

## definitions

### **accounting**

Is the system that records, reports and analyses the financial transactions of an enterprise.

### **accounts payable**

Also, known as trade creditors and are the unpaid portion of monies owed by the enterprise to suppliers for goods and services rendered.

### **accounts receivable**

Also, known as trade debtors, represents the unpaid portion of money owed to the enterprise by its customers for goods and services rendered.

### **asset turn (AT)**

This calculation represents the number of times the net assets in an enterprise is divided into revenue. In other words, the number of times the net assets are turned over during a financial period.

### **asset**

An asset is an item owned by an enterprise. It can be classified as either fixed or current.

### **balance sheet**

A balance sheet is a statement of an enterprise's financial position at a point in time. It shows the two sides of the financial situation - what the enterprise owns and what it owes. Expressed as an equation, Total assets equals Non-Interest-bearing debt plus shareholders' equity plus Interest bearing debt.

### **bill of material**

A bill of materials is a comprehensive list of all raw materials, components and assemblies required to build or manufacture an item. The bill of materials is used to calculate the usage and cost of each component used in the production of an item.

### **breakeven point**

The breakeven point is that point when the number of items sold at a pre-determined margin will recover the fixed costs of the enterprise so allowing the business to breakeven when the fixed expenses will be equal to the gross profit earned by the enterprise.

### **capital employed**

Capital employed is the credit side of an enterprise's balance sheet. It represents the formal funding in an enterprise - the shareholders' equity and the Interest-bearing debt. This funding finances the debit side of the enterprise's balance sheet, the net assets.

### **cash flow**

Cash flow is the amount of actual cash generated by an enterprise, which usually differs from profits recorded.

### **cost of sales**

The cost of producing or acquiring items or services to be sold by the enterprise.

### **current assets**

Assets which will be converted to cash within a period of a year.

---

**current liabilities**

Also, referred to as Non-Interest-bearing debt, is money owed by the enterprise to suppliers for services rendered, which will be paid within a year.

**debt / equity ratio**

This ratio presents the proportion of Interest bearing debt to shareholders' equity in the enterprise, which collectively equals the net assets. A value less than 1 means that the business has less Interest-bearing debt than shareholders' equity in the business.

**depreciation**

Depreciation is the loss in value of a fixed asset due to its wear and tear over time.

**dividends**

Dividends is a portion of taxed earnings paid out to the owners of the enterprise as a return on their investment.

**dividends per share**

Dividend per share is the portion of taxed earnings paid out to the owners of the enterprise expressed as a unit of a single share.

**equity Loan**

An equity Loan is a non-secured loan, which shareholders have advanced to the enterprise and the loan does not attract interest.

**expense / cover**

Expense / cover represents the number of months that operating expenses can be paid from available cash resources at a point in time.

**expense / income ratio**

This calculation presents a ratio of expenses incurred for every unit of income earned.

**financial statements**

This is a set of reports which show the financial position of an enterprise and include an Income statement, balance sheet and a cash Flow statement.

**fixed assets**

An asset used to produce income over a long period.

**gross profit**

Gross Profit is the surplus when cost of sales is deducted from revenue, before any Operating expenses are deducted.

**income statement**

An Income statement is the summary of revenue, cost of sales, gross profit adjustments, other income, operating expenses, interest earned and paid, taxation paid and dividends paid to shareholders for a specific financial period.

**interest bearing debt**

Interest bearing debt is the total value of interest bearing loans made to enterprise and includes variable bank balances, which may also earn interest when the balance is positive.

---

**interest paid**

Interest Paid is a non-operating expense shown on the income statement. It represents interest payable on any borrowings such as loans, bank overdrafts or other lines of credit. It is calculated as the interest rate times the outstanding principal amount of the debt.

**interest received**

Interest Received is a non-operating income shown on the income statement. It represents interest received from any surplus funds, which may be placed with a financial institution. It is calculated as the interest rate times the principal balance.

**interest paid / cover**

Interest paid / cover is the number of times interest paid is divided into the net operating profit. So, the higher the number the better it is for the business.

**inventory**

Inventory is a current asset, which includes unsold items including raw materials, components and finished goods.

**margin**

Margin is defined as the gross profit earned from the sales of either good or services expressed as a percentage of revenue received from sales. So, margin is gross profit divided by the selling price multiplied by one hundred.

**markup**

Markup is defined as the gross profit earned from the sales of either good or services expressed as a percentage of the cost of the items sold. So, markup is gross profit divided by the cost price multiplied by one hundred.

**net assets**

Net assets is the debit side of the enterprise's balance sheet. It represents Total assets, less non-interest-bearing debt and is funded by capital employed.

**net operating profit**

Net Operating Profit is gross profit, plus other income less operating expenses.

**non-interest-bearing debt**

Also, referred to as current Liabilities and is the aggregation of monies owed by the enterprise to providers of goods and services. These liabilities are described as current because it is assumed that will they will be paid within one year. The term non-Interest-bearing debt is used because this is also a form funding on which interest is generally not charged.

**operating expenses**

Refer to expenses that are not directly involved with the production of goods and services and are further classified as either fixed or variable.

**other income**

Other Income is the aggregate several income streams, which may or may not associated with the primary trading purpose of the enterprise.

**other assets**

Include assets such as cash floats, deposits and payments in advance of services rendered are classified as a current asset.

---

**other fixed assets**

An asset used to produce income, but depreciated on a replacement basis.

**retentions – current**

Retentions – current are the remaining profits after accounting for tax and dividends for the current financial period.

**retentions – prior**

Retentions – prior are profits not distributed to shareholders as dividends from prior years.

**return on net assets (ROA)**

This calculation presents the net operating profit as a percentage of net assets. So, with  $ROS \times AT = ROA$  it means that if margins in a business are high, asset turn can afford to be lower to achieve a desired ROA. Conversely, if margins are low, AT needs to be higher to achieve the desired ROA.

**return on sales (ROS)**

This calculation presents the percentage of net operating profit earned from revenue.

**return on equity**

This calculation presents the percentage of taxed profits earned from the shareholders' equity at the beginning of a financial year.

**revenue**

Revenue is the aggregate amounts charged to customers for goods and services.

**share capital**

Share capital is the aggregate value of permanent capital paid into the business, by the owners of the enterprise, for their shares which value is determined as the number of shares issued multiplied by the nominal value of each share, usually determined in the articles of association of the enterprise.

**share premium**

Share capital is the aggregate value of permanent capital paid into the business, by the owners of the enterprise, for shares which value is determined as the number of shares issued multiplied by a value more than the nominal value of each share.

**shareholders' capital**

Shareholders' capital is aggregate value of the capital paid into the business by the owners of the enterprise, which includes ordinary share capital and share premiums.

**shareholders' equity**

Shareholders' equity is the owners net worth in the enterprise should it be liquidated. This net worth includes the initial capital, accrued profits and loans due to the shareholders.

**shares in issue**

Shares in an enterprise are issued to investors and certify that they own a specific portion of the enterprise. Owning the shares allows the investor to vote on certain strategic decisions and their vote counts in proportion to the number of shares they own. The number of shares also determines the value of their earnings when dividends are declared. Under certain circumstances and conditions, investors may be allowed to buy and sell shares from and to other investors.

---

**share earnings**

Share earnings is the enterprise's taxed profit for a period, divided by the average number shares in issue.

**share value**

Share value is the shareholders' equity divided by the number of shares in issue at the time of valuation. Therefore, it is the value of a single share in the enterprise.

**taxation**

Taxation is levied by governments on the net profit earned by the enterprise.

**taxation payable**

Taxation owed by the enterprise at any point in time is regarded as a current Liability.

**term loan**

A term-loan is taken out by the enterprise to finance long-term projects and is paid off over a negotiated period.

**total assets**

Total assets are the aggregate of fixed and current assets. This total is funded by the sum of non-interest-bearing debt, shareholders' equity and interest bearing debt.

**trading account**

A trading account is a summary of revenue, cost of sales, gross profits, gross profit adjustments, other income and expenses over a period, which presents the operating profits of the enterprise.

---