

Business glossary

A guide for business owners

 **Simply Business**TM

With over 170, 000 business customers, we've used our experience to compile the definitive business glossary. From accounting period to working capital, we cover the definitions we think you will find most useful.

Accounting period For Corporation Tax purposes, an accounting period begins when the company becomes liable for Corporation Tax, and normally ends after 12 months - although accounting periods may be shorter if the company's own accounting date occurs before 12 months.

Accounts payable The money you owe, for example to vendors from whom you have bought goods or services.

Accounts receivable The money you are owed, for example to customers to whom you have provided goods or services.

Ageing The time that expires between an invoice being raised and that invoice being settled. For example, your payment terms might be 'net plus 30' - meaning that you pay invoices 30 days after they are raised.

Allowable expense An expense that HMRC will allow you to offset against tax. This might include payroll costs, stock costs, and so on. Most typically used with reference to Self Assessment.

Angel investor An individual investor. Angel investors will typically invest money in a startup in exchange for equity, although the terms of angel investment deals can vary wildly.

Apprentice An individual carrying out on-the-job training. Apprentices are employees, and normally work for a fixed period of time - for example until they have finished their training. Employers often choose to take them on permanently once their training is complete.

Asset Broadly, property owned by your business. Normally something from which you expect to derive profit.

Automatic enrolment An employer's obligation to give every qualifying employee automatic access to an occupational pension scheme. Employers must also make contributions on their employees' behalf. Small businesses can use the National Employment Savings Trust, rather than setting up their own occupational pension scheme. Automatic enrolment will be phased in from 1 October 2012.

Balance sheet A snapshot of your financial position on a given date. This document shows your assets, liabilities, and equity, and gives a picture of the financial health of the business. Limited companies are required to provide Companies House with balance sheets annually, but businesses may also use them as, for example, analysis tools or to support a loan application.

Bankruptcy The legal process of being declared insolvent. Refers only to individuals. Insolvent businesses, meanwhile, might enter into administration or liquidation.

Base rate The rate against which banks set their own interest rates. The base rate (or bank rate) is set by the Bank of England's Monetary Policy Committee.

BCP See Business Continuity Planning

Bookkeeping Day-to-day financial record keeping. Most businesses now use software to do their bookkeeping, although some still do it on paper.

Break even point The moment at which costs and revenue are equal, and you begin to make a profit. Startups often do not break even for several years.

Bridging loan A short-term loan, usually used to 'bridge' a period before finance becomes available - for example before you arrange a longer-term credit facility. Particularly common in property deals.

Business Continuity Planning The development of processes and procedures to allow 'continuity' of business in the event of a disaster - that is, to make sure that your business can continue operating.

Business plan A document setting out your goals, and the means by which you will reach them. The business plan is often the most important document a firm has, and can serve a number of purposes including getting finance from a lender.

Business rates Tax paid on commercial property. The amount you pay will depend on the size, nature, and location of the property. A range of business rate reliefs is available for small businesses or those in Enterprise Zones.

Capital expenditure An expenditure relating to the improvement or acquisition of assets like plant, machinery, or property. Distinct from overheads.

Capital gain An increase in value of an asset between the time that you acquired it and the time that you dispose of it. Capital Gains Tax may be due in these cases.

Capital Gains Tax A tax levied on the sale or disposal of an asset, when that asset has increased in value since you acquired it.

Cash flow A measure of the money coming in and out of your business over a specific time period. Cash flow is one of the most important indicators of the health of a business.

Click-through rate In pay per click marketing: the number of clicks an ad generated, as a proportion of the number of total impressions.

Closing The act of actually making a sale. Often considered to be the final part of the sales process.

Consumer confidence An indicator of consumers' views of the economy. Indices of consumer confidence consider respondents' views on their current financial situation, and their feelings about the future.

Consumer Prices Index A measure of inflation that looks at the price of a 'basket' of consumer goods. Unlike the Retail Price Index, CPI does not take mortgage interest payments into account.

Consumer Rights Directive A controversial European rule that will harmonise a number of different existing pieces of consumer rights legislation.

Contractor An individual or business that 'contracts with' another business to provide goods or services. Contractors are distinct from employees. See also IR35.

Copyright Legal rights granted to the creator of a piece of work to exploit that work. In the UK copyright is granted automatically at the point of creation.

Corporation Tax Tax paid on the profits of limited companies and some other organisations. Corporation Tax is currently levied at 20 per cent.

CPI See Consumer Prices Index.

CTR See Click through rate.

Deflation An inflation level below 0 per cent.

Depreciation The reduction in value of a specific asset over its useful life. Used in accounting to allocate cost over a specific period. For example, if you buy an asset for £1,000 and expect it to last five years, providing it depreciates at a steady rate you might allocate costs of £200 per year.

Direct mail A form of marketing involving the sending of printed material to potential or existing customers.

Distance Selling Regulations Rules governing the sale of goods to customers who are not physically present. The Regulations cover things like delivery times and complaints procedures.

Dividend Payment made to shareholders in a company. Some business owners choose to take some or all of their payment in dividends for tax reasons.

Employee churn Also known as employee turnover. The rate at which employees leave a company.

Employers' liability insurance Insurance that pays out in the event that an employee suffers an illness or accident in the course of their work. Employers' liability insurance is a legal requirement for employers.

Enterprise Zone Government-specified areas in which businesses may receive more favourable tax treatment, and other benefits like high speed internet.

Entrepreneur One who starts and/or runs a business.

Equity In finance, equity refers to an ownership interest in an asset. Some business owners choose to sell equity in their business in order to raise capital.

Factoring A process by which a company sells their accounts receivable to a third party, known as a 'factor'. The factor then collects payment from the debtors.

Flat rate scheme A simplified VAT accounting scheme whereby businesses pay VAT as a proportion of their turnover.

Franchise A business arrangement whereby an individual or business is given a licence to sell another business's products or services. Many well-known chains are operated as franchises.

Franchisee One who runs a franchise.

Franchisor One who sells a licence to franchise.

Freedom of Information Act Legislation governing the treatment of personal data by businesses and public bodies.

Freelance An individual who works for a number of different clients.

Goodwill May refer to intangible assets like the strength of a brand. Commonly heard in mergers and acquisitions.

Gross Before deductions.

Inhouse Within a business. Contrast with 'outsourcing'.

Incorporation The process by which a business takes on a legal identity separate to that of its owners - for example as a limited company. Incorporation is handled by Companies House.

Inflation A rise in the general price of goods and services. For measures of inflation see RPI and CPI.

Information Commissioner's Office The body responsible for enforcing the Freedom of Information Act, Data Protection Act, and Environmental Information Regulations.

Initial Public Offering The first public sale of shares in a company that had previously been limited. Some businesses choose to sell shares in order to raise capital.

Insolvency Being unable to meet financial obligations. Not to be confused with bankruptcy.

Internship On the job training. Commonly unpaid. Internships are the subject of some controversy, with many businesses unwittingly operating illegal schemes.

IPO See Initial Public Offer

IR35 Controversial tax rules originally designed to prevent individuals avoiding tax through the use of intermediary companies. The imposition of IR35 can mean that contractors are invidiously treated as employees for tax purposes.

Key Performance Indicator A metric giving an insight into an important aspect of a business. KPIs might include revenue, customer numbers, customer lifecycle time, and so on. KPIs vary from business to business.

KPI See Key Performance Indicator

Libor London Interbank Offered Rate. The rate at which banks borrow money from each other.

Limited company A legal structure in which the company is considered to be a legal entity in its own right, separate from its directors, and in which the directors' liability is limited to their initial investment.

Limited liability partnership A legal structure in which the business is run as a partnership, but in which each partner's liability is limited to their initial investment.

Liquidity In practical terms, liquidity refers to a business's ability to honour its short-term financial obligations. Some assets are considered 'illiquid' - meaning that they are not easy to convert into cash.

LLP See limited liability partnership

Loan-to-value Used in mortgages. Refers to the amount being borrowed as a proportion of the property's total value. So, if a borrower has a 25 per cent deposit, the loan-to-value ratio would be 75 per cent.

LTV See loan-to-value

Markup The difference between what it costs a business to provide a product or service, and the amount they sell it for. Not to be confused with profit margin.

Micro business A business with fewer than 10 employees, and a turnover or balance sheet total of no more than €2 million.

Monetary Policy Committee The Bank of England's rate-setting body. Responsible for setting the base rate and for quantitative easing.

MPC See Monetary Policy Committee

National Employment Savings Trust A state-run occupational pension scheme, designed to help very small businesses comply with auto-enrolment.

National Insurance Contributions Contributions made to a national scheme designed to pay out in the event of illness, unemployment, or retirement. NICs are paid at different levels, known as 'Classes'.

NEST See National Employment Savings Trust

Net After deductions

Occupational pension A pension scheme for employees, to which access is provided by the employer. All employers will be obliged to offer access to an occupational pension scheme under new auto-enrolment rules.

Operating profit Profits derived from core business activities, before deductions for tax and excluding income derived from investments.

Opportunity cost A way of looking at the cost of something by considering the benefits you could have derived from making another choice. For example, if a restaurant fills a table with customers, each of which has a 50% discount voucher, there is a potential opportunity cost because the table is not available for other customers who may have paid the full price.

Ordinary share Shares in a company that are not preferred shares.

Outsource To contract with an external provider for goods or services. Contrasts with inhouse.

Overhead Operating expenses necessary for the everyday operation of a business. For example rent.

Page view A single user request for an individual web page - for example as a result of the user clicking on a link, or entering a web address into their browser.

Pay As You Earn The system by which deductions including income tax and student loan repayments are made from most employees' wages.

PAYE See Pay As You Earn

Payroll The record-keeping and administrative process for employees' salaries and deductions.

Period of accounts The period to which a set of accounts relates. These periods could occur monthly, quarterly, or annually. A typical accounting period would correspond with the tax year. Not to be confused with accounting period.

Petty cash Small amount of cash set aside for miscellaneous expenditures.

Product liability insurance Insurance that pays out in the event that a faulty product causes injury or damage to a person or their product.

Professional indemnity insurance Insurance that pays out in the event that a client suffers financial loss as a result of your negligence or mistake.

Profit and loss account A record of revenue and expenses over a given period - for example a financial year. Might include metrics like operating profit.

Profit and loss forecast A prediction of revenue and expenses for a given period - for example the coming financial year. Profit and loss forecasts should be drawn up for a range of different potential outcomes and situations.

Profit margin Profit expressed as a percentage of total revenue, either on an individual product or on total sales. Not to be confused with markup.

Public liability insurance Insurance that pays out in the event that an injury or damage is suffered by a member of the public or their property as a result of a mistake made by a business.

Recession Two consecutive quarters of negative economic growth.

Retail prices index A measure of inflation. Unlike the consumer prices index, the retail prices index takes into account mortgage interest payments.

Return on investment A measure of the financial success of an investment or other activity. Calculated as return divided by cost. Often used to provide a basic overview of the success of marketing activities.

Revenue Income generated, for example through sales.

RoAS Return on advertising spend. See Return on investment.

ROI See Return on investment

RPI See retail prices index

Sale or return An arrangement whereby goods are provided to a trader, who then pays only for those that are sold. The goods remain the property of the original seller until they are paid for. Unsold goods are returned to the original seller.

Self employment Working for yourself, rather than for an employer. Self-employed people normally pay tax through Self Assessment, rather than through PAYE.

Shareholder One who owns shares in a limited company. A share in the company might provide the holder with a right to income, or the right to vote on the certain business activities.

Small claims court Commonly used term to refer to the small claims track of the County Court. The small claims track normally deals with cases with a value up to £5,000.

Small Profits Rate A reduced rate of Corporation Tax available to businesses with profits up to £300,000.

SME Small or medium sized enterprise. The European Commission considers a business to be an SME if it employs fewer than 250 people, and has a turnover of no more than €50 million or a balance sheet total of no more than 43 million.

Sole trader A business owned by one individual, and with no separate legal status of its own.

Startup A business in the early stages of development. A startup may still be investigating potential markets, and developing products or services.

Startup capital The money required to start a business. This might include things like equipment purchases, rent, and marketing costs.

Stock The goods you have available for sale.

Subcontracting An arrangement whereby one business contracts with another business to complete work. Businesses will often subcontract if they lack the skills or resources to complete a project.

Telecommuting An arrangement whereby work is completed from home or another remote location, rather than a central office. Telecommuting relies on online technologies like email and virtual private networks.

Trademark A symbol, logo, word or similar used to indicate that a product or service is from a specific business, or to differentiate it from other products or services. Trademarks may be registered or unregistered.

Turnover Also known as 'revenue'. The amount of income received during a specific period - for example a financial year.

Value Added Tax Value Added Tax. A tax that is charged when a VAT-registered business sells something (a product or a service) to a company or individual. There are three separate rates of VAT; the standard rate is currently 20%.

VAT See Value Added Tax

Venture capital Money invested in a business by venture capitalists (known as VCs). Venture capitalists tend to be less risk-averse than banks, but normally prefer businesses with high growth potential.

Warranty A guarantee that the vendor or manufacturer of a product will repair or replace it in the event of a fault. Terms of warranties may vary.

Working capital A business's theoretical position were it to raise all of its current assets, and pay off all of its current liabilities. Negative working capital suggests that a business may have difficulty meeting its short-term obligations.