Financial jargon explained

Santander

Get comfortable with financial conversations with this jargon buster!

Asset

Any resource owned by a business that provides a financial benefit. Assets can include cash, inventory or properties with a physical form such as buildings, equipment and vehicles.

There are short term assets and long term assets. Short term assets refer to business assets that are converted into cash within one year, whilst long term assets refer to business assets that are not converted into cash within a year, but will benefit a business for several years.

Did you know?

Physical properties are also known as 'tangible properties'.

Base rate

Base rates set the level of interest that banks can charge. The purpose of this is to help regulate inflation.

Did you know?

This is sometimes referred to as the 'Bank of England base rate' or 'Bank rate'.

Tip: Before you take out a loan, you should ensure you understand how the cost of interest will be calculated on your loan.

Cash flow

The money that flows in and out of your business. Money coming in can include revenue and funding, and money going out might include bills, expenses, salaries and tax.

Tip: Managing your cash flow effectively can help you predict when might be a shortage and surpluses of funds throughout the year.

Cloud accounting

An online accounting system that you can access any time, and from any device. The information on a cloud accounting system is encrypted, similarly to a bank, so only users with the login can access the data. Most of these systems come with tools for managing invoices, quoting, calculating tax and much more.

Tip: As cloud computing is online, there's no need to install softwares and all your data is automatically backed up.

Crowdfunding

Crowdfunding involves funding a business or project by raising money from a "crowd" of people. Supporters are offered rewards, perks or even a stake in the business in return for their investment.

Tip: If you're considering crowdfunding, It is a good idea to research the different platforms and their rules to help you choose the right one for your campaign.

Equity investment

Equity investors invest in a business in exchange for a stake in the company, usually in the form of shares. Equity investors will expect to receive dividends, which are paid out of the company's earnings.

Did you know?
Dividends is the money that a business pays their shareholders out of the company profit.

Tip: Equity finance does not include a legal requirement to pay back money that has been invested, the investment remains permanently in the business.

EBITDA

Earnings Before Interest, Taxes, Depreciation, and Amortisation. In simple terms, this is a measure of the overall financial performance of a business and can also be used as an alternative to net income. If you apply for a loan at a bank, EBITDA will likely be used to determine whether your business will be able to repay that loan.

Did you know?: A low EBITDA margin indicates that a business has profitability problems, whereas a high EBITDA indicates the businesses earnings are stable.

Grant

A gift of money with no expectation of repayment. Grants may be obtained depending on a set of conditions, or they may be unconditional.

Tip: There are a wide variety of grants available in the UK across multiple sectors. Check out Swoopfunding's guidance to see if you're eligible for any grants and find information on how you can apply.

FCA

The Financial Conduct Authority. This is an independent body that regulates the financial services industry to ensure that financial markets are fair, honest and effective so consumers get a fair deal.

Tip: Work with FCA approved companies to avoid getting scammed.

Liquidity

The liquid assets in your business are assets that are that are readily available and easily exchanged for cash without a significant loss of investment, in order to help meet your short term operatingional needs, by easily being exchanged for cash without a significant loss of investment.

Tip: Cash is the ultimate liquidity asset as it can be traded easily without any effect on its market value.

Interest

When money is borrowed, Interest is usually paid to the lender along with the amount owed. The amount of interest you need to pay is typically a percentage of the amount you have borrowed. For example, if you borrowed £5000 and you were required to pay interest at 10% you would be paying £500 in addition to the £5000 you already owe.

Tip: Interest rates will change based on the type of lender you are borrowing money from. Traditional banks typically charge between 2% and 13% interest, whereas online lenders can charge anywhere from 7% to 100% interest.

Profit and loss account (P&L)

Profit and loss accounts show the income your business has earned for the year, deducting expenses to show if you have made a profit or a loss. Your net profit reflects the money you have left after paying all your business expenses, while gross profit is the amount of money you have left after taking away the cost of products sold, from your revenue. You will first need to calculate your gross profit in order to get your net profit. If your income is larger than the expenses, then you will have made a profit, if the expenses have exceeded your income, you will have made a loss.

Did you know?

Profit and loss accounts are also known as an income and expenditure account.

Personal guarantee

This is a legal document signed by a company executive, stating that they agree to personally repay a loan using their own funds if the company is unable to do so.

Tip: Personal guarantees allow new businesses to secure funding before the business has acquired assets.

Revenue

Revenue is the total amount of money earned from selling your products or services.

Did you know?

Revenue is also referred to as the "top line" because it sits at the top of the income statement.

Restricted funds

These are funds - often conditional grants - that can only be used for specific purposes. They provide reassurance to the lender that money is being used in the way they expect.

Did you know?

These can also be referred to as ring-fenced or earmarked funds.

Triple bottom line

The triple bottom line refers to how a company performs environmentally, and socially, as well as economically. Companies are assessed on the value they add or destroy across the three elements of the triple bottom line.

Tip: Take a look at the UN's 17 Sustainable Development Goals assess the ways in which your new business could become more sustainable https://sdgs.un.org/goals

Top tips for avoiding jargon in your conversations

1 Don't use terms you don't understand

While you may want to sound knowledgeable during a financial conversation, using terms you don't completely understand may be confusing and might lead to misunderstandings.

2 Don't be afraid to ask questions

If you aren't sure what a word or phrase means, don't be afraid to clarify instead of assuming the meaning. It's very likely you won't be the first or last person to ask what a certain word or phrase means!

3 Try not to overuse

Overusing jargon in your conversations can make your message unnecessarily complicated and less accessible.

Further reading:

Keep jargon busting with this handy resource from Good Finance

More resources:

Get comfortable with financial conversations

More about the Financial Conduct Authority