

Financial Terminology

Here's a list of common financial terminology used in financial statements.

Accounting Close	This is when the “books” are closing and the numbers are being tabulated in the financial statements for the prior period. Normally this happens in the first week of the month.
Accrual	An estimate intended to capture the cost of a good or service in the absence of an invoice. The estimate is done at quarter-end so the benefits of goods and services received is matched with the cost to the company.
Addition to Owners Equity	Net Income less Dividends
Audit	To review and verify the accuracy of financial records as well as validating methods used to calculate financial records.
Auditors	Auditors can be external or internal. An external auditor is an independent public accountant who examines a business entity's books. The external auditor is not an employee of the company. A public company is required to have an independent external auditor conduct and audit and issue an opinion on the accuracy of our financial statements that are filed with the SEC. An internal auditor is an employee of the organization who is conducting an internal audit. The internal auditor works independently of the accounting and other departments and is concerned with financial and/or operational activities of the organization. The internal auditor attempts to assure the accuracy of business records, uncover internal control problems, and identify opportunities for operational improvements. With the advent of Sarbanes-Oxley legislation around 10 years ago, this has become a larger focus in companies.
Capital Expense	An expenditure intended to provide benefit to the company for more than a year. This has different accounting treatment than Operating Expenses such as travel or consulting or outside services.
Capital Expense vs OpEx	Capital is intended to provide benefit for more than a year and is recognized on the Income Statement over time through depreciation whereas OpEx is recognized right away.
Cost of Sales	Costs associated with manufacturing and distributing net sales
Depreciation	A portion of a capital expense that is recognized as an operating expense. This is a non-cash expense intended to offer a tax break and inspire investment in a company.
Dividends	Payment per share to shareholders.
Earnings before taxes	GAAP Operating Income + Interest Income/(Expense)
GAAP	Generally Accepted Accounting Principles. These include standards,

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	conventions, and rules accountants follow in recording and summarizing transactions, and in the preparation of financial statements.
Gross Margin	Net Sales - Cost of Sales
Gross Margin %	((Net Sales - Cost of Sales) / Net Sales)
Gross Profit	Total Revenues minus Cost of Sales
Gross Sales	Sales at invoice values, not reduced by customer discounts, returns, allowances or other adjustments
Gross to Net Deductions	customer discounts, returns, prompt pay discounts, rebates
Income Taxes	Combination of Federal and state tax obligation on earnings before taxes
Interest Income/(Expense)	Combination of interest received on our cash and interest paid to service debt
Net Income/(Loss)	Earnings before taxes less taxes
Net Sales	Net product sales to customers (wholesalers); Gross Sales minus Gross to Net deductions
Non-Cash	Items recognized in the financial statements that do not deplete or add to cash for that period. An example is depreciation and stock based compensation.
Operating Expense (OpEx)	Expenditures recognized on the Income Statement that can be cash or non-cash. Typically, these are comprised of Salaries, Benefits, Bonus, Travel, Consultants, Outside Services, etc...
Profit & Loss	This is also known as the "P&L". This is the Profit and Loss statement which is the same as the Income statement. P&L, Profit & Loss and Income Statement can be used interchangeably.
Research and Development (R&D)	Research & Development spending - clinical, product development, research, etc.
Sarbanes Oxley 404 (SOX404)	Wide-ranging U.S. corporate reform legislation, coauthored by the Democrat in charge of the Senate Banking Committee, Paul Sarbanes, and Republican Congressman Michael Oxley. The Act, which became law in July 2002, lays down stringent procedures regarding the accuracy and reliability of corporate disclosures, places restrictions on auditors providing non-audit services, and obliges top executives to verify the accounting in their companies personally. Each issuer's annual report must include an internal control report containing an assessment of the effectiveness of the internal control structure and procedures. Consequently, the internal control audit spans beyond Accounting and into IT and other areas.
Securities Exchange Act of 1934	The Securities Exchange Act: (1) created the SEC and empowers the SEC with broad authority to regulate all aspects of the securities industry; (2) prohibits certain types of conduct in the securities markets and provides the SEC with disciplinary powers over regulated entities and persons associated with them; and (3) empowers the SEC to require periodic reporting of information by companies with publicly traded securities.

Currently, companies with more than \$10 million in assets whose

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securities are held by more than 500 owners must file certain reports, including without limitation annual reports (Form 10-K), quarterly reports (Form 10-Q) and current reports regarding certain material information (Form 8-K), which are available to the public through the SEC's EDGAR database.

SG&A	Selling, General and Administrative spending - Sales Force, Marketing, Operations, Legal, IM, Finance, HR, Training, etc..
Stock Compensation	An expense associated with stock options, employee stock ownership plan & 401k match
Total Operating Expenses (Opex)	R&D plus SG&A
