Glossary

In order to maximize the effectiveness of the program, spend a few minutes reading over these basic terms. They can also be given to clientele in the event that they need further explanation of terminology.

ACCOUNTING is a method of gathering financial information and reporting on the activities of a business. The ultimate end product of accounting is NOT good financial reports. Rather, the desired end points of accounting are an excellent understanding of your business and better management action. Remember, accounting does not equal bookkeeping. Sageworks Analyst™ fills the gap between bookkeeping and action.

ACCOUNTS PAYABLE are amounts owed to suppliers or vendors.

ACCOUNTS RECEIVABLE are amounts that customers owe the company for services rendered.

ADRs (AMERICAN DEPOSITORY RECEIPTS) are certificates issued by a U.S. depository bank, representing foreign shares held by the bank, usually by a branch or correspondent in the country of issue. One ADR may represent a portion of a foreign share, one share, or a bundle of shares of a foreign corporation. Because ADRs are quoted in U.S. dollars and traded just like any other stock, they make it simple for investors to diversify their holdings internationally for companies that are located outside the U.S. but traded on U.S. exchanges.

ASSETS are resources that are owned by the firm and help earn profits. Many times, assets are buildings, machinery, inventory, or other resources that a company owns or holds. Assets are listed on the Balance Sheet. Remember that assets are not always tangible, something material that can be physically held. For example, accounts receivable is an asset, but it is not something tangible.

BALANCE SHEET is a listing of assets, liabilities, and equity as of a certain date. The Balance Sheet is one of the two most important financial statements. The other important financial statement is the income statement.

CASH (BANK FUNDS) is the total funds available in a company's checking, savings, and marketable securities accounts that can be used to pay bills within 90 days.

CASH FLOW FORECAST is a month-by-month projection of all expected cash receipts and cash expenditures for a company. The difference between expected cash receipts and expected cash expenditures is referred to as Net Cash Flow. Managers prepare a cash flow forecast to anticipate cash balances in the future.

CASH FLOW STATEMENTS are reports of the cash inflows and outflows for a particular period of time. In many instances, these cash flows are grouped into 3 categories: cash from operations, cash from investing activities, and cash from financing activities.

COST OF SALES (COGS) is the direct cost of the products and services sold. The Cost of Sales section on the income statement may take on different formats. Typically, however, Cost of Sales (COGS) includes inventory costs, direct labor costs, material costs, sales commissions, and other costs directly associated with the generation of revenue.

CURRENT ASSETS are assets that a company has for a short period of time before they are put into the business, such as cash, accounts receivable, and inventory. Other current assets include marketable securities and prepaid expenses.

CURRENT LIABILITIES are amounts owed that must be paid for in the short term, usually within a year. Accounts payable is an example of a common current liability. Current liabilities are considered accrued (built-up) expenses.

CURRENT RATIO equals Total Current Assets divided by Total Current Liabilities. The current ratio indicates the amount of liquid assets available to pay off current liabilities or the company's ability to pay its bills and meet its current obligations. Generally, the higher the current ratio is, the greater the company's liquidity.

DEBT (LIABILITY) is an obligation to pay money that is due under specified terms. It is an amount owed as of a certain date.

DEPRECIATION and AMORTIZATION is a reasonable estimate of how assets lose value over time. Depreciation expense is the amount by which a company estimates an asset decreases in value for an income statement period in question.

EMPLOYEES + CONTRACTORS (FTE) are the full-time staff and full-time contractors who do work. They are sometimes referred to as FTE (full-time equivalents). To calculate FTE of several part-time employees, take the total hours worked by the part-time employees and divide by the full-time equivalent hours.

EQUITY (OWNER'S EQUITY, NET WORTH, SHAREHOLDERS' EQUITY) is the recorded ownership claim of common and preferred shareholders in a corporation as reflected on the Balance Sheet. It is defined as Total Assets minus Total Liabilities.

EXPENSES are the costs of doing business and are measured over a certain period of time. Expenses show up on the income statement and are subtracted from Sales to determine Net Profit.

EXTRAORDINARY GAIN OR LOSS is an economic event in a company that has a financial result which would not normally occur during the normal operating cycle of a business.

FINANCIAL ANALYSIS is the act of evaluating a company's financial statements in order to understand the business better. The value of financial analysis is to help managers understand how the business is doing AND how they might improve performance. It can also help investors better understand the financial performance of companies in which they might like to invest.

FISCAL YEAR is a twelve-month period during which the company reports income and expenses. Most companies use January 1 to December 31 as their fiscal year, their fiscal year equals the calendar year. Sometimes, however, companies may choose to select a twelve-month period other than the calendar year. Basically, it is important to note that fiscal year does not always mean calendar year.

FIXED ASSETS are any assets on the Balance Sheet considered to have a life or usefulness in excess of one year. Common examples include land, buildings, and machinery. It is best to enter gross fixed assets into the Sageworks Analyst expert system. In other words, the Fixed Assets entry should not include any deductions for depreciation.

FIXED COSTS are any costs or expenses that do not vary too much with changes in the volume of operations over a specified time. Rent expense is usually considered a fixed expense. However, no cost is fixed over the long term.

GENERAL & ADMINISTRATIVE EXPENSES (G&A) are overhead costs such as rent, utilities, staff personnel, professional fees, and depreciation. G&A expenses are also referred to as "Operating Expenses".

GROSS PROFIT is the difference between Sales and Cost of Sales. It is the profit earned before paying operating expenses.

GROSS PROFIT MARGIN equals Gross Profit divided by Sales, expressed as a percentage. It represents the cents of gross profit per sales dollar.

INCOME STATEMENT shows a company's sales, expenses, and profits or losses for a certain period of time. The income statement is also referred to as a Profit & Loss Statement. The income statement and balance sheet are the two most important financial statements.

INTEREST EXPENSE is the cost of borrowed funds (debt). Companies must typically pay a premium for the use of another's money.

INVENTORY is the value of goods that have been produced or purchased for resale.

NET INCOME is the bottom line net earnings (or losses) of a company.

NET OPERATING INCOME is the operating income for a company; how much profit is made from operations. In our model, Net Operating Income equals Net Income + Depreciation + Amortization + Interest Expense + Income Taxes + Extraordinary Gains or Losses.

NET PROFIT BEFORE TAXES is what is left over after all expenses are paid (except income taxes in our model). Profit is always expressed as monies earned during a certain period of time. It is probably a good idea to add back owner's compensation in excess of salary to Net Profit before Taxes on the input screen.

NET PROFIT MARGIN equals Net Operating Income divided by Sales, expressed as a percentage. It represents the cents per dollar of sales that the company extracts in profits. Finance professionals view this metric as a critical gauge because it indicates operating efficiency.

OPERATING EXPENSES are expenses that are paid from the gross profits of the company. They are often referred to as General & Administrative or Overhead Expenses.

PRINCIPAL is the original amount of a loan. The rate of interest is based on the original amount of the loan.

QUICK RATIO is the sum of Cash and Accounts Receivables divided by Total Current Liabilities. Both the quick ratio and current ratio assess a company's ability to meet short-term obligations. The current ratio measures a company's overall liquidity, while the quick ratio measures liquidity by considering only readily liquid assets, items that can be quickly converted to cash. It should be noted that not one ratio or metric can in itself accurately depict liquidity, which is largely driven by future events, not present conditions.

RATIO ANALYSIS is the use of a variety of ratios in analyzing the financial performance and condition of a company.

SALARY EXPENSE is the cost of all full-time employees, including direct labor expenses used in calculating Cost of Sales. Salary Expense appears on the income statement and is used to assess labor productivity.

SALES (INCOME) is the revenue a company earns over time and is sometimes referred to as Gross Sales. Sales is equal to the total funds or monies generated before expenses. It is measured by time. In other words, companies earn a certain amount of sales over a day, week, month, or year.

SELLING, GENERAL and ADMINISTRATIVE COSTS (S,G,&A) are the costs associated with the day-today operations of the company. These costs may include rent, utilities, staff personnel, and all selling, general, and administrative costs incurred that are not covered by COGS. Some people refer to S,G,&A expenses as "Operating Expenses".

TOTAL ASSETS is the sum of all assets a company has as of a certain date. Total Assets equals Total Current Assets plus Total Fixed Assets plus Other Assets.

TOTAL LIABILITIES (TOTAL DEBT) is the total amount owed as of a certain date. Try not to confuse liabilities with expenses, which are the costs of doing business. Liabilities are accrued expenses, expenses that have added up over time. For example, a mortgage balance is a liability, but monthly mortgage payments are expenses. Expenses show up on an income statement while liabilities show up on a Balance Sheet.

VARIABLE COSTS are any costs or expenses that vary with changes in the volume of operations over a specified period. Inventory is an example of a variable cost.