Finance and accounts (3.1-3.9)

International Baccalaureate · IB Diploma · Business Management · HL · Vocabulary in context

Word	Example
capital expenditure /ˈkæpɪtl ekˈspendɪtʃə/	Buying a new machine is **capital expenditure**.
non-current assets /nɒn ˈkʌrənt ˈæsets/	Buildings and machines are **non-current assets**.
revenue expenditure /ˈrevənjuː ekˈspendɪtʃə/	Paying the electricity bill is **revenue expenditure**.
internal finance	Retained profit is a source of **internal finance**.
personal funds	An owner uses **personal funds** to start the shop.
retained profit /rɪˈteɪnd ˈprɒfɪt/	**Retained profit** is profit kept in the business, not paid to owners.
sale of assets /seɪl ɒv ˈæsets/	A **sale of assets** raises cash from unwanted equipment.
external finance	A bank loan provides **external finance**.
share capital /ʃeə ˈkæpɪtl/	The company raises **share capital** by issuing shares.
loan capital	**Loan capital** must normally be repaid with interest.
overdraft /ˈəʊvədræft/	An **overdraft** allows a bank account to go below zero.
trade credit /treɪd ˈkredɪt/	With **trade credit**, the shop pays its supplier later.

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Word	Example
crowdfunding /ˈkraʊdfʌndɪŋ/	**Crowdfunding** raises small amounts from many people.
leasing /ˈliːsɪŋ/	**Leasing** lets a business use equipment without buying it.
microfinance /ˌmaɪkrəʊfaɪˈnæns/	**Microfinance** gives very small loans to poor people with no bank.
business angels	**Business angels** are rich people who put their own money into new firms.
fixed cost /fɪkst kɒst/	The shop's rent is a **fixed cost**: it stays the same however much it sells.
variable cost /ˈveərɪəbl kɒst/	Packaging is a **variable cost**: it rises as the firm sells more.
semi-variable cost	A phone bill with a fixed fee plus a charge for each call is a **semi-variable cost**.
direct cost	Wood used for a table is a **direct cost**.
indirect cost	Security guards for the whole factory are an **indirect cost**.
overhead	Office rent is an **overhead** of running the business.
total revenue /ˈtəʊtl ˈrevənjuː/	**Total revenue** is price times the number sold.
revenue streams	Repairs and spare-part sales are separate **revenue streams**.
final accounts	**Final accounts** show how well a firm did in the year.

Word	Example
stakeholders /'steɪkhəʊldəz/	Customers and workers are **stakeholders** affected by business decisions.
income statement /'ɪŋkʌm 'steɪtmənt/	An **income statement** shows revenue, costs and profit over a period.
gross profit /grəʊs 'prɒfɪt/	**Gross profit** is revenue minus cost of sales.
cost of sales /kɒst ɒv seɪlz/	The **cost of sales** covers the goods sold during the period.
statement of financial position /'steɪtmənt ɒv faɪ'nænʃl pə'zɪʃn/	The **statement of financial position** shows what the firm owns and owes on one day.
assets /'æsets/	Cash and equipment are business **assets**.
liabilities /ˌlaɪə'bɪlɪtiz/	Bank loans and unpaid supplier bills are **liabilities**.
equity /'ekwɪti/	**Equity** is what the owners have left after all debts are paid.
current assets /'kʌrənt 'æsets/	Cash and stock are **current assets**.
debtors /'detəz/	Customers who owe the business money are **debtors**.
current liabilities /'kʌrənt ˌlaɪə'bɪlɪtiz/	Bills due within a year are **current liabilities**.
creditors /'kredɪtəz/	Suppliers owed money by the business are **creditors**.
working capital /'wɜːkɪŋ 'kæpɪtl/	**Working capital** is current assets minus current liabilities.
intangible asset	A patent is an **intangible asset**: you cannot touch it.

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Word	Example
patent /'peɪtənt/	A **patent** protects a new invention.
goodwill	A famous name adds to a business's **goodwill**.
depreciation /dɪˌpriːʃɪ'eɪʃn/	**Depreciation** spreads the cost of a machine over the years it is used.
residual value /rɪ'sɪdʒuːəl 'væljuː/	The **residual value** is what a machine is worth when the firm stops using it.
straight-line method	The **straight-line method** charges equal depreciation each year.
units of production method	The **units of production method** links depreciation to how much a machine is used.
ratio analysis /'reɪʃɪəʊ ə'næləsɪs/	**Ratio analysis** compares numbers in the accounts.
profitability ratios	**Profitability ratios** show how much profit a firm makes from its sales.
capital employed /'kæpɪtl em'plɔɪd/	**Capital employed** is the long-term money used to run the business.
return on capital employed /rɪ'tɜːn ɒn 'kæpɪtl em'plɔɪd/	**Return on capital employed** shows profit as a share of the money invested.
liquidity ratios	**Liquidity ratios** show whether a firm can pay its short-term debts.
acid test ratio /'æsɪd test 'reɪʃɪəʊ/	The **acid test ratio** leaves stock out, because stock may be hard to sell.
efficiency ratios	**Efficiency ratios** show how well a firm uses its resources.

Word	Example
stock turnover	High **stock turnover** means inventory is sold and replaced quickly.
debtor days	Lower **debtor days** means customers pay sooner.
creditor days	Higher **creditor days** means the firm takes longer to pay suppliers.
gearing ratio	A high **gearing ratio** means the firm relies a lot on loans.
profit /ˈprɒfɪt/	If sales are bigger than costs, the firm makes a **profit**.
cash flow /kæʃ fləʊ/	Late customer payments can reduce this month's **cash flow**.
working capital cycle	A shorter **working capital cycle** means cash comes back sooner.
cash flow forecast /kæʃ fləʊ ˈfɔːkæst/	A **cash flow forecast** shows when money will come in and go out.
investment appraisal /ɪnˈvestmənt əˈpreɪzl/	**Investment appraisal** checks whether a project is worth the money.
payback period /ˈpeɪbæk ˈpɪərɪəd/	The **payback period** is the time needed to recover the original investment.
average rate of return /ˈævrɪdʒ reɪt ɒv rɪˈtɜːn/	The **average rate of return** compares average annual profit with initial investment.
net present value /net ˈprezənt ˈvæljuː/	**Net present value** adds up future cash in today's money, minus the cost.

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Word	Example
discount factor	A **discount factor** turns future money into today's value.
budget /ˈbʌdʒɪt/	The **budget** sets planned spending for the coming year.
cost centre	A maintenance department can be a **cost centre**.
profit centre	A shop branch with its own sales and costs is a **profit centre**.
variance /ˈveərɪəns/	A **variance** is the difference between budgeted and actual figures.
favourable /ˈfeɪvərəbl/	Lower costs than budgeted create a **favourable** variance.
adverse /ædˈvɜːs/	Lower revenue than budgeted creates an **adverse** variance.