Glossary of Finance & Startup Terms

A

- **Accounts payable** - a record of all short-term (less than 12 months) invoices, bills and other liabilities yet to be paid. Examples of accounts payable include invoices for goods or services, bills for utilities and tax payments due.
- **Accounts receivable** - a record of all short-term (less than 12 months) expected payments, from customers that have already received the goods/services but are yet to pay. These types of customers are called debtors and are generally invoiced by a business.
- **Accounts receivable finance** - see *Factoring*.
- **Accrual accounting** - an accounting system that records transactions at the time they occur, whether the payment is made now or in the future.
- **Amortization** - the process of expensing for intangible assets such as goodwill and intellectual property over a period of time. See also *Depreciation*.
- **Acquisition** - When one company buys controlling stake in another company. Can be friendly (agreed upon) or hostile (no agreement).
- **Angel investor** - Individual who provides a small amount of capital to a startup for a stake in the company. Typically precedes a Seed Round and usually happens when the startup is in its infancy.
- **Accredited Investor** – In the case of individuals, earned income that exceeded \$200,000 (or \$300,000 together with a spouse) in each of the prior two years, and reasonably expects the same for the current year, *OR* has a net worth over \$1 million, either alone or together with a spouse (excluding the value of the person's primary residence).
- **Assets** - are things you own. These can be cash or something that can be converted into cash such as property, vehicles, equipment and inventory.
- **Audit** - a physical check performed by an auditor or tax official on a business' financial records to check that everything is accounted for correctly.

B

- **Bad debts** - money owed to you that is unlikely to be paid to you in the foreseeable future.
- **Balance sheet** - a snapshot of a business as of a particular date. It lists all of a business' 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 final 'balloon payment' have lower regular repayments over the term of the loan.
- **Bank reconciliation** - a cross-check that ensures the amounts recorded in the cashbook match the relevant bank statements.
- **Bankrupt** - an individual is bankrupt when they cannot pay their debts and aren't able to reach an agreement with their creditors.
- **Bankruptcy** - a process where an individual is legally declared bankrupt and their assets and financial affairs are administered by an appointed trustee.
- **Benchmark** - a set of conditions against which a product or business is measured.
- **Benchmarking** - the process of comparing your business to similar businesses in your industry.
- **Bill of sale** - a legal document used in the purchase of property or other assets that details what was purchased, where the purchase took place, and for how much.
- **Bookkeeping** - the process of recording the financial transactions of a business.

- **Bootstrapping** - where a business funds growth purely through personal finances and revenue from the business.
- **Bottom line** - see *Net profit*.
- **Break-even point** - the exact point when a business' income equals a business' expenses.
- **Bridge loan** - Also known as a swing loan. Short-term loan to bridge the gap between major financing.
- **Budget** - a listing of planned revenue and expenditure for a given period.
- **Burn rate** - The rate at which a new company uses cash to pay overhead before generating positive cash flow from operations. In other words, it's a measure of negative cash flow.

C

- **Cap** – typically, an upper limit on valuation. In the case of convertible notes (see *Convertible debt*), entrepreneurs and investors often agree to place a cap on the valuation of the company when the notes, which are debt (see *Debt financing*), convert to equity (See *Equity financing*). This means investors will own a minimum percentage of a company relative when the company raises another round of funding. Uncapped rounds are generally more favorable to an entrepreneur/startup.
- **Capital** - wealth in the form of money or property owned by a business.
- **Capital cost** - a one-off substantial purchase of physical items such as plant, equipment, building or land.
- **Capital gain** - is the amount gained when an asset is sold above its original purchase price.
- **Capital growth** - an increase in the value of an asset.
- **Cash** - includes all money that is available on demand including bank notes and coins, petty cash, certain checks, and money in savings or debit accounts.
- **Cash accounting** - an accounting system that records transactions at the time money is actually received or paid.
- **Cash book** - a daily record of all cash, credit or check transactions received or paid out by a business.
- **Cash flow** - the measure of actual cash flowing in and out of a business.
- **Cash incoming** - money that is flowing into the business.
- **Cash outgoing** - money that is flowing out of the business.
- **Chart of accounts** - an index of the accounts a business will use to classify transactions. Each account represents a type of transaction such as Asset, Liability, Owner's equity, Income, and Expense.
- **Chattel Mortgage** - is similar to a hire-purchase agreement although the business owns the asset from the start. Chattel mortgages require regular ongoing payments and typically provide the option of reducing the payments through the use of a final 'balloon' payment.
- **Collateral** - see *Security*.
- **Commercial bill** - (also known as a bill of exchange) is a form of commercial loan that can be offered on an interest only basis, or reducing basis. Commercial bills typically require some sort of security and suit short-term funding needs such as inventory.
- **Contingent liability** - a liability that only needs to be paid if a particular event or circumstance occurs.

- **Convertible debt** - This is when a company borrows money with the intent that the debt accrued will later be converted to equity in the company at a later valuation. This allows companies to delay valuation while raising funding in its early stages. This is typically done in the early stages of a company's life, when a valuation is more difficult to complete and investing carries higher risk.
- **Cost of goods sold** - the total direct costs of producing a good or delivering a service.
- **Credit** - a lending term used when a customer purchases a good or service with an agreement to pay at a later date (e.g. an account with a supplier, a store credit card or a bank credit card).
- **Creditor** - a person or business that allows you to purchase a good or service with an agreement to pay at a later date. A creditor is also anyone who you owe money to, such as a lender or supplier.
- **Credit limit** - a dollar amount that cannot be exceeded on a credit card or the maximum lending amount offered for a loan.
- **Credit rating** - a ranking applied to a person or business based on their credit history that represents their ability to repay a debt
- **Credit history** - a report detailing an individual or business past credit arrangements. A credit history is often sought by a lender when assessing a loan application.
- **Crowdfunding:** Is a way of financing your business idea through donations of money, rather than investments (see *Equity crowdfunding*) from the public. This is usually done online, through a crowd funding website.
- **Current asset** - an asset in cash or that can be converted into cash within the next 12 months.
- **Current liability** - a liability that is due for payment in the next 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 is owed including bills, loan repayments and income tax.
- **Debt consolidation** - the process of combining several loans or other debts into one for the purposes of obtaining a lower interest rate or reducing fees.
- **Debt financing** - money provided by an external lender in exchange for a note or bond issued to an investor/lender, which is a contract to repay the loan with interest. (See *Equity financing*.)
- **Debtor** - a person or business that owes you money.
- **Debtors finance** - See *Factoring*.
- **Default** - a failure to pay a loan or other debt obligation.
- **Depreciation** - the process of expensing an asset over a period of time. An asset is depreciated to spread the cost of the asset over its useful life.
- **Disbursements** - money that is paid out by a business.
- **Discount** - a reduction applied to a full priced good or service. See also *Markdown*.
- **Double-entry bookkeeping** - is a bookkeeping method that records each transaction in two accounts, both as a debit and a credit.
- **Draw** – advance or loan, often to fund personal expenses, paid for from a business account.
- **Due Diligence** - An analysis an investor makes of all the facts and figures of a potential investment. Typically includes an investigation of financial records and a measure of potential ROI.

E

- **Employee stock option plan:** A program to give employees the opportunity to buy shares in their employer.
- **Encumbered** - an encumbered asset is one that is currently being used 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*.
- **Equity financing** – 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. Unlike with debt, the investor has no contractual right to a return of his or her investment. (See *Debt financing; Exit*)
- **Exit** - the method by which an investor and/or entrepreneur intends to "exit" their investment in a company. Typically an IPO or buyout from another company. Entrepreneurs and VCs often develop an "exit strategy" while the company is still growing.

F

- **Facility** - a predetermined arrangement such as an account offered by a financial institution to a business (e.g. a bank account, a short-term loan or overdraft).
- **Factoring** - (also known as debtors finance and accounts receivable finance) — is when a factor company buys a business' outstanding invoices at a discount. The factor company then chases up the debtors. Factoring is a way to get quick access to cash, but can be quite expensive compared to traditional financing options.
- **Finance** - money used to fund a business or high value purchase.
- **Financial year** - a twelve month period typically from 1 July to 30 June.
- **Financial statement** - a summary of a business' financial position for a given period. Financial statements can include a profit & loss, balance sheet and cash flow statement.
- **Fixed asset** - a physical asset used in the running of a business.
- **Fixed cost** - a cost that cannot be directly attributed to the production of a good or service.
- **Fixed interest rate** - when the interest rate of a loan remains the same for the term of the loan or an agreed timeframe.
- **Float** - is when a private company offers shares in the company to the public for the first time. See *Initial public offering*.
- **Forecast** - a prediction of future financial transactions. Forecasts are often used to help plan a more accurate budget.
- **Fringe benefits** - non-monetary benefits such as company cars and mobile phones, included as part of a salary package.
- **Fully drawn advance** - is a long term loan with the option to fix the interest rate for a period. These loans are usually secured and can be used to fund a new business or equipment.

G

- **Goodwill** - an intangible asset that represents the value of a business' reputation.
- **Gross income** - the total money earned by a business before expenses are deducted.
- **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 pay a loan in the event the borrower cannot meet the repayments. The guarantor is legally responsible for the debt.

I

- **Initial public offering (IPO)** – the first time a company offers its shares (i.e., equity) to on a securities exchange or to the general public.
- **Insolvent** - a business or company is insolvent when they cannot pay their debts as and when they fall due.
- **Intangible assets** - non-physical assets with no fixed value, such as goodwill and intellectual property rights.
- **Interest** - the cost of borrowing money on a loan or earned on an interest-bearing account.
- **Interest rate** - a percentage used to calculate the cost of borrowing money or the amount you will earn. Rates vary from product to product and generally the higher the risk of the loan, the higher the interest rate. Rates may be fixed or variable.
- **Inventory** - goods or materials a business is holding for sale.
- **Investment** - an asset purchased for the purpose of earning money such as shares or property.
- **Invoice** - a document provided to a customer to request payment for a good/service received.
- **Invoice finance** - is finance offered based on the strength of a business' accounts receivable. This form of financing is similar to factoring, except that the invoices or accounts receivables remain with the business. See also *Factoring*.

L

- **Liability** - a financial obligation or amount owed.
- **Line of credit** - an agreement allowing a borrower the ability to withdraw money from an account up to an approved limit.
- **Liquidate** - to quickly sell all the assets of a company quickly and convert them into cash.
- **Liquidation** - the process of winding up an insolvent company. An appointed administrator will do this by ceasing business operations, selling assets, and paying creditors and shareholders.
- **Liquidity** - how quickly assets can be converted into cash.
- **Loan** - a finance agreement where a business borrows money from a lender and pays it back in instalments (plus interest) within a specified period of time.
- **Loan to value ratio (LVR)** - your loan amount shown as a percentage of the market value of the property or asset that will be purchased. The ratio helps a lender work out if the loan amount can be recouped in the event a loan goes into default.

M

- **Margin** - the difference between the selling price of a good or service and the profit. Margin is generally worked out as a gross margin percentage which shows the proportion of profit for each sales dollar. See also *Mark up*.
- **Margin call** - when the value of a property or asset falls below a certain 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 (LVR)*.
- **Mark down** - a discount applied to a product during a promotion/sale for the purposes of attracting sales or for shifting surplus/discontinued products. See also *Discount*.
- **Mark up** - the amount added to the cost price of goods, to help determine a selling price. Essentially it is the difference between the cost of the good/service and the selling price, but it does not take into account what proportion of the amount is profit. See also *Margin*.
- **Maturity date** - when a loan's term ends and all outstanding principal and interest payments are due.

- **Mezzanine financing** - A form of hybrid capital typically used to fund adolescent and mature cash flow positive companies. It is a form of debt financing, but it also includes embedded equity instruments or options. Companies at this level, which are no longer considered startups but have yet to go public, are typically referred to as "mezzanine level" companies

N

- **NDA** - Non-disclosure agreement. An agreement between two parties to protect sensitive or confidential information, such as trade secrets, from being shared with outside parties.
- **Net assets** - *(also known as net worth, owner's equity or shareholder's equity)* is the total assets minus total liabilities.
- **Net income** - the total money earned by a business after tax and other deductions are taken out.
- **Net Profit** - *(also known as your bottom line)* is the total gross profit minus all business expenses.
- **Net Worth** - See *Net assets*.

O

- **Overdraft facility** - a finance arrangement where a lender allows a business to 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 the remaining balance withdrawn.
- **Overheads** - the fixed costs associated with operating a business such as rent, marketing, utilities and administrative costs. See also *Fixed costs*.
- **Owner's equity** - See *Net assets*.

P

- **Personal Property** - covers any property someone can own, except for land, buildings and fixtures. Examples include goods, plant and equipment, cars, boats, planes, livestock and more.
- **Personal Property Security Register (PPSR)** - the PPSR replaces a number of registers of security interests and provides a single national noticeboard of security interests in personal property.
- **Petty cash** - cash for the purposes of small miscellaneous purchases such as postage.
- **Plant and equipment** - a group of fixed assets used in the operation of a business such as furniture, machinery, fit-out, vehicles, computers and tools.
- **Portfolio Company** - A company that a specific fund, such as a Venture Capital or Private Equity firm, has invested in is considered a "portfolio company" of that firm.
- **Preferred stock** – A class of equity that gets paid before common equity (but after creditors) upon a liquidation or sale of the company ("liquidation preference") and that typically carries a fixed dividend that is to be paid out before dividends on common stock.
- **Principal** - the original amount borrowed on a loan or the remainder of the original borrowed amount that is still owing (excluding the interest portion of the amount).
- **Profit** - the total revenue a business earns minus the total expenses. See also *Revenue*.
- **Profit and loss statement** - (also known as an income statement) is a financial statement listing sales and expenses and is used to work out the gross and net profit of a business.
- **Profit margin** - see *Margin*.
- **Projection** - see *Forecast*.

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.
- **Recapitalization** - A corporate reorganization of a company's capital structure, changing the mix of equity and debt. A company will usually recapitalize to prepare for an exit, lower taxes, or defend against a takeover.
- **Receipt** - a document provided to a customer to confirm payment and to confirm a good/service has been received.
- **Record keeping** - the process of keeping or recording information that explain certain business transactions. Record keeping is a requirement under tax law.
- **Refinance** - when a new loan is taken out to pay off an existing one. Refinancing is often done to extend the original loan over a longer period of time, reduce fees or interest rates, switch banks, or move from a fixed to variable loan.
- **Rent to buy** - is a type of finance arrangement where a good is purchased through an initial deposit and then 'leased' while the good is paid off. Once the good is fully paid the purchaser has the option (but no obligation) to buy the good or continue leasing. See also *Hire purchase*.
- **Repossess** - the process of a bank or other lender taking ownership of property/assets for the purpose of paying off a loan in default.
- **Retention of title** - a type of clause that can be included in contracts where a buyer may physically receive property, but doesn’t take legal ownership from the seller until the full purchase price is paid.
- **Return on investment (ROI)** - a calculation that works out how efficient a business is at generating profit from the original equity provided by the owners/shareholders. It's a way of thinking about the benefit (return) of the money you've invested into the business. To calculate ROI, divide the **gain** (net profit) of the investment by the **cost** of the investment - the ROI is expressed as a percentage or a ratio.
  (Net profit) / (Cost) x 100 = ROI
  Example
  Annie buys $1000 worth of stock and sells the stock a year later for $1500. The net profit is $500.
  Return on Investment = (500 / 1000) = 0.5 x 100 = 50%
  Annie's ROI on the stock is 50%.
- **Revenue** - *(also known as turnover)* the amount earned before expenses, tax and other deductions are taken out.
- **Round** - Startups raise capital in individual rounds, depending on the stage of the company. The first round is usually a ‘Seed round’ followed by Series A, B, and C rounds. In rare cases rounds can go as far as Series F.

S

- **SasS** - The seed round is the first official round of financing for a startup. At this point a company is usually raising funds for proof of concept and/or to build out a prototype and is referred to as a "seed stage" company.
- **Single-entry bookkeeping** - a bookkeeping method used within a cash accounting system and records one side of each transaction.
- **Scam** - a deliberate and targeted deception designed to obtain money or information unlawfully. See ourSmall business scams section.
- **Security** - *(also known as Collateral)* is property or assets that a lender can take possession of, in the event that a loan cannot be repaid.
- **Shareholder's equity** - see *Net assets*.

- **SMSF:** Stands for self-managed superannuation fund. An SMSF is a way of saving for your retirement. Unlike other super funds, an SMSF is self-managed, which means you're responsible for making sure the super fund complies with super and tax laws.
- **Stock** - the actual goods or materials a business currently has on hand.
- **Stocktaking** - a regular process involving a physical count of merchandise and supplies actually held by a business, completed to verify stock records and accounts.
- **Superannuation** - money set aside for retirement that must be paid into a complying superannuation fund.

T

- **Tax invoice** - an invoice required for the supply of goods or services over a certain price. A valid tax invoice is required when claiming GST credits. See also *Invoice*.
- **Term sheet** - A non-binding outline of the major aspects of an investment to be made in a company. A term sheet sets the groundwork for building out detailed legal agreements that are often referred to as, the "definitive agreements."
- **Turnover** - See *Revenue*.

V

- **Valuation** - The process by which a company's worth or value is determined. An analyst will look at capital structure, management team, and revenue or potential revenue, among other things.
- **Variable interest rate** - when the interest rate of a loan changes with market conditions for the duration of the loan.
- **Variable cost** - a cost that changes depending on the number of goods produced or the demand for the products/service.
- **Venture Capital** - capital invested in a start-up business that is thought to have excellent growth prospects.
- **Vesting** - When an employee of a company gains rights to stock options and contributions provided by the employer. The rights typically gain value (vest) over time until they reach their full value after a pre-determined amount of time. For example, if an employee was offered 200 stock unites over 10 years, 20 units would vest each year. This gives employees an incentive to perform well and stay with the company for a longer period of time.

W

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

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