Available money to invest or the total accumulated assets available for production. Put another way, your capital for going into business is the total of your property and money resources that you can make available for the business and whatever you will need to live on while getting the business going.

**CAPITAL EQUITY CONTRIBUTION** – Funds invested by the business owner(s) into the business.

**CASH FLOW FORECAST** – An estimate of when and how much money will be received and paid out of the business; usually month by month for a period of one to two years. The cash flow forecast helps to time expenditures in order to avoid cash shortages.

**CASH RECEIPTS** – The money received by a business from customers.

**COLLATERAL** – Property, (real, personal or otherwise) pledged as security for a loan.

**COMPETITIVE ADVANTAGE** – An advantage a company gains over competitors by offering consumers greater value through lower prices, or more benefits that justify higher prices

**COMPETITIVE ANALYSIS** – The process of identifying key competitors; assessing their objectives, strategies, strengths, and weaknesses, and reaction patterns. Selecting which competitors to attack or avoid.

**CONDITIONS** – The limits written into an agreement between a borrower and lender. The limits specify exactly what each party is expected to do in exchange for the benefits each will receive.

**COPYRIGHTS** – Copyright applies to all original literary, dramatic, musical and artistic works

**CORPORATION** – A corporation, also known as a Limited Company, is a legal entity which is separate from its members (shareholders). Each shareholder has limited liability. A creditor with a claim against the assets of the company would normally have no rights against its shareholders, although in certain circumstances shareholders may be held liable.

**CREDIT** – Credits are used in bookkeeping to record transactions. Another definition: The business owners' reputation for prompt payment of obligations, as in "a good credit rating".

**CURRENT ASSETS** – Those assets of a company that are ordinarily realizable within one year or within the normal operating cycle

**CURRENT LIABILITIES** – Those amount payable within one year or within the normal operating cycle

**DEBIT** – Debits are used in bookkeeping to record transactions.

**DEBT** – That which is owed. If you borrow money, buy something on credit or receive more money on an account than is owed, you have a "debt" – an obligation to pay back whatever amount of money or goods is involved. Going into "debt" was once considered a sin but can be a useful and often necessary way of doing business.

**DEBT/EQUITY RATIO** – A comparison of debt and equity used to measure the financial health of a business

**DEMOGRAPHICS** – The study of definable characteristics of a population, including gender, religion, race, health, income, age, education and home ownership

**DEPRECIATION** – The amount that assets decline in value from use, wear or passing of time

**DIRECT EXPENSES** – Funds paid for materials and labour used in making a product or service. Also called Cost of Goods Sold.

**EQUITY** – The value of a business after all debts and other claims are settled. Also the amount of cash a business owner invests in a business and the difference between the price for which a property could be sold and the total debts registered against it.

**EXECUTIVE SUMMARY** – A one to two page summary that highlights the essential details of your business plan. It includes a brief description of the ownership and management, products and services offered, financial objectives, including projected annual sales and net income, marketing strategy, competitive advantage, goals, and the amount of money you expect to borrow.

**FINANCING** – Obtaining money resources. Businesses usually have to obtain financing at some time: to either go into business or expand operations

**FINANCIAL STATEMENTS** – Documents that show your financial situation. The major statements needed to cover the information necessary to run a business and obtain financing are the Income Statement, Balance Sheet, and Cash flow statement.

**FIXED ASSETS** – Assets like machinery, land, buildings or property used in operating a business that will not be consumed or converted into cash during the current accounting period.

**FIXED EXPENSES** – Costs that do not change with the volume of business, such as rent, insurance, and some utilities.

**FRANCHISE** – A right or privilege to deal in a certain line or brand of goods and services. A franchise company (franchisor) is in the business of “selling” businesses or brands to small business people (franchisee). Usually, the franchisor and franchisee enter into a binding contract where the franchisor supplies product, materials and a certain amount of know-how and the franchisee agrees to handle the product exclusively and run the business according to certain standards prescribed by the franchisor.

**GENERAL PARTNERSHIP** – An unincorporated business with two or more owners. The general partnership may consist of individuals, corporations or other unincorporated businesses. This is not the same as a limited partnership. The business name of a general partnership is registered under the provincial Business Names Act.

**GROSS PROFIT** – The difference between the sales generated and the costs paid out for goods. Gross Profit Margin is usually expressed as a percentage.

**INCOME** – Money coming into the business.

**INCOME STATEMENT** – the Income Statement summarizes the revenues generated and the expenses incurred by a business within a given period of time. Income Statements are generally stated on an accrual basis rather than a cash basis. This means that revenues and expenses are recorded as they are earned and incurred, not necessarily when payment is received

**INDUSTRY RATIO** – The standard or “average” percentage of expenses spent by a firm in a similar type of business. These “industry ratio” figures are very important guidelines for a business.

**INTEREST** – The cost of borrowing money.

**INVENTORY** – A list of assets being held for sale. If you are in a retail business, the stock you have on the shelves is “inventory” but then so are your available supplies, goods received or stored and any expendable items on hand.

**INVENTORY TURNOVER** – The amount of inventory on hand divided by the amount of inventory sold annually. Most businesses have operational inventory standards.

**LEASE** – A long-term rental agreement. A “lease” arrangement is mutually advantageous to both the lessor (renter) and the lessee (owner). The agreement gives the landlord assurance that

the property will be rented and protects the renter because it assures that the business property will not be rented out from under the business.

**LIABILITY INSURANCE** – Risk protection for actions for which a business is liable. Insurance that a business carries to cover the possibility of loss from lawsuits in the event the business or its agents were found at fault when an action occurred.

**LIMITED PARTNERSHIP** – A legal partnership where some owners are allowed to assume responsibility only up to the amount invested. The idea for a limited partnership is that some investors may put up money for a business venture without being directly involved in its operation and so are not held responsible for the debt of the other partners beyond the possible loss of money they have invested.

**LOAN** – Money lent at interest. A lender makes a “loan” with the idea that it will be paid back as agreed and that interest will be paid for the use of the money.

**LONG TERM LIABILITIES** – Money that you owe over a period longer than twelve months, such as mortgages and bank loans.

**MARKETING** – All the activities involved in buying and selling a product or service. You must know all areas of the 4P’s – Price, Product, Place and Promotion. Knowing the who, what, when, where and how of the 4P’s will help market your business.

**MARKET SHARE** – The portion of the target market to whom the company is able to sell their product or service.

**MARK UP** – An amount added to the cost of an item to determine a selling price.

**NET INCOME** – Profit or loss after owner draw and loan payments.

**OPERATING COSTS** – Expenditures arising out of current business activities. In other words, your “operating costs” for any period of time are what it costs you to do business – the salaries, electricity, rent, deliveries, etc., that were involved in performing the business dealings.

**PARTNERSHIP** – A partnership is a business, not incorporated, in which two or more persons combine their resources. A partnership agreement may specify the capital contributions to be made by each partner, the ratios in which partnership earnings and losses will be distributed, the management responsibilities of the partners, and the partners’ rights to transfer or sell their individual interests.

**PATENTS** – The right granted by the federal government to exclude others from making, using or selling your invention for up to twenty years.

**PAYABLE** – Ready to be paid. One of the standard accounts kept by a bookkeeper is the “accounts payable” account. This account includes all of the invoices to be paid.

**PRICING** – To set the selling price. One of the most difficult jobs in business is selecting the right price. Pricing should be done carefully. You have to consider how much profit you need, what your competition is charging and how much your customer is willing to pay.

**PROFIT** – Financial gain, returns over expenditures. Simply put, “profit” is what you’ve got left after paying for everything.

**PROFIT MARGIN** – The difference between your selling price and your costs. A lot of factors affect profit margin inside and outside the business. A reasonable profit margin is necessary to remain in business.

**PROFIT LOSS STATEMENT** – A list of the total amount of sales (revenue) and total costs (expenses). The difference between revenues and expenses is your profit or loss. It is also called an “income statement”.

**RETAINED EARNINGS** – All the profits or losses that have accumulated from prior years and from this year’s income statement, less dividends paid to the owner(s).

**SHORT TERM LIABILITIES** – Money that is to be paid in less than twelve months, including wages, taxes, etc.

**SOLE PROPRIETORSHIP** – An unincorporated business with one (sole) owner, who is fully responsible for all debts and obligations related to his or her business. A creditor with a claim against a sole proprietor would normally have a right against all of his or her assets, whether business or personal. The business name is registered under the provincial Business Names Act.

**SWOT ANALYSIS** – Is a strategic planning term used to assess **Strengths & Weaknesses** (which are internal), **Opportunities**, and **Threats**, (which are external).

**TARGET MARKET** – That part of the market which is a business’ potential customers

**TRADEMARK** – A word, symbol, design or a combination of these that is used to distinguish the wares or services of one person or organization from those of others in the marketplace

**VENTURE CAPITAL** – Commonly refers to funds that are invested by a third party in a business, either as equity or as a form of secondary debt.

**WORKING CAPITAL** – Capital being used by the business to purchase materials, pay wages, etc. It is the excess of a company’s total current assets over total current liabilities. This is distinguished from the capital investment in fixed assets.



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