

Regional Micro-Enterprise Credential: Key Financial Concepts Vocabulary

(Updated: June 12, 2017)

Term	Definition	Section
Assets	Something of value. Anything you own 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.	Credit App
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."	Credit App
Collateral	Equipment, inventory or other goods that are pledged to the bank in the case the company can't make a loan payment.	Credit App
Commissions	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.	Credit App
Credit-Worthy	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.	Credit App
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.	Credit App
Liability	An obligation you have to pay someone else money. Also called a debt or a loan.	Credit App
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."	Credit App
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.	Credit App
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.	Credit App
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.	Credit App
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).	Credit App
Notes Payable	Other types 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.	Credit App
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.	Credit App
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.	Credit App

Term	Definition	Section
Shareholder	An individual or company that owns shares in a company.	Credit App
Unencumbered	Assets that are not already pledged as a guarantee to repay another loan	Credit App
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."	KFC Set 1
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."	KFC Set 1
Angel Investors	Individuals who 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.	KFC Set 1
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.	KFC Set 1
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.	KFC Set 1
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."	KFC Set 1
Brokerage	A company that provides individuals and companies with access to financial markets. Example: "I buy stocks and bonds from my broker."	KFC Set 1
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.	KFC Set 1
Capital Expenditures	Expenditures on equipment the business will use for many years.	KFC Set 1
Cash Flow	Total Revenues minus Total Cost <i>minus one-time expenditures (called "capital expenditures") on equipment you will use for many years.</i>	KFC Set 1
Contribution Margin	Unit price minus cost of goods sold.	KFC Set 1
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.	KFC Set 1

Term	Definition	Section
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."	KFC Set 1
Credit (or Debt)	Funds lent to a business with an agreement that the business will repay the lender with interest.	KFC Set 1
Crowdfunding	Crowdfunding is 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 the 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.)	KFC Set 1
Deductible	The amount that 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>	KFC Set 1
Default	Failure to repay a loan.	KFC Set 1
Differentiated Offering	Distinguishing a product or service "different than anything else," attracting customers, generating sales and serving as the foundation for a thriving business.	KFC Set 1
Differentiation	The act of making a business different (and presumably more attractive to target customers) than any competitor.	KFC Set 1
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.	KFC Set 1
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."	KFC Set 1
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), 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.	KFC Set 2
Fixed Costs	Costs that do not vary based on the units sold by enterprise. Fixed costs are often incurred at the start your enterprise, before you know how well your 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.	KFC Set 2

Term	Definition	Section
Guarantor	A credit-worthy individual or business with sufficient liquidity who guarantees to repay a loan in the event that the debtholder can't make required payment.	KFC Set 2
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.	KFC Set 2
Installment Payment	Debt owed to someone that is paid in monthly payments. Examples: your car or truck payment, your credit cards and your mortgage are all paid in monthly installment payments.	KFC Set 2
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."	KFC Set 2
Insurance Policyholder	The individual or business that purchases an insurance policy for various types of protection (examples: fire insurance, life insurance, etc.)	KFC Set 2
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.	KFC Set 2
Inventory	The merchandise that a company sells to its customers.	KFC Set 2
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."	KFC Set 2
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."	KFC Set 3
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.	KFC Set 3
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%."	KFC Set 3
Obligation	A payment that is owed every month. Example: your mortgage is a monthly obligation. (something you must do)	KFC Set 3

Term	Definition	Section
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.	KFC Set 3
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.	KFC Set 3
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."	KFC Set 3
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."	KFC Set 3
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.'"	KFC Set 3
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.	KFC Set 4
Principal	The amount of money borrowed.	KFC Set 4
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.	KFC Set 4
Profit	Revenues minus costs.	KFC Set 4
Profit per Unit	Unit price minus cost of goods sold.	KFC Set 4
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're on track for success.	KFC Set 4
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."	KFC Set 4
Satisfy a Loan	Repaying the loan.	KFC Set 4
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.	KFC Set 4
Security	An investment vehicle. Different types of securities include stocks, bonds and mutual funds.	KFC Set 4
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.	KFC Set 5

Term	Definition	Section
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.	KFC Set 5
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).	KFC Set 5
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.	KFC Set 5
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."	KFC Set 5
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.	KFC Set 5
Target market	The <i>exact</i> customers and market sector the business intends to serve.	KFC Set 5
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.	KFC Set 5
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.	KFC Set 5
Trade References	Companies that conduct business with a company, and that can document how well a company pays its bills to its suppliers.	KFC Set 5
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.)	KFC Set 5
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.	KFC Set 5
Variable Costs	Costs that vary based on the units sold by your enterprise.	KFC Set 5