

Glossary of Terms

Allowance for Bad Debts - Amount of estimated debt to the business that is not expected to be repaid and is subtracted from accounts receivable on the balance sheet. Also known as an allowance for doubtful accounts.

Assets - Anything that a business owns that has monetary value.

Accounts Payable - Debts of the business, often to suppliers, and generally payable within 30 days.

Accounts Receivable - An amount owed to the business, usually by one of its customers, as result of the extension of credit.

Accrued Payroll Taxes - Taxes payable for employee services received, but for which payment has not yet been made.

Balance Sheet - A financial statement showing the assets, liabilities, and net worth of a business as of a specific date.

Current Assets - Cash and other assets readily converted into cash. Includes accounts receivable, inventory, and prepaid expenses.

Current Liabilities - The debts of a company which are due and payable within the next 12 months.

Current Ratio - Current assets divided by current liabilities.

Debt/Worth Ratio - Total Liabilities divided by Net Worth.

Depreciation - An accounting convention to take into account the physical deterioration of an asset. It is a systematic method to allocate the historical cost of the asset over its useful life.

Fixed Assets - Also called long-term assets with a relatively long life that are used in the production of goods and services, rather than being for resale.

GAAP - Abbreviation of Generally Accepted Accounting Principles. Conventions, rules, and procedures that define accepted accounting practice.

Inventory - Goods held for sale, raw material and partially finished products which will be sold when they are finished.

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Liabilities - Debts of the business.

Liquidity - The ability to produce cash from assets in a short period of time.

Long-Term Liabilities - Debts of a company due after a period of 12 months or longer.

Net Worth - The business owner's equity in a company as represented by the difference between assets and liabilities.

Owners' Equity - See Net Worth.

Quick Ratio - Current Assets minus Inventory, divided by Current Liabilities. Also known as the acid test.

Working Capital - Current Assets minus Current Liabilities.

Checklist

Assets

- Have you included all current assets?
- Did you adjust accounts receivable for bad debts?
- Is inventory valued at replacement cost?
- Did you include all appropriate prepaid expenses?
- Did you include any installation or delivery costs for fixed assets?

Liabilities and Net Worth

- Have all liabilities, both current and long term, been included?
- Did you include all startup expenses payable in more than one year in long-term liabilities?
- Do assets minus liabilities equal net worth?

Financial Ratio Analysis

- Did you compute a current ratio, quick ratio, working capital and debt/worth ratio for your business?
- Is your current ratio greater than or equal to two? If not, do you know what adjustments might be made?

