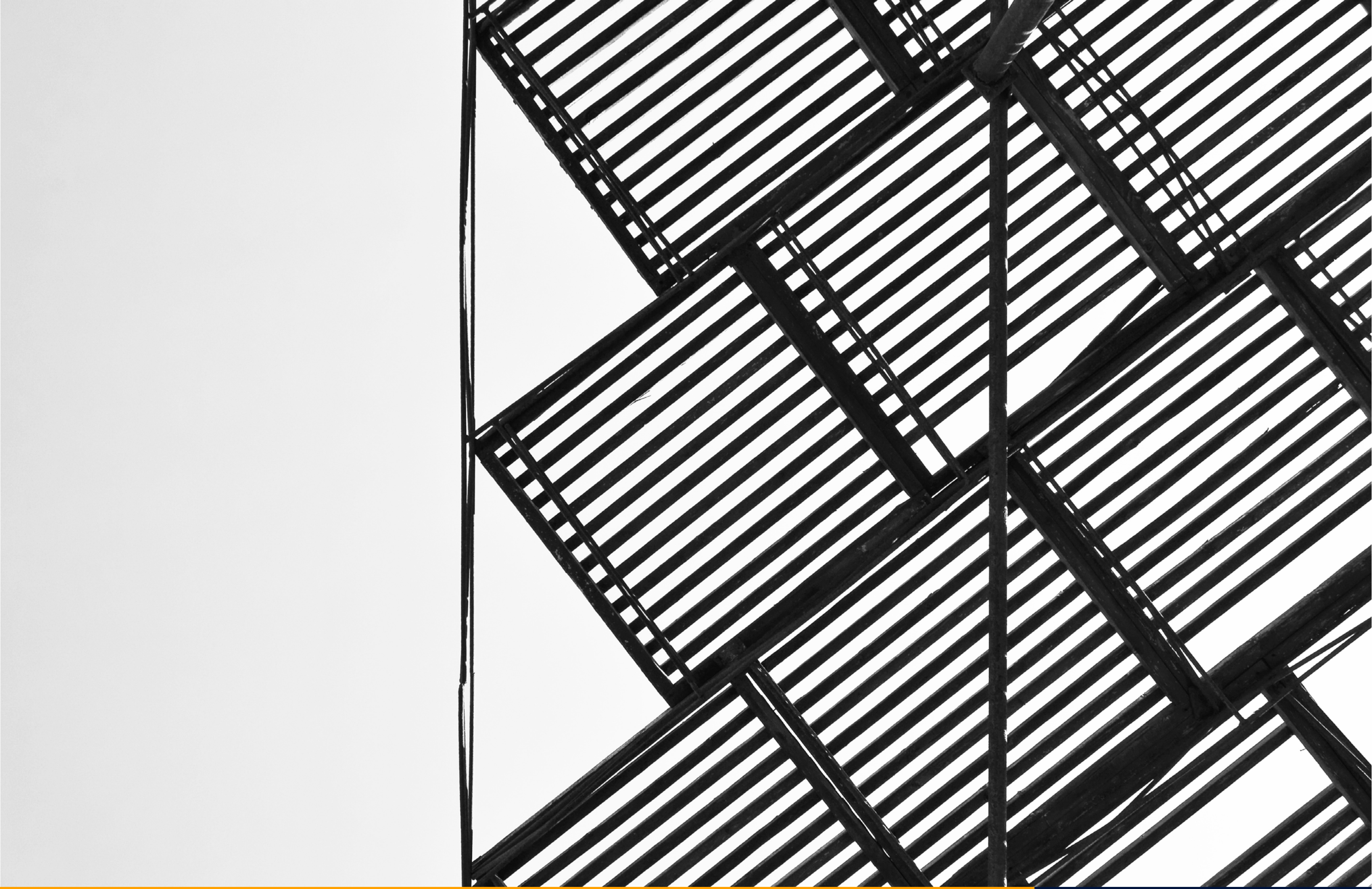

Key financial terms you need to know

Financial literacy begins with understanding some essential terms that will become familiar companions as you manage your business's finances. These building blocks lay the groundwork for your understanding of more complex financial concepts down the road.

Padgett

Here's a handy reference whenever you need a refresher on key financial terms:

Revenue	The total sales of goods or services generated by a business through its normal operations. It represents the top line of the profit and loss statement before deducting any expenses.
Cost of goods sold	Direct expenses a business incurs to sell or produce products and services for sale to customers. It includes direct labor, materials and product purchases, and overhead cost allocations.
Gross margin	The difference between revenue and the cost of goods sold. It reflects a business's earnings after deducting the direct costs associated with producing or purchasing the goods sold.
Operating expenses	Expenses, other than cost of goods sold, that a business incurs in running the business. Examples include administrative salaries and marketing costs.
Net income	A business's profit after deducting all expenses from revenue. You'll find it at the bottom of the profit and loss statement.
Profitability	A business' ability to generate earnings from operations. Key measures include profit margin, gross profit margin, and earnings before interest, taxes, depreciation, and amortization (EBITDA).
Assets	Economic resources a business owns to generate revenue such as cash, accounts receivable, inventory, and equipment. They are reported on the balance sheet, typically at their original cost, and may be adjusted if their market value exceeds this cost.

Liabilities
Obligations or debts a business owes to external parties, including accounts payable, accrued expenses, and loans. They are reported on the balance sheet in the order in which they need to be paid.

Equity
The difference between a business's assets and liabilities as reported on the balance sheet. The market value of an owner's interest in the business is usually higher than the amount reported.

Current assets
Assets, such as accounts receivable and inventory, that are expected to be turned into cash over the next year.

Current liabilities
Liabilities that must be paid over the next year. Examples include accounts payable, accrued expenses, and current portions of long-term debt.

Working capital
The difference between current assets and current liabilities. It's used to gauge liquidity. A business needs to have enough current assets on hand to meet its current obligations. If not, it may have cash shortages.

Cash flow
The movement of money into and out of a business over a specific period. EBITDA is often used to approximate cash flow from normal business operations.

Budget
A roadmap for allocating resources and achieving financial goals over a specific period, detailing expected income, expenses, asset purchases, financing, and working capital needs.

Business plan
A document outlining a business's goals, strategies, and operations. Typically, it includes market analysis, financial projections, and organizational structure.

Padgett

Get your free financial literacy whitepaper to learn more.

Click here to download the whitepaper.