USING FINANCIAL DATA TO CREATE FINANCIAL STATEMENTS

A COURSE FOR BOOKKEEPERS AND ACCOUNTANTS OF PRIVATE HEALTH BUSINESSES

Participant Manual

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Glossary of Financial Terms

Accumulated profit or loss: The amount of money that has been reinvested or taken out of a business in past periods as a result of gains or deficits

Accounts payable: Liabilities that a business incurs when it buys products or services and agrees to pay cash for them within a specific period of time (for example, what the business owes to suppliers)

Accounts receivable: Amounts owed to a business for services already rendered that the customer is to pay within a short period of time

Accrued expenses: Liabilities that a business incurs when it owes and has not yet paid regular expenditures (examples include salaries due and rent due)

Assets: What a business has; that is, the resources it uses to generate income

Balance sheet: A snapshot of the financial position of a medical business at a point in time

Borrower: A person or business that receives money or goods from another person or institution for a given timeframe but must repay the amount in full according to a set schedule

Business management skills: The ability to handle money and the day-to-day operation of the enterprise. The handling of money involves arranging finances, keeping records, handling credit, and planning for financial success. The day-to-day running of the enterprise refers to the ability to provide direction to workers and manage them as well as adopt and efficiently act on decisions.

Capital: The value of what the business owns; the money or assets that have been put into the business to purchase assets and keep the business going

Cash accounts: All money available to the business on demand, such as cash and funds on deposit in non-interest bearing accounts

Cash-flow projection: A picture of how much money can be expected to come into and out of a business in a period of time

Cash flow statement: A record of the inflow and outflow of cash during a period of time, usually one week or one month

Cash from debtors: “Debtor” is an accounting term that means any person or entity that owes a business money. It does not mean necessarily that the debts are past due, only that funds are owed. For a medical practice these funds could include money due from a private company for services invoiced or it could represent fees due directly from patients.

Cash from owner: All funds put into the business by the proprietor, proprietors, or other investors in the business

Cash in from sales: Funds from sales of products (if applicable) or an asset

Cash in from services: Payments received for assistance delivered

Cash out for investment: All funds that are used to pay for fixed assets, such as furniture, equipment, buildings, construction and refurbishment vehicles, or land

Cash out for material: Payments made for supplies

Cash out for operating expenses: Payments made for the business to function such as for utilities, rent, transportation, and other miscellaneous costs associated with running a practice

Collateral: This term refers to something that the business or proprietor owns that is used to guarantee a loan. If a loan is not paid, the lender sells this asset and uses the funds received to pay off the unpaid portion of the loan. Some financial institutions do not require collateral, but instead use group-lending schemes (group guarantees) as a type of social collateral.

Contributions from owners: The amount of cash and non-cash that the owner has given the business from his or her own resources

Cost of sales: The direct cost of the products and services the business sells to generate revenue. These costs are directly identifiable with the service or product sold. The cost of sales varies directly with what is sold. It also can be referred to as direct expenses.

Cost-to-revenue ratio: This ratio measures how much money is spent to generate one birr in revenue

Current assets: Property that can be converted easily into cash within the next 12 months

Current portion of long-term debt: Portion of long-term loans that is due to be paid within the next 12 months

Current ratio: Indicates if a business has enough current assets to meet its payment schedule of current debts

Debt-to-capital ratio: Measures how the business has been funded, through equity or creditors

Declining balance method of interest calculation: Interest is charged on the actual outstanding loan balance. The interest rate a borrower pays is quoted as a percentage of the loan amount.

Direct expenses: Costs that relate directly to the level of services provided. They also are referred to as cost of sales because they vary directly in relation to the level of services provided.

Expense-to-revenue ratio: The percentage of every birr spent to earn one birr in revenue

Expenses: What the business pays for goods and services used in the process of earning revenue (the costs necessary for the business to generate revenue and operate)

Fee: The amount charged for processing or issuing a loan

Financial analysis: A review of the financial information of a business to determine its financial health and condition

Financial management: Analyzing and reviewing the financial information of a business to make appropriate decisions about improving its performance

Financial ratios: Tools that can identify the relationships between individual values in a business and relate them to how a business has performed in the past and might perform in the future

Financial record keeping: The process of tracking the transactions of a business in monetary terms

Financial records: Any written way of keeping track of money flowing into and out of a business, whether in the form of cash or credit

Financial resources: This phrase refers to the ability to find money to invest in a business. Financial resources also include the value of equipment, materials, and stock already owned.

Financial statements: Documents that provide information on how the business is going financially; they organize the information a business generates into structured formats to help owners plan

Fixed assets: Resources that a business uses to generate income; they have a life span of more than one year

Flat-rate method of interest calculation: Interest is charged on the initial loan amount throughout the entire term, though the principal is repaid in equal installments from the beginning

Grace period: The amount of time after a loan is received during which the borrower typically only needs to make interest payments; after the grace period, payments of interest and principal are required

Gross profit: The amount earned or remaining after the cost of sales and direct expenses is subtracted from revenue

Guarantee: A source of payment for a loan aside from the borrower's cash flow; it can be collateral or a personal guarantee

Guarantor: The person who is vouching for the borrower and agrees to pay if the borrower cannot

Income statement: A historical statement covering a period of time that tells whether a business made a profit or incurred a loss during that period

Indirect expenses: Expenses that do not vary closely with the level of sales, roughly the same as fixed costs, also referred to as general and administrative expenses

Interest: The portion of the loan repayment that is attributed to the cost of borrowing; the payment to the lender for the use of money borrowed

Interest-bearing deposits: Funds on deposit with a financial institution with a term of less than one year that are earning interest income for the business

Interest rate: The cost of borrowing money

Inventory or stock: The value of the products available to sell to customers, valued at the price they were purchased for

Late fee: The figure is the amount that institutions may charge for being late in making a payment. This figure could be a percentage of the amount due, multiplied by the number of days late, or a fixed amount (the calculation depends on the institution).

Lease: An arrangement in which the owner of an asset (lessor) agrees to receive rental payments from the user (lessee)

Liabilities: What a business owes

Loan: A sum of money that is lent from one individual or institution to another individual or institution

Long-term debt: Loans and other debts that are due in more than 12 months

Long-term liabilities: What a business owes and payment is due after one year from the date of the balance sheet

Microfinance institution (MFI): An entity that provides financial services to small entrepreneurs and very small businesses

Net income: The amount of money that is left after subtracting all expenses from revenues, also known as profit

Net surplus or deficit current period: The amount of income or loss generated in the current year

Operating expenses: Costs incurred in the general functions of a business; they do not vary in relation to the volume of the service or product sold

Other current assets: Accrued interest (interest from other periods already accrued) and prepaid expenses (expenses that are paid for in advance, for example if insurance is paid every three months)

Outside investors: This person is external to a business but puts money or other assets into it in exchange for a share of ownership. These people can be family, employees, friends, customers, or other colleagues in the health sector.

Payment: An installment that the borrower repays, including principal, principal and interest, or just interest

Percentage change of revenue and expenses: Measures the percentage change in revenue or expenses between two time periods

Personal characteristics: These are the individual traits that impact how one runs his or her business. Examples are commitment to business, self-confidence, self-motivation, decision-making capabilities, ability to handle problems and take risks, adaptability and flexibility in the business environment, and the ability to see opportunities and act promptly to take advantage of them.

Principal: The portion of a loan repayment that is credited to the original loan amount

Profit before taxes: The amount earned after subtracting all expenses except income tax from total revenue. Also known as **Net Income before Taxes.**

Profit reinvestment: Putting the proceeds from ongoing operations back into the business

Planning: Thinking about a business and identifying what to do and where to take it

Quick ratio: Measures if a business can meet its current obligations with cash on hand and easily converted assets

Revenue: Money received (or to be received) for goods and services rendered over a period of time

Savings: Money that is put aside for later use

Short-term liabilities: What a business owes and is due to be paid within one year or less

Supplier credit: Some suppliers and wholesalers will provide products to businesses and persons on credit for a certain number of days

Supplies or materials: Products that are used and needed in the course of delivering services but are not purchased directly by the client

Term: The amount of time a borrower has to repay the amount borrowed in full; also can be seen as the length of time a borrower has access to a loan

Transaction cost: Include all charges related to borrowing such as bus fees for going to the bank, communication expenses, and fees paid to an accountant and notary

Internet-Based Resources: Financial Management

http://www.exinfm.com/training/index.html—Business finance self-paced learning (free)

http://www.smallbizu.org/patemple/—Interactive training in several business-related areas (most courses have a small fee)

http://www.dern.com/hw2price.shtml—Discusses pricing

http://www.allbusiness.com/4354046-1.html—Short webinars on business issues; this site also has a section specific to medical practices

http://www.missouribusiness.net/training/index.asp—This site offers free web-based seminars and short training courses. The link leads to the general training website, which offers a variety of tools and resources. The link at the bottom of that web page leads to a listing of online courses. The courses are free but registration is required. Topics include financial reports, financial ratios, developing a business plan, and foundations of marketing.

http://www.ato.gov.au/businesses/content.asp?doc=/content/35843.htm—Sample business forms, including cash payments book, reconciliation of daily sales, cash receipts book summary, cash payments book summary, cash receipts book, cash flow projection, and bank reconciliation

http://www.toolkit.com/index.aspx—This excellent site presents a variety of business topics. The link http://www.toolkit.com/tools/index.aspx has electronic business reporting and forms templates to download.

http://www.umext.maine.edu/hbbsite/html/record.htm—Contains links to a variety of recordkeeping forms (electronic and paper) and other information

http://www.kutztownsbdc.org/course_listing.asp?course=6—Free online training courses in a variety of business and financial-management areas