*Common Financial Terms Glossary

*Used in PMT 3500, ACQ 315, and ACQ 3100 series courses (not an all-inclusive list of financial terms)

Terms in Bold are commonly used in these courses.

1. Accretive: If a stock buyback is accretive, it means that it enhances Earnings per Share (EPS). By reducing the number of outstanding shares, the company's earnings are spread across a smaller number of shares, leading to an increase in EPS. This can make each share more valuable to existing shareholders.
2. Amortization: Refers to the process of gradually paying off a debt or loan over a specific period of time through regular, scheduled payments. These payments typically consist of both principal and interest.
3. **Backlog**: A buildup of work that has not been completed or processed within a specific period. When a company receives an order or new contract for a product, undelivered products to fulfill that contract become part of the company’s backlog.
4. **Balance Sheet**: Financial statement that provides a snapshot of a company's financial position at a specific point in time. It is one of the financial statements used by businesses, investors, creditors, and analysts to assess the company's financial health and performance. The balance sheet follows the accounting equation that assets must equal liabilities plus equity.
5. **Bid & Proposal Costs**: Refers to the costs incurred in preparing, submitting, and supporting bids and proposals (whether or not solicited) on potential contracts (Government or not). These typically indirect costs are allowable to the extent they are allocable, reasonable, and not otherwise unallowable.
6. **Booking** (e.g., Orders): Refers to the value of new contracts, modifications, task orders, or options signed in an accounting period.
7. **Cash Flow**: Refers to the inflows (coming in) and outflows (going out) of cash of a company.
8. **Cash Flow Statement**: Financial statement that provides an overview of the cash generated and used by a business during a specific period of time. It is one of the key financial statements used by businesses, investors, and analysts to assess the financial health and liquidity of a company. The cash flow statement is divided into three main sections: 1) Operating Activities: Reports the cash generated or used in the core operating activities of the business. 2) Investing Activities: Details cash transactions related to the purchase and sale of long-term assets and investments. 3) Financing Activities: Reflects cash transactions related to the company's financing activities. It includes activities such as issuing or repurchasing stock, borrowing, or repaying debt, and paying dividends.
9. **Common Size Financial Analysis:** Method of evaluating and comparing financial statements by expressing each line item as a percentage of a base item (e.g., revenue for income statement or assets for balance sheet). The purpose of common size analysis is to provide insights into the relative proportions of different components within a financial statement, allowing for better comparison of companies of different sizes or of the same company over different periods.
10. **Cost of Sales** or **Cost of Goods Sold**: Represents the costs associated with producing or purchasing the goods that a company sells during a specific period. It is a crucial metric for businesses, as it is subtracted from the total revenue to calculate the gross profit.
11. **Current Assets**: Any balance sheet accounts owned by a company that can be converted to cash through liquidation, sales, or use within one year. Examples may include cash (or equivalent), accounts receivable, prepaid expenses, raw materials, inventory (work-in-process or finished goods), short-term investments, etc.

12. **Current Liabilities**: Any balance sheet accounts that are obligations by a company that are due to be paid within one year. Examples may include accounts payable, payroll, taxes, utilities, rental fees, short-term notes payable, etc.
13. **Debt Ratio**: A financial leverage metric based on a company's total debt to total assets from the Balance Sheet. Debt Ratio = Total Liabilities / Total Assets (less Depreciation).
14. **Depreciation**: Refers to the decrease in the value of an asset over time due to various factors such as wear and tear, obsolescence, or other forms of reduction in its usefulness. It is a common accounting concept used to allocate the cost of a tangible asset (like machinery, vehicles, buildings, etc.) over its useful life. Often an expense item on the Income Statement.
15. Dilutive: Refers to the effect that issuing additional shares of stock has on existing shareholders' ownership percentage and, potentially, on earnings per share (EPS). When a company issues more shares of its stock, it can dilute the ownership stake of existing shareholders because the total number of shares increases. This means that each existing shareholder's ownership percentage in the company decreases proportionally.
16. **Discount rate**: Refers to the interest rate used to determine the present value of future cash flows. The concept is fundamental in the field of discounted cash flow (DCF) analysis, which is a method used to value an investment or project by discounting its expected future cash flows back to their present value.
17. **Dividends**: Payments made by a company to its shareholders, typically in the form of cash or additional shares of stock. They represent a portion of the company's profits that is distributed to its owners.
18. **Earnings**: Typically refers to the profits or net income of a business during a specific period. Earnings represent the financial performance of a company and are a key indicator of its profitability,
19. Earnings per Share (EPS, ratio): Financial profitability metric that represents the portion of a company's profit allocated to each outstanding share of common stock. It is a widely used indicator of a company's profitability and is often considered a key measure of financial performance. Calculated as net income minus preferred dividends divided by average number of common shares.
20. **Earnings Before Interest and Taxes** (EBIT): A measure of a company's operating performance and profitability before deducting interest expenses and taxes. EBIT is often used to analyze a company's core operating profitability without the influence of financial structure or tax considerations. EBIT provides a metric that allows for comparisons of the operating performance of different companies, as it excludes the impact of financing and taxation. (See operating income)
21. **Free Cash Flow** (FCF): Metric that represents the cash generated by a company's operations that is available for distribution to creditors and investors (both equity and debt holders) after all operating expenses, capital expenditures, and taxes have been deducted. It means the company has the ability to distribute cash to investors, pay down debt, or reinvest in the business. FCF=Operating Cash Flow - Capital Expenditures
22. **Gross Profit**: Metric represents the difference between revenue and the cost of sales during a specific period. While gross profit provides useful insights, it doesn't consider other operating expenses or non-operating income, so it's often used in conjunction with other financial metrics to get a more comprehensive view of a company's overall financial health. Gross Profit = Sales – Cost of Sales.
23. Gross Profit Margin: Financial metric that measures the percentage of revenue that exceeds the cost of sales. It is a key indicator of a company's profitability and efficiency in managing its production and supply chain costs.

24. **Income (or Profit):** This is a metric that reflects the Income Statement's bottom line or the amount of money a business has left over after all expenses. Gross income is the amount earned before expenses. (also known as gross profit). See Net Income.
25. **Income Statement**: Financial statement used to summarize company revenue, costs, and expenses over a specific period, usually a fiscal quarter or year. The main purpose of an income statement is to provide a snapshot of a company's financial performance during a given time frame.
26. **Internal Rate of Return** (IRR): Metric in financial analysis to estimate and compare the profitability of potential investments. Represents the expected compound annual rate of return that will be earned on a project. Typically, investments with higher IRRs are preferred as companies decide which projects to invest in.
27. **Independent Research & Development** (IR&D): Costs associated with company-elected research and development (R&D) projects of potential interest to the DoD that are often reimbursed through indirect rates. These indirect costs are allowable to the extent they are allocable, reasonable, and not otherwise unallowable.
28. Leverage: Term used to describe the use of debt (loans or borrowed funds) to increase returns from an investment or project.
29. **Liquidity**: Financial ability to meet short-term (less than 1 year) liabilities such as payroll, loans, suppliers, taxes, etc.,
30. **Net Present Value** (NPV): Financial metric used in capital budgeting to analyze the potential financial gain or loss of a series of cash flows over time, considering the time value of money. The time value of money is the concept that a sum of money today is worth more than the same amount in the future, due to its earning potential or the opportunity to invest it.
31. **Net Income**: Metric that reflects the Income Statements bottom-line or the amount of money a business has left over after all expenses are paid.
32. Operating Income: Represents the profit a company earns from its regular business operations. It is calculated by subtracting the cost of sales (COS) and operating expenses from the total revenue generated by the company. Often used interchangeably with EBIT but EBIT includes non-operating income, non-operating expenses, and other income (see EBIT).
33. **Owners' Equity**: Represents the residual interest in the assets of a company after deducting liabilities. In other words, it is the net assets attributable to the owners of the business. Owner's equity is a key component of the balance sheet, one of the three primary financial statements in accounting. (Owner's Equity=Assets−Liabilities). Often associated with privately held firms (See stockholders' equity).
34. **Price to Earnings (P/E ratio)**: Metric used to evaluate the valuation of a publicly traded company's stock. It is calculated by dividing the market price per share by the earnings per share (EPS).
35. **Profit**: Monetary amount left to a company after deducting costs to provide the product or service.
36. **Profitability**: Profitability is a key financial metric that measures a company's ability to generate earnings in relation to its expenses and other costs incurred during a specific period. Expressed as a percentage with net profit divided by total revenue.
37. Quick Ratio: Measures a company's capacity (e.g., liquidity) to pay its current liabilities without needing to sell its inventory or obtain additional financing. Quick Ratio = Current Assets (- Inventory) / Current Liabilities.
38. **Ratio Analysis**: Method of evaluating and interpreting the financial statements of a company to gain insights into its financial performance and position. It involves the calculation and interpretation of various financial ratios that provide a more detailed understanding of different aspects of a company's operations, profitability, liquidity, solvency, and efficiency.

39. Retained Earnings (RE): Refer to the cumulative amount of a company's profits that are not distributed as dividends to shareholders but instead are reinvested in the business or kept for future use. They are found on the Balance Sheet under Owners' or Stockholders' equity.
40. **Return on Invested Capital** (ROIC): Financial metric that evaluates a company's efficiency in using its capital to generate profits. It provides insight into how well a company is utilizing both its equity and debt to generate returns for its investors. Calculated as: net income – dividends / debt + equity.
41. **Return on Assets** (ROA): Financial metric that measures a company's efficiency in using its assets to generate profits. It provides insight into how well a company can convert its assets into net income. (expressed as a percentage). Calculated by dividing a firm's net income by the average of its total assets.
42. **Return on Sales** (ROS): Financial profitability metric that measures the percentage of sales revenue that a company retains as profit after expenses are accounted for. It is expressed as a percentage and provides insights into a company's profitability relative to its sales. ROS = EBIT / Sales.
43. **Revenue**: This is the total amount of money generated by the company from its primary business activities before deducting any expenses. Unlike sales, revenue can include sources not related to sales (e.g., investment gains, royalties, interest).
44. **Sales**: Money a company generates from selling its core products and services.
45. **Shareholder Value**: Worth or value that a company creates for its shareholders, who are the owners of the company. Maximizing shareholder value is often a primary goal for businesses and their management teams. Shareholder value can be created through various means, and it is typically measured by the appreciation of a company's stock price and the payment of dividends to shareholders.
46. Solvency: Refers to the financial ability of a company to meet its long-term financial obligations. Solvency is a key aspect of financial health and stability, as it indicates whether an entity has sufficient assets to cover its long-term debts and obligations. To determine solvency, one typically looks at the relationship between an entity's total assets and its total liabilities. The solvency ratio, a common metric used for this purpose, is calculated by dividing a company's net income (or cash flow) by its total liabilities.
47. Stockholders' Equity (SE): A section of a company's balance sheet (for companies whose stock is publicly traded) that represents the residual interest in the company's assets after deducting its liabilities. Typically, often called the company's Net Worth (see Owners' Equity).
48. **Stock Buybacks:** Also known as share repurchases or stock repurchases, occur when a company buys back its own outstanding shares from the open market. This process involves the company using its cash reserves or borrowing funds to purchase shares of its own stock. The bought-back shares are then either retired or held as treasury stock, reducing the total number of outstanding shares in the market.
49. **Time Value of Money**: Fundamental financial concept that recognizes the idea that a sum of money has a different value today compared to its value in the future. In essence, the time value of money is based on the principle that a certain amount of money today is more valuable than the same amount of money in the future, due to the potential earning capacity of money over time. (See also net present value).
50. Weighted Average Cost of Capital (WACC): Financial metric that represents the average cost of a company's debt and equity capital, weighted by their respective proportions in the overall capital structure. In other words, WACC reflects the average rate of return required by both debt and equity investors to invest in a company.
51. Working Capital (WC): A measure of a company's operational liquidity and short-term financial health. It represents the difference between a company's current assets and its current liabilities. Current assets are those that are expected to be converted into cash or used up within one year, while current liabilities are obligations that are expected to be settled within the same period.