

PROSPERA

Glossary of Business Terms

Assets

Things of value owned by the business, such as cash, equipment, or property.

Balance Sheet

A financial snapshot of a company's assets, liabilities, and equity at a specific point in time.

Cash Flow

The movement of money in and out of the business, showing liquidity and ability to pay bills.

Contribution Margin

The amount left over from sales revenue after subtracting variable costs. It shows how much money is available to cover fixed costs and generate profit. Formula: *Sales – Variable Costs = Contribution Margin*.

Cost of Goods Sold (COGS)

The direct costs of producing goods or services, including materials, labor and packaging.

Depreciation

Depreciation is the systematic allocation of the cost of a tangible asset over its useful life to reflect its gradual loss in value. It represents how assets like machinery, vehicles, or buildings are used up, worn out, or become obsolete over time.

Ending Cash Balance

The amount of cash a business has on hand at the end of an accounting period. It reflects beginning cash + cash inflows – cash outflows.

Equity

The owner's share of the business after liabilities are subtracted from assets.

FICA (Federal Insurance Contributions Act)

A U.S. payroll tax that funds Social Security and Medicare. Both employers and employees contribute a set percentage of wages toward these programs.

Gross Margin

Revenue minus direct costs (COGS), showing how much money is left to cover expenses and profit.

Income Statement

A financial report that shows revenues, expenses, and profit over a period of time.

Interest Rate

The percentage charged by a lender on the loan amount.

Liabilities

Debts or obligations the business owes, such as loans or accounts payable.

Loan Principal

The original amount of money borrowed that must be repaid.

Net Income

The profit remaining after all expenses are subtracted from total revenue.

Net Operating Profit

The profit a business makes from its core operations after subtracting operating expenses (but before taxes and interest). Formula: *Gross Profit – Operating Expenses = Net Operating Profit*.

Operating Expenses

Ongoing costs of running a business, such as rent, utilities, marketing, and insurance.

Owners Draw

An owner's draw is money or property a business owner takes from the company for personal use, acting as their compensation for running the business. Unlike a salary, which is paid to the owner through payroll and requires taxes and reporting. An owner's draw is not a business expense but a reduction in owner's equity and is not subject to payroll taxes, though it is taxable income. Owner's draws are common for sole proprietors, partnerships, and LLCs and serve as a flexible way to receive income without the complexities of payroll. Consult with an accountant on which owner payment method is best for your business.

Revenue

The total amount of money generated from sales before expenses are deducted.

Startup costs

The expenses incurred when starting a new business, such as legal fees, equipment, licenses, marketing, and initial inventory.

Startup Position

The financial and operational status of a business at the point of opening, including available capital, resources, and liabilities. It represents where the business "starts" financially.

Total Operating Expenses

The sum of all costs required to run a business during a given period, excluding the cost of goods sold. Examples include rent, salaries, utilities, marketing, and administrative expenses.

Unemployment Tax

A payroll tax paid by employers (and in some states, also by employees) that funds unemployment insurance programs. These programs provide temporary financial assistance to eligible workers who lose their jobs through no fault of their own.

Wages

Payments to employees for their work, including salaries, benefits, and payroll taxes.