
GLOSSARY OF BUSINESS TERMS

*Glossary:
A list of difficult,
technical or
foreign terms
with definitions,
as for some
particularly
field of
knowledge.*

Accounts Payable

An amount owing to someone, such as a supplier. Usually arises from the purchase of goods or services. Usually has a due date — 30 days or 60 days. The due date is often specified on the invoice.

Accounts Receivable

An amount owed to the business, usually arising from the sale of goods or services. Not usually encountered in an on-farm retail sales market. In our case study, the restaurants which Judy and Stewart sold to were given an invoice with each delivery Stewart made. At the end of the month Judy sent each restaurant a “Statement” listing all the purchases made by the restaurant. The restaurant mailed a cheque in payment within 30 days.

Accrual Basis of Accounting/Reporting

One of two recognized methods of accounting records. The other is “Cash Basis”. In the accrual method, income and expenses are recorded in the period when they are earned or incurred, regardless of when the cash transaction took place. Unlike the other method, Cash Basis, when the Accrual Method is used, income and expenses include changes to inventory, accounts receivable and accounts payable. See **Cash Basis of Accounting/Reporting** for further explanation. When setting up your accounting records, consult a professional to see which system will work best for you.

Amortization

This term is used to describe the systematic reduction of a balance in an account over a stated period. The term is most often used for a long term liability, such as a mortgage.

Assets

Items of value owned by the business. May include land, buildings, equipment but also cash, accounts receivable, stock on hand, for example.

Current Assets

Cash (which isn’t required to be paid back as in a loan payment) and other assets that in the normal course of events can be converted into cash or used in the production process within one year (or within your normal business operating cycle). Includes cash, accounts receivable, seed, nutrients, market livestock, produce and any expenses which you have prepaid (insurance is a good example of a prepaid expense).

Fixed Assets

Examples would be land, buildings and equipment. Fixed assets are those assets which are usually involved in the production of goods and services. They represent long-term investments that are used for more than one year.

Intangible Assets

These are assets which can’t be physically touched or seen but which, like all assets, add value or benefit to your business. (Examples are goodwill, trademarks, leaseholds, mineral rights and quotas.)

Liquid Assets

Cash and temporary investments that can be readily converted into cash, without disrupting normal business operations.

Glossary of Business Terms continued...

Long Term Assets

Assets which have a useful life greater than one year. (Examples include land, buildings, equipment or a productive asset such as a breeding herd.)

Balance Sheet

A statement which shows the financial position of a business at a given date. It includes the assets, liabilities and equity. It forms part of the documents known as Financial Statements.

Capital

The total assets available to a business.

Planned Capital Sales & Purchases

This statement summarizes planned capital purchases and sales. It shows trade-in value, purchase price, cash down and financing required. It details the amount of the financing, the interest rate, payment frequency, amount of payment annually and amount of principal and interest annually.

Capital Gain

This term is used for income tax purposes. In most cases, it describes the difference between a long-term asset's original cost and what that asset sold for when it was disposed of — given that it sold for more than it originally cost.

Capital Loss

The opposite of **Capital gain**. It describes the loss which occurs when a long-term assets is disposed of for less than its original purchase price.

Cash Basis of Accounting/Reporting

(See also Accrual Basis of Accounting/Reporting)

Method of accounting by which income and expenses are recorded only when cash is actually received or paid, regardless of when the agreement to purchase or sell took place. Unlike the accrual method, income and expenses do not include changes to inventory, accounts receivable or accounts payable.

Cash Flow Statement

The Cash Flow Statement shows where income will come from, how much and when in a given period. Most often, monthly figures are projected. This income could come from sales, borrowed money or from the owner's own injection of cash into the business. The Cash Flow Statement also shows how money will go out of the business to pay wages and all other expenses associated with the business in the same time frame that income comes in. This is particularly important where income is gained during a certain time of the year and not evenly spread throughout the calendar year. Some expenses, (e.g. Electricity and Telephone) have to be paid every month, even when there may be no sales income coming in. It is very useful to have a cash flow statement which shows anticipated income and expenses for that month — projected for a full calendar year. In this way, even though you may not have farm income coming in every month, you will be aware of what cash you need to have in the bank to meet projected monthly expenses.

Glossary of Business Terms continued...

Change in Inventory

This term appears on the Income Statement to describe the adjustment to your inventory of goods. This adjustment is eventually reflected on the Balance Sheet. It will show either the increase or decrease in your inventory of goods from one reporting period to another.

Contingent Liability

An example of a contingent liability would be if your business guaranteed a loan for one of your employees. It is a potential liability. If your employee failed to make the prescribed loan payments or “skipped town” your business would then take on this liability as its own. Until such a failure occurred, however, the liability remains a “contingent liability” because it is contingent on some future event or failure of such future event.

Contribution Margin

Direct income minus directly-related variable expenses. The difference between what you receive for a product you sell and the direct costs of producing that product. The contribution margin then goes towards paying the indirect costs of running your business, e.g. bank interest, overheads of administration, legal and accounting costs and return on investment.

Cost

How much you pay for goods or services you use in running your business.

Fixed Cost

(Examples would be building insurance and property taxes). These are costs that remain relatively unchanged regardless of the volume of production or sales.

Variable Cost

(Examples would be feed, fertilizer, etc.) These are costs which can vary according to the amount of production or sales activity.

Cost of Goods Sold

The cost of produce and value-added products which you sell. Includes the cost of purchasing plants, seed and nutrients.

Crop Plan Summary

This itemizes the direct income and directly-related variable expenses for each crop as well as the total contribution margin for the operation.

Current Debt

Any debt or portion of debt which is due to be paid within the current year or within your normal operating cycle. Could include a portion of long-term debt (principal only) due in the upcoming business year.
(See also **Long Term Debt**)

Debt Capital

The money lent to your business (usually refers to long-term debt) for your use in establishing, expanding or running your business.

Glossary of Business Terms continued...

Deferred Income Taxes

A Revenue Canada provision whereby a portion of income taxes due may be put off. An example would be where Depreciation is recorded in your accounting records but accounted for in your tax returns in a different way. You will still be liable to pay the income tax, but it can be deferred. Your accountant should be consulted on this point.

Depreciation

An amount charged periodically in the accounting records to distribute the cost of a long-term asset over its useful life.

Dividends

An amount of retained earnings declared by the board of directors of a corporation for distribution to its shareholders in proportion to the quantity of shares they own.

Equity Capital

The interest of the owner in the assets of a business. The owner's "owned share" of the business can be established by calculating the difference between the value of the assets and the amount of liabilities.

Expense

Any identifiable cost relating to a business operation during a given financial period. (Examples are wages, telephone, electricity, etc.)

Financial Accounting

Formalized accounting methods which are used to establish the financial position of a business within a given period of time. These must be in line with what professional accountants call "generally establish accounting principles."

Fiscal Year

A one year period of time for which financial statements are usually prepared for a business.

Gain

An increase in equity which does not come about from income or a direct contribution to equity. For example, if a 5 year old car with a "book value" of \$3,000 was sold for \$5,000, there would be a "gain" of \$2,000.

Going Concern

A term used to describe a business which will keep going indefinitely. The value of its assets are figured differently from their current market or book value.

Goodwill

An intangible asset which is generated through such things as high community standing, good strategic location, superior management, etc. It has a financial value which, once established, is added to the fair market value of a business based on its tangible assets.

Gross Margin

The excess of total revenue less the cost of goods sold. Often referred to as "Gross Profit".

Glossary of Business Terms continued...

Historical Cost

Total of expenditures made by the business to gain title or to develop an asset. It includes any costs of installation or alteration to put the asset into service.

Income Statement

The Income Statement, as its name implies, lists income earned from the sale of the farm produce and value-added products. It also shows the expenses which were incurred in order to earn the income.

Excess income over expenses is termed "Gross Profit". The Income Statement then lists certain "Adjustments" - Depreciation, Ending Inventory (Goods or Produce not yet sold), Beginning Inventory (Goods or Produce available for sale at the beginning of the year), Inventory Change (+ or -). The bottom line shows, appropriately, the Net Farm Income (net profit).....or loss.

Inventory

Items for sale in the ordinary course of doing business. Also includes items which may be used in the production process (e.g. plant nutrients, seed, etc.) in order to produce goods for sale.

Lease

An agreement in which the owner of an asset (known as the "lessor") conveys the right to use the asset to someone else (the "lessee"), usually for a specified period of time, in return for some consideration (cash usually).

Lease (Capital Lease)

A lease that, from the viewpoint of the lessee, transfers nearly all of the benefits and the risks of ownership of property to the lessee. The term of a capital lease is usually longer than a year and the lease contract may provide for transfer of ownership of the asset at the end of the lease term. Leasing instead of purchasing a vehicle would be an example.

Lease (Operating Lease)

A lease in which the lessor retains nearly all the benefits and risks incidental to ownership of the asset.

Leverage

The relationship or ratio between the total liabilities and the equity of a business. The higher the ratio of debt to equity, the greater the leverage.

Liabilities

Liabilities are obligations of the business arising from transactions made in the past which are to be paid in the future. (Example include bank loan, accounts payable, etc.)

Liabilities (Current Liabilities)

Liabilities that will be payable within the current year or within the normal operating cycle.

Liabilities (Long-Term Liabilities)

Liabilities which can be paid in a period longer than a year or beyond the normal operation cycle. Long term liabilities exclude any portion of the debt principal which must be paid within the year. (Examples could include mortgages and equipment loans.)

Glossary of Business Terms continued...

Liquidity

The ability of the business to convert assets into cash or to obtain cash to meet short term liabilities and other commitments.

Loan (Demand Loan)

A debt for which payment in full could be demanded at any time upon the lender's notifying the borrower under the terms of the loan contract.

Loan (Operating Loan)

Cash advanced to a business to pay for operating costs. Such loans usually provide for repayment within one year of the normal operating cycle. (Examples would include loans to purchase broiler chickens and feed)

Market Value

The value which one expect a willing buyer will pay a willing seller for an asset. This value is often based on comparison to the latest sales stats of similar assets under similar selling conditions.

Mortgage

A conveyance of the legal interest in property from the owner to another person (or institution) as security for the payment of a debt (or discharge of some other obligation). The security is redeemable once the debt has been paid or the obligation has been discharged.

Net Book Value

The value of an asset, arrived at by subtracting the accumulated depreciation (or amortization) from the historical cost of the asset.

Net Income/Loss

The excess of revenues over expenses for a given period of time. If expenses exceed income, the difference is called Net Loss.

Net Worth

The difference between the market value of the assets of your business and the market value of the liabilities. Net worth represents an estimate of what cash the owner would receive if all the owner's assets were disposed of and all the liabilities discharged.

Net Worth Statement

A statement which sums up the net worth of an individual and the individual's business at a point in time. Assets are values at estimated fair market value. Liabilities are subtracted from the assets and the resulting figure is the estimate of net worth.

Note Payable

A liability in the form of a promissory note. It is a formal written promise by the borrower to pay a certain amount on demand, or at a certain future date. The term is used to distinguish it from other liabilities such as Accounts Payable.

Note Receivable

An asset in the form of a promissory note. It is a formal written promise to be paid a certain amount of demand or at a certain future date. The term is used to distinguish it from other assets such as Accounts Receivable.

Glossary of Business Terms continued...

Owner's Equity

Refers to the ownership interest in the business. Owner's Equity is derived by subtracting total liabilities from total assets. Can be considered as the owner's claim against the assets of the business. An owner increases his/her equity through a net contribution of assets to the business and the accumulated net income of the business.

Prepaid Expense

An operating expense (other than an outlay for inventory) which is expected to benefit the business in the future. In the meantime, the amount is carried on the balance sheet as an asset to be charged to expenses when used. An example would be the unexpired portion of building insurance premiums).

Projected Cash Flow Statement

This statement shows expected future sources of cash (which could come from operations, capital sales, owner contribution and borrowing). It also shows how that cash will be used for business expenses, loan payments, capital purchases and owner withdrawals from the business.

Share Capital

The ownership interest in an incorporated company. It is represented by the shares of that company.

Shareholders' Equity

The excess of the net book value of the assets of an incorporated company over the value of its liabilities.

Beginning Statement of Assets, Liabilities and Owner's Equity

This statement documents the assets (e.g. cash, accounts receivable, stock on hand, equipment, buildings, land), the liabilities (e.g. accounts payable, operating loan, intermediate-term and long-term mortgages) and the owner's equity (ownership) at the beginning of the planning period. Owner's Equity is equal to assets minus liabilities.

Ending Statement of Assets, Liabilities and Owner's Equity

This statement documents the assets, liabilities and owner's equity at the end of the planning period.

Statement of Changes in Financial Position

A financial statement which may be required for a Business Plan. It includes sources of cash from business operations, sales of assets, owner's contributions and borrowings over the past financial year. It also shows cash use for business operations, loan payments, assets purchased and owner withdrawals from the business over the same period.

Statement of Income (Income Statement, sometimes known as Profit & Loss Statement)

A financial statement which summarizes the revenue (income), the expenses and which indicates the net income (or net loss) for a given accounting period, usually the company's fiscal year.

Preparing a Business Plan — Evaluation

Please send us your comments and help us serve you better.

We would like to know what you think of this publication good and what could be improved, and how. Please take a few minutes to give us your opinions and ideas. Please return the completed evaluation form to:

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