Wise Business Basics

Business Plan Anatomy 101

a Wisebusinessplans When Planning Matters publication

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“The object of all work is production or accomplishment and to either of these ends there must be forethought, system, planning, intelligence, and honest purpose, as well as perspiration. Seeming to do is not doing.”

—Thomas Edison

Welcome to Success

Creating a business plan can be one of the most daunting parts of starting a new venture — even if you're working with a professional. Even seasoned managers with a wealth of experience in their chosen fields can find themselves struggling to jump in to this all-important process. For those with a great idea and but limited business-building experience, it can be especially difficult to make the leap and start planning.

Wise Business Plans has been years smoothing this process and making it less overwhelming for business owners and managers. But it can still be hard to commit to creating a business plan when you simply don't know what you're getting into. And some clients find that they really feel the need to work on a plan themselves before seeking professional assistance.

In this guide, we've worked carefully to take some of the mystery out of what goes into a good plan. It's still an involved process, and chances are you'll want help along the way. But knowing the different sections and some of the basic business definitions involved can help you feel more in control and more in the know.

We've taken an overwhelming amount of information and trimmed it down to its most vital points and pieces, caressing a guide that tells you everything you need to know about the anatomy of a business plan in our classic no-nonsense style.

And, as always, if you have questions, please visit us and WiseBusinessPlans.com or drop us a line at info@wisebusiness-plans.com — we stand ready to serve.

Mission Statement

Your mission statement is not only a declaration to the world about what your company is and hopes to do; it's also a heading for you and your partners and employees, providing a way to re-center and refocus on the road to success. A strong, clear mission statement provides a heading and a metaphorical flag that your company can use to rally around.

But what makes a good mission statement, and is one really necessary? While the answer to the first part of the question is complicated, the second answer is an emphatic YES!

A strong, useful mission statement will tell:

A) What your company was created to accomplish

B) Who it's hoping to serve by reaching its goals

C) How it fulfills that service promise

D) And the value provided

If you've done any kind of basic planning and brainstorming about the foundation of the kind of company you hope to shape, you'll have some of this information at your fingertips. Discovering the remaining answers is an incredibly useful process that demonstrates just how valuable creating a mission statement can really be.

While established companies can sometimes afford to skate by without a current mission statement — or, worse, several different versions — you won't have that luxury as a small business owner or an entrepreneur looking to launch a new venture. You need potential investors (and potential partners or employees) to know, at a glance, what you stand for and what you do.

In light of that fact, keep your mission statement short and to the point, without leaving any important information out

If that sounds difficult, well, it can be. Writing a mission statement is an artform in and of itself. But if you can sit down and answer the hows, whats and whys of your company's genesis in a couple of clearly written sentences, you're further along than many beginning entrepreneurs, and you've competed the first step in preparing to craft your business plan.

Executive Summary & Financial Overview

The executive summary sets the tone and direction for your plan, allowing you to introduce the key information you'll be reviewing while also introducing yourself and your business vision.

Know your audience, and try to work with your plan writer — or an editor, if you're writing a plan yourself — to ensure that the voice that comes through from the page is the voice of the business you're hoping to build. Always remember that you are speaking directly to potential investors through your executive summary… but you are also providing a window into the way you want to do business. So be polite, be engaging, but be true to who you are and what you want your company to be.

On the flip side, it's often smart to target this particular portion of your plan, in some way, toward the kind of investors you hope to approach or attract. So do your research beforehand, and be prepared to offer an overview of your company that shows how it fits the needs of the people you want to draw onboard.

The language used in your summary should be clear, well-edited and to the point.

Think of your executive summary as a strong, expanded outline of your full plan. It should tell or offer readers:

- The basics, like the name of your business, its location and its web address
- The problem your company will solve
- A general glimpse of what your business concept is
- The basic competitive landscape facing your company
- The market you're looking to serve
- Who will make up your management team, will brief explanations about qualifications
- The company's present stage of development
- A snapshot of your financial condition

Two of the important financial overviews included in this portion of your business plan will be an overview of financial objectives and a start-up or expansion summary. The financial overview consists of a table and graphs illustrating the financial goals of your company during the next five years. The start-up or expansion summary tables and graphs detail the funding the business will need to bring the vision to reality. Start-up funding includes all the expenditures, both start-up assets and start-up expenses, incurred before the company starts earning revenue.

If you're just starting out, and you don't have some of the details available that an established company would, then remember that, at this stage, you're really selling your own experience, vision and ability to make things happen. So focus on your goals, your talents, your experience and — most important — the steps you plan to take to reach those goals in your summary.

Remember: Your executive summary is your chance to make a great first impression on potential investors. Make sure the opportunity it offers isn't wasted. Offer solid, useful information in an easy-to-read format. Keep it relatively short (one to two pages, not counting the subsequent charts and financial snapshots), and, if you're writing a business plan yourself, consider making the executive summary your last step. This will allow you to draw on the rest of the plan as inspiration.

Products & Services

This may seem self-explanatory, but it's surprising how many people fail to fully explain exactly what they're offering when creating their business plans.

The products and services section of your plan should be as detailed as possible. Include photos, color options, sizes, specs, fabric detailing, pricing for services, full menus — the more information you can provide — and the more engaging it is — the better you sell your concept. And, as a bonus, any work you put into this section now will pay off later, when you'll need product images and copy to create compelling marketing materials.

Think of this section as your opportunity to really sell your end-product, whether it's a concrete, in-your-hand item or an experience. If you're working with a business plan writer, help him or her understand what you're looking to offer by being as detailed and descriptive as you can. Err on the side of more information, not less, and allow the writer to decide how much to include. (Of course, speak up if you think something important has been left out!) From a design standpoint, try to provide high-resolution images of actual products or a vivid, detailed description of your services that can be translated into eye-catching art to draw readers into your plan.

While this section should paint a picture for readers, it shouldn't get bogged down in overly technical language or jargon. As with the rest of your plan, the writing should be clean and easy to follow.

While this isn't really the spot to browbeat your competition, it is the right place to make a case for how your products or services stand out. Anything that is different, better, new or unusual (in a good way) about what used got to offer should be emphasized and showcased in this part of your plan.

If you have endorsements, design awards or other accolades, this is a good place to showcase them.

Market Analysis and Summary

In-depth knowledge of relevant markets is what takes a entrepreneur and turns him or her into a savvy, experienced and successful business owner. Without an understanding of the environment you hope to thrive in, you're destined to meet obstacles and unpleasant surprises that can hinder or even reverse any gains you make. That's why a strong, well-written and meticulously researched market analysis is at the heart of a solid business plan.

The information, research and statistical analyses completed and share within this section of your plan will differ depending upon the markets and industries your company fits within, and you may have specialized sub-sections, such as a trends analysis, that wouldn't apply to a plan for a business in another industry. But some of the most common sub-sections in the market analysis summary include:

Market Size

This information is crucial. Are you looking to be a big fish in a small market or a thriving niche player in a large field? So many things hinge on your market size — from the required pace of innovation to the direction and degree of your initial promotional efforts, the pool of people from which you'll draw your company's support and audience affects almost every aspect of your launch and future success.

Market Segmentation

Segmenting your market into key groups allows you to tailor your approach and focus on those consumers within the core who will be most likely to respond to what you have to offer. This is kind of a forest-and-trees situation: While you may, at first, view your market as one solid group that thinks and acts alike, almost any group of individuals can be sifted and categorized in some meaningful way.

Location

Even if your company is online only, these days, the digital realm is a "location" in its own right, with all the attendant plusses and minuses, and you'll want to a review and analysis of what those are within your business plan. If you are looking to operate out of a brick-and-mortar office, however, and market to a segment of the population in the vicinity of that location, then this section takes on even more significance. You'll need investors — and company leaders — to understand where you plan to do business in order to serve the customers and clients who call that same space home.

Location: Demographics

Paired with the information in the previous sub-sections, a demographics analysis adds deep insight into the backgrounds, interests, socioeconomic statuses and behaviors of your potential customers and clients. This kind of "X-ray vision" into your market allows you to make smarter choices about their needs, wants, desires and future purchasing decisions.

Target market

One of the most important things you need to know about your business is who your target market includes. You're not only identifying your customers or clients, but helping them to identify you, by more clearly defining your company and its objectives. Tailoring your advertising and researching your market will help both your business and your customers, because you'll be better able to show them how they can benefit from what you have to offer. This sub-section helps define that target market for potential investors.

Market Needs

One big task of your business plan, as a whole and in particular sections, is to demonstrate the problem that your company will solve or the need it will meet. This is one of the best places for making the case for you business as the answer to what's missing in your target market. This sub-section will offer details about what's presently lacking in competitors' offerings and strongly offer evidence and details about how your company erases that gap by filling it with the services or products you'll have to offer.

Branding and Marketing

This section, though often no more than a page in length, is a vital part of your planning process.

Branding is absolutely key to the success and growth of any business -- it's your company's identity, and the metaphorical vessel that holds your reputation, the consumer's knowledge of what you have to offer and every bit of information the public has available to judge your integrity, your ability to innovate the quality of what you can provide. A brand is more than just a logo and some signature colors. It's the face and, some might say, the soul of your company, distilled.

Maintaining a well-regarded brand is, therefore, vital to the health of your company, and you need to show that you understand that fact when approaching potential investors. Not only will this help you demonstrate you commitment to branding, it will also give your brand itself a head-start, planting the seeds of customer loyalty and and word-of-mouth advertising opportunities.

Of course, one of the best ways to grow and establish a fledgling brand is to nurture it by taking steps to create a truly positive corporate image. This can be accomplished in a variety of ways, from community outreach efforts to supporting s charity. However, one of the easiest and most useful ways to create positive buzz is to make an uncompromising commitment to providing products and services of the highest quality.

Within your professional-quality business plan, the Branding & Marketing section will contain and introductory statement and quick-hit lists of objectives and keys to success. These will include items like:

Objectives

- Becoming a leader in your industry
- Focusing on customer service
- Creating brand awareness
- Maintaining certain profit margins
- Keeping abreast of changes in the marketplace
- Making changes to product and service offerings to keep in line with industry trends

Keys To Success

- High-quality product presentation
- Strong branding
- Smart hiring
- Strategic choice of physical location in a high-traffic area
- On-trend products/services
- Strong relationships with vendors
- Excellence in customer service
- Careful resource management
- Reinforcement of a positive industry image

Don’t be tempted to skimp on the points made in this item. Make sure they’re truly applicable to your situation, and commit to following through on them.

Competitive Analysis

Regardless of how unique your concept is, you're going to face some form of direct or indirect competition.

Your competitor may be down the road or across the globe; today's easy internet each-and-shop culture means the world of commerce is smaller than ever. This section of your business plan will need to offer investors several kinds of honest assessments of the kind of field you'll be facing.

Don't over- or underplay the strength of other contenders in your industry or market. Implying that you have little to no competition can set you up to underperform and leave you unprepared to fight for your rightful marketshare.

Sub-sections you can expect to be included in this part of your plan include:

A Local Competitive Analysis

This is exactly what it sounds like, but it may be more in-depth than you expect. While you won't be receiving (or writing, for the do-it-yourselfers) an essay on each local competitor, the chart contained in this sub-section should outline each local competitor's strengths and weaknesses, target market, basic contact information and facts (such as its date of founding), and any other information that may useful for comparison purposes. The same information will be listed for each local player, allowing readers to review them head-to-head.

A List Of Major Industry Players

This sub-section expands the concept of the Local Competitive Analysis, while changing the structure of a bit. The Major Industry Players chart often drops the basic contact information — less important when coupled with a lack of proximity -- in favor of a more in-depth, paragraph-structured overview of the competitor's history and product or service offerings. Again, in the Internet Age, distant competitors — particularly those leading your industry — are a viable threat that must be analyzed and overcome.

A List Of Your Company's Competitive Advantages

This is the place to showcase the factors that allow you to compete head-to-head with others in your industry. This sub-section typically takes the form of a list, and it should be detailed and very specific to your company. For example, rather than simply listing something akin to "Year of executive experience," this list will include details, such as the company founder's specific year's of experience and competencies. Other items often listed here include company specializations, mention of niche markets and points about the ways your products and services stand apart.

Barriers To Entry

Every industry will have some level of barriers to entry. This sub-section classifies those barriers into low, mid-level or high and offers detail on hat they are and, if possible, how your company can overcome them. Barriers to entry that are common across many industries include high start-up costs, a crowded industry, and difficulties creating brand awareness.

SWOT Analysis

The SWOT in SWOT analysis — or SWOT matrix, in some plans — stands for strengths, weaknesses, opportunities, and threats, and that's exactly what it evaluates and puts forth for the reader. Listed within a grid, with Strengths and Opportunities on the left and Weaknesses and Threats on the right, the SWOT analysis is an incredibly valuable tool not only for demonstrating the viability of your concept to investors, but also for evaluating any concept at any stage of development. It can even be used to evaluate a potential hire, or a proposed advertising campaign. The SWOT paradigm forces its creator -- and the reviewer -- to think in terms of balance and consider whether weaknesses and threats can truly be overcome. Expect this sub-section to have both general and specific items, relating to your company individually and your industry.

Risk Analysis

When coupled with the SWOT analysis, the risk analysis completes the portrait of the obstacles in the way of your companies success and, if done right, instills faith in the reader that you can overcome them and thrive. The risk analysis, typically about a paragraph in length, evaluates the risks of your company specifically, and takes into account things like projected overhead costs, your specific competitive landscape and the effects of your industry's level of barriers to entry on the intensity of that competition.

Marketing Campaign

Most small business owners understand going in, at least in a general way, that marketing is vital to establishing and growing their company.

After all, as we've often said, it's nearly impossible for someone to take advantage of what you're offering if they don't even know you exist. In today's crowded advertising and marketing landscape, there are multiples channels and sub-channels ready and waiting for you to utilize them as a vehicle for your marketing message. Of course, some are free, and others are costly enough to give some small business owners pause. The goal of the marketing campaign section of your business plan is to lay out a strategy for utilizing a balance of paid and unpaid channels in order to spread the word about your company as far and as wide as possible.

For the most part, avenues and opportunities for marketing are fairly universal, though new ones pop up every day. Investors will want to see that you have a nice range of traditional (such as print) and cutting edge opportunities that you plan to take advantage of. Some common sub-sections within a marketing campaign include:

Networking

Networking is a relatively easy, even enjoyable way to form new business connections and partnerships. While it is in some cases free, it can be helpful to pay for memberships to networking groups to ensure that you're connecting with like-minded people who are also looking to network. This sub-section may detail some of the ways your company will take advantage of networking opportunities to market what it has to offer.

Email Marketing

Email marketing, once avant-garde, is now a staple of the marketing tool kit and is vitally important to the success of any business in the digital age. Different kinds of email campaigns utilized may include digital newsletters, drip marketing series emails, weekly tips and pointers or discounts, coupons and specials sent directly to subscribers' inboxes.

Direct Sales

Never underestimate the power of a good, old-fashioned direct-sales team. If your marketing campaign includes a sub-section on direct sales, it will include information on whether you'll be hiring a dedicated sales team or outsourcing sales calls, and what those calls might entail.

Social Media

The importance of a strong company presence on social media sites like Facebook, Instagram, Twitter and LinkedIn can't be stressed enough. This sub-section will touch on the social media channels within which your company expects to maintain an active presence.

News Releases

While the landscape of news delivery is in flux these days, the classic news or press release is still a powerful tool, made even more useful in the age of instant digital distribution. A strong news release can garner your company the right kind of publicity and spark invaluable word-of-mouth advertising. It may be useful to offer short details about media markets you hope to approach in this space.

Trade Shows

While not all companies will take advantage of trade show and convention opportunities, if you plan to do so, make that clear here, and list specific events you may attend, if applicable.

Website

These days, a company without a website is really missing out on enormous opportunities, so it's safe to assume you'll want to list one here. Include your site's URL, along with any information on how you plan to utilize content marketing on the site to get the word out about your company and what it offers.

Exit Strategy

No new business owner really likes to think of his or her fledgling, newborn business shutting down or passing into someone else's hands. But selling your company can actually be a wonderful thing, when it goes on to grow for someone else, and both parties benefit.

In any case, knowing how you and investors will recoup your money in the event that the business changes hands or closes is actually extremely important, especially to outside contributors.

The common strategies listed typically include:

Repayment: The company chooses to remain a privately owned enterprise and repays its investors in full, consolidating ownership in the Founder.

Buyout: Your company, as a successful income-generating operation, experiences growth and sees the opportunity to expand its brand into additional markets. Competing brands begin to take notice of the Company. These businesses approach with attractive buyout offers, and the Company negotiates and sells to the best deal.

Merger: Your company merges with another company to expand its market reach and development capabilities.

Business Ceases: Your company liquidates all assets, pays its debts, repays investors, and ceases business activities.

IPO: The Company sells its equity through the sale of stocks on the open market. As a public company, your business will enjoy increased exposure and prestige, helping it to attract and retain the most talented executives and employees.

Return on Investment (ROI)

Return on investment — ROI — provides a unit of measure for the profitability of an investment. It's most commonly calculated using the formula ROI = [(gross profit – investment) / investment] x 100.

ROI is a useful section to include in plans for expanding companies, as it offers a way for potential investors to understand what they may be getting in return for their money in the future.

The ROI section will contain both charts and information in paragraph form, explaining:

- The present and future monetary values the company's managers have estimated for it, based on net assets and industry multipliers
- The amount of equity investment the company is seeking
- How management expects to increase the value of shares in the company
- The estimated monetary total of the overall return expected from the funding amount requested
- How soon management expects investors to be able to get a return on their shares

Milestones

Writing the milestones section is sometimes tricky for those creating business plans for themselves. It can be difficult to decide how broad or detailed to be in your milestones timeline.

On the one hand, you don't want to bog your reader down in minutiae, causing the dates and times listed to blur together and lose impact. However, you also don't want to make the common beginner mistake of just listing one milestone — "GRAND OPENING!" — on your charts.

If you receive a professionally written business plan, this section is often fairly short, consisting of one page with an easy-to-read, chronological chart (or set of charts) and a disclaimer noting that management reserves the right to change milestones and their dates. Common business milestones listed include:

- Obtaining Funding
- Securing and Renovating a Location
- Hiring Employees
- Opening for Business
- Achieving a certain level of gross sales

A manager for each step of the process is designated, and timeframes and deadlines for completion are given.

Management

Even a sole proprietorship requires some kind of management — of time, of processes, of resources and of workflow, if nothing else.

If you're seeking funds from investors or looking to get a business loan, you'll need to demonstrate some understanding of, and plan for, leadership within your company. This becomes even more important if and when you look to grow in the future.

There are several sub-sections that fall under the management header in a well-formulated business plan, as well as personnel information that can be seen as stand-alone or tucked in with management:

ABOUT THE FOUNDER OR OWNER

We can't stress it enough: Your company represents your vision, and it's that vision you need to sell with your business plan. In light of that, it's vital that you're also, in a sense, selling yourself: your experience, your expertise, your talents and your resourcefulness. The about the founder sub-section in a professionally produced business plan will work something like a miniature resume coupled with a sales blurb. Make it count!

Key Management

If you're looking to create an organization with some employment structure right away — or even in the near future — you'll want to have leaders on board from the get-go to help guide the company and support its vision. Offer information on the qualifications of the leaders and managers you've chosen in this sub-section.

Board Members/Advisors

Again, this section applies to companies with a more established structure and may be of particular use to those looking to expand. Use this sub-section to share information on anyone supporting you in an advisory capacity, whether that person is part of a formal board or a strong, highly qualified mentor who has an affect on the company's direction.

MANAGEMENT TEAM GAPS

It's just a fact -- almost every company will have some kind of management gap in the very earliest stages. Often, this is intentional -- you may not need to fill certain positions until you launch and grow beyond the start-up stage. But it's important not only to recognize those gaps, but to demonstrate to investors that you aren't blind to them, and that you have a plan in place to manage them as time goes on. This sub-section addresses that.

PERSONNEL FORECAST

The personnel forecast predicts labor needs and the effects those needs will have on your business. To come up with the personnel forecast, staffing needs are calculated based on projected sales and growth. In addition to forecasting the number and type of employees you expect to need, personnel planning includes budgeting for salaries and planning for future employees you may not need at the present time but expect to hire later. The personnel forecast is usually presented as a chart, for ease of access to the information.

ORGANIZATIONAL CHART

The organizational chart could more aptly be described as an organizational tree. It delineates the hierarchy of management and staff within your company show shows their expected reporting structure. The org chart diagram is therefore a graphical representation of the relation of each official to each other official and employee of a company. Such relations can include managers to sub-workers, directors to managing directors, chief executive officers to various departments, and so on.

Financials

Financials are the lifeblood of your business plan — without them, it's really just a pitch. Your carefully prepared financial charts and graphs "show your work" for investors, letting them know that you're confident your business adds up to a winner.

Even if you're looking at writing the rest of your plan yourself, preparing financials and projections is one place where professional help is absolutely invaluable. You need numbers that make sense to someone knowledgeable not just about banking and finances, but about the average numbers for your industry.

The necessary sub-sections (typically made up of charts without a lot of text) for your business plan financials are:

FINANCIAL INDICATORS

Summarizes your company's projected financial performance with standardized measurement indicators used to evaluate the profitability, leverage, asset turnover and liquidity.

REVENUE FORECAST

Typically a five-year revenue forecast that takes into account losses from direct costs, including all costs that can be directly tied to revenue.

BREAK-EVEN ANALYSIS

The break-even analysis shows the revenue necessary to break-even in the first year of Break-even is where revenue equals expenses.

PROJECT INCOME STATEMENT

Adds up projected revenue from all sources and subtracts costs to find your projected net income

PROJECTED CASHFLOW

The "pro forma cash flow" table differs from the income statement, though they sound similar. Pro forma cash flow is intended to represent the actual flow of cash in and out of your company. In comparison, the revenue and expense projections on the income statement include "non-cash" items and exclude funding and investment illustrations.

PROJECTED BALANCE SHEET

A balance sheet is a snapshot of your company's financial condition. The balance sheet has three parts: assets, liabilities and ownership equity.

SENSITIVITY ANALYSIS

The sensitivity analysis assumes that revenues are a set percentage higher or lower than figures projected earlier in the plan.

FINANCIAL ASSUMPTIONS

The assumptions provide growth rates, cash on hand, and the terms of funding based on a defined initial investment amount.

Business Glossary

A

Acid test: Sometimes referred to as a "quick ratio," an acid test measures the company's capacity to pay short-term debts, excluding stock from its asset value.

Assets: An asset is something the company owns that has a monetary value, including stock, cash and even intangible items related to company identity.

Asset turnover: Asset turnover measures revenue produced against the value of the company's available assets and is used to define the company's operational efficiency.

B

Balance sheet: The balance sheet indicates who owns what and how assets and debts affect the value of the company. The balance sheet equation is capital plus liabilities equal assets (where the money is now). The balance sheet doesn't show how much the company is making in profits – that function belongs to the P&L.

Budget: Amounts of money set aside to spend on particular items, usually over the course of a fiscal year, but sometimes for certain projects or timeframes.

C

Capital employed: The value of fixed assets plus working capital, making up the total amount of funds invested in or borrowed by the company.

Cash flow: The movement of monies into and out of the company.

Cash flow statement: This statement demonstrates the movement of cash within and out of the business over a defined period of time.

Cost of debt ratio: Expense incurred as interest over a defined amount of time as a percentage of the average debt over the same time period.

Cost of goods sold (COGS): The costs of products, materials or services sold.

Cost of sales (COS): The cost value of the goods or services sold during a defined period of time.

Current assets: Cash along with anything expected to be converted into cash within twelve months.

Current ratio: The ratio of current assets to current liabilities.

Current liabilities: Money owed and expected to be paid within 12 months.

D

Depreciation: The defined amount of value that an item loses over an indicated amount of time.

Dividend: A payment made to shareholders per share that's based on profits, though not necessarily all profits. An annual dividend gives shareholders a return on their investments.

E

Earnings before: Among the many "Earnings Before" acronyms are EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization; EBIT: Earnings Before Interest and Taxes; EBT: Earnings Before

Taxes; EBIAT: Earnings Before Interest after Taxes; EBITD: Earnings Before Interest, Taxes and Depreciation. Earnings are defined as profits.

F

Fixed assets: Assets held for use by the company.

Fixed cost: A cost which does not change with fluctuating sales or other processes or volumes.

FOB (free on board): An import/export term meaning including or assuming delivery without charge to the buyer's named destination.

G

Gearing: Debt to equity ratio.

Goodwill: Surplus funds paid to acquire a business in excess of its net tangible assets.

Gross profit: Sales minus the cost of items sold.

I

Initial public offering (IPO): The initial sale of privately owned stock or shares through the issue of shares to the public. Sometimes referred to as taking a company public.

L

Letters of credit: Letters of credit are a guarantee that, if the appropriate documents are presented to the buyer's bank, the bank will pay the seller the amount due.

Liabilities: What the company owes.

Liquidity ratio: A measurement of the relationship between current assets and short-term debt, as an indicator of the business's ability to pay short those short-term debts.

N

Net assets: Total assets, both current and fixed, minus current and long-term liabilities that have not been capitalized.

Net current assets: Current Assets minus Current Liabilities.

Net present value (NPV): All future cash flow from a specific investment less the cost of the investment.

Net profit: Usually refers to profit after the deduction of operating expenses, particularly fixed costs or overhead.

O

Overhead: Ongoing expenses that cannot be attributed to labor, materials or expenses that are billed to customers.

P

Price per earnings (P/E) ratio: The stock or share price divided by the earnings (after-tax profit and interest divided by the number of shares) per share.

Profit and loss (P&L) statement: This vital statement summarizes the company's revenues, costs and expenses for a defined time period.

Q

Quick ratio: See Acid Test.

R

Reserves: The saved difference between profits and losses since the founding of the company.

Restricted funds: Funds earmarked for a specific purpose by the funding source.

Return on capital employed (ROCE): Percentage indicating profit before interest against invested funds.

Return on investment: Profit before tax derived from an investment.

S

Share capital: Value paid by shareholders when shares were issued.

Shareholders' funds: The shareholders' interest in the company (total share capital plus reserves).

T

Telegraphic transfer (T/T): Sometimes called a cable transfer or wiring money, this is the electronic transfer of funds abroad.

V

Variable cost: A cost that changes with sales or other operational variables and expenditures.

W

Working capital: Current assets minus current liabilities, or the funds used for.

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