

# Key financial terms

A list of financial terms you might come across when running your business or dealing with accountants and financial services.

## A

- **Accounts payable** – a record of all short-term (less than 12 months old) liabilities you need to pay. Some examples are invoices for goods or services, bills for utilities and tax payments.
- **Accounts receivable** – a record of all short-term (less than 12 months) accounts from customers that they still need to pay.
- **Accounts receivable finance** – see [factoring](https://business.gov.au#financial-terms-f) (<https://business.gov.au#financial-terms-f>).
- **Accrual accounting** – an accounting system that records transactions at the time they occur, rather than when payment occurs. See also [cash accounting](https://business.gov.au#financial-terms-c) (<https://business.gov.au#financial-terms-c>).
- **Amortisation** – the process of offsetting assets such as goodwill and intellectual property over a period of time. See also [depreciation](https://business.gov.au#financial-terms-d) (<https://business.gov.au#financial-terms-d>).
- **Assets** – things you own. Assets can be cash or something you can convert into cash, such as property, vehicles, equipment or inventory.
- **Audit** – a check by an auditor or tax official on your financial records. They will check that you account for everything correctly.

## B

- **Bad debts** – money that is unlikely to be paid in the near future.
- **Balance sheet** (<https://business.gov.au/finance/financial-tools-and-templates/set-up-a-balance-sheet>) – a snapshot of a business on a particular date. It lists all of your assets and liabilities and works out the net assets.
- **Balloon payment** – a final lump sum payment due on a loan agreement. Loans with a larger balloon payment have lower regular repayments over the term of the loan.
- **Bank reconciliation** – a cross-check that ensures the amounts in your cash book match the relevant bank statements.
- **Bankrupt** – a person is bankrupt when they can't pay their debts and aren't able to reach an agreement with their creditors.

- **Bankruptcy** (<https://business.gov.au/exiting/bankruptcy-and-insolvency/bankruptcy>) – a process where an appointed trustee manages a bankrupt person's assets and financial affairs.
- **Benchmark** – a set of conditions you can measure a product or business against.
- **Benchmarking** – the process of comparing your business to similar businesses in your industry.
- **Bill of sale** – a legal document for the purchase of property or other assets. It details the purchase, where it took place and the price.
- **Bookkeeping** (<https://business.gov.au/finance/payments-and-invoicing/record-keeping>) – the process of recording the financial transactions of a business.
- **Bootstrapping** – where a business funds its growth through personal finances and revenue from the business.
- **Bottom line** – see **net profit** (<https://business.gov.au#financial-terms-n>).
- **Break-even point** – the point when a business's income equals its expenses.
- **Budget** (<https://business.gov.au/finance/financial-tools-and-templates/create-a-budget>) – a listing of planned revenue and expenditure for a given period.

## C

- **Capital** – wealth in the form of money or property owned by a business.
- **Capital cost** – a substantial one-off purchase of physical items such as plant, equipment, buildings or land.
- **Capital gain** – the amount you gain when you sell an asset above its original purchase price.
- **Capital growth** – an increase in the value of an asset.
- **Cash** – all the money you have available on demand. It includes bank notes and coins, petty cash, certain cheques, and money in savings or debit accounts.
- **Cash accounting** – an accounting system that records transactions at the time you actually receive payment. See also **accrual accounting** (<https://business.gov.au#financial-terms-a>).
- **Cash book** – a daily record of all cash, credit or cheque transactions received and paid out by a business.
- **Cash flow** – the money flowing in and out of a business.
- **Cash incoming** – money flowing into the business.
- **Cash outgoing** – money flowing out of the business.
- **Chart of accounts** – an index of the accounts a business uses to classify transactions. Each account represents a type of transaction such as asset, liability, owner's equity, income or expense.
- **Chattel mortgage** – similar to a hire-purchase agreement, although the business owns the asset from the start. Chattel mortgages require regular ongoing payments. They typically

provide the option of reducing regular payments through the use of a final 'balloon' payment.

- **Collateral** – see [security \(https://business.gov.au#financial-terms-s\)](https://business.gov.au#financial-terms-s).
- **Commercial bill** (also known as a bill of exchange) – a form of commercial loan on an interest-only or interest-reducing basis. Commercial bills typically require security and suit short-term funding needs, such as inventory.
- **Contingent liability** – a liability where payment is made only if a particular event or circumstance occurs.
- **Cost of goods sold** – the total direct costs of producing a good or delivering a service.
- **Credit** – a lending term for when a customer purchases a good or service with an agreement to pay at a later date. This could be an account with a supplier, a store credit card or a bank credit card.
- **Creditor** – a person or business you purchase a good or service from with an agreement to pay at a later date. A creditor is also anyone you owe money to, such as a lender or supplier.
- **Credit limit** – a dollar amount you cannot exceed on a credit card or the maximum amount offered for a loan.
- **Credit rating** – a ranking based on a person or business's credit history that represents their ability to repay a debt. Visit ASIC's Moneysmart website to learn more about [credit ratings \(https://www.moneysmart.gov.au/borrowing-and-credit/borrowing-basics/credit-ratings\)](https://www.moneysmart.gov.au/borrowing-and-credit/borrowing-basics/credit-ratings).
- **Credit history** – a report detailing an individual's or business's past credit arrangements. A lender may seek a credit history when assessing a loan application. Visit ASIC's Moneysmart website to read more about [credit reports \(https://www.moneysmart.gov.au/borrowing-and-credit/borrowing-basics/credit-reports\)](https://www.moneysmart.gov.au/borrowing-and-credit/borrowing-basics/credit-reports).
- [Crowdfunding \(https://business.gov.au/finance/funding/crowdfunding\)](https://business.gov.au/finance/funding/crowdfunding) – a way of financing your business idea through donations from the public. This usually occurs through a crowdfunding website.
- **Current asset** – an asset that is cash or something you can convert into cash within 12 months.
- **Current liability** – a liability that is due for payment within 12 months.

## D

- **Debit** – in double-entry bookkeeping, a debit is an entry made on the left-hand side of a journal or ledger representing an asset or expense.
- **Debt** – any amount that you owe, including bills, loan repayments and income tax.
- **Debt consolidation** – the process of combining several loans or other debts into one to obtain a lower interest rate or reduced fees.

- **Debt finance** – money provided by an external lender such as a bank.
- **Debtor** – a person or business that owes you money.
- **Debtors finance** – See [factoring \(https://business.gov.au#financial-terms-f\)](https://business.gov.au#financial-terms-f).
- **Default** – a failure to pay a loan or other debt obligation.
- **Depreciation** – the process of offsetting an asset over a period of time. You can depreciate an asset to spread the cost of the asset over its useful life.
- **Disbursements** – money that a business spends.
- **Discount** – a reduction applied to a full-priced good or service. See also [mark down \(https://business.gov.au#financial-terms-m\)](https://business.gov.au#financial-terms-m).
- **Double-entry bookkeeping** – a bookkeeping method that records each transaction in 2 accounts, both as a debit and a credit.
- **Drawings** – personal expenses paid for from a business account.
- **Drip pricing** – when a price is presented at the start of an online purchase, but extra fees and charges are added (or 'dripped') onto this price during the purchase process. You must show any fees or charges at the start of an online shopping process and not gradually add them in. [Find out more about drip pricing on the ACCC website \(https://www.accc.gov.au/consumers/pricing/price-displays#toc-misleading-drip-pricing-practices\)](https://www.accc.gov.au/consumers/pricing/price-displays#toc-misleading-drip-pricing-practices).

## E

- **Employee share schemes** – where you give your employees the opportunity to buy shares in your company. Other terms include an 'employee share purchase plan' or an 'employee equity scheme'. Find out more on the ACCC's [Moneysmart website \(https://moneysmart.gov.au/shares/employee-share-schemes\)](https://moneysmart.gov.au/shares/employee-share-schemes).
- **Encumbered** – an encumbered asset is one that is currently put forward as security or collateral for a loan.
- **Equity** – the value of ownership interest in the business, calculated by deducting liabilities from assets. See also [owner's equity \(https://business.gov.au#financial-terms-o\)](https://business.gov.au#financial-terms-o).
- **Equity finance** – money provided to a business in exchange for part ownership of the business. This can be money invested by the business owners, friends, family, or investors like business angels and venture capitalists.
- **Excise duty** – an indirect tax levied on certain types of goods produced or manufactured in Australia, including petrol, alcohol, tobacco and coal.

## F

- **Facility** – an arrangement offered to a business by a financial institution. This might be a bank account, a short-term loan or overdraft).
- **Factoring** – when a factor company buys a business's outstanding invoices at a discount and chases up the debtors. Factoring is a way to quickly get cash but can be quite expensive compared to traditional financing options. Factoring is also known as debtor's finance and accounts receivable finance.
- **Finance** – money used to fund a business or high-value purchase.
- **Financial year** – a 12-month period used for tax and accounting purposes. In Australia the financial year runs from 1 July to 30 June.
- **Financial statement** – a summary of a business's financial position for a given period. Financial statements can include a **profit and loss statement** (<https://business.gov.au/finance/financial-tools-and-templates/set-up-a-profit-and-loss-statement>), **balance sheet** (<https://business.gov.au/finance/financial-tools-and-templates/set-up-a-balance-sheet>) and **cash flow statement** (<https://business.gov.au/finance/cash-flow/set-up-a-cash-flow-statement>).
- **Fixed asset** – a physical asset used in running a business.
- **Fixed cost** – a cost that is not part of producing a good or service.
- **Fixed interest rate** – a loan interest rate that doesn't change over the term of the loan (or for an agreed timeframe).
- **Float** – when a private company offers shares to the public for the first time. See **initial public offering** (<https://business.gov.au#financial-terms-i>).
- **Forecast** – a list of future financial transactions. Forecasts help plan a more accurate budget.
- **Fringe benefits** (<https://business.gov.au/registrations/register-for-taxes/register-for-fringe-benefits-tax-fbt>) – non-monetary benefits, such as a company car or mobile phone, included in a salary package.
- **Fully drawn advance** – a long-term loan with the option to fix the interest rate for a period. These loans are usually secured and can help fund a new business or equipment.

## G

- **Goodwill** – an intangible asset that represents the value of a business's reputation.
- **Gross income** – the total money earned by a business before you deduct expenses.
- **Gross profit** (also known as net sales) – the difference between sales and the direct cost of making the sales.
- **Guarantor** – a person who promises to repay a loan if the borrower cannot meet the repayments. The guarantor is legally responsible for the debt.

## H

- **Hire purchase** – a type of contract to purchase an item. You pay an initial deposit, then rent the item and pay it off in instalments (plus interest). When you make the final payment, you

own the item. See also [rent to buy \(https://business.gov.au#financial-terms-r\)](https://business.gov.au#financial-terms-r).

## I

- **Initial public offering (IPO)** – when a company first offers shares on the stock market to the general public. Also known as floating on the stock market.
- **Insolvent** – a business or company is insolvent if they cannot pay their debts when they are due.
- **Intangible assets** – non-physical assets with no fixed value, such as goodwill and intellectual property rights.
- **Interest** – the cost to borrow money or the money earned on an interest-bearing account.
- **Interest rate** – a percentage used to calculate the interest on a loan or bank account. Rates vary between products and may be fixed or variable. Generally, the higher the risk of the loan, the higher the interest rate.
- **Inventory** – a list of goods or materials a business holds for sale.
- **Investment** – buying an asset (such as shares or property) for the purpose of earning money.
- **Invoice** – a document you give to a customer to request payment for a good or service.
- **Invoice finance** – finance based on the strength of a business's accounts receivable. This form of financing is similar to factoring, except that the invoices or accounts receivable stay with the business. See also [factoring \(https://business.gov.au#financial-terms-f\)](https://business.gov.au#financial-terms-f).

## L

- **Liability** – any financial expense or amount owed.
- **Line of credit** – an agreement that lets a borrower withdraw money from an account up to an approved limit.
- **Liquidate** – to quickly sell all the assets of a company and convert them into cash.
- **Liquidation** – the process of winding up an insolvent company. An appointed administrator will do this by stopping business operations, selling assets, and paying creditors and shareholders.
- **Liquidity** – how quickly you can convert assets into cash.
- **Loan** – a finance agreement where a business borrows money and pays it back in instalments (plus interest) within a specified period of time.
- **Loan-to-value ratio (LVR)** – the ratio of a loan amount to the market value of the property or asset it was used to purchase. The LVR helps a lender work out if they can recover the loan amount if the borrower defaults.

## M

- **Margin** – the difference between the selling price of a good or service and the profit on the sale. Margin is generally shown as a gross margin percentage, which is the proportion of profit for each sales dollar.
- **Margin call** – when the value of a property or asset falls below a certain loan-to-value ratio (LVR). For higher risk loans such as margin loans, the lender will request further payment to bring the LVR back to the agreed percentage. See also [loan-to-value ratio \(https://business.gov.au#financial-terms-l\)](https://business.gov.au#financial-terms-l) (LVR).
- **Mark down** – a discount on a product during a promotion or sale. Often used to shift surplus or discontinued products. See also [discount \(https://business.gov.au#financial-terms-d\)](https://business.gov.au#financial-terms-d).
- **Mark up** – the difference between the cost of a good or service and its selling price.
- **Maturity date** – when a loan's term ends and all outstanding principal and interest payments are due.

## N

- **Net assets** – your total assets minus your total liabilities. Also known as net worth, owner's equity or shareholder's equity.
- **Net income** – the total money earned by a business after tax and other deductions.
- **Net profit** – your total gross profit minus all business expenses. Also known as your bottom line.
- **Net worth** – see [net assets \(https://business.gov.au#financial-terms-n\)](https://business.gov.au#financial-terms-n).

## O

- **Overdraft facility** – a finance arrangement where a lender lets a business withdraw more than the balance of an account.
- **Overdrawn account** – a credit account that has exceeded its credit limit or a bank account that has had more than its balance withdrawn.
- **Overheads** – the fixed costs associated with operating a business. For example, rent, marketing, utilities and administrative costs. See also [fixed costs \(https://business.gov.au#financial-terms-f\)](https://business.gov.au#financial-terms-f).
- **Owner's equity** – see [net assets \(https://business.gov.au#financial-terms-n\)](https://business.gov.au#financial-terms-n).

## P

- **Personal property** – property someone can own, except for land, buildings and fixtures. Examples include goods, plant, equipment, cars, boats, planes and livestock.
- **Personal Property Security Register (PPSR)** – the [PPSR](http://www.ppsr.gov.au/Pages/pps.asp) (<http://www.ppsr.gov.au/Pages/pps.asp>) is a government register of security interests in personal property.
- **Petty cash** – cash for small miscellaneous purchases such as postage.
- **Plant and equipment** – fixed assets used in the operation of a business. For example, furniture, machinery, fit-out, vehicles, computers and tools.
- **Principal** – how much of the original amount is still owing on a loan (excluding the interest portion).
- **Profit** – the total revenue a business earns minus its total expenses. See also [revenue](https://business.gov.au#financial-terms-r) (<https://business.gov.au#financial-terms-r>).
- **Profit and loss statement** (<https://business.gov.au/finance/financial-tools-and-templates/set-up-a-profit-and-loss-statement>) – a financial statement listing sales and expenses. You can use it to work out the gross and net profit of a business. Also known as an income statement.
- **Profit margin** – see [margin](https://business.gov.au#financial-terms-m) (<https://business.gov.au#financial-terms-m>).
- **Projection** – see [forecast](https://business.gov.au#financial-terms-f) (<https://business.gov.au#financial-terms-f>).

## R

- **R&D** – stands for 'research and development'. Businesses conduct research and development to innovate, create new products and find better ways of doing things.
- **Receipt** – a document given to a customer to confirm a sale and payment for a good or service.
- **Record keeping** (<https://business.gov.au/finance/payments-and-invoicing/record-keeping>) – the process of keeping or recording information that explains certain business transactions. Record keeping is a requirement under tax law.
- **Refinancing** – using a new loan to pay off an existing one. Reasons to refinance include:
  - extending the original loan over a longer period of time
  - reducing fees or interest rates
  - switching banks
  - moving from a fixed to a variable interest rate.
- **Rent to buy** – a finance arrangement where you purchase something with an initial deposit and then lease it while paying it off. After the final payment, you have the option (but no obligation) to buy the good or continue leasing it. See also [hire-purchase](https://business.gov.au#financial-terms-h) (<https://business.gov.au#financial-terms-h>).
- **Repossess** – when a bank or other lender takes ownership of property or assets to pay off a loan in default.

- **Retention of title** – a clause in contracts where a buyer receives property but doesn't take legal ownership until the full price is paid.
- **Return on investment (ROI)** – a calculation showing how efficient a business is at generating profit from the original equity of owners and shareholders. To calculate ROI, divide the net profit of the investment by the cost of the investment and convert it to a percentage.
- **Revenue** – the amount earned before expenses, tax and other deductions. Also known as turnover.

## S

- **Single-entry bookkeeping** – a bookkeeping method in a cash accounting system that only records one side of each transaction.
- **Scam** – a deliberate and targeted deception to obtain money or information unlawfully.
- **Security** – property or assets a lender can take ownership of when a loan is not repaid. Also known as collateral.
- **Shareholder's equity** – see [net assets \(https://business.gov.au#financial-terms-n\)](https://business.gov.au#financial-terms-n).
- **SMSF** – stands for self-managed superannuation fund. Unlike other super funds, you manage an SMSF yourself, which means you're responsible for making sure it complies with super and tax laws. The ATO website has [more information on SMSFs \(https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf\)](https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf).
- **Stock** – the goods or materials a business currently has on hand.
- **Stocktaking** – physically counting your merchandise and supplies to verify stock records and accounts.
- **Superannuation (https://business.gov.au/finance/superannuation)** – money set aside for retirement that must go into a complying superannuation fund.

## T

- **Tax invoice** – an invoice where the sale includes GST. You need a valid tax invoice when claiming GST credits. See also [invoice \(https://business.gov.au#financial-terms-i\)](https://business.gov.au#financial-terms-i).
- **Turnover** – See [revenue \(https://business.gov.au#financial-terms-r\)](https://business.gov.au#financial-terms-r).

## V

- **Variable interest rate** – when the interest rate of a loan changes with market conditions over the duration of the loan.
- **Variable cost** – a cost that changes depending on the number of goods produced or the demand for the products or service.
- **Venture capital** – an investment in a start-up business that doesn't have access to capital markets because it is a private company.

## W

- **Working capital** – the cash available to a business for day-to-day expenses.