

FINANCE GLOSSARY

An A-Z of finance





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A



A

Asset finance

A broad category, covering both the purchasing of assets or equipment using arrangements such as hire purchase or operating lease, and the raising of funds by securing a loan against the value of assets owned by the business.

Asset debentures

In relation to security, where a business must hand over some or all of its assets to the lender in the event of nonrepayment/bankruptcy.

Angel investor

A high net worth individual who invests in early-stage businesses.

Acquisition

When one commercial entity purchases part or all of another to gain control of the company.

Anti-money laundering

The laws and regulations in place to prevent funds generated from criminal activity being disguised as legitimate income.

Appreciation

An increase in the value of an asset over time.

Amortisation

The process of gradually writing off the initial cost of an asset.

A large, stylized white letter 'B' is centered on a dark blue background. Behind the letter is a large, solid orange circle. The letter 'B' is composed of a vertical stem on the left and two rounded bowls on the right. The orange circle is partially obscured by the letter and the dark blue background.

B



B

Balance sheet

A financial statement that reports the assets and liabilities of a particular business.

Business plan

A written document outlining a company's goals and objectives in relation to finance, marketing, technology and operations.

Base pay

The initial salary paid to an employee not including bonuses and benefits.

Bridge loan

A short-term loan used to meet a company's current obligations until it secures permanent financing, increases revenues, or reduces costs.





C

Crowdfunding

Raising funding from a large number of people, usually each providing a small amount, often via an online platform.

Capital

A broad term often associated with cash and other financial assets.

Copyright

The legal rights of the owner of intellectual property (IP).

Cashflow

The net amount of cash being transferred in and out of a business at any given time.

Company guarantee

A form of security, whereby the business is liable for any funding shortfall.

Credit score

A numerical ranking of financial creditworthiness, given to individuals and companies by credit agencies on the basis of statistical analysis, usually based on historical use of sources of credit, used by many lenders in assessing decisions on financing.

Cryptocurrency

A digital currency that is secured by cryptography making it almost impossible to counterfeit.

Cross Company guarantee

Where a liability is guaranteed by another company.





D

Directors loan

Money given to the business by one of the directors, which shows as money owed by the business, to be repaid in the future.

Debtors

Those who owe you (or your business) money - ie they have been sent an invoice but not yet paid.

Dormant accounts

A company is called dormant by Companies House if it's had no 'significant' transactions in the financial year.

Dividends

A distribution of some of a company's earnings to a class of its shareholders, as determined by the company's board of directors.

Debt finance

An amount of money raised by a business from a finance provider that must be repaid.

Deposit

Money held at a bank or money used as security for the purchase of a good.

Debt-to-capital ratio

The measurement of a company's financial leverage taking into account all liabilities and dividing it by the total capital.



D

Dilution

The process of issuing new shares that decrease the ownership percentage of existing shareholders in a company.

Depreciation

The cost of using fixed assets, which reduce in value over time.





E

Equity

Money given to the business by shareholders, in return for a stake (share) in the business

Economies of scale

Cost advantages achieved when companies increase production and become more efficient.

Exit strategy

A contingency plan that is executed by an investor or entrepreneur when that person wants to dispose of an asset or leave a business.

EBITDA

Earnings before interest, tax, depreciation and amortization





F

Factoring

A form of invoice finance where the funder also provides a credit control service (sometimes useful for a small business that doesn't have an in-house accounting function).

Financial year (FY)

A one-year period that companies use for financial reporting and budget. In the UK this is often 1 April to 31 March.

Face value

The nominal value of a commodity as stated by its issuer.

Fraud warranty

Often a condition of invoice/asset finance arrangements, whereby a liability for personal security only arises where there is evidence of fraud.





G

Grant funding

Money given to a business by a funder that will not usually need to be repaid unless it is a 'repayable grant'.

Gearing

Measure of a company's long-term financing structure. It compares a company's borrowings (debt) with its funding and shareholders (equity).

Growth rate

The percentage change of a specific variable or company within a specific time period.

Gross profit

Revenue less 'cost of sales' (direct costs) from revenue.

Gross profit margin

The margin between the price of a product or service and its direct costs.





H

Hire purchase

A means of purchasing equipment and paying for it in instalments over time. Often shortened to “HP”.

Horizontal market

A market in which the output goods and services are able to meet the needs of more than one industry.

Holdings

The contents of an investment portfolio held by an individual or commercial entity.





I

Invoice finance

A way to raise finance against the value of your debtors, covering invoice discounting and factoring.

Invoice discounting

Where a business is advanced cash payments against the value of its outstanding debtors, while still retaining credit control.

Insolvency

A term for when an individual or company can no longer meet their financial obligations.

Incorporation

The process of constituting and registering a company.

Inflation

An increase in the average price level of a particular selection of goods and services and the consequent decline in purchasing power of a given currency over time.

Initial Public Offering (IPO)

The process of taking a private company to the public in a stock market flotation.

Interest

An amount of money charged by a lender for the privilege of borrowing money.



Intangible assets

Fixed assets that have no physical form and include developments costs, patents, trademarks and software.



L



L

Loan

Money provided by a funder with an agreement to repay against specified terms and conditions, including agreed timescales and usually including the payment of an interest charge in addition to the original capital advanced.

Liability

Something an individual or company owes, usually a sum of money.

Limited guarantee

In relation to security, where a limit is placed on the value of the liability of a director against a loan. (The opposite being an unlimited guarantee).

Limited company

A form of incorporation where the legal structure of the company limits the liability of its shareholders.

Leverage

The process of borrowing capital as an additional funding source when investing to expand the company's asset base.





M

Mezzanine finance

A financing deal which blends debt and equity finance in a specific agreement (often unsecured, as the agreement will provide for the conversion of debt into equity if there is a default in repayment of debt).

Management Buyout (MBO)

A transaction whereby a company's management team purchases the assets and operations of the business they manage.

Market value

The price a good or service could realise when sold in the marketplace.

Margin

Profit as a percentage of the sale price of a particular good or service.



N



N

Net book value (NBV)

The difference between cost and accumulated depreciation.

Not for profit

A business that does not earn profits for its owners and that is run for public service or charitable reasons.

Non-disclosure agreement

A legally-binding contract that establishes a confidential relationship.

Net assets

A calculation: $\text{fixed assets} + \text{current assets} - \text{current liabilities} = \text{net assets}$.





Operating profit

A calculation: revenue - cost of sales and operation expenses = operating profit.

Overdraft

An extension of credit to cover when there isn't enough money in an account to pay for a transaction or withdrawal.

Open banking

A banking practice that provides third-party financial service providers access to consumer banking, transaction and other financial data through the use of application programming interfaces (APIs).

Overheads

The ongoing business expenses not directly attributed to creating a product or service.

Opportunity cost

The potential benefits a business misses out on when choosing one option over another.





P

Personal loan

A loan taken out in the name of a person, rather than by a business.

Personal guarantee

A form of security, whereby the director(s) are personally liable for any funding shortfall.

Private equity

Funds and investors that directly invest in private companies.

Post-money valuation

A company's estimated worth after receiving investment or a capital injection.

Payment-in-kind (PIK)

The use of a good or service as payment instead of cash.

Proof of funds

Documents that demonstrate an individual or company has the means to pay for a specific transaction.

Person of Significant Control (PSC)

A PSC is someone who owns or controls a company, sometimes called a 'beneficial owner'.





R

Retained earnings

The historical profits earned by a company, minus any dividends it paid in the past.

Revenue

The money generated from conducting normal business operations.

Return on investment (ROI)

A performance measure used to evaluate the profitability of an investment.

Reconciliation

An accounting process that compares two sets of records to check that figures are correct and in agreement.

Risk analysis

An assessment of the likelihood of an adverse event occurring within a company.

Remuneration

The total compensation received by an employee.

Restructuring

An action taken by a company to significantly modify financial and operational practices.





S

Security

Measures taken by a bank or financial institution to ensure that the money owed to them in relation to a loan is backed up by assets belonging to the borrower.

Small and medium-sized business (SME)

Relating to companies that employ between 30 and 250 employees.

Syndicate

A temporary alliance of businesses that join together to manage a large transaction.

Shareholder

A person, company, or institution that owns at least one share of a company's stock, which is known as equity.





T

Tax

A compulsory financial charge imposed on individuals and companies by the government in order to fund government spending.

Tangible assets

An asset that has a finite monetary value and usually comes in a physical form.

Trust

A formal relationship in which one part, known as the trustor, gives another party, the trustee, the right to hold title to property or assets for a third party, the beneficiary.

Trade finance

A facility used by companies to facilitate international trade and commerce.

Turnover

A synonym for a company's total revenues and a concept used to understand how quickly a company sells its inventory.





U

Unsecured loan

A loan which is provided without any fallback on the part of the funder to cover the eventuality of default on loan payments.

Underwriting

The process through which an individual or company takes on financial risk for a fee.

Underlying profit

A calculation made internally by a company to show what it believes is a more accurate reflection of how much money it makes.





V

Valuation

The analytical process of determining the current or project worth of an asset or company.

Value-added-tax (VAT)

The amount collected on a product when value is added to it, from its production to the point of sale. This is 20% in the UK.

Volatility

A measurement of the standard deviation or variance between returns from a particular asset or market index.

W



W

Warranty

A type of guarantee that a manufacturer or similar business places on its products.

Write-off

An accounting action that reduces the value of an asset while at the same time debiting a liabilities account.





Y

Yield

The earnings generated on an investment over a particular period of time.

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