Suite 1206

GLOSSARY OF BUSINESS TERMINOLOGY

Your bank and accountant may use technical expressions when discussing your finances with you. It is important that you understand these and how they affect your business.

Please note that some have alternative meanings and you need to check them against the context, eg SD can mean stamp duty if talking about tax or standard deviation if talking about financial calculations.

Most of the terms are internationally used. Included are terms used throughout Europe, the United Kingdom and the Commonwealth. If what your looking for isn't here try this link: http://www.moneyworld.co.uk/glossary/

ABC – Activity based costing.

ABI – Association of British Insurers.

ACT – Advance corporation tax, now abolished.

Advance – A transfer of money, usually a loan or mortgage

AGA – Authorised guarantee agreement.

Aggregates levy – This is a tax on the commercial exploitation in the UK of rock, sand and gravel.

AGM – Annual general meeting.

AIM – Alternative investment market – the junior stock market for younger companies. New businesses, which have never traded, can join AIM – considered to be riskier than the main stock market.

Amortisation – The writing-off of the cost of goodwill or other intangible assets over a period of time.

Annuity – An income-producing investment bought from an insurance company, which pay a guaranteed annual income throughout your lifetime. Annuities are usually bought with the proceeds of a pension fund.

AO – Adjudication officer.

AP – Accounting period.

APACS – Association for Payment Clearing Systems. A non-statutory association of major banks and building societies. Its function is to manage the main networks, which allow banks and building societies to exchange payments on behalf of their customers.

APB – Auditing Practices Board.

APD – Air Passenger Duty.

APM – Alternative payment method.

APR – Annual percentage rate. The APR gives a more accurate idea of how much you are being charged when you borrow money. It allows you to compare the total cost of borrowing money for different types of loan, and lengths of time.

APS – approved profit-sharing schemes.

ARD – Accounting reference date.

ARP – Accounting reference period.

ASB – Accounting Standards Board.

Assets – The things that you own such as building, vehicles, shares and money in the bank. The opposite of your assets are your liabilities. A bank's assets are mainly the loans it makes.

Asset cover – The ratio of net assets to total debt. Used by banks to judge the security of lending.

Assurance – Otherwise known as life insurance. Assurance differs from insurance, in that it is insuring for an event that will definitely happen, like death or retirement.

AVC – Additional voluntary contribution. These are contributions you can pay in addition to any contribution you have to pay as a member of a company pension scheme. AVCs can provide extra pension benefits.

BACS – Bankers automated clearing system. This is the system for sending money electronically between banks. BACS payments happen when money is sent from one bank account to another electronically.

Balance – The amount available in your account after payment of service charges, not including withdrawals or debits, or deposits not credited.

Balance sheet – A financial statement at a given point in time. It provides a snapshot summary of what a business owns or is owed (assets) and what it owes (liabilities).

Banker's draft – This is a cheque issued by a bank itself. Often used for making large purchases, like a car. You would get this by transferring money out of your account to your bank. In return the bank gives you one of its cheques – a banker's draft. This means that the draft will not bounce. However, if you are selling something, you should never hand your products/goods over until your bank has confirmed the draft has gone through, and that the bank has cleared funds in your account. This is because the banker's draft could be forged or stolen. Banks generally charge a fee for issuing drafts.

Banker's reference – A banker's opinion about your or another customer's ability to enter into, or repay, a financial commitment.

Bank giro – This is the system of credit transfers, standing orders and direct debiting.

Bank giro credit – This is the most common form of paying money into a bank account or making a transfer from one account to another.

Banking Code – The voluntary Code followed by banks and building societies for consumers in the UK. The Code sets minimum standards for good banking practice. Banks and building societies in the UK subscribe to the Code.

Bank of England – The Bank of England is the central bank of the UK. It is not a commercial bank, although it still has some private customers. It prints all English bank notes, manages the government's stock register, publishes money and banking data and provides settlement facilities for the payment systems. The Bank of England Monetary Policy Committee sets interest rates in order to meet the government's inflation target.

Bankrupt – A debtor that is judged legally insolvent. A person can become bankrupt upon voluntary petition or one invoked by their creditors. The debtor's remaining property is then administered for the creditors or is distributed among them.

Base rate – The interest rate set by the Bank of England, which is used as the basis for the rates banks offer and charge customers.

Bills of Exchange – A promise to pay a fixed amount on a specified date, used to provide finance between the time goods are delivered and payment is made. Bills of exchange are tradable, allowing the vendor to realise the debt in cash by selling it on to an accepting house.

Blue chip securities – Shares of large, reputable and actively traded companies with a record of regular dividend payments. Many of the shares making up the FTSE 100 are blue chips.

Bona fide – In good faith.

Bona vacantia –Empty good ie un-owned property. Goods owned by an company that has been stuck off or the property of someone who dies without any heirs are deemed bona vacantia and become the property of the Crown – except in Cornwall and Lancashire where they go to the Duchy of Cornwall or the Duchy of Lancashire.

Bond – A written promise to repay a debt at an agreed time and to pay an agreed rate of interest.

BPPG – Better payment Practice Group.

BPR – Business property relief.

British Bankers' Association (BBA) – A not-for-profit organisation which represents the banking industry in the UK. It is funded by subscriptions from its 330 member and associate member banks covering 60 different countries. The BBA's mission is to work with its members to create an environment in which they can compete. To do this, the BBA represents banks as corporate bodies, rather than individuals, and speaks for the entire banking sector.

BVCA – British Venture Capital Association.

Budget –n This is an estimate of income and outgoings, usually completed for a period of at least one month, but can be for the whole year.

Building societies – These are financial institutions, which offer savings accounts and mortgages as their main business. They are mutual institutions, which are owned by their members rather than shareholders. Most account holders are members.

C & E – Customs and Excise.

Cadbury report – The report of the committee on the financial aspects of corporate governance 1992 (chaired by Sir Adrian Cadbury)/

CAO – Companies announcement office.

Capital – The funds in a business contributed by its owners.

Capital asset – A long-term asset, such as land or a building, not purchased or sold in the normal course of business.

Capital gain – This is the profit made between the buying and selling of assets such as shares, unit trust, property other than your home, and antiquities – over and above your CGT exemption in any one year.

Capital gains tax (CGT) – This is a tax on profit made from the disposal of assets such as sharers, unit trusts, property other than your home, and antiquities – over and above your CGT exemption in any one year.

Capital growth - This is the rise in the value of an initial investment, and any income that has been added to it.

CAPM – Capital asset pricing model. Used for valuing securities by relating risk and expected return.

Cashflow – The money coming into your business and the money going out. If demand for your products or services is seasonal you must predict your cashflow to make sure you have an overdraft or loan in place to cover periods when your outgoings (eg wages) exceed your income.

CAT – Costs, access and terms.

CBI – Confederation of British Industry.

CCP – Central counterparty service.

CD – Certificates of deposit.

CDDA – Company Directors Disqualification Act 1986.

CFAs – Conditional fee arrangements.

CFC – Controlled foreign company.

CFR – Cost and freight.

CGT – Capital gains tax.

CHAPS – Clearing house automated payments system. An electronic system allowing the payment to go from the paying bank to the receiving bank on the same day.

Charges – The security that a bank takes on a loan. They can be fixed or floating. A fixed charge refers to a specific asset, eg a building or plant, which in the event of default the lender can take control of. A floating charge refers to all the assets of the business over which there is no fixed charge.

CIF – Cost insurance freight.

CIFAS – Credit industry fraud avoidance system. This is an information exchange between licensed credit guarantors, credit reference agencies, mortgage lenders and similar organisations, established to avoid fraud at the application stage.

CIMA – Chartered Institute of Management Accountants.

CIO – Charitable incorporated organisation.

CIP – Carriage and insurance paid.

CIS – Construction industry scheme.

"The City" – London's financial district. It includes such institutions as the London Stock Exchange, the London International Financial Futures and Options Exchange (LIFFE), Lloyds of London and The Bank of England.

Clearing bank – Any bank that is a member of any of the constituent companies of APACS.

Clearing house – This is the central collection site where banks exchange cheques with one another. This arrangement is cheaper than presenting the cheques directly to paying banks, and allows participants to maintain one clearing account, against which its debits and credits are posted.

CMR – Convention on the contract for the international carriage of goods by road.

CO – Certification officer.

Committed facilities – Agreements between lenders and borrowers to provide funds up to a specific amount at a specific interest rate for a specific period. Unlike uncommitted facilities, like overdrafts, they can't be removed on demand by the lender.

COMP – Contracted out money purchase (pension).

COMPS – Contracted out money purchase schemes.

Consumer Credit Act 1974 – This Act sets out he rules which lenders must follow when they lend amounts of £25,000 or less.

Convertibles – Debt lending which can be converted into equity under certain circumstances.

Corporation tax – A tax paid by companies on profits and termed gains.

COS – Cost of sale.

Covenants – Binding promises. In finance these are conditions imposed on loans and bonds to protect lenders against default.

CPA – Compulsory purchase annuity.

CPA – Certified Public Accountant

CPC – Community patent convention.

CPT – Carriage paid.

Creditor – Someone who is owned money.

Credit reference agency – Used by banks to check people's identity and credit history when they apply for credit. The information provided includes whether they are a voter at the address they provided (which means they'll be on the electoral register), whether they have failed to repay debts or whether they have been taken to court for not paying back a debt. Everyone is allowed to see their own records.

Credit scoring – Used by banks as a means of deciding who should receive credit. By giving points based on the information supplied on the application form, the lender decides whether to give people credit. Credit is only given to those applications which score a certain number of points. This is decided by the issuer and varies from lender to lender.

CREST – A computerised system for settling sales and purchases of shares in the UK.

CRF – Clear report of finding.

CRN – Customs registered number.

CSOP – Company share option plan.

CT – Corporation tax.

CTAP – Corporation tax accounting period.

CTSA – Corporation tax self assessment.

CVA – Company voluntary arrangement.

CVS – Corporate venturing scheme.

DCF – Discounted cashflow.

DDP – Delivery duty paid

Debenture – This is a long-term loan to a company, usually at a fixed rate of interest and for a specific term. Debenture holders are creditors of the company. In the event of liquidation debenture holders have a preferential claim on the assets. Debentures are marketable securities.

Debit – A payment.

Debt to equity ratio – A measure of the gearing of a business, calculated as long-term debt divided by shareholder funds. Banks are very reluctant to lend money to businesses that are highly geared.

Deflation – A decline in the general level of prices in the economy.

De minimis – Abbreviation of the motto "de minimis non curate lex" - the law does not concern itself with trifles. Generally taken to mean too small to bother with.

Depreciation – Allows fixed assets – or capital equipment such as cards or computer equipment – to be written off over several years. A piece of machinery bought for £330,000 in 2000 and depreciated, or written off over three years has no value in the accounts after 2003, but has appeared as a £110,000 cost in each of the years in between. This does not reflect the actual value of the assets.

Derivative – A financial contract with a value linked to the expected future price movements of the asset it is linked to – such as a share or a currency.

DGT – Daily gross takings.

Discounting – A means of raising money against the value of unpaid invoices. A discounter will buy invoices at a discount to their face value, hoping to make a profit on redemption.

Distraint – The legal process which allows the Inland Revenue to take (the legal term is "seize") a taxpayer's possessions and, if necessary, sell them to settle a debt owed to the Inland Revenue.

Dividend – A payment to shareholders as a return on their investment in the form of cash, stock, or property. Dividends are declared from operating surplus.

EAT – Employment appeals tribunal.

EBIT – Earnings before interest and tax. Another variation is EBITDA, earnings before interest, tax, depreciation and amortisation.

ECB – European Central Bank.

ECGD – Export credit guarantees department.

Economic growth – Steady growth in the productive capacity of the economy and of national income.

ECU – Economic currency unit – financial unit that preceded the Euro.

EDI – Electronic data interchange.

EEA – European economic area.

EFT – Electronic funds transfers.

EFTA – European free trade area.

EIS – Enterprise investment scheme.

EMIC – Export market information centre.

EMIRS – Export market information research services.

EMI – Enterprise management incentive.

EMU – Economic and monetary union. Involves a single European market allowing the free movement of people, goods, capital and services. Also involves the creation of a single EU central bank, and a single EU currency - the Euro.

EOC – Equal Opportunities Commission.

EPC – European Patent Convention.

EPO – European Patent Office.

EPOS – Electronic Point of Sale equipment such as electronic tills.

EPS – Earnings per share. The earnings of a company over a defined period, divided by the number of ordinary shares it has issued.

Equities – These are the ordinary shares of publicly quoted companies.

Equity - The value of something, such as a house, less money owing on it.

ERP – Enterprise resource planning.

ESL – EC sales list used in exporting.

ESOP – Employee share option plan.

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