

Financial Glossary

by A. Mamoudi

A

Accounting	Fundamentally about measurement; analyzing and reporting financial accounts.
Accounts payable	money that is owed by a company to creditors or suppliers.
Accounts receivable	money that is owed to a company by its customers who purchased goods or services, but have not paid for them.
Accrued liabilities	Expenses that the company has already incurred but has not yet paid.
Accumulated depreciation	The estimated amount of the fixed asset the company has used up since it was acquired.
Allowance for doubtful accounts	The amount the company is owed by customers that it estimates it will not receive.
Agency bonds	A category of bonds that encompass federal government agency bonds and government sponsored enterprise bonds.
Annual percentage rate	the interest rate banks are required to quote on loans.
Annuity	a stream of cash flows where there is a fixed maturity.
Appreciation	an increase in the value of an asset with prolonged ownership.
Arithmetic average return	A form of measuring average return by adding up all returns from each period and dividing by the total number of periods.
Assets	resources that a company has ownership of, or acquires, that hold value, such as equipment or cash; economic resources owned by the company.
Attribute	Represents a characteristic of the phenomenon.
Average cost assumption	Cost flow assumption where all inventory costs are added together and then divided by the total number of inventory units to find the average inventory price used to calculate cost of goods sold.

B

Balance sheet	a snapshot of a firm's assets, liabilities, and shareholders' equity at a certain point in time; a substitute attribute for the company's position that presents an organized list of the company's assets, liabilities, and equity at a point in time.
Bankruptcy	The legal processes to seek relief that individuals or companies go through when debts cannot be repaid.
Beta coefficient	The percentage change in an individual stock return for each 1% change in the overall market's return.
Board of Directors	the highest governing body of a corporation; responsible for selecting and appointing senior executives, as well as supervising performance and determining executive pay.
Bond	a type of loan the bond issuer owes to the bondholders, typically investors.
Bondholder	The investor who owns the bond.
Bond valuation	The principle where the value of a bond is equal to the present value of all the cash flows it generates.
Book value of equity	a firm's equity that is available for distribution to shareholders.
Business	an entity that provides goods and services to earn a profit.

C

Capital asset pricing model (CAPM)	The relationship between the expected return of an asset and the systematic risk of an asset.
Capital budgeting	The process used by firms to decide whether to initiate a new project or not.
Capital gain	The difference between the selling price and the initial purchase price of an investor's shares.
Capital gains yield	The return of a stock based on the appreciation of the stock.
Cash cow	A term used when a company does not retain any earnings, yet generates a constant stream of dividends.

Cash flows	the amount of money transferred in and out of a business.
Cash ratio	a ratio of cash and equivalents to the current liabilities.
CEO	chief executive officer is the most senior executive within the corporation, responsible for managing the corporation.
CFO	chief financial officer is the authority for the financial side of a company.
Common size balance sheet	a balance sheet in which each line item is expressed as a percentage of total assets.
Common size income statement	an income statement in which each line item is expressed as a percentage of total revenue.
Common stock	Common shares that allow shareholders to have voting rights and participate in major decisions, as well as receive dividends if the company chooses to pay them.
Compensation Committee	determines the pay package for top executives.
Compounding	the process of interest being earned on previously earned interest.
Constant growth model	The value of a constant growth stock is the present value of growing perpetuity.
Contingency note	Disclosing a potential liability whose classification as a liability depends on the outcome of some future event.
COO	chief operating officer is responsible for the daily operations of a corporation and reports to the CEO.
Corporation	a legal entity separated from its owners and owned by its shareholders.
Corporate bonds	Bonds issued by corporations.
Cost of goods sold (COGS)	refers to the direct costs that are needed to manufacture goods.
Coupons	The annual interest payments a bondholder receives.
Coupon bond	a type of bond that makes coupon payments.
Creditor	a person or company that is owed money.
Credit rating agencies	Agencies whose responsibilities are to provide investors with reliable information about the risks associated with certain types of bonds.
Current assets	Assets expected to be converted to cash or used up within one year.
Current liabilities	Obligations that are expected to use up current assets and usually require payment to be made within a year.
Current ratio	a ratio of current assets to current liabilities.
Current value	the value of a cash flow or the worth of an asset in present time.

D

Days' sales in inventory	a ratio calculated as the inverse of the inventory turnover ratio multiplied by the 365 calendar days.
Debtor	a person or company that needs to pay money out.
Depreciation	a reduction in the value of an asset with prolonged ownership; represents the costs of the company's property, plant, and equipment that have been allocated to that period.
Direct agency costs	monitoring costs or expenditures that benefit the company's management, but costs the shareholders.
Discount rate	a rate that is used in computing discounted cash flow value.
Dividend discount model	The price of a share in a particular stock is equal to the present value of all future dividend payments.
Dividend yield	A yield found taking the dividend payout of next year divided by its current share price.
Dollar return	Dividend received over a period of time, plus the ending market value, minus the beginning market value.

DuPont identity shows a company's return on equity (ROE), expressed as the product of the net profit margin, the total asset turnover, and the equity multiplier.

E

Earnings before interest and taxes (EBIT) a company's net income before income tax expense and interest expense are deducted.

Earnings before tax a firm's earnings before taxes have been subtracted.

Earnings per share (EPS) A profitability ratio that is calculated as net income divided by the average shares of common stock outstanding.

Effective annual rate a real rate of the loan's interest accounting for compounding.

Equity the shareholders' stake in a corporation; two parts: (1) the value that owners contributed to the company and (2) the accumulation of what the company has earned since it began doing business. Mathematically, the difference between assets and liabilities, which can represent the net worth of the company.

Equity multiplier a ratio of total assets to shareholders' equity.

Executive Committee in charge of setting the priority for the whole board of directors, and sometimes acts on behalf of the board.

Expected return of an investment The anticipated return based on historical rates of return.

Expenses Outlays of resources as part of the normal operating activities.

Extraordinary gain/loss Gain or loss that arises from events that are both unusual and infrequent, where unusual means that the event could be judged as unforeseen.

F

Face value Also known as the par value, which is the principal repaid at the end of a loan.

Federal government agency bonds Bonds issued by federal agencies that are backed by the full faith and credit of the U.S. government.

Financial ratios Ratios of financial statement line items that allow users to compare companies of different sizes or industries.

First-in-first-out (FIFO) cost assumption The first inventory units added are presumed to be the first units sold when calculating cost of goods sold.

Fiscal year a one year period used for calculating annual financial statements in businesses and other organizations.

Future value the value of a cash flow or the worth of an asset at some future time.

G

Generally Accepted Accounting Principles (GAAP) the accounting rules and procedures used to prepare financial statements and reports in the U.S.

Geometric average return A method to derive the average rate of return on an investment that is compounded over multiple periods.

Goods Assets either manufactured or purchased with the intent to be sold to customers; inventory.

Government bonds Bonds or loans a government issues, typically with large face values, and used to fund projects and pay obligations.

Government sponsored enterprise bonds – Bonds issued by government sponsored enterprises (GSEs) created by Congress to promote a public purpose, such as affordable housing.

Gross profit margin a ratio of gross profit divided by total revenues.

Growing perpetuity	Cash flow expected or received each year, but grows at the same, constant growth rate forever.
Growth stocks	Stocks whose potential for future growth is high.

H

Holding period return	The total return from holding an asset or a portfolio of assets over a period of time.
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I

Income statement	reports the revenues and expenses of a company within a year; lists the resources the company has earned or dispersed during a period of time; substitute attribute for the company's performance.
Incremental cash flow	The cash flow due to a project which is calculated as the cash flow with the project, minus the cash flow without the project.
Indirect agency costs	costs or expenses that occur due to lost opportunities.
Initial Public Offering	the process of offering shares of a private company to the general public investors.
Intangible assets	assets that have no physical form, such as copyrights or patents.
Interest coverage ratio	defined as a company's earnings before interest and taxes (EBIT), divided by the interest expenses.
Inventory	A good acquired or manufactured in order to be sold as part of the company's normal operations.
Investment grade bonds	Bonds that carry a low risk of default and receive high ratings from the credit rating agencies.
Internal rate of return	a discount rate that sets the net present value equal to zero.
Internal Revenue Service (IRS)	a U.S. federal government agency responsible for administering and enforcing the U.S. federal tax laws.
Inventory turnover ratio	a ratio of the cost of goods sold to the inventory.

J

J-curve:	A graph that shows the initial decrease in returns followed by an increase in returns over time for a particular investment or project. The shape of the curve resembles the letter J.
Junk bond:	A high-yield, high-risk bond that is issued by a company with a low credit rating. Junk bonds offer higher returns to investors but also carry a greater risk of default.

K

Key performance indicator (KPI):	A quantifiable measure that is used to evaluate the performance of a company or a particular project. KPIs are often used to track progress towards specific goals or to identify areas for improvement.
Keynesian economics:	An economic theory that advocates for government intervention in the economy, especially during times of recession. Keynesian economics emphasizes the role of government spending and monetary policy in stimulating economic growth.
Kicker:	An additional payment that is made to the holder of a bond or other security if certain conditions are met, such as a particular performance target being achieved. Kickers are typically used to incentivize investors and can provide additional returns beyond the standard coupon rate.

L

Last-in-first-out (LIFO) cost assumption	The last inventory units added are assumed to be the first units sold when calculating cost of goods sold.
Leverage ratios	Ratios that measure the company's capability to pay its total obligations.
Liabilities	responsibilities of a company, such as debts or financial obligations.
Limited Liability Company	a private limited company which shares the benefits of a partnership and a corporation.

Limit order	An order type used to sell a stock at a specific price or better.
Liquidity	the ease or ability of an asset to be turned into cash without a significant reduction in value.
Liquidity ratios	measures a company's capacity to pay its short-term obligations without raising external capital.

M

Market capitalization	the total market value of a company's shares of stock.
Market order	An order type that is used to buy or sell stocks immediately.
Market risk premium	The reward for investors if they bear an average amount of systemic risk.
Measurement	Assigning numerals or other symbols to represent the magnitude of an attribute of a phenomenon.
Measurement questions	Three questions that are substitute attributes for a company's financial statements. (1) What do you own? (2) What do you owe? (3) How did you perform?
Municipal bond	a bond issued by a local government or agency to raise money for public projects.

N

Net capital spending	Cash flows due to any capital expenditures or sale of equipment.
Net earnings	the sales of a company minus the cost of goods sold, selling, general and administrative expenses, operating expenses, depreciation, interest, taxes, and other expenses.
Net income	The difference between resources earned and resources dispersed.
Net present value	the sum of present day value for a series of cash flows occurring at different times.
Net profit margin	a ratio of net income divided by total revenues.
Net working capital	the difference between a company's current assets and its liabilities.
Nominating Committee	responsible for recruiting new members to the board.
Note	Accompanies the financial statements; some are required and some are optional; discloses additional information that the user would not know by just looking at the financial statements.
NPVGO	Stands for the net present value of growth opportunities, and is the value due to future growth opportunities.

O

Obligation bonds	A type of municipal bond that pays investors using tax revenue of local governments.
Operating cash flow	The cash flow from operations that is calculated as earnings before interest and taxes, plus the depreciation minus taxes.
Operating cash flow ratio	evaluates the capacity of cash generated from operation used to pay current liabilities.
Opportunity costs	The dollar amount of the opportunity a firm gives up when considering whether to accept or reject a project.

P

Partnership	a business owned by two or a handful of people jointly.
P/E ratio	A stock valuation tool that reflects the ratio of price per share, to earnings per share, as well as investors' expectations of the firm's growth potential.
PEG ratio	A ratio used to evaluate if the P/E ratio is in line with the company's growth rate, while taking into account the company's future growth earnings.
Perpetual bond	a bond with no maturity date set in place.
Perpetuity	a stream of cash flows that lasts forever.
Phenomenon	An object of interest.
Preferred stock	Stocks that have a prioritized dividend payment system where preferred shareholders are paid before common shareholders.
Present value of stock	The fair value, or intrinsic value, of a particular stock in current dollars.

Private company	a company held under private ownership which does not have stock to sell to the general public.
Primary market	The market where shares are originally sold to the public through initial public offerings.
Profitability ratios	Ratios serving as indicators of the company's capability of generating earnings.
Public company	a company that has its shares traded in public stock markets.
Public market	places where public companies' shares are sold and traded, ex. NYSE and NASDAQ.

Q

Quick ratio	a ratio calculated by dividing the sum of cash, marketable securities and accounts receivable by current liabilities.
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R

Retained earnings	Portion of a company's accumulated earnings that is retained by the company, rather than being distributed to the company's owners.
Return	The level of value gained from a particular investment.
Return on assets	a ratio calculated by dividing net income by total assets.
Return on equity	a ratio calculated by dividing net income by shareholders' equity.
Revenue	Resources earned from normal operating activities.
Revenue bonds	A type of municipal bond that makes payments using collected revenues from specific projects.
Reward to risk ratio	The ratio that measures risk premium of security to systematic risk.
Risk	The level of exposure or endangerment to lose money from a particular investment.
Risk premium	the compensation investors needed to hold a risky asset, which is measured by the difference between the expected return of an investment and the risk free return.
ROE	Stands for "return on equity" for a particular company, and is used to estimate the return for current retained earnings.

S

Secondary market	The market where existing shares are traded among investors.
Securities and Exchange Commission (SEC)	an independent U.S. federal government agency responsible for enforcing the securities laws, proposing securities rules, and regulating the securities markets.
Security market line (SML)	The line which is a graphical representation of the capital asset pricing model.
Shareholders	individuals or institutions who hold stocks of a company; partial owners of the company because they contributed capital to the company in exchange for some share of ownership in the company.
Sharpe ratio – A ratio that measures the risk adjusted returns	adjusted returns by dividing the risk premium of an investment by the standard deviation of the investment.
Sole Proprietorship	an unincorporated business owned and run by a single person, ex., small businesses.
Solvency ratio	measures a company's capacity to meet its long
Speculative grade bonds	Junk bonds, have lower ratings than investment grade bonds.
Stakeholder	individuals who have any sort of stake or experience impact from a company; can include shareholders, customers, employees, suppliers, and etc.
Standard deviation of returns	Is a measure of the amount of variation or dispersion of a set of investment returns.
Statement of cash flows	Reflects how the company's cash position changed from the beginning of the period to the end of the period; includes three sections: operating activities, investing activities, and financing activities.
Stock	shares of a company that represent ownership.

Stock dividend growth rate	A parameter of stock valuation that takes a yearly dividend, subtracts the dividend from the previous year, and then divides that value by the previous year's dividend.
Stock valuation	Determining the fair value of stock.
Stop order	An order similar to the limit order, except it is an order to buy or sell a stock when the price of the stock hits a limit.
STRIPS – Also called Separate Trading of Registered Interest and Principal of Securities	is an example of a zero coupon bond generated from coupon bonds.
Subsequent event	An event that occurred after the fiscal year but before the financial statements were issued.
Substitute attribute	A more measurable representation of a difficult to measure attribute of interest.
Sunk costs	The costs that have previously occurred before the decision of a project and cannot be recovered or changed from either acceptance or rejection of a project.
Sustainable growth rate	The maximum growth rate a company can achieve without issuing additional debt or equity.
Systematic risk	The risk that affects most assets in the market more or less, also known as market risk due to its effect on the overall market.

T

Tangible assets	assets that have a physical form, such as property, plant, and equipment.
Ticker symbol	An abbreviation used to uniquely identify shares of stock for trading purposes.
Time to maturity	The number of years until the face value is repaid to the bondholder.
Time value of money	the money you have now worth more than the same amount of money in the future.
Total asset turnover	a ratio of total revenues to the total assets.
Total debt ratio	a ratio of total liabilities to total assets.
Total return of a stock	Is calculated as the sum of the dividend yield and capital gains yield.
Total risk	All the risk factors related to a decision.
Treasury bills – Short	term U.S. government debt that are zero coupon bonds with a face value that is paid at maturity; maturities typically last 4 to 52 weeks.
Treasury bonds	A government bond with maturities between 10 and 30 years that pay semiannual coupon payments throughout the life of the bond, and repays the face value at maturity.
Treasury notes	A type of treasury security that pays coupon payments every six months until the maturity date and the face value at maturity; typically issued with a maturity of 2, 3, 5, 7, and 10 years.
Treasury securities	A category of bonds that encompasses treasury bills, treasury notes, and treasury bonds.
Two	stage dividend growth model – A method to derive the fair value of share's price by taking into account the two stages of dividend growth.

U

Unsecured bonds	Or debentures, is a type of bond that is not backed up by some form of collateral.
Unsystematic risk	The risk that only affects a specific company or small number of stocks.
Value stocks	Stocks that trade at a lower price relative to its fundamentals, and distribute more dividends than growth stocks.

W

Weighted Average Cost of Capital (WACC)	the average cost of financing a company's assets, taking into account the relative weight of each type of financing used.
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X

X: Represents the unknown variable in financial models, which can represent various metrics, such as revenue growth rate, inflation rate, or discount rate.

Y

Y: Represents the dependent variable in a financial model, which is the variable that is being predicted based on the values of the independent variables. Y can represent various financial metrics, such as sales revenue, net income, or stock price.

Yield to maturity Also known as the yield, is the rate of return of the bond.

Z

Zero coupon bond A type of bond where there is no coupon payment, and the face value is paid at the maturity date.

#

401(K) a tax-qualified, defined-contribution pension account in the United States.

8-K form a current report that is filed when any major changes to a business occur that were not previously reported.

10-K form an annual report that captures a comprehensive summary of the financial condition of a company.

10-Q form a quarterly report required by the SEC to have details on quarterly financial situations.

