Terminology

Annual general meeting (AGM) A meeting of the members (shareholders) of a company at which the board of directors lay the company's accounts and report for shareholders' approval. Other business is also conducted such as election of directors, auditors remuneration, etc.

Annual report and accounts Most organisations are required to produce an annual report on their activities and enclose the accounts of the company's performance over the past year.

Auditors. Professional accountants who check the books of account, ask for explanations from the directors and examine the report and accounts, verifying that they give 'a true and fair view' of the transactions.

Bad debt The amount owed by a customer who cannot, or will not, pay for goods or services they have had.

Balance sheet A list of all we own and all we owe.

Bank rate In the UK it is set by the Bank of England, to control the money supply and inflation. Banks usually lend at anything from 2 per cent above bank rate and upward, and pay 2 to 3 per cent below bank rate on any deposits you have at the bank.

Board of directors A group of people to whom the shareholders have delegated the task of running the day-to-day affairs of the company. They normally define the direction of the company and thus should have a dramatic influence on its performance. They are supposed to act in the best interest of the shareholders.

Bond A form of IOU issued by the company, or a government or other institution, offering to pay interest in return for borrowing your money, or to pay you little or no interest but instead issue the bonds at a discount but pay you back in full sometime in the future, or to pay you back at some time in the future in a way that is financially interesting to you now.

Book value The value at which an asset stands in the books of the company. It is usually the original cost, plus any increase for revaluation, less any amounts that have been written off profits by way of depreciation etc.

Budget A forecast for a period ahead that becomes the financial embodiment of the company's strategy.

Capital employed Sometimes called total assets less current liabilities or total shareholders' funds plus long-term finance (the two calculations provide the same result). It is a measure of how much value is placed in the hands of the management of the company, hence ROCE (return on capital employed) is a key reaction in the control of performance.

Charge over assets Used when all or some of the assets of an organisation have been used as collateral to secure a transaction of some kind (usually the borrowing of large sums of money). The charge operates in a similar way to that used by mortgage companies as they retain an interest in your house and must be repaid first out of any sale monies you make.

Collateral Security, usually for a loan. It is effected by enabling the giver of the loan the right to seize the asset that is being used as collateral and sell it if the terms of their loan are not met.

Cost of goods sold A subtotal of the accounts of the 'direct costs' of the purchase and production of the goods that were sold.

Cost of production Similar to cost of goods sold and used mostly in academic accounts.

Creditors Suppliers to whom we owe money.

Current ratio Current (short term) assets as a ratio to current (short term) liabilities

Debtors The amount outstanding on customers' accounts.

Depreciation The value of the write-down of an asset to allow for the cost of wear and tear over a period of time.

Direct costs Costs associated with or comprising part of the actual products or services.

Director A member of the board of directors who bears the responsibility of managing the company on behalf of the shareholders.

Earning A phrase that is often interchangeable with profits.

Fixed assets Assets that you intend to keep for longer than twelve months.

Fixed costs Costs that vary over time rather than in proportion to throughput, e.g. Rent of premises, salaries etc.

Gearing The proportion of borrowings to total financing (i.e. shareholders' funds plus total borrowing).

Indirect costs Costs that are not directly involved in the making of the product, e.g. Office costs.

Liabilities Amounts we owe.

Long term liabilities Borrowings on which the final date of repayment is more than twelve months ahead.

Management buyout (MBO) The management of a company buy that company, or part of it, from its owners.

Market Capitalisation The stock-market value of a company. It is calculated by multiplying the total number of issued ordinary shares by today's price per share as quoted on the stock market.

PBIT Profit before interest and tax.

Return on Capital Employed (ROCE) This ratio is arguably the most vital for the control of performance in large, delegated, businesses. It is made up from the comparison of the PBIT and the capital employed in the business.

Return on Investment (ROI) A measure of the return on the investment made by the shareholders in the organisation. Clearly it must be above the obtainable from similar investment placed on deposit and be commensurate with risk.

Securities Government bonds, ordinary shares in companies, debentures, loans, preference shares, etc. are all collectively described as securities.

Security Often demanded by banks and other lenders of money as collateral for their loan. This usually involves them taking a charge over some or all of the company's assets.

Variable costs Costs that vary in some kind of proportion to throughput (production), e.g. materials. Each same product takes the same amount of material, so there is a direct proportion between the number of products produced and the amount of material that was used.

Work in progress As its name implies, it is the value of the products on which work has been started but is not yet complete.

Working capital It is the total of an organisations short-term (current) assets less it short-term (current) liabilities.