Finance Definitions

1. Balance Sheet - is a key financial document which helps users to assess the financial health and performance of a business. It shows a summary of everything the company owns (Assets), all the debts the company has to payout (Liabilities) and the amount of money that has been invested in the organisation by the owners (Capital). The balance sheet is a financial statement about a business at a specific point in time.
2. Fixed Assets -These are objects or property that an organisation owns in which is not consumed or sold during a single year of business. Examples of fixed assets are buildings, land, machinery and cars. These are assets that are expected to remain and be used within the organisation to generate revenues or provide services. When a fixed asset is recorded on the balance sheet it should be shown at its current value i.e. the price the company paid for it minus the amount of any depreciation suffered (due to wear and tear etc.).
3. Current Assets - A current asset is an item of value in which is constantly changing due to business activity e.g. stocks. This can be money, debtors, materials or inventory which is turned into a finished product and then sold to generate cash revenues.
4. Capital- This is the owner’s stake in the business. This monetary value is what they may lose if the business went bankrupt. It includes; the initial funds paid into the business, any retained profits or any other funds or equipment added at a later date.
5. Long term liabilities - These are long term expenditures that are not due for full repayment for more than 12 months, this means the company will be pay the money back over a long period of time. An example of a long term liability would be a bank loan that would be paid over a set period of three years, this is known as long term because the duration of the loan exceeds twelve months and the debt will not need to be fully repaid within the current financial year.
6. Current liabilities - This is like the opposite of long term liabilities as a current liability is an amount of money that an organisation owes and has to be repaid within a period of 12 months. Some examples of current liabilities are dividends owing, VAT unpaid and creditors.
7. Working Capital- This is the amount of money that an organisation needs in order to remain solvent and be able to regularly pay its current liabilities. To be able to calculate the working capital for a business, the value of the current assets need to be taken away from their current liabilities to determine the working capital and see if they have sufficient funds to keep trading successfully. The suggested value of the working capital ratio for a manufacturing organisation should be 2:1 i.e. its value of current assets must be twice as big as its value of current liabilities.
8. Gross Profit - Gross profit is defined as; Sales minus Cost of Goods Sold. It measures the trading performance i.e. how good the company was at making and or buying goods how much they were able to sell them for.
9. Net Profit –this is defined as; Gross Profit minus the business overheads. Net profit is the final figure of how much profit a company has made after all expenses have been taken from the total revenues received. This figure shows how much money has been earned or lost over a set period of time and can be calculated quarterly or on a yearly basis. The net profit is the bottom line figure and shows how much money the company has generated from all its business activities.