

# The Language of Business– Note Organizer

There are terms specific to the business world

- Like learning a new language

You should understand these terms:

- To improve your business management
- To be able to talk with:
  - \_\_\_\_\_
  - Accountants
  - \_\_\_\_\_
  - Lawyers
  - Other business owners/managers

## Understanding Profits

Most businesses try to earn profits

- Profits allow them to:
  - \_\_\_\_\_
    - Buy new equipment, expand, replace old equipment
  - Pay the owners

\_\_\_\_\_ = the money left after paying all expenses

- Profits = Revenues - Expenses

### Revenues

- The money coming in (\_\_\_\_\_) from selling your product or service
- Revenues = Selling Price/Unit x Units Sold
  - For all products/services sold
- Revenue refers to the money coming in
  - It does NOT include any expenses

\_\_\_\_\_ = cost of doing business

## 2 Main Types of Expenses:

Variable \_\_\_\_\_ (Operating Expenses)

- These are expenses that change directly with the level of production
  - If you increase production, these costs increase
  - If you decrease production, these costs decrease
- Easy to think of “out of pocket” expenses
- Also called “\_\_\_\_\_”
- Examples:
  - Fuel, fertilizer, seed, chemicals, hired labor, repairs

### Overhead ( \_\_\_\_\_ ) Expenses

- These are costs that you have just because you are in business
  - Business licenses, property taxes
  - Office rent, insurance premiums
  - Administrative and office expenses, interest on loans
  - \_\_\_\_\_
  - Owners salary (not always included in overhead)
- These costs do NOT change significantly if production changes
  - If production increases, office rent doesn't change

Total Expenses = \_\_\_\_\_ + Overhead

- Measure of the total cost of doing business

\_\_\_\_\_ = Revenues – Variable Expenses

- You want your gross margin to be greater than \$0

Gross Margin/ \_\_\_\_\_ = Gross Margin divided by the number of units sold

- Good number to know
- It shows which products are earning you the most

Total Profit = Revenues – \_\_\_\_\_

- Or: Profit = Gross Margin – Overhead Expenses
- Also called “ \_\_\_\_\_ ”
- You want Profit to be greater than \$0
  - The higher the better (usually)!
- When a manager talks about “ \_\_\_\_\_ ”, they are referring to profits

### Capital Structure

\_\_\_\_\_ = resources that a business owns

- Land, buildings, equipment, labor, cash
- A “ \_\_\_\_\_ ” refers to buying something that will be used in the business year after year
  - Tractors, breeding livestock, barns, mowers

Asset = something tangible that a business owns or controls

- Land, buildings, \_\_\_\_\_, cash, inventories
- Breeding livestock, feeder livestock, fencing
- Accounts receivable

- This refers to money owed to a producer for items sold “ \_\_\_\_\_ ” or “ \_\_\_\_\_ ”
- Example: A customer buys \$5,000 of lumber on credit and will be billed at the end of the month.
  - The \$5,000 is called “accounts receivable” for the seller

\_\_\_\_\_ = something the business owes to a lender or creditor

- \_\_\_\_\_ = money owed to a supplier for items purchased on credit
  - You will pay the supplier at the end of the month
- \_\_\_\_\_ = more formal arrangement than Acct. Payable
  - Loans are used to purchase high-dollar assets
  - Apply to a lender for a loan
  - Lender provides you with funds for your stated purchase
  - You repay the lender over time
    - Terms are specified in the loan contract

Owners Equity (or \_\_\_\_\_)

- Equity = the difference between market value of an asset and the remaining loan balance
- \_\_\_\_\_ = Value of Assets – Remaining Loan
- You want your equity to be greater than \$0
- You want your equity to grow over time
  - This means you are:
    - \_\_\_\_\_
    - Paying down your liabilities
    - The value of your business is growing