

Resource 02-08

| Term | Definition |
|-----------------------------|---|
| Account Payable | Money owed by a company to a supplier. Example: "I purchased \$20,000 of beauty supplies for my big sidewalk sale. My supplier gave me 60 days to pay for this huge order. That \$20,000 is now an Account Payable for my company. The supplier trusts me to pay this account payable on the terms we agreed to." |
| Account Receivable | Money owed by a customer to a company. Example: "I sold the new computer system to my client for \$20,000. They made an initial payment of \$1,000 and now owe me \$19,000, which they've promised to pay in 30 days. That \$19,000 is an Account Receivable for me. I trust the customer to pay this account receivable on the terms we agreed to." |
| Angel Investors | Individuals that make small investments in an enterprise or to support an entrepreneur where they do not expect an immediate or large return on investment. Angel Investors are typically "friends and family," individuals who know the business owner and want the owner to succeed. Angel Investors typically provide small amounts of equity with no expectation of a large return. |
| Assets | Something of value. Anything owned is an asset. Assets can be something big (like a house) or something small (like a piece of jewelry). A security is a financial asset, meaning a piece of paper that represents ownership and is worth money. |
| Bank Loan | Debt from a bank. Banks require much more information from potential borrowers, and take more time to make a lending decision based on a great deal of analysis. Therefore bank loans are less expensive than online lines of credit. |
| Bond | A loan. A bond is security that investors buy and sell, that represents a legal obligation from the company issuing the bond that they will repay the funds they received when they issued the bond. |
| Breakeven Analysis | A determination of how many units are needed to sell in order to pay for all fixed costs. Example 1: "That equipment costs \$4,000. The contribution margin for each item it makes is \$10. I will need to sell 400 items to breakeven on that investment." Example 2: "My overhead expenses are \$50,000. The contribution margin on each item I sell is \$50. I will need to sell 1,000 items for my company to breakeven." |
| Brokerage | A company that provides individuals and companies with access to financial markets. Example: "I buy stocks and bonds from my broker." |
| Business Ethics | Proper business behavior beyond complying with legal requirements. A simple rule guides business ethics, the same basic rule that should guide all human behavior: act towards your stakeholders as you would hope they would act towards you. |
| Capital (or Equity) | Funds contributed by investors to a business. Investors contribute capital to a business because they expect a significant return on their investment when the business succeeds. |
| Capital Expenditures | Expenditures on equipment the business will use for many years. |

Resource 02-08

| | |
|--|--|
| Cash Flow | Total Revenues minus Total Cost <i>minus one-time expenditures (called "capital expenditures") on equipment that will be used for many years.</i> |
| Cash Instruments | Cash, publicly traded stocks, government bonds or corporate bonds that can be quickly turned into cash. Cash Instruments can be turned into cash at values that are predictable and available to all holders of the cash instrument. Example: "Apple stock is a cash instrument because it can be sold and converted into cash immediately, and the amount anyone would get for that Apple stock is the same - the price of the stock at that moment in the stock market." |
| Collateral | Equipment, inventory or other goods that are pledged to the bank in the case the company can not make a loan payment. |
| Comfort Engaging with Strangers | The ability to interact in a friendly and effective way with unfamiliar people. The ability to seem welcoming and easy to talk to, even with people who are different in age, appearance or background. |
| Commission | Money earned when something is sold. Example: the real estate agent who sells you a house is paid a 2% commission on the value of the house sold. |
| Communications Skills | The ability to accurately convey information. Both verbal (or spoken) and written communication skills are important. |
| Computer Literacy | The ability to use computers for basic tasks, such as developing documents, sending emails and searching the internet for information. |
| Confidentiality | Individuals and companies often promise to keep information they learn secret. This promise is often formalized by signing a Non-Disclosure Agreement (or NDA). Example: the bank signs an NDA when an entrepreneur submits lots of personal information on a bank loan application. |
| Conflict of Interest | A situation in which an individual might take an action to his/her advantage that would be to the disadvantage of a person or company that believes this individual is serving them. Example: a customer tells a supplier in confidence that they are buying a large quantity of a specific product to advertise a major sale in two weeks. It would be a conflict of interest for that supplier to go to competitor stores and use this information to get them to buy more of this product and put it on sale immediately. |
| Contribution Margin | Unit price minus cost of goods sold. |
| Corporate Social Responsibility | Actions entrepreneurs and companies take that go beyond their financial self-interest. These actions are voluntary but often reflect the personal beliefs of business leaders about what their companies can or should accomplish. Many companies tie the actions they take for corporate social responsibility to initiatives that benefit their business. Example: the local pet store promises to donate \$1 to the local animal shelter for every pet owner who buys the pet food they have on sale over a weekend. |
| Corporation | A corporation is a person in the eyes of the law. The corporation is taxed for profits and is liable for any debts or judgments. Corporations are owned by shareholders (individuals or other corporations). |
| Cost of Goods Sold | Costs that make up one unit of what you sell. These can be labor costs as well as material costs. Example: when you sell a hat, the variable costs include: a) the hat's material; and b) the labor cost required to make the hat. |

Resource 02-08

| | |
|--------------------------------|--|
| Covered Loss | A loss that an insurance company will reimburse a policyholder for in the event of a claim. Example: "The fire damage to my inventory was a covered loss - the insurance company paid my claim after I paid for my deductible. I had to close my store for a week - the business I lost because my store was closed cost me another \$20,000, but that was not a covered loss because my fire insurance policy did not cover a business interruption claim." |
| Credit (or Debt) | Funds lent to a business with an agreement that the business will repay the lender with interest. |
| Credit-Worthiness | A person or a business with a strong credit score and the financial resources that make it likely they will be able to repay any loan. |
| Crowdfunding | An Internet phenomenon, where strangers learn about a business online and then decide whether or not to make an investment. Crowdfunding investors are typically "fans" of an owner, but they <i>do</i> expect a return on investment. (The company pays a percentage of the capital raised to the online Crowdfunding website.) |
| Deductible | The amount an insurance company makes a policyholder pay as part of any claim. Example: my fire insurance policy has a deductible of \$500. I had a fire last year where there was \$20,000 of damage to my store. I had to pay for the first \$500 of damage, then my insurance company reimbursed me for the other \$19,500 in damages." <i>The higher a deductible the lower a premium, since the insurance company will not have to pay small claims and will pay a lower portion of large claims.</i> |
| Default | Failure to repay a loan. |
| Determination | Commitment to get something done. Individuals with determination exhibit willpower to accomplish what they set out to do. Also called "tenacity." Spirit, courage, willpower and single-mindedness describe determined individuals. |
| Differentiated Offering | Distinguishing a product or service "different than anything else," attracting customers, generating sales and serving as the foundation for a thriving business. |
| Differentiation | The act of making a business different (and presumably more attractive to target customers) than any competitor. |
| Dividend | Money paid by a company to a person who owns stock in that company. Dividends are optional – many companies do not pay dividends. Dividends are typically paid every three months (which is called a "quarter," since three months is a quarter of a year) or annually. |
| Elevator Speech | A clear, concise and compelling way to describe a business or new business concept in 30 seconds; a differentiating vision to encourage potential investors or employees to learn more. |
| Engaging Question | Open ended questions that prompts more than a "Yes" or "No" response. Engaging questions give entrepreneurs more information they can use to help them frame their differentiating offering and launch their business. |
| Equity (or Capital) | Funds contributed by investors to a business. Investors contribute capital to a business because they expect a significant return on their investment when the business succeeds. |

Resource 02-08

| | |
|---|--|
| Extended Payment Terms | An option a supplier might grant a company to pay their bills later than they normally would. Example: "I usually have to pay my supplier within 30 days of receiving their goods. But if I order extra for a big sale that features their product my supplier gives me extended payment terms - 60 days - so I don't run out of money before the sale." |
| Fairness | Treating stakeholders as the entrepreneur would hope others would treat him/her. |
| Financial Literacy | Understanding how individuals and businesses earn money and what they spend money on. Understanding important financial terms. Learning how to create a budget. |
| Fiscal Year | The 12 month period a company uses to report financial results. A fiscal year can be the same as a calendar year (January through December), or any other 12 month period that makes sense. Example: a gift store chain sells most of its items during the Holiday season and then in clearance sales during January. Therefore the gift store chain uses a fiscal year of February 1 - January 31 so that its year-end accounting doesn't interfere with its selling efforts. |
| Fixed Costs | Costs that do not vary based on the units sold by enterprise. Fixed costs are often incurred at the start of the enterprise, before it is known how well the enterprise will perform. Example: when you sign your lease, your store rent is now a fixed cost that will not vary based on how many units you sell. |
| geaux BIZ Portal | A computer portal offered by the Louisiana Secretary of State that enables entrepreneurs to go to a single source to learn which forms they need to file, to file the forms required by the Secretary of State, and to determine which other government agencies they may need to interact with. |
| Go / No Go | The decision point at which an entrepreneur makes the final decision on whether or not to launch a new enterprise or abort the effort due to unfavorable market research or pro forma projections. |
| Grit | An individual's self-commitment to overcome obstacles to achieve long-term goals. The ability to keep pursuing your dream despite challenges and defeats. Perseverance, resilience and backbone. |
| Guarantor | A credit-worthy individual or business with sufficient liquidity that promises to repay a loan in the event that the debtholder can't make a required payment. |
| Individual Retirement Account or IRA | A special account where individuals can deposit retirement funds that can grow tax-deferred until they withdraw them after they retire. The advantage of an IRA: there are no annual income taxes on any dividends or profitable sales that an IRA makes - the money remains in the account and only gets taxed when the individual retires. If an individual withdraws money from an IRA before he/she retires they are forced to pay the IRS significant penalties for early withdrawal. |
| Installment Payment | Debt owed to someone that is paid monthly. Examples: your car or truck payment, your credit cards and your mortgage are all paid in monthly installment payments. |

Resource 02-08

| | |
|--|--|
| Insurance Claim | The amount an insurance policyholder receives from the insurance company to reimburse the policyholder for a covered loss. Example: "The fire at my store caused \$20,000 in damages. After I paid my deductible of \$500, my insurance company paid my claim in the amount of \$20,000 - \$500 = \$19,500." |
| Insurance Policyholder | The individual or business that purchases an insurance policy for various types of protection (examples: fire insurance, life insurance, etc.) |
| Insurance Premium | The amount a policyholder (either every quarter or year) pays for an insurance policy. Example: that fire insurance policy for the new store has an annual premium (or cost) of \$1,000. |
| Intellectual Property | <p>Non-physical assets created by individuals or companies that hold the exclusive legal right to commercialize.</p> <ul style="list-style-type: none"> • A <u>copyright</u> gives the author the sole right to benefit economically from what he/she wrote. • A <u>patent</u> gives the inventor the sole right to benefit commercially from his/her invention. • A <u>trademark</u> gives the registering individual or company the sole right to benefit from a brand or image he/she created. <p>In each case the creator of the intellectual property has the right to benefit financially from his/her creation by selling the rights to (or "licensing") their intellectual property to a third party.</p> |
| Internal Revenue Service or IRS | The federal agency that collects federal taxes and performs audits. |
| Inventory | The merchandise that a company sells to customers. |
| Judgment | A legal decision requiring a person or company to pay another person or company. Example: "I sued that company for failing to repay the loan I gave them. I won a judgment for all the money they owed me plus the money I paid to my lawyer to sue them." |
| Launch Plan | A complete package that supports a "Go" decision by an entrepreneur to launch a new business. A launch plan would include an Elevator Speech, supporting Market Research conclusions, an Organizational Plan (including an organizational chart and a Human Capital plan for attracting talented team members), a Marketing and Sales Plan, and pro forma financial projections. |
| Legal filings | Required forms that a company must complete and submit to the appropriate government agency. |
| Liability | An obligation you have to pay someone else money. Also called a debt or a loan. |
| Lien | The right to take possession of collateral until a debt is repaid. Example: "The bank has a lien on my company's inventory. If we can't repay the bank loan, the bank has the right to take possession of our inventory and sell it to pay themselves the money we owe them." |
| Limited Liability Corporation (LLC) | A special type of corporation where individual owners (or "members") are taxed on the profits of the company, but the corporation (not the member-owners) is liable for debts or judgments against the company. |

Resource 02-08

| | |
|--|---|
| Line of Credit | A loan that provides the borrower a maximum amount of money he/she can borrow - the borrower can then access or use that line of credit for only as much money as they need at any particular time. Example: "I have a \$40,000 line of credit with the bank. I only need to borrow \$5,000 to increase my inventory for the holiday season, so I've only used \$5,000 of my \$40,000 line of credit to minimize my interest payments." |
| Liquid Assets | Cash or securities that can be immediately turned into cash, which can then repay any loan amount outstanding. A company or individual "has liquidity" if they have lots of liquid assets. |
| Liquidity Ratios | Ratios a lending company calculates about an individual or a company to determine how likely they are to have the liquidity to repay debt payments that are required in a loan. |
| Louisiana Department of Revenue | The state agency that collects state taxes. |
| Louisiana Secretary of State | The state government agency that helps individuals and companies file required legal forms. |
| Marketing | How a business communicates to large numbers of customers, motivating them to learn more about the business and its offerings. Example: advertising is a marketing tool. (TV, Radio, Signs, Flyers) |
| Maturity | The date a loan (or debt or liability) is repaid in full. Example: the maturity of your car loan is five years from the day you buy the car – five years from now that debt needs to be completely repaid. |
| Mentor | A person who coaches and supports an entrepreneur . . . or a student studying to become an entrepreneur. Mentors have "been there, done that," so they are a great source of experienced advice to an entrepreneur or a student. |
| Mission-Driven | When an entrepreneur's actions and decisions are guided by a set of beliefs about how he / she wants the business to succeed. |
| Mortgage | The money a person borrows to buy real estate. Example: when you buy a house you go to the bank to get a mortgage. |
| Mutual Fund | An investment security that includes many different stocks purchased and held together. Investors purchase mutual funds because they are less risky than holding any individual stock. Example: "One stock in the mutual fund went down 50%. But because the mutual fund holds over 1000 other stocks, the value of the mutual fund went down less than 1%." |
| Net Income | "Net" means revenues after costs. Example: you get \$1,000 a month for renting a house you own to a friend. The costs of maintaining the house every month equal \$800. That means your "net income" from renting that house to your friend is: $\$1,000 - \$800 = \$200$ per month (before taxes). |
| Notes Payable | Another type of debt (or money you owe someone else) other than a mortgage: Example: if you borrowed money to buy a boat, then the money you borrowed is a note payable to the person or company that sold you the boat. |
| Obligation | A payment that is owed every month. Example: your mortgage is a monthly obligation. (something you must do) |

Resource 02-08

| | |
|---------------------------------|--|
| Online Credit | Debt obtained from a number of online companies. Borrowers need to disclose much less information about themselves to obtain online credit, and online credit companies make credit decisions much more quickly than banks. For these reasons, online credit is much more expensive for borrowers than bank loans. |
| Origination Fee | The percentage of a loan a bank or online credit company charges when a small business receives a loan. Original fees add to the cost of the loan. |
| Outside Services | Services a company uses to maintain proper financial records, legal filings and employee documentation. |
| Overdraft | When a company issues a check or makes a financial commitment for an amount greater than the amount the company has deposited in the bank. Also called "a bounced check." |
| Overhead | Costs that a business incurs that are not part of producing the goods or services its sells, but which are required to operate legally and efficiently. Example: "The salary I pay my accountant is overhead - these funds don't help us sell more product, but I need my accountant to keep our financial records and submit all required filings." |
| Own "Free and Clear" | Owning an asset without any associated debt. Example: "I paid off my car loan last month, so now I own my car 'free and clear.'" |
| Partnership | When two or more individuals own a company. Partners are taxed on the profits of the company, and are personally liable for any debts or judgments against the company |
| Personal Capabilities | Abilities an individual develops that helps him / her succeed. Personal capabilities are developed by a combination of observation, training and hands-on trial and error. |
| Personal Support Systems | Relationships and resources that help individuals succeed. Support relationships are often with "mentors" (experienced individuals who help you learn and succeed). Support resources include both information sources (like the LA Star Jobs website) and the opportunity to experience new things (like an internship). |
| Pledged | A legal agreement that an assets is part of a guarantee to a lender, when the lender can take possession of the assets and sell it to recover the funds owed by a borrower in the event the borrower is unable to make a required debt payment. |
| Principal | The amount of money borrowed. |
| Pro Forma | A Latin phrase ("for the sake of form") that in business means a projection of future financial performance. A pro forma usually takes the form of a projection of future revenues and costs. |
| Problem Solving | The ability to find solutions to difficult or complex issues. The process of working through the details of a challenge or crisis – often under pressure – to reach a solution. |
| Profit | Revenues minus costs. |
| Profit per Unit | Unit price minus cost of goods sold. |

Resource 02-08

| | |
|----------------------------|--|
| Quarter | Most projections are for a year (or “annual” projections). A “quarter” means three months. New and seasonable businesses are most likely to make quarterly projections to make sure they are on track for success. |
| Real Estate | Real estate is property and the building(s) on it. Real estate can be a piece of land, or it can be a home on that piece of land, or it can be a building. Real estate is typically purchased using a mortgage. The down payment the buyer makes is called the buyer’s “equity.” |
| Satisfy a Loan | Repaying the loan. |
| Secured Debt | Debt that includes a legal obligation by the borrower to repay the debt personally if the business is unable to make its scheduled debt payment. A secured debt can be guaranteed by the entrepreneur or by any credit-worthy guarantor. |
| Securities | An investment worth money; a “financial instrument” indicating ownership. Example: stock in companies like Apple or McDonald’s that are traded in the stock market is a security. |
| Security | An investment vehicle. Different types of securities include stocks, bonds and mutual funds. |
| Self-Discipline | The ability to pursue what you think is right or necessary to do despite temptations to quit. Self-command, persistence and resolve. |
| Self-Motivation | The ability to pursue a task without being told to by someone else. Individuals who are self-motivated can find the strength to start and then finish a task without giving up. |
| Selling | How a business moves a specific customer to buy their service or offering. Example: a special event in a store's parking lot featuring discount prices is selling. |
| Semi-Variable Costs | Costs that vary <i>somewhat</i> based on the number of units you sell. Example: if your enterprise buys an iPhone you won’t have to pay again for apps you already own. |
| Sole Proprietorship | An individual that owns a company. Sole proprietors are taxed on the profits of the company, and are personally liable for any debts or judgments against the company |
| Share | One of the equal parts into which a company's capital is divided, entitling the holder to a proportion of the profits. Share refers to the ownership certificates of a particular company. |
| Shareholder | An individual or company that owns shares in a company. |
| Stakeholders | All people or companies associated with an enterprise. Stakeholders include internal stakeholders (employees and shareholders/owners) as well as external stakeholders (customers, suppliers, community members). |
| Stocks | Shares of ownership in a company. Stock is a general term of ownership in any company. Example: if investors say they own stocks, they are generally referring to their overall ownership in one or more companies. |
| Supplier | A company that provides a good or service to another company. Example: "The beauty products distributor is my supplier - I buy the hair care products I sell to my customers from my distributor." |

Resource 02-08

| | |
|-------------------------|---|
| Sweat Equity | The hard work a small business owner puts into forming, founding and operating his/her business – small business owners typically work <u>very</u> long hours. Sweat equity is as important as any capital but it's not a cash investment. |
| Target market | The <i>exact</i> customers and market sector the business intends to serve. |
| Teamwork | Working with others to address a challenge. Individuals using their skills in harmony with others to complete a task. Effective teamwork involves trust among team members. Collaboration and cooperation. |
| Total Costs | Fixed costs plus variable costs. If the enterprise sells more than one type of unit, Total Costs equal the sum of fixed costs and the sum of variable costs (or cost of goods sold) for each type of unit. |
| Total Revenue | Units times price. If the enterprise sells more than one type of unit, then Total Revenue equals the sum of revenues created by selling each type of unit. |
| Trade References | Companies that conduct business with another company, and that can document how well a company pays its bills to its suppliers. |
| Transparency | The practice of operating openly and communicating fully, providing stakeholders with a clear understanding of how your enterprise operates. |
| Unencumbered | Assets that are not already pledged as a guarantee to repay another loan |
| Units | Units refer to the "things" the company sells. Retail stores sell many different types of units. Service businesses can sell different services (Example: men's haircuts, women's hair styling, manicures, etc.) |
| Unsecured Debt | Debt that does not include a promise by a guarantor to repay the loan in the event the debtholder is unable to make a required payment. Unsecured debt is riskier for the bank or online lending company - therefore the lending party charges a higher interest rate on unsecured debt than it does on secured debt. |
| Variable Costs | Costs that vary based on the units sold by your enterprise. |