

A Glossary of Common use “Business Terms”

The Business Enterprise Centre of Sarnia-Lambton

Helping to build our community by serving business and encouraging the entrepreneurial spirit.
The Business Enterprise Centre of Sarnia-Lambton is a partnership between the County of Lambton and the Ministry of Economic Development, Employment and Infrastructure administered by the Sarnia-Lambton Economic Partnership

Learning the “Lingo”

Or Speaking the Language of Business

A GLOSSARY OF COMMON USE BUSINESS TERMS

Standard practice language in business has evolved from numerous disciplines including the legal, economic, financial and accounting communities. The following are some general and widely-used practical terms that a business person would likely encounter:

A.

Account Agreement

An agreement that you sign and that lists your rights and responsibilities and the bank’s responsibilities for a bank account.

Accountant

A professional who advises on a variety of financial and taxation issues. An accountant in the Province of Ontario is recognized for their successful completion of strenuous academic requirements plus a standardized national or provincial examination leading to accreditation as a Chartered Accountant (CA), Certified General Accountant (CGA) or Certified Management Accountant (CMA).

Accounts Payable

Money owed *by* a business for goods and services already received.

Accounts Receivable

Money owed *to* a business by their purchasers of goods and services.

Account Receivable Aging

Classifying monies owed from customers according to how long they have been due and unpaid. The usual categories used are “Current” (under 30 days), “31-60 days”, “61-90 days”, and over “90 days.” In general, the older the account, the less likely it is to be collected.

Accrue or Accrual

The accounting practice whereby revenues and expenses are recognized in a fiscal period but the cash is not received or disbursed until some future fiscal period. Used by all businesses except farming and fishing.

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Administrative Expenses

Operating costs incurred in the normal course of running a business, such as telephone, management and office salaries, professional fees, etc.

Affiliate

A business connected with another through common ownership or management.

Affinity Card

A credit card that has a promotional arrangement with an affiliated organization. The logo of the group appears on the card and the group usually gets a percentage of the sales made on the card.

Allowance for Bad Debt

An estimate of the value of accounts receivable (monies owing to your business) which will not be paid.

Amortization

The length of time required to entirely retire or payoff a loan or mortgage. The amortization will determine the payment required at a specified rate of interest. (See the definition of **Term**. These two words have distinct meanings and are not interchangeable)

Angels

Private individuals with capital to invest in business enterprise.

Annuity

A flow of payment to another party for a specified period of time. An annuity that remains unchanged with time is referred to as a perpetuity.

Appraisal or Appraised Value

Estimate made by a qualified person of what an asset might sell for in a particular market.

Appreciation

An increase in value of an asset over its cost due to economic or other conditions. (Property that increases in value as a result of improvements or additions is not considered to have appreciated.)

Arrears

- Accounts payable that are past due for payment under the terms specified
- Default of a contractual agreement for the payment of money.

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Articles of Incorporation

A legal document filed with a governing body (i.e. Province of Ontario) that sets forth the purposes and regulations for a corporation. This document must be approved by the governing body before a corporation legally exists and is allowed to do business.

Assets

Things that you own for which you can determine a financial value.

“Current” assets are described as being capable of being cash or being converted into cash within twelve months. “Capital or Fixed” assets have a useful life of greater than one year.

Audited Statement

Financial statements that have been reviewed by a Chartered Accountant who certifies that an investigation of the company’s books and records has been conducted according to the standards of the Canadian Institute of Chartered Accountants and that the statements have been prepared and presented according to Generally Accepted Accounting Principles.

Automated Banking Machines (ATMs)

Self-service machines that allow customers of a financial institution to perform many everyday “banking” tasks, often at locations other than the institution.

B.

Bad Debts

Money owed to you that you can’t collect.

Balance Sheet

The business document reflecting what the business owns and owes at a given date in time. The universally accepted equation used in a balance sheet is “Assets = Liabilities + Owner’s Equity.”

Balloon Payment

A large payment due at the end of the term of some loans indicating an unpaid balance. This generally occurs when the **term** of the loan is shorter than the **amortization**.

Book Value of Assets

The value of a company’s assets as shown on its balance sheet, namely purchases price less depreciation. (Note: the book value is very often, if not always, quite different from the market value. Obsolescence, appreciation, availability or condition of the asset can lead to this disparity.)

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Bank of Canada

Our country's central bank, which formulates and implements monetary policy. As the federal government's fiscal agent, it helps to carry out the government's borrowing program, provides services for the government and other clients and ensures that the need for bank notes across the country is met. It does not take deposits or give loans to anyone except the chartered banks.

Bank Rate

The interest rate paid by major financial institutions if they borrow from the Bank of Canada. The Bank Rate influences the rates of interest major financial institutions charge or pay their customers.

Blue Chip Stock

Typically stock of large, reputable and actively-traded companies with an established record of regular dividend payments.

Bookkeeper

A person who performs the process of recording business transactions in the accounting records.

Bookkeeping

The process of recording business transactions in the accounting records.

Bonds

Offered by governments and corporations, bonds are investments in which a sum of money is lent to the issuer for a set period of time. As market interest rates change, bonds are bought and sold at a discount or premium calculated to reflect the risk that flows to the lender. Usually the better the borrower, the lower the rate of interest that is paid.

Break-even Point

The point at which revenues equal costs. The point at which the company is neither in a loss nor profit-making position. Below this point, the business is losing money. Above this point, the business is making a profit. It can be expressed in number of units sold (or produced), gross sales revenues, or as a percentage of past or projected sales.

Budget

A formal written estimate of future income and expenses for a stated period used for financial control.

Buy-Sell Agreement

An agreement covering the price, method and circumstances in which the part-owners or partners of a business may buy each other's portion of ownership.

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Capacity to Repay

An assessment of ability to repay a loan from expected income. Same as Debt Service Capacity.

Capital

Depending on the context:

- ✓ Funds or accumulated assets that are available to be invested.
- ✓ The amount invested in a business by owners or shareholders.
- ✓ The net worth of a business.

Capital Gain or Loss

The difference between the prices paid for an investment and the price at which you sell.

Capital Investments

Money used to purchase permanent assets for a business, such as machinery, land or building as opposed to day-to-day operating expenses.

Cash

Money on hand or on deposit that is readily available.

Cash Flow Forecast or Projection

An estimate of when and how much money will be received and paid out of a business. It usually records cash flow on a month-to-month basis. It helps a business to plan its financial requirements.

Cash on Delivery – C.O.D.

Goods sold C.O.D. must be paid for when they are delivered.

Chartered Banks

Financial institutions regulated under the Bank Act.

Chattel Mortgage

Legal document pledging business or personal property (other than real estate) as collateral for a loan. In the Province of Ontario, the borrower gives the lender a “Security Interest” in the chattels under legislation called The Personal Property Security Act. If the loan is not repaid as agreed, the lender has legal rights to seize and sell the pledged collateral.

Cheque

A written order for payment of a certain amount of money.

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Clearing and Settlement

The process whereby financial institutions collect or pay out for items drawn on or paid into accounts in their institution. This process enables financial institutions to accept each other's cheques and bank drafts for deposit.

Closed Mortgage

A mortgage agreement that cannot be pre-paid, renegotiated or refinanced before maturity, except with compensation, breakage costs or financial penalties.

Closing Inventory

Value of the total inventory or number of units (goods) that a business has on hand at the end of an accounting period.

Collateral

Property (real, personal or otherwise) pledged as security for a loan. Also, any supplementary promise of payment, such as a guarantee.

Collateral Mortgage

A loan backed primarily by a promissory note and also by the security of a mortgage on a property.

Commercial Letter of Credit – American terminology
(See Documentary Credit)

Commercial Mortgage

A loan secured by real estate that is zoned for business, commercial or industrial purposes. Generally considered a much riskier type of business by lenders. Expect larger down payments and higher interest rates than residential mortgages.

Competition, Competitor

A competitor is another business that is selling a similar product or service to yours, in the same geographic location.

Competitive Advantage

An advantage a company holds over competitors by offering consumers greater value through lower prices, or more benefits that justify higher prices. It may include proprietary processes or patented products.

Competitive Analysis

The process of identifying key competitors: assessing their objectives, strategies, strengths & weaknesses, and reaction patterns.

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Conditions

Obligations written into an agreement between a borrower and lender, specifying exactly what each party is expected to do in exchange for the benefits each will receive.

Consignment

Goods “on consignment” are delivered to a vendor who pays the supplier only if and when the goods are sold.

Conventional Mortgage

A mortgage that does not exceed 75% of the appraised value or purchase price of the property. Mortgage loan insurance is not required for this type of mortgage.

Competition

Businesses selling similar products or services to the same target market as your business or a market condition where a number of similar sellers are trying to sell to the same buyers.

Compounding

Refers to earning income on your income. In other words, making interest on your initial investment and also the interest as it builds up.

Consumer Price Index

An index that measures movements in the average price of an unchanging “basket” of products and services typically consumed by Canadian families.

Corporation

A legal entity formed and authorized by a provincial or federal charter or statute to act in the same ways as an individual, with the right of succession.

Co-signers

Joint signers of a loan agreement or other contract who pledge to meet the obligations of the agreement or contract in the event of default by some other person or party. (See guarantor)

Cost of Goods Sold

Abbreviated as COGS, also called cost of sales. Direct cost of producing or providing the business’ goods or services. It includes direct labour expenses/costs and production, plus opening inventory, plus purchase, less closing inventory.

Covenant

An agreement or promise. A contract may contain many covenants.

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Credit

- i.) In accounting language, credit simply means an entry occurring on the right side of a ledger account.
- ii.) In general language usage, credit means to accept a promise to pay rather than a payment of cash at the time of the sale or service.

Credit Cards

Credit cards allow the holder to charge purchases to a third party rather than paying cash to the vendor or service provider.

Credit Limit

The maximum amount a lender has agreed to lend to a borrower.

Credit Rating

An assessment of risk and credit-worthiness, often performed by an independent credit rating agency and usually based on the debtor's previous behaviour in repaying debts.

Credit Risk

The risk of loss one assumes under a financial contract that a borrower or a counterparty to a loan or other credit-related contract may default or fail to perform its obligations.

Customer, Client

Those who purchase goods or services from a business.

Current Assets

Those assets of a company that are cash or can readily be converted to cash within one year or within the normal operating cycle.

Current Liabilities

Those amounts payable within one year or within the normal operating cycle.

D.

Debit

- i.) In accounting terms, a debit means an entry occurring on the left side of a ledger account.
- ii.) In banking terms terms, a debit is a withdrawal from your account.

Debt

The money you owe.

Debt Issues

The issuance of bonds or other forms of debt on the public markets.

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Debt Service Capacity

An assessment of your ability to repay a loan from expected business income or other sources.

Default

Failure to meet the conditions of a contract. For example, failing to repay a loan as originally agreed.

Deflation

An actual decline in the general level of prices in the economy.

Demand Loan

A loan that must be repaid in full, on the demand of the lender. Most commercial “lines of credit” are demand loans.

Demographics

The study of definable characteristics of a population, including gender, religion, race, health, income, age, education and homeownership.

Disbursements

Funds paid out of a business in settlement of obligations.

Deposit

Money put into an account by cash, cheque or electronic transfer.

Depreciation

The fixed rate or amount used for accounting and taxation purposes to reflect the change in the value of an asset as a result of use, wear or the passing of time.

Depression

A downturn in the economy and level of business activity prolonged for at least three consecutive quarters.

Designated Family Asset

Generally under family legislation, family assets include the matrimonial home and other goods used for the family purposes by the spouse or their children. Business assets may however, be subject to division upon marriage breakup in certain circumstances. In Ontario, the assets that are subject to equal division are referred to as “net family property” and include all property, business or professional, except as specifically excluded by statute.

Direct Competition

Competitors who offer the same or similar products or services to the same buying market.

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Direct Expenses

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

Disbursements

Cash paid out to run your business – the opposite of income and revenue.

Disinflation

A reduction in the rate of inflation either as a result of government policy or of declining economic activity.

Distributor

An independent business that distributes or markets manufacturer's goods to dealers.

Dividends

Company earnings that may be paid out to shareholders according to the number of shares or stocks they hold. Dividends can be earned on stocks and certain mutual funds. Dividends receive special treatment for income tax purposes and are generally taxed at a rate lesser than earned income.

Documentary Credit

Written undertaking by a bank on behalf of an importer authorizing an exporter to draw drafts on the bank up to a specified amount under specific terms and conditions. They are used to facilitate international trade. In the United States, these instruments are called commercial letters of credit.

Drawings

Withdrawal of assets (usually cash) from a business by a sole proprietor or partner.

**Economic Indicators**

Statistics that help determine how the economy is faring. They include the Consumer Price Index, housing starts and unemployment rates, among others.

Electronic Funds Transfer (EFT)

A system that transfers funds through electronic messages instead of by traditional means, such as cash or cheque.

Encumbrance

A claim, lien, charge, or security interest on an asset that prevents the owner from selling it unless some debt or other obligation is satisfied.

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Entrepreneur

Generally considered to be a person who starts, runs or owns a business. A more accurate definition would be, “a person who sees an opportunity and acts upon it”.

Equity

- i.) The value of a business after debts and other claims are settled.
- ii.) The amount of cash invested into a business by the owner
- iii.) The difference between the price that a property could be sold for and the total debts registered against that property.

Equipment

All machinery and equipment used by a business to earn revenue. It has a limited life span and thus is subject to depreciation.

Established Business

A reference generally used to a business that has been operating for more than three-to-five years under the same owner/managers.

Exchange Rate

The rate at which one country’s currency can be exchanged for another country’s currency.

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, major initiative accomplishments, goals and the amount of money you expect to borrow. It will also include other aspects of your business that are particularly important to the intended reader.



Fair Market Price or Fair Market Value

The amount for which an item could usually be sold as determined through independent actions of numerous willing buyers and willing sellers, none of whom alone can dictate the price. Determining the Fair Market Value of an item is often necessary for Tax purposes or to establish the value of an asset as collateral for a loan. The item is not actually put up for sale but is “appraised” by someone knowledgeable.

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Financial Statements

Formal reports, prepared from accounting records, describing the financial position and performance of the business. They comprise the Balance Sheet, the Income Statement and the Changes in Financial Position.

Financing

The term 'financing' refers to money that investors and lenders put into your business. Investors become owners of the business because they're hoping that the business will grow. They'll get a return on their investment when you pay dividends, or if someone else buys their ownership share for more than they paid for it. Lenders don't normally become owners of your business. They expect to receive their money back with interest within a set period of time.

Fiscal Deficit

When a corporation or government spends more money than it receives in revenue over the course of one year.

Fiscal Policy

The use of government spending and taxation policies to influence the economy.

Fiscal Surplus

When the corporation or government receives more in revenue than it spends over the course of one year.

Fiscal Year

Any 12 month period around which a business plans and reports its activities. (Whereas a calendar year is the specific 12 month from January 1 to December 31.)

Fixed Assets

Assets that will not be consumed or converted into cash during the next accounting period and are used in the operation of a business. Assets like land, buildings and machinery are considered fixed assets.

Fixed Costs, Fixed Expenses

Fixed business costs that do not change with the volume of business, such as rent, property taxes, or insurance premiums.

Fixed Rate Mortgage

A mortgage for which the rate of interest is fixed for a specific period of time, the term.

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Forecast

When you're planning your business, you're often required to estimate or predict what your revenues and your costs will be in the future. This is called a forecast, or sometimes a projection. Forecasts can be made on a monthly, yearly, or even a multi-year basis. The longer the period covered by a forecast, the less accurate the forecast will be.

Foreign Currency

Paper money and coins from other countries.

Foreign Exchange

Various instruments used to settle payments for transactions between individuals or organizations using different currencies.

Foreign Exchange Rate

The value of a nation's currency in terms of another nation's currency.

Franchise

The right to sell products or services under a corporate name or trademark (established by someone else). The right is usually purchased for cash in addition to a royalty fee or a percentage of sales and usually has performance conditions attached.

Franchisee

The person, company or partnership who purchase the right to operate under a franchise.

Franchisor

The owner of the franchise who sells licenses to those who wish to operate under the corporate name of trade style.

Futures

They are an obligation or contract to buy or to sell a specific asset on a set date for a predetermined price. (see Option)

**General Partner**

A part owner of a business who is personally liable for all debts of the business.

Goodwill

- i.) Intangible benefits to a business created by long established reputation, expertise, valuable clientele, or desirable location which result in above normal earning power.
- ii.) The value or amount for which a business could be sold above the book value of its physical property and receivables.

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Government Bonds

Issued by governments when they need to borrow. The face value of the bond is returned to the lender (investor) at its maturity date. Interest can be paid semi-annually or compounded and paid at the time of maturity.

Gross

- i.) overall total before deductions
- ii.) the whole amount

Gross Domestic Product

The total value of all the goods and services produced by the Canadian economy in a single year.

Gross National Product

The value of all goods and services accruing to Canadians in a given year. It equals Gross Domestic Product, plus income of Canadians from foreign production, less income from Canadian production earned by non-residents (such as interest and dividends paid to foreign lenders.)

Gross Profit or Gross Profit Margin

The difference between the sales the business generates and the cost-of-goods sold.

Guarantor

A person or business that promises to pay the lender if the primary borrower fails to repay the loan in accordance with the terms agreed upon. (See co-signer)



High Ratio Mortgage

A high-ratio mortgage is a loan against real property that exceeds 75% of the lending value or purchase price. A high-ratio mortgage will have to be insured against default to certain maximums by either CMHC or an approved private insurer. The premiums for this insurance are born by the borrower.

Holdback

The part of a payment to a third party supplier or contractor that is not paid until a specified period of time following the satisfactory completion of the project. Under certain statutes, this is permitted to protect the purchaser from liens or claims from employees or subcontractors of the supplier or contractor who were not paid for their inputs to the project.

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Holding Company

A company that owns the securities of another company or companies, usually with voting control.

**Income Statement, also known as the Profit and Loss Statement or P&L**

Records and calculates the company's pretax profits by subtracting total expenses from total revenues.

Income-splitting

A financial strategy for tax purposes. Splitting income refers to the process of shifting income from the hands of one family member to another, who is in a lower tax bracket and will therefore pay tax at a lower rate.

Incorporation

The creation under statute of a new legal entity.

Indirect Competition

Competitors that do not offer similar products to your own but offer products that act as close substitutes for your product.

Indirect Expenses

Funds paid for rent, advertising, utilities, etc. Also known as overhead.

Industry Ratios

Financial standards or averages that similar businesses have in a particular industry. The ratios are used to provide important guidelines for a business.

Inflation

A rise in the average level of prices in the economy.

Initial Costs, or Startup Costs

Those expenses which are normally one-time events such as incorporation expenses, or renovations, equipment and the first purchase of inventory.

Intangible Assets

Assets of value to the enterprise, which do not have physical characteristics and a readily determinable value. (Example: goodwill, patents, trademarks.)

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Interest

- i.) The fee paid or earned for the use of money.
- ii.) A claim on some or all of the assets of a business, as in “financial interest” or a “security interest.”

Interest Rate

The percentage used to calculate the interest to be paid.

Inventory

Stock on hand in the form of goods ready for sale. This also includes raw material and material in the process of being manufactured or completed for sale.

Inventory Turnover

Financial ratio that measures the number of times inventory has been sold in a given year. If it's low, it means that products are not selling well.

Investment Income

Income earned on investments you make, including interest, capital gains and dividends.

Itinerant Seller

One who sells, services or negotiates a contract for the retail sale of goods or services at a place other than the seller's permanent place of business. i.e. door-to-door

**Joint Venture**

A business project or undertaking entered into on a one-time basis by two or more parties in which profits, losses and control are shared. A partnership is ongoing, a joint venture is not.

**Labour Expense**

Total direct cost to the business for its employees during an accounting period. Includes wages paid and cost of all fringe benefits, unless stated separately.

Lease

An agreement for rental of real or personal property for a period of time at a specified price

Leaseback (also called Sale and Leaseback)

A form of financing where property is sold to a third party who then leases it back to the seller.

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Leasehold Improvements

Renovations and other improvements to the leased property at the expense of the lessee. These improvements become the property of the landlord.

Letter of Credit

Documents issued by a bank on behalf of its customers, authorizing a third party to draw drafts on the bank up to a stipulated amount and with specified terms and conditions. It is an irrevocable commitment on the bank's part to provide payment according to the document's terms.

Letters Patent

Letters Patent are granted by the Government to certain corporations to permit them to undertake certain activities. Such corporations are usually non-profit or charitable.

Liability Insurance

Coverage purchased by a person or company as risk protection for actions for which the business is liable.

Liabilities

Money or obligations owed to someone else.

License

A license is permission to practice a certain business, trade or profession. Licenses are also required to operate some kinds of equipment. Obtain information on licenses you require from your Band Office, municipal, provincial or federal office, or from your industry or trade association. Some licenses require specialized training and testing. Remember that everyone who operates a vehicle for your business must have a driver's license and that driver's license must be for the required grade of license for that vehicle.

Lien

A legal right to control or enforce a charge against real or personal property until some claim is paid or otherwise satisfied.

Limited Legal Partnership

A legal partnership where some owners are allowed to assume responsibility only up to the amount invested. This form of business is generally seen in law or accounting office partnerships.

Line of Credit

An arrangement with a lender which permits a borrower to continuously borrow and repay money as needed, up to an agreed maximum amount.

Liquidate

To settle a debt or convert assets to cash.

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Liquidity

The ease with which an asset can be converted to cash.

Loan

A transfer of money that must be repaid by a borrower. (Usually with a provision for payment of interest.)

Long-term Liabilities

Money that you owe over a period longer than 12 months, such as mortgages, bank loans and other obligations.

Limited Partnership

A form of business ownership which allows some investors to invest money into a business without having direct involvement in the operation of the business, and therefore they are not responsible for debts of their partners beyond their own investments. The general partner(s) control the operations and therefore has the liability.

M**Macroeconomics**

Looking at the economy as a whole, particularly the interaction of its various components with one another.

Majority Shareholder

A party owning sufficient shares in a company to control how it operates.

Management

The science of conducting and supervising a business.

Market

A group of potential purchaser/consumers with common characteristics.

Marketing

The process of defining a target market, researching their needs, ensuring that your product or service meets those needs, and communicating to the customers that you have what they want or need.

Market Share

The portion of the target market that buy a company's product or service.

Markup

An amount added to the cost of an item to determine a selling price.

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Microeconomics

Looking at individual components of the economy, with emphasis given to the market process and how it works.

Mission Statement

One or two sentences stating the objectives of a business.

Monetary Policy

The ability of the Bank of Canada to influence the economy through changes in short-term interest rates and the money supply.

Money Markets

The part of the capital market where government treasury bills, commercial paper, bankers' acceptance, trust company GIC's and other short-term obligations are bought and sold.

Mortgage

A debt instrument by which a borrower gives the lender a lien against real property as security for the repayment of a loan. The borrower has use of the property and the lien is removed when the obligation is fully paid. For personal property such as machines, equipment or inventory the debt instrument is called a chattel mortgage and in the Province of Ontario the borrower gives the lender a "security interest" in the chattels.

Mortgage Loan Insurance

To insure lenders against default in payment on mortgages that are greater than 75% of the value or purchase price. In addition to other fees and charges which may apply, the premium will cost between 0.5% and 3.75% of the amount of the mortgage.

**N.S.F. Cheque**

A cheque that has been returned by the issuer's bank because there was insufficient money on deposit for their bank to honour payment. In addition to removing the funds from your account for the cheque not honoured, your bank will generally charge a fee to you as well.

Net Income, Net Profit

Profit after all business expenses are deducted, including income taxes.

Net Profit Margin

Net profit divided by sales, expressed as a percentage.

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Net Worth

The owners' or corporation's net equity in a business. It is calculated by subtracting liabilities from the assets.

Niche Market

Part of a market segment.

**Open Mortgage**

A mortgage in which you can repay the loan, in part or in whole, at any time prior to maturity without penalty.

Opening Inventory

Value of total inventory or number of units a business has on hand at the opening of the accounting period.

Operating Expenses or Operating Costs

All the expenses of a business during an accounting period, excluding the cost of goods sold.

Operating Forecast

Anticipated earnings of a business determined by estimating sales and subtracting expected expenses.

Operating Loan

A loan intended for short-term financing supplying cash flow support or to cover day-to-day and other obligations.

Operating Income, Operating Profit

Profit from operations of the business, before:

- ✓ Extraordinary income or expenses
- ✓ Business income taxes paid
- ✓ Dividends and bonuses paid or
- ✓ Withdrawals made by owners

Option

A formal contract which grants the holder of the option the right to buy or sell a certain quantity of an underlying interest or asset at a stipulated price within a specific period of time. (See Futures)

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Overdraft

A temporary arrangement whereby the bank agrees to honour payment of your cheques even there is not enough money on deposit to cover it.

Overhead

A term used to describe business costs other than materials and production.

P**Partnership**

A legal association of two or more persons or corporations who share in the risks of financing and managing a business and its profits.

Personal Guarantee

A personal promise made by an individual to repay a debt if the borrower fails to repay as agreed. (See co-signer)

Portfolio

- i.) The combined investments owned by an individual or business.
- ii.) A collection of works done an individual or business.

Pre-authorized Payments

Regular payments to a third party to be taken automatically from your bank account as agreed without an actual cheque being issued by you.

Prepaid Expenses

Expenses paid in advance during an accounting period, part of which will be “used up” in the upcoming accounting period.

Prime Rate/Prime Lending Rate

The rate of interest charged on loans by chartered banks to their most credit-worthy customers.

Principal

The amount owed on a loan, excluding interest.

Primary Research

Information gathered directly from the original source, such as data from a customer survey.

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Product Positioning

An effort to influence the way a product is perceived by consumers through advertising, promotions, and selling techniques.

Pro Forma Statements

Financial forecasts that aim to predict or show the future financial status of a business, on the assumption that certain events will occur.

Profit and Loss Statement, Income Statement

A financial statement which shows revenues, expenses and the resulting profit or loss for a business for a stated period of time. Same as an Income Statement or Operating Statement.

Psychographics

A market segmentation strategy by which consumers are grouped according to their behaviour patterns and lifestyles, as indicated by responses to questionnaires.

**Ratio**

The relationship of two numbers to each other. For example, a debt/equity ratio of 2:1 means the company has liabilities of two dollars for every one dollar of equity.

Ratio Analysis

Comparing the financial ratios of a business from previous periods or to other similar businesses in order to assess how performance is changing and assess how the business is doing in relation to its peers.

Real Property

Real estate including lands and building. (Provided the building is permanently affixed.)

Recession

When the Gross Domestic Product declines for at least two consecutive three- month periods.

Reconciliation

A comparison of bank account records against the records of the business ensuring that the two agree.

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Regulatory Regime

Every business is subject to regulation. Each level of government and every jurisdiction has its own set of rules and regulations. It's essential, before you begin your business, to find out which regulations will apply to you and what you must do to comply with them. Sometimes regulations are enforced by the industry itself, so also check with your industry or trade association to find out what the rules are.

Reserve

- i.) Cash or assets held back or stored for future use or in case of emergency.
- ii.) A parcel of land set apart for the exclusive use of aboriginal people.

Retail

Selling a good or product directly to the end consumer.

Retained Earnings

All profit or losses that a business has accumulated from prior years and from this year's income statement, less dividends that have been paid out.

Return (on Assets)

Financial ratio that indicates how efficiently the business has used its available resources to generate income.

Return (on Investment)

Financial ratio that measures the profitability of the business for its shareholders.

Revenue

The dollars you receive for the product or service you sell; gross income.



Sales

Total value of goods sold or revenue from services rendered. Returns and discounts must be shown as a reduction from total sales.

Schedule I Banks

A designation in the Bank Act that refers to Canadian-owned banks that are widely held, i.e., ones in which no one owner holds more than 10% of the shares.

Schedule II Banks

A designation in the Bank Act that refers to foreign-owned banks and closely held Canadian Banks, i.e., banks in which an owner may hold more than 10% of outstanding stock.

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Seasonality

A regularly occurring change each year that may affect your business, such as increased sales during the Christmas season to a retailer or decreased sales in the fall and winter to a lawn care provider.

Secondary Research

Information collected from anything other than the original source, such as books or information gathering services like Statistics Canada or Dun and Bradstreet.

Secured

Protected or guaranteed. Generally used in the sense of collateral being pledged as security for a loan in the event that default of payment occurs.

Securities

Negotiable instruments such as stocks and bonds.

Securities/Investment Dealer

One who acts as a licensed agent for another party to buy and sell securities and other investments.

Service Business

A retail business that deals primarily in activities for the benefit for others, rather than the re-selling of goods.

Short-term Liabilities

Monies that have to be paid in less than 12 months, including wages, short-term notes, taxes, credit card balances and any portion of long-term debt payable in the next 12 months.

Sole Proprietor, Sole Proprietorship

An unincorporated business owned and usually operated by one individual.

Spread

The difference between the interest rate charged borrowers at financial institutions and the rate paid to depositors of the same financial institution.

Stagflation

A state of inflation without a corresponding increase of demand and employment. {Derived from *stagnation* + *inflation*} Economic growth of 1% or less is generally taken to constitute stagnation.

Statement of Change in Financial Position

A financial statement that shows the capital of business at the start of the year, increases and decreases to it and the amount at the end of the year.

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Stock

- i.) A certificate that documents the purchase of shares of a company or a portion of ownership of a company.
- ii.) Inventory.

Stock Exchange

A place where stocks are bought and sold.

Subsidiary

A company that is wholly or partly owned by another business.

SWOT Analysis

A strategic planning tool used to assess **Strengths, Weaknesses, Opportunities and Threats**. Strengths and Weaknesses are internal, meaning they come from within the business. Opportunities and Threats are external, meaning they come from sources outside the business such as competitors and the environment.

Syndicated Loans

Loans to a company backed by a group of lenders in order to share risk in a large transaction.

T**Target Market**

The people that are most likely to buy a given company's products or services.

Term

In a money contract, the term is the length of time that the arrangements for repayment (interest rate and amortization) are fixed. If the loan is not renewed, the remaining balance must be paid in full. (See Amortization and Balloon Payment)

Term Loan

A loan intended for medium term or long term financing to supply cash to purchase fixed assets such as machinery, land or buildings and paid back over a fixed time with set payments.

Title

Legal ownership of an asset along with the rights and responsibilities of ownership.

Total Debt-to-Equity Ratio

Financial ratio that measures the solvency for the business; if this ratio is high, the business is at higher risk of not meeting its obligations should a drop in sales occur.

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Transaction

A sale or transfer of goods or services in exchange of money or the promise of money.

Treasury Bills (T-Bills)

A short-term debt instrument issued by the Federal or Provincial government and sold in amounts of \$1,000 or higher. T-bills do not pay interest but are sold at a discount to their face value and mature at a par (or face) value.

**Variable Expenses**

Cost of doing business that vary with the volume of business, such as advertising costs, manufacturing costs and bad debts.

Variable Rate Mortgage, Floating Rate Mortgage

A mortgage for which the rate of interest changes as money market conditions change.

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**

That capital being used in the conduct of a business to buy materials, pay wages etc. as distinguished from capital that is used for as investment in fixed assets. In accounting terms, working capital is “the excess of a current assets over current liabilities.”

Write-Off

- i.) Money owed to a company that has been determined to be uncollectable.
- ii.) An adjusting entry in accounting to account for equipment that still has value for accounting purposes but can no longer be used in the business.
- iii.)

**Yield, or Return on Investment (R.O.I.)**

Amount of income divided by the amount invested, expressed as a percentage. Usually expressed as an annual rate.

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